IFRS Accounting

Staff paper

Agenda reference: 27

IASB® meeting

Date	**April 2023**
Project	**Post-implementation Review of IFRS 9—Impairment**
Topic	**Request for Information**
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Purpose and structure

1. This paper asks the IASB to:

   (a) approve the publication of a Request for Information (RFI) for the post-implementation review of the impairment requirements in IFRS 9 *Financial Instruments* (the PIR) (Question 1); and

   (b) set a 120-day comment period for the RFI (Question 2).

2. This paper is structured as follows:

   (a) Background;

   (b) Publishing the RFI; and

   (c) Comment period for the RFI.

Background

3. The IASB's PIR process is set out in paragraphs 6.48–6.59 of the *Due Process Handbook* and summarised in the website at the Post-implementation Review page.

4. In November 2021, the IASB decided to start the PIR, and in July 2022, the IASB set the objectives for the PIR and discussed the project plan.

5. From September 2022–February 2023, the IASB conducted outreach to ask stakeholders what matters the IASB should examine within the context of the objectives of the PIR.

6. In February 2023, the IASB considered the feedback from outreach and decided to examine further:

   (a) the general approach to recognition of expected credit losses (ECL), specifically:

      (i) the effects of the general approach on the usefulness of information about changes in credit risk to the users of the financial statements; and

      (ii) the costs and benefits of applying the general approach to particular financial instruments;

   (b) significant increases in credit risk, specifically:

      (i) the use of judgement in determining significant increases in credit risk; and

      (ii) the evidence about the causes of and the extent of diversity in how entities assess significant increases in credit risk;

   (c) the measurement of ECL, specifically:

      (i) using multiple forward-looking scenarios; and

      (ii) measuring ECL in periods of enhanced economic uncertainty, including the use of post-model adjustments or management overlays;

   (d) the prevalence of particular questions from entities on how to apply the ECL requirements to purchased or originated credit-impaired financial assets;

   (e) the simplified approach to recognition of ECL for trade receivables, contract assets and lease receivables, specifically:

      (i) the effects of the relief provided by the IASB through the simplified approach; and

(ii) the use of forward-looking information when applying the simplified approach;

(f) the accounting for loan commitments, collateral and other credit enhancements held, and issued financial guarantee contracts that are in scope of IFRS 9;

(g) the application of the ECL requirements alongside other requirements in IFRS 9 or in other IFRS Accounting Standards;

(h) the effects of transition reliefs provided by the IASB and the balance between reducing costs for preparers of financial statements and providing useful information to users of financial statements; and

(i) the disclosure requirements for credit risk in IFRS 7 *Financial Instruments: Disclosures*, specifically

(i) whether the combination of disclosure objectives and minimum disclosure requirements achieves an appropriate balance between comparable information[1] and relevant information[2] for users of financial statements about the effect of credit risk on the amount, timing and uncertainty of future cash flows; and

(ii) the compatibility of the requirements with digital reporting.

Publishing the RFI

7. At this meeting, the IASB is asked to approve the publication of the RFI. If approved, we expect to publish the RFI by the end of May 2023.

8. A PIR has two phases:

(a) phase 1: initial assessment and public consultation—the IASB identifies matters to be examined and consults publicly on the matters identified; and

[1] Consistent requirements apply to all entities so that users receive comparable information about the risks to which entities are exposed.

[2] The disclosures provided depend on the extent of an entity's use of financial instruments and the extent to which it assumes associated risks.

(b) phase 2: consideration of evidence and presentation of findings—considers the comments from the public consultation along with the information it has gathered from any additional analysis and other consultative activities.

9. The IASB publishes an RFI at the end of phase 1, setting out the matters for which it is seeking feedback by means of a public consultation.

10. As explained in paragraph 6.52 of the *Due Process Handbook*, before the IASB publishes the RFI, it needs to be satisfied that it has sufficient information to establish the scope of the review. For this PIR, the IASB established the scope of the review at its February 2023 meeting. The papers for that meeting included a description of the activities the IASB and staff undertook in phase 1 in accordance with the *Due Process Handbook*, and a summary of the feedback gathered.

11. Since the February 2023 meeting, IASB members have reviewed the draft RFI. As set out in the draft reviewed by IASB members, the RFI will seek information on the matters described in paragraph 6 of this paper, as well as:

(a) any other information about the impairment requirements in IFRS 9 that is relevant to the IASB assessing whether there is evidence that:

(i) there are fundamental questions (ie 'fatal flaws') about the clarity and suitability of the core objectives or principles in the ECL requirements;

(ii) the benefits to users of financial statements of the information arising from applying the ECL requirements are significantly lower than expected (for example, there is significant diversity in application); or

(iii) the costs of applying the ECL requirements and auditing and enforcing their application are significantly greater than expected (or there is a significant market development since the requirements were issued for which it is costly to apply them consistently).

Question for the IASB

Question 1 for the IASB
1. Do you approve the publication of the RFI for the PIR of the impairment requirements in IFRS 9?

Comment period for the RFI

12. The IASB normally allows a minimum of 120 days for comment on an RFI that is part of a PIR.

13. While this PIR does not consider all the requirements in IFRS 9 (the review of classification and measurement requirements is completed and the hedge accounting requirements will be reviewed separately), this PIR is not narrow in scope and is not urgent. Therefore, the staff do not consider there to be a need for a shortened comment period.

14. We considered other public consultations on the IASB's workplan at this time and whether that necessitates an extended comment period for this RFI. However, an extended comment period would further delay the assessments the IASB makes in a post-implementation review, including any potential action. Such a delay would be inconsistent with stakeholders' expectations. During outreach stakeholders said this is a very important review of the requirements in IFRS 9 and its timely completion by the IASB would be welcomed. As a result, the staff do not recommend an extended comment period.

15. Therefore, the staff recommend the IASB set a 120-day comment period for the RFI.

Question for the IASB

Question 2 for the IASB
2. Do you agree to setting a 120-day comment period for the RFI for the PIR of the impairment requirements in IFRS 9?