This paper has been prepared for discussion at a public meeting of the Islamic Finance Consultative Group (IFCG). This paper does not represent the views of the International Accounting Standards Board (IASB) or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS® Accounting Standards. The IASB’s technical decisions are made in public and are reported in the IASB Update.
Agenda

Objective and process of the Post-implementation Review (PIR)

PIR of IFRS 9—Classification and Measurement

PIR of IFRS 9—Impairment
PIR objective and process
PIR—what is the objective?

**OBJECTIVE**

To **assess** whether the effects of applying the new requirements on users of financial statements, preparers, auditors and regulators are as intended when the IASB developed those new requirements.

<table>
<thead>
<tr>
<th>Overall, are the requirements working as intended?</th>
<th><strong>Fundamental questions</strong> (ie ‘fatal flaws’) about the core objectives or principles—their clarity and suitability—would indicate that the new requirements are not working as intended.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Are there specific application questions?</td>
<td><strong>Specific application questions</strong> would not necessarily prevent the IASB from concluding that the new requirements are operating as intended but may nonetheless need to be addressed, if they meet the criteria for whether the IASB would take further action.</td>
</tr>
</tbody>
</table>
PIR—what is the process?

Implementation

New Standard issued

First few years of application

Standard is effective

Post-implementation review

Phase 1
Identify matters to be examined
Start when sufficient information is available

Phase 2
Consider feedback
Publish public consultation requesting information
Publish report presenting findings and next steps (if any)
PIR—how does the IASB respond to findings?

1. Consider whether to take action, based on the extent to which:
   - the **objective** of the new requirements is not being met;
   - benefits to users are significantly lower than expected
   - costs of applications are significantly higher than expected

2. Determine the **prioritisation** of the findings based on the extent to which:
   - finding has **substantial consequences**
   - finding is **pervasive**
   - finding arises from an issue that **can be addressed** by the IASB or the Interpretations Committee
   - the benefits of any action would be expected to **outweigh** the costs

3. Determining the timing of taking action
   - **High priority** to be addressed as soon as possible
   - **Medium priority** to be added to the IASB or the IFRIC research pipeline
   - **Low priority** to be considered in the next agenda consultation
   - **No action** require no further action
IFRS 9 *Financial Instruments* and PIRs

IFRS 9 was issued in July 2014 and:

- became effective for annual reporting periods beginning on or after 1 January 2018
- improved and simplified accounting that replaced IAS 39, including addressing the delayed recognition of credit losses and the complexity of multiple impairment models

<table>
<thead>
<tr>
<th>Classification and measurement</th>
<th>A single logical classification approach driven by contractual cash flow characteristics and how the instrument is managed</th>
<th>PIR started in 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impairment</td>
<td>A much needed and strongly supported forward-looking expected credit loss model</td>
<td>First stage of PIR starting now</td>
</tr>
<tr>
<td>Hedge accounting</td>
<td>An improved and widely welcomed model that better aligns accounting with risk management</td>
<td>IASB will consider in H2 2022 when to begin this PIR</td>
</tr>
</tbody>
</table>
PIR of IFRS 9—Classification and Measurement
The IASB is in Phase 2 of the PIR of the classification and measurement requirements of IFRS 9.
## Summary of feedback on the RFI

<table>
<thead>
<tr>
<th>No.</th>
<th>Description</th>
<th>Legend</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>IFRS 9 classification and measurement overall</td>
<td><img src="#" alt="No significant issues" /></td>
</tr>
<tr>
<td>2</td>
<td>Business model</td>
<td><img src="#" alt="Some issues raised" /></td>
</tr>
<tr>
<td>3</td>
<td>Contractual cash flow characteristics (CCFC)</td>
<td><img src="#" alt="Some issues raised" /></td>
</tr>
<tr>
<td>4</td>
<td>Equity instruments and other comprehensive income</td>
<td><img src="#" alt="No significant issues" /></td>
</tr>
<tr>
<td>5</td>
<td>Financial liabilities and own credit</td>
<td><img src="#" alt="No significant issues" /></td>
</tr>
<tr>
<td>6</td>
<td>Modifications to contractual cash flows</td>
<td><img src="#" alt="No significant issues" /></td>
</tr>
<tr>
<td>7</td>
<td>Amortised cost and effective interest method</td>
<td><img src="#" alt="No significant issues" /></td>
</tr>
<tr>
<td>8</td>
<td>Transition</td>
<td><img src="#" alt="No significant issues" /></td>
</tr>
<tr>
<td>9</td>
<td>Other matters</td>
<td><img src="#" alt="No significant issues" /></td>
</tr>
</tbody>
</table>
# Summary of feedback relating to CCFC

