
IASB® meeting

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Project	Credit risk disclosures—Illustrative examples accompanying IFRS 7
Topic	Potential annual improvement
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Introduction

1. We have been informed about a potential lack of clarity in paragraph IG20C of the implementation guidance accompanying IFRS 7 *Financial Instruments: Disclosures* because that paragraph fails to state that the example does not illustrate all the requirements in paragraph 35M of IFRS 7.
2. The IFRS Interpretations Committee (Committee) discussed this matter at its meeting in November 2022—see [Agenda Paper 3F](#) for that meeting.
3. The objective of this paper is to:
 - (a) provide the International Accounting Standards Board (IASB) with background on the matter and staff analysis, including consideration of the Committee's discussion; and
 - (b) ask the IASB whether it agrees with our recommendation to include proposed amendments to paragraphs IG1 and IG20B of the implementation guidance accompanying IFRS 7¹ in its next *Annual Improvements to IFRS Accounting Standards Cycle* (annual improvements).

¹ For the remainder of this agenda paper we refer to the IG paragraphs as paragraphs 'of IFRS 7' rather than 'of the implementation guidance accompanying IFRS 7' for brevity.

Structure of this paper

4. This paper includes:
 - (a) Background information;
 - (b) Staff analysis, including consideration of the Committee's discussion and transition requirements;
 - (c) Staff recommendations and question for the IASB;
 - (d) Appendix A—recommended proposed amendments to paragraphs IG1 and IG20B of IFRS 7; and
 - (e) Appendix B—Illustrative tables in paragraph IG20C of IFRS 7.

Summary of staff recommendations

5. We recommend that the IASB:
 - (a) propose an amendment to paragraph IG1 of IFRS 7 to add a statement that the implementation guidance accompanying IFRS 7 does not illustrate all the requirements of IFRS 7;
 - (b) propose an amendment to paragraph IG20B of IFRS 7 to streamline the wording; and
 - (c) include these proposed amendments in its next annual improvements cycle.

Background information

6. Paragraph 35M of IFRS 7 sets out disclosure requirements relating to credit risk exposure and states:

To enable users of financial statements to assess an entity's credit risk exposure and understand its significant credit risk concentrations, an entity shall disclose, by *credit risk rating grades*, the gross carrying amount of financial assets and the

exposure to credit risk on loan commitments and financial guarantee contracts. This information shall be provided separately for financial instruments:

(a) for which the loss allowance is measured at an amount equal to 12-month expected credit losses;

(b) for which the loss allowance is measured at an amount equal to lifetime expected credit losses and that are:

(i) financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets;

(ii) financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired); and

(iii) trade receivables, contract assets or lease receivables for which the loss allowances are measured in accordance with paragraph 5.5.15 of IFRS 9.

(c) that are purchased or originated credit-impaired financial assets.

7. Paragraph IG20C of IFRS 7 illustrates the application of paragraph 35M of IFRS 7 and includes illustrative tables that are reproduced in Appendix B to this paper.

Paragraph IG20C states:

The following example illustrates some ways of providing information about an entity's credit risk exposure and significant credit risk concentrations in accordance with paragraph 35M of IFRS 7. The number of grades used to disclose the information in accordance with paragraph 35M of IFRS 7 shall be consistent with the number that the entity uses to report internally to key management personnel for internal credit risk management

purposes. However, if information about credit risk rating grades is not available without undue cost or effort and an entity uses past due information to assess whether credit risk has increased significantly since initial recognition in accordance with paragraph 5.5.11 of IFRS 9, the entity shall provide an analysis by past due status for those financial assets.

8. The tables in paragraph IG20C of IFRS 7 do not illustrate all the disclosure requirements in paragraph 35M of IFRS 7—and the paragraph does not state that it omits illustration of particular requirements. For example, the tables illustrate neither an entity's exposure to credit risk on loan commitments and financial guarantee contracts nor the requirements in paragraph 35M(b)(i)–(ii)² or 35M(c).

