IFRS Accounting

Staff paper

Agenda reference: 16C

IASB meeting

Date	**November 2022**
Project	**Amendments to the Classification and Measurement of Financial Instruments**
Topic	**Due process steps**
Contacts	**Jaco Jordaan** (jjordaan@ifrs.org) **Riana Wiesner** (rwiesner@ifrs.org)

Introduction

1. In October 2022, the IASB expanded the scope of its maintenance project for proposed narrow-scope amendments to IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures*.

2. The original scope of the project, as discussed at the May 2022 IASB meeting, was to propose clarifying amendments to the requirements for assessing the contractual cash flow characteristics of financial assets. The project was initiated in response to feedback on the *Request for Information Post-implementation Review of IFRS 9—Classification and Measurement* (the RFI). The IASB tentatively decided to propose the following amendments at its September 2022 and October 2022 meetings:

   (a) clarification of

      (i) the term 'basic lending arrangement' and how it applies to the assessment of whether a financial asset's contractual cash flows are solely payments of principal and interest (SPPI);

      (ii) how to apply the SPPI assessment to financial assets with contractual terms that change the timing or amount of contractual cash flows;

      (iii) the term 'non-recourse' and factors to consider when performing the SPPI assessment on financial assets with non-recourse features; and

      (iv) the scope of the requirements relating to contractually linked instruments (CLIs) and the nature of eligible instruments in the underlying pool.

   (b) transition requirements for the clarifying amendments outlined in subparagraph (a); and

   (c) additional disclosure requirements for financial instruments with contractual terms that could change the timing or amount of contractual cash flows.

3. In October 2022, the IASB also tentatively decided to propose amendments to IFRS 7 for equity instruments to which the other comprehensive income (OCI) presentation option is applied. The proposed amendments would require disclosure:

   (a) at the end of the reporting period of the aggregated fair value of such equity investments; and

   (b) of changes in the fair value of such equity investments recognised in OCI during the period.

4. Furthermore, the IASB tentatively decided in October 2022 to explore standard-setting relating to the settlement of financial liabilities through electronic cash transfers. The proposed amendments would permit an accounting policy choice to allow an entity to derecognise a financial liability before it delivers cash on the settlement date when specified criteria are met.

5. Agenda Paper 16B for this meeting asks the IASB to vote on the proposed amendments mentioned in paragraph 4. This paper is prepared on the assumption that the IASB will agree with the staff recommendations in that agenda paper. This paper recommends combining the proposed amendments outlined in paragraphs 2–4 in a single exposure draft to reduce the burden on stakeholders in commenting on the proposed amendments.

Purpose of this paper

6. This paper:

   (a) proposes a comment period of 120 days for the Exposure Draft of the proposed amendments;

   (b) explains the steps in the IFRS Foundation Due Process Handbook (the Due Process Handbook) that the IASB has taken in developing the proposed amendments (see Appendix A); and

   (c) seeks the IASB's permission for the staff to begin the process for balloting the Exposure Draft.

Comment period

7. We recommend the IASB publish a single exposure draft that combines the issues outlined in paragraphs 2–4 of this paper, with a comment period of 120 days.

8. Paragraph 6.7 of the Due Process Handbook states that the Board normally allows a minimum period of 120 days for comment on an exposure draft. However, if the matter is narrow in scope and urgent, the Board may consider a comment period of no less than 30 days. This is subject to obtaining approval from the Due Process Oversight Committee (DPOC).

9. As discussed in paragraph 21 of Agenda Paper 16 for the June 2022 meeting, respondents to the RFI have asked for an urgent response to the issues related to financial assets with ESG-linked features. The IASB has classified this matter as 'high priority' in accordance with its PIR framework and has started work on this matter immediately. However, the proposed amendments to the SPPI requirements in IFRS 9 are not specifically aimed at financial assets with ESG-linked features. The IASB developed the amendments to be principle-based and applicable to other features that could affect the timing and amount of contractual cash flows.

10. In addition, as noted in paragraph 2 of this paper, the proposed amendments will also cover other areas of the SPPI requirements. Therefore the staff consider it important to allow sufficient time for stakeholders to properly consider the effect of these proposed clarifications, to limit the risk of unintended consequences.