<table>
<thead>
<tr>
<th>Topics</th>
<th>PIR feedback</th>
<th>IASB response</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ESG-linked features</strong></td>
<td>Not clear how to assess if SPPI(^1), leading to diversity in practice</td>
<td>No fundamental changes to principles and no ESG-specific exemption</td>
</tr>
<tr>
<td>Interest rate adjusted if borrower achieves predetermined ESG targets</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Contractually linked instruments (CLIs)</strong></td>
<td>Questions about scope and application of SPPI requirements to CLIs</td>
<td>Added a standard-setting project to clarify particular aspects of the SPPI requirements (high priority)</td>
</tr>
<tr>
<td>Concentrations of credit risk created by prioritisation of payments</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\(^1\) solely payments of principle and interest on the principal amount outstanding  
\(^2\) AP3B, AP3C of the April 2022 IASB meeting  
\(^3\) AP3 of the May 2022 IASB meeting
PIR of IFRS 9—Impairment
A forward-looking impairment model

Addressing ‘too little, too late’

During the financial crisis, many stakeholders, including the G20, highlighted the delayed recognition of credit losses as weakness in the accounting standards at the time.

In response, the IASB developed an expected credit losses impairment model that provides useful information to investors about expected credit losses to reflect changes in credit risk.

### Issues with IAS 39 impairment model

<table>
<thead>
<tr>
<th></th>
<th>Solutions in IFRS 9</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delayed recognition of credit losses until evidence of a trigger event</td>
<td>Expected and updated credit losses recognised at all times. Eliminates the need for a trigger event</td>
</tr>
<tr>
<td>Credit losses reflective of past events and current conditions—future losses not considered</td>
<td>More timely recognition of expected credit losses based on historical, current and forecast information</td>
</tr>
<tr>
<td>Multiple impairment models for financial instruments</td>
<td>Same impairment model is applied to all financial instruments that are subject to impairment accounting</td>
</tr>
<tr>
<td>Limited relevant information about changes in credit risk</td>
<td>Improved disclosures explaining the basis of expected credit losses and of changes in credit risk</td>
</tr>
</tbody>
</table>
A solid foundation for the PIR

The IASB has put significant efforts into monitoring and supporting the implementation of the impairment requirements in IFRS 9

The information gathered through all our activities since IFRS 9 was issued provides a solid foundation on which to start the PIR

Some examples of activities that directly relate to supporting implementation of the impairment requirements:

- Provided supporting materials such as articles and webcasts
- Established a Transition Resource Group for Impairment (ITG)
- Analysed application questions at the IFRS Interpretations Committee
- Provided educational material on applying IFRS 9 in the light of coronavirus uncertainty
- 32 Submissions discussed by the ITG
  A wide variety of topics discussed, including: forward-looking information, loan commitments, revolving credit facilities
- Agenda decisions finalised by the Committee include:
  - Curing of a credit-impaired financial assets
  - Credit enhancement in the measurement of expected credit losses
PIR—what is the process and where we are?

**Phase 1**
Identify matters to be examined

- Start when sufficient information is available

**Phase 2**
Consider feedback

- Publish public consultation requesting information
- Report findings and next steps

**Timeline**
- **H2 2022**
- **Q4 2022 – Q1 2023**
- **H1 2023**

**Key Events**
- **H2 2022**: IASB decided to start PIR of Impairment
- **Q4 2022 – Q1 2023**: Phase 1 outreach and information gathering
- **H1 2023**: Request for Information to be published
Questions for stakeholders in Phase 1 of the PIR

A. Are there fundamental questions (ie ‘fatal flaws’) on the clarity and suitability of the core objectives or principles in the impairment requirements?

B. Are the benefits to users of financial statements from applying the requirements significantly lower than expected?

C. Are the costs of applying some or all of the requirements and auditing and enforcing their application significantly greater than expected?
## Impairment requirements—topic areas

<table>
<thead>
<tr>
<th></th>
<th>Topic Area</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>General Approach</td>
</tr>
<tr>
<td>2</td>
<td>Determining significant increases in credit risk</td>
</tr>
<tr>
<td>3</td>
<td>Measurement of ECLs</td>
</tr>
<tr>
<td>4</td>
<td>Credit-impaired on initial recognition</td>
</tr>
<tr>
<td>5</td>
<td>Simplified approach for trade and lease receivables</td>
</tr>
<tr>
<td>6</td>
<td>Loan commitments and financial guarantees</td>
</tr>
<tr>
<td>7</td>
<td>Disclosures</td>
</tr>
<tr>
<td>8</td>
<td>Transition</td>
</tr>
</tbody>
</table>

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**General Approach**

**Determining significant increases in credit risk**

**Measurement of ECLs**

**Credit-impaired on initial recognition**

**Simplified approach for trade and lease receivables**

**Loan commitments and financial guarantees**

**Disclosures**

**Transition**
Impairment requirements—detailed information

• Detailed information about the objectives and background to the impairment requirements in IFRS 9 is included in Agenda paper 3 presented at the Accounting Standards Advisory Forum held in September 2022
Questions?
Connect

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IFRS Foundation

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