Question raised

9. The question raised is whether paragraph IG20C of IFRS 7 should be updated to state that it does not illustrate all the requirements in paragraph 35M of IFRS 7.

Staff analysis

10. As reproduced in paragraph 6 of this agenda paper, paragraph 35M of IFRS 7 requires an entity to disclose, by credit risk rating grades, the gross carrying amount of financial assets and the exposure to credit risk on loan commitments and financial guarantee contracts. The paragraph requires an entity to provide the information separately for financial instruments:
 - (a) with a loss allowance equal to 12-month expected credit losses;
 - (b) with a loss allowance equal to lifetime expected credit losses; and
 - (c) that are purchased or originated credit-impaired financial assets.

² Paragraph IG20D of IFRS 7 illustrates one way to apply the requirements in paragraphs 35M(b)(iii) and 35N for trade receivables.

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11. For financial instruments with a loss allowance equal to lifetime expected credit losses (category (b) as described in paragraph 10 of this agenda paper), paragraph 35M(b)(i)–(ii) requires an entity to disclose separately credit risk information for ‘(i) financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets’; and ‘(ii) financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired)’.
 12. Paragraph IG20C of IFRS 7 illustrates ‘some ways’ of providing the information required by paragraph 35M of IFRS 7 and includes illustrative tables as reproduced in Appendix B to this paper. However, paragraph IG20C does not illustrate all the requirements in paragraph 35M; for example, it does not provide illustrative disclosures of:
 - (a) exposure to credit risk on loan commitments and financial guarantee contracts;
 - (b) information required by paragraph 35M(b)(i)–(ii) as described in paragraph 11 of this agenda paper³; or
 - (c) information about purchased or originated credit-impaired financial assets as required by paragraph 35M(c).
 13. As a general matter, in our view it is not necessary for implementation guidance (or illustrative examples) to state in every case whether all requirements are illustrated for a particular referenced paragraph in an IFRS Accounting Standard. We think doing so would result in additional disclaimer language that would add unnecessary length to implementation guidance and illustrative examples.
 14. However, we note that paragraph IG20B of IFRS 7—which illustrates the application of the requirements in paragraphs 35H–35I of IFRS 7—states: ‘[t]his example does not illustrate the requirements for financial assets that are purchased or originated credit-impaired’. We think this statement in paragraph IG20B may set an expectation

³ See footnote 2 to paragraph 8 of this agenda paper.

for readers that paragraph IG20C—which appears directly after paragraph IG20B—would also state, if applicable, that it does not illustrate particular requirements in paragraph 35M of IFRS 7.

15. Our preliminary view was that this matter could be efficiently resolved by adding a statement to paragraph IG20C of IFRS 7 that it does not illustrate all the requirements in paragraph 35M of IFRS 7. This would be a minor correction to remove a potential inconsistency between paragraphs IG20B and IG20C and would improve understandability and application of the implementation guidance accompanying IFRS 7.

The Committee's discussion

16. The Committee discussed this potential annual improvement at its November 2022 meeting. Most Committee members did not disagree with our staff analysis and preliminary views.
17. Some Committee members suggested that the IASB, rather than propose an amendment to paragraph IG20C of IFRS 7, propose amendments to:
 - (a) paragraph IG20B of IFRS 7 to remove the sentence (reproduced in paragraph 14 of this agenda paper) stating which requirements that example does not illustrate; and
 - (b) paragraph IG1 of IFRS 7 to state that the implementation guidance does not illustrate all the requirements in IFRS 7.
18. However, a few Committee members said revising paragraph IG20B of IFRS 7 in the manner suggested in paragraph 17(a) of this agenda paper might remove useful information (about what is not illustrated) from that example or might cause confusion for entities that are aware of and rely on the sentence that currently states which aspects of the requirements are not illustrated.