11. The proposed amendments to IFRS 7 for equity investments to which the OCI presentation option is applied, are intended to increase transparency of the amounts presented in OCI and is supplemental to the current disclosure requirements.

12. The proposed amendments relating to electronic cash transfers are being developed in response to questions about the potential outcomes of applying the derecognition requirements in IFRS 9 to the settlement of a financial asset or financial liability via an electronic cash transfer system.

13. In the staff's view, the matters to be covered in the upcoming Exposure Draft are not consistent with the circumstances that justify a comment period shorter than 120 days as described in the Due Process Handbook. We are therefore recommending the standard comment period of 120 days.

Confirmation of due process steps

14. The amendments to be proposed in the Exposure Draft all relate to findings coming from the post-implementation review (PIR) of the classification and measurement requirements of IFRS 9, which was conducted in accordance with paragraphs 3.78 and 6.48–6.59 of the Due Process Handbook. Information about outreach activities and feedback received during the PIR process was discussed in public IASB meetings, including:

    (a) Agenda Paper 3 discussed at the July 2021 IASB meeting, summarising the academic literature review and outreach activities that were conducted prior to the publication of the RFI; and

    (b) Agenda Paper 3A discussed at the March 2022 IASB meeting, summarising the feedback received on the RFI.

15. The IASB assessed the findings from the PIR against the prioritisation framework discussed in various meetings of the IASB, the IFRS Advisory Council and the IFRS Trustees (DPOC), as summarised in Agenda Paper 8A for the September 2022 IASB meeting. The IASB also considered the likely effect of the proposed amendments and consulted with relevant stakeholders where applicable. These considerations are summarised in paragraphs 17–22 of this paper for each topic to be covered by the Exposure Draft.

16. In Appendix A to this paper, we have summarised the due process steps taken so far in the development of the proposed amendments. We are of the view that the required due process steps to begin the balloting process for the Exposure Draft have been completed.

Contractual cash flow characteristics of financial assets

17. The IASB has taken the following steps in developing the proposed amendments:

    (a) assessed the findings from the PIR against the prioritisation framework and added a project to the maintenance work plan (Agenda Paper 3 for the May 2022 IASB meeting);

    (b) discussed the measurement and disclosure of financial instruments with ESG-linked features at the June 2022 joint meeting of the Capital Markets Advisory Committee (CMAC) and the Global Preparers' Forum (GPF);

    (c) discussed the application challenges relating to ESG-linked instruments at the July 2022 meeting of the Accounting Standards Advisory Forum (ASAF) and consulted

ASAF members on whether there is evidence to suggest that the IASB or IFRS Interpretations Committee should take action on other SPPI-related findings;

(d) discussed the staff's preliminary analysis of the PIR findings at a public meeting in July 2022;

(e) tentatively decided at a public meeting in September 2022 to propose amendments to the application guidance in IFRS 9 on making SPPI assessments; and

(f) tentatively decided at a public meeting in October 2022 to propose:

   (i) disclosure requirements for financial instruments with contractual terms that could change the timing or amount of contractual cash flows based on a contingent event; and

   (ii) transition requirements for the proposed amendments mentioned in subparagraph (e).

18. The expected effects of the proposed amendments are:

(a) as discussed at the IASB's June 2022 meeting, the objective of the project is not to make fundamental changes to the SPPI requirements in IFRS 9, but rather to clarify how the SPPI requirements are applied to financial assets with ESG-linked and similar features. The proposed amendments are therefore not expected to disrupt practice for financial assets which do not have such features.

(b) reducing the cost of application for preparers and auditors by reducing the cost of application for preparers and auditors by clarifying how SPPI requirements should be applied to financial assets with ESG-linked and similar features (including through illustrative examples).

(c) providing more useful and comparable information to users of financial statements by reducing diversity in practice.

(d) achieving a balance between the costs for preparers to provide the proposed disclosure requirements and the benefits to users of financial statements from the increased transparency about contractual terms that could change the amount or timing of future cash flows.