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19. Another suggestion was to reword paragraph IG20B of IFRS 7 to retain the information about which aspects of the requirements are not illustrated—the requirements for financial assets that are purchased or originated credit-impaired—in such a way that the last sentence could be deleted. For example, paragraph IG20B would state (new text is underlined): ‘The following example illustrates one way of providing information about the changes in the loss allowance and the significant changes in the gross carrying amount of financial assets, other than financial assets that are purchased or originated credit-impaired, during the period that contributed to changes in the loss allowance as required by paragraphs 35H–35I.’ No Committee members disagreed with this approach.
20. There was also a suggestion to do a broader review of illustrative examples and implementation guidance accompanying IFRS Accounting Standards to determine whether the suggested changes to paragraph IG1 of IFRS 7 are necessary elsewhere. For example, the IASB could include a statement such as ‘these illustrative examples do not [or this implementation guidance does not] illustrate all the requirements’ at the beginning of each set of illustrative examples and implementation guidance.

Staff analysis of the Committee input

21. We think our preliminary view to resolve this matter—to suggest adding a statement to paragraph IG20C of IFRS 7 that it does not illustrate all the requirements in paragraph 35M of IFRS 7—continues to have merit and would efficiently remove an inconsistency between paragraph IG20B and IG20C of IFRS 7. However, we also see merit in the alternative approach suggested to revise paragraph IG20B of IFRS 7 as described in paragraph 19 of this agenda paper. That approach retains information about what is not illustrated in the example in paragraph IG20B in a more streamlined way and reduces the need for a sentence to be added to paragraph IG20C.
22. We agree with the suggested amendment to paragraph IG1 of IFRS 7 to state that the implementation guidance accompanying IFRS 7 does not illustrate all the requirements in IFRS 7. Such an amendment would provide clarity and avoid the need

to state in each paragraph of the implementation guidance accompanying IFRS 7 whether, or the extent to which, all requirements in specified paragraphs of IFRS 7 have been illustrated.

23. After considering the input of the Committee, we recommend that the IASB propose an amendment to paragraphs IG1 and IG20B of IFRS 7 as set out in Appendix A to this agenda paper.

Broader review of illustrative examples and implementation guidance accompanying IFRS Accounting Standards

24. We reviewed the full set of illustrative examples (IEs) and implementation guidance (IGs) accompanying IFRS Accounting Standards and observe variety in the way those IEs and IGs have been written over time. There are 41 sets of IEs and IGs, including those accompanying IFRIC and SIC Interpretations. Many IEs and IGs include some form of introductory paragraphs that explain the limitations of the examples, while many (more than half) do not include introductory paragraphs. Some, but not all, of the IEs and IGs with introductory paragraphs include a statement similar to this in paragraph IE1 of IFRS 15 *Revenue from Contracts with Customers*: ‘these examples portray hypothetical situations illustrating how an entity might apply some of the requirements in IFRS 15 to particular aspects of a contract with a customer on the basis of the limited facts presented’. Some of the IEs and IGs that do not include introductory paragraphs may include statements about the limitations of illustrations within individual examples.
25. In the light of the variety of formats used in the 41 sets of IEs and IGs and the lack of introductory paragraphs in many of them, we think it will require extensive effort to amend each set of IEs and IGs to include a consistent statement that the illustrative or implementation guidance does not illustrate all the requirements of the applicable IFRS Accounting Standards. With the exception of the question about the implementation guidance accompanying IFRS 7 that is described in this paper, we are not aware of questions or concerns from stakeholders that would warrant extensive

efforts to amend the IEs and IGs for other IFRS Accounting Standards. Therefore, we do not recommend proposing amendments to IEs and IGs on a broader basis.

Does this matter meet the annual improvements criteria?

26. Paragraphs 6.10–6.13 of the *Due Process Handbook* include the criteria for annual improvements. To meet these criteria, the proposed solution would need to be limited to:
- (a) clarifying the wording in an Accounting Standard, which involves either replacing unclear wording in existing Accounting Standards or providing requirements where an absence of requirements is causing concern; or
 - (b) correcting relatively minor unintended consequences, oversights or conflicts between existing requirements.
27. In our view, our proposed solution to amend paragraphs IG1 and IG20B of IFRS 7 (see Appendix A to this agenda paper) meets these criteria. Our recommended amendment would maintain consistency with the principles and requirements in IFRS 7 and would not propose a new (or change an existing) principle or requirement.
28. Although strictly speaking an amendment to the implementation guidance accompanying IFRS 7 may not be required—because implementation guidance accompanies, but is not part of, an IFRS Accounting Standard—we see benefit in removing the potential for confusion related to paragraphs IG20B and IG20C as described in this paper. We note that the IASB previously amended illustrative examples through annual improvements—Illustrative Example 13 accompanying IFRS 16 *Leases* was amended through *Annual Improvements to IFRS Standards 2018–2020*.

Transition requirements

29. Because the amendment proposed is to non-authoritative material accompanying IFRS 7, there is no need for the IASB to consider transition.

Staff recommendations and question for the IASB

30. Based on our analysis in this agenda paper, we recommend the IASB, as part of its next annual improvements cycle, amend paragraphs IG1 and IG20B of IFRS 7 as set out in Appendix A to this agenda paper.

Question for the IASB

Does the IASB agree with our recommendations:

- a. to propose an amendment to paragraph IG1 of IFRS 7 to add a statement that the implementation guidance accompanying IFRS 7 does not illustrate all the requirements in IFRS 7;
- b. to propose an amendment to paragraph IG20B of IFRS 7 to streamline the wording;
and
- c. to include these proposed amendments in its next annual improvements cycle?

Appendix A—recommended proposed amendments to paragraphs IG1 and IG20B of IFRS 7

A1. Our proposed amendment to paragraph IG1 would add a statement that the implementation guidance accompanying IFRS 7 does not illustrate all the requirements in IFRS 7. Our proposed amendment to paragraph IG20B of IFRS 7 would streamline the paragraph by rewording the first sentence and deleting the second sentence. New text is underlined and deleted text is struck through.

IG1 This guidance suggests possible ways to apply some of the disclosure requirements in IFRS 7 and does not illustrate all the requirements in IFRS 7. The guidance does not create additional requirements.

IG20B The following example illustrates one way of providing information about the changes in the loss allowance and the significant changes in the gross carrying amount of financial assets, other than financial assets that are purchased or originated credit-impaired, during the period that contributed to changes in the loss allowance as required by paragraphs 35H–35I. ~~This example does not illustrate the requirements for financial assets that are purchased or originated credit-impaired.~~

Appendix B—Illustrative tables in paragraph IG20C of IFRS 7

B1. The following illustrative tables are included in paragraph IG20C of IFRS 7:

Consumer loan credit risk exposure by internal rating grades				
20XX	Consumer—credit card		Consumer—automotive	
CU'000	Gross carrying amount		Gross carrying amount	
	Lifetime	12-month	Lifetime	12-month
Internal Grade 1–2	X	X	X	X
Internal Grade 3–4	X	X	X	X
Internal Grade 5–6	X	X	X	X
Internal Grade 7	X	X	X	X
Total	X	X	X	X

Corporate loan credit risk profile by external rating grades				
20XX	Corporate—equipment		Corporate—construction	
CU'000	Gross carrying amount		Gross carrying amount	
	Lifetime	12-month	Lifetime	12-month
AAA-AA	X	X	X	X
A	X	X	X	X
BBB-BB	X	X	X	X
B	X	X	X	X
CCC-CC	X	X	X	X
C	X	X	X	X
D	X	X	X	X
Total	X	X	X	X

Corporate loan risk profile by probability of default				
20XX	Corporate—unsecured		Corporate—secured	
CU'000	Gross carrying amount		Gross carrying amount	
	Lifetime	12-month	Lifetime	12-month
0.00 – 0.10	X	X	X	X
0.11 – 0.40	X	X	X	X
0.41 – 1.00	X	X	X	X
1.01 – 3.00	X	X	X	X
3.01 – 6.00	X	X	X	X
6.01 – 11.00	X	X	X	X
11.01 – 17.00	X	X	X	X
17.01 – 25.00	X	X	X	X
25.01 – 50.00	X	X	X	X
50.01+	X	X	X	X
Total	X	X	X	X