Equity instruments and OCI presentation option

19. The IASB has taken the following steps in developing the proposed disclosure requirements for equity investments to which the OCI presentation option is applied:

    (a) discussed the staff's preliminary analysis of the feedback and an update of the academic literature review at a public meeting in June 2022; and

    (b) assessed the findings from the PIR against the prioritisation framework at a public meeting in October 2022 and tentatively decided to include the proposed disclosure requirements in the upcoming Exposure Draft.

20. The additional disclosure requirements are expected to increase the transparency of fair value changes presented in OCI and therefor provide more useful information to users of the financial statements without increasing the cost for preparers because the required information should already be available.

Electronic cash transfers

21. The following steps have been taken in developing the proposed amendments in Agenda Paper 16B for this IASB meeting:

    (a) in September 2021, the IFRS Interpretations Committee (the Committee) published a tentative agenda decision on a submission about the recognition of cash received via an electronic transfer system as settlement for a financial asset applying IFRS 9;

    (b) at its June 2022 meeting, the Committee considered feedback on its tentative agenda decision and confirmed the analysis and conclusion. However, the Committee agreed to report to the IASB respondents' comments on the potential outcomes of finalising the agenda decision;

    (c) at its public meeting in September 2022, the IASB discussed respondents' comments on the potential outcomes of finalising the Committee's June 2022 tentative agenda decision and decided to explore narrow-scope standard-setting;

    (d) the IASB tentatively decided at its October 2022 meeting to add this matter to its maintenance workplan and explore permitting the derecognition of financial liabilities before settlement date if specified criteria are met; and

    (e) the IASB will continue its discussions on the proposed amendments in Agenda Paper 16B for this meeting and will be asked for a tentative decision on these proposed criteria and the scope of the amendments.

22. In paragraph 44 of Agenda Paper 3C for the October 2022 meeting, the staff concluded that the proposed amendments to permit an accounting policy choice to allow the derecognition of a financial liability before the settlement date when using an electronic cash transfer:

    (a) would not result in fundamental changes to the current derecognition requirements for financial assets and financial liabilities in IFRS 9.

    (b) would be operable if the scope of such amendment is sufficiently narrow and limited to specified circumstances.

    (c) would mitigate the risk of unintended consequences by developing appropriate criteria to be met.

    (d) would maintain the usefulness of the information that would result from the consistent application of these requirements. However, such an approach would not necessarily reduce the costs of applying the derecognition requirements for all entities because the accounting policy choice would be available only when specified criteria are met.

Questions

Questions for the IASB
1. Comment period—does the IASB agree with our recommendation to have a comment period of 120 days for the Exposure Draft?
2. Dissent—do any IASB members intend to dissent from the publication of the Exposure Draft?
3. Permission to begin the process for balloting the Exposure Draft—is the Board satisfied that it has complied with the applicable due process steps and that we can begin the process for balloting the Exposure Draft?

Appendix A—Due process steps taken

Step	*Actions*
Board meetings held in public, with papers available for observers. All decisions are made in public session.	The Board discussed in public the proposed amendments to IFRS 9 and IFRS 7. The project page has been updated by the staff after every meeting. Agenda papers were posted on the website before every meeting on a timely basis.
Consultation with the Trustees and the Advisory Council.	The Trustees were informed about the project to make amendments to IFRS 9 and IFRS 7 in response to feedback received on as part of the Post-implementation Review of IFRS 9—*Classification and Measurement* (June and October 2022). The Trustees were also informed in October 2022 about the IFRS Interpretations Committee’s tentative agenda decision on electronic cash transfers and their recommendation to report respondent’s feedback to the IASB. The Advisory Council was also informed about the project (October 2022).
Analysis of the likely effects of the forthcoming Standard or major amendment, for example, initial costs or ongoing associated costs.	Refer to paragraphs 18, 20 and 22 of this paper for a discussion of the likely effects of each of the proposed amendments.
Due process steps reviewed by the IASB.	This step will be met by this agenda paper.
The ED has an appropriate comment period.	To be discussed by the IASB at this meeting. We recommend a standard comment period of 120 days.
Drafting	
Drafting quality assurance steps are adequate.	The IASB as well as the translations, XBRL and editorial teams will review drafts during the balloting process.
Publication	
ED published.	The Exposure Draft will be made available on our website when published.
Press release to announce publication of ED.	A press release will be published on our website with the Exposure Draft.