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Staff paper

Agenda reference: AP5

Joint CMAC-GPF meeting
June 2023

Amendments to the Classification and Measurement of Financial Instruments—Disclosures

Background

Key features of the Exposure Draft (ED)

- Issued to respond to feedback on the Post Implementation Review (PIR) of the classification and measurement requirements in IFRS 9 *Financial Instruments*
- Published in March 2023
- Comment period ends 19 July 2023

What is the IASB proposing in the ED?

The IASB proposes amendments to requirements relating to:

- derecognition of financial liabilities settled through electronic transfer;
- assessment of contractual cash flow characteristics in classifying financial assets; and
- disclosure of information about some financial instruments

Focus of this session

Link to Exposure Draft

Purpose of this session

1. To provide:
   - an overview of the proposed disclosure requirements (see slides 5-8), and
   - examples for discussion (see slides 10-12)
2. To obtain feedback from:
   - CMAC members on whether they believe the proposed disclosure requirements would provide useful information
   - GPF members on whether they believe the proposed disclosure requirements can be implemented
   - CMAC and GPF members on specific questions that are listed on slide 14

Proposed requirements

Overview of proposed disclosure requirements

1. IASB's objective with proposed requirements – slide 6
2. Proposed disclosure requirements to meet the IASB's objective – slide 7
3. Quantitative disclosure requirements – slide 8

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(1) Objective of proposed disclosure requirements

The IASB proposed disclosure requirements to help users of financial statements understand:

- the **nature** of contractual terms that could change the timing or amount of contractual cash flows of a **financial asset or a financial liability** based on the occurrence (or non-occurrence) of a **contingent event that is specific to the debtor**; and
- the **extent of the entity's exposure** to such contingent events.

The proposed disclosure requirements would apply to financial instruments with ESG-linked features (see examples shown on slides 10-12), but are not limited to such instruments.

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(2) Proposed disclosure requirements

An entity shall disclose:

- a **qualitative description** of the nature of the contingent event;
- **quantitative information** about the range of changes to contractual cash flows that could result from the contractual terms; and
- the **gross carrying amount of financial assets and the amortised cost of financial liabilities** subject to those contractual terms.

An entity shall disclose this information separately for each class of financial assets measured at amortised cost or fair value through other comprehensive income and for each class of financial liabilities measured at amortised cost. The entity shall consider how much detail to disclose, the appropriate level of aggregation or disaggregation, and whether users of financial statements need additional explanations to evaluate any quantitative information disclosed.

(3) Quantitative information required

<u>Disclosure proposal</u>

Entities are required to disclose quantitative information about the range of possible changes in contractual cash flows (for example, the bps change to the contractual interest rates that could arise from contingent events linked to ESG targets).

What did the IASB consider in developing the requirements?

- The IASB sought to balance the benefits for users of financial statements against the costs for preparers.
- The IASB decided not to:
  - require a sensitivity analysis of possible changes in contractual cash flows or a quantification of the probable/likely effect contingent events could have on an entity's financial statements.
  - require a particular format for the quantitative information as this depends on the nature and volume of financial assets or financial liabilities with these contractual terms.

Examples for discussion

Example 1* – financial liability with ESG-linked features

The entity has issued a sustainability-linked bond with a carrying amount of CU130 million at 31 Dec 2022 (31 Dec 2021: CU160 million).

The interest rate payable on the bond could be reduced by 5 to 10 basis points if the entity achieves contractually specified targets for reductions in greenhouse gas emissions.

*The IASB is not proposing to include these examples as part of the proposed amendments to IFRS 7. These examples are the based on the staff's interpretation of the proposed disclosure requirements and are included solely for discussion purposes.

Example 2* – financial liability with lending conditions

Included in the carrying amount of long-term borrowings is a loan from the central bank at a beneficial interest rate, conditional on the meeting of targets on lending to non-financial corporations and households.

If these targets are not met, the interest rate payable on the loan would increase by 50 basis points.

The carrying amount of the loan at 31 Dec 2022 was CU90 million (31 Dec 2021: CU80 million).

*The IASB is not proposing to include these examples as part of the proposed amendments to IFRS 7. These examples are the based on the staff's interpretation of the proposed disclosure requirements and are included solely for discussion purposes.

Example 3* – financial assets with ESG-linked features

The carrying amount of loans and advances to customers at amortised cost include loans with contractual terms that adjust the interest rate based on the achievement of contractually specified reductions in greenhouse gas emissions by the borrower. The table below sets out the range of reductions in interest rate and the gross carrying amount of the loans with such terms.

Reduction in interest rate (bps per annum)	Gross Carrying Amount (CU million)	
	31 Dec 2022	31 Dec 2021
< 5	500	400
5-10	1,200	1,000
10-15	400	300
> 15	100	50
Total	2,200	1,750

*The IASB is not proposing to include these examples as part of the proposed amendments to IFRS 7. These examples are the based on the staff's interpretation of the proposed disclosure requirements and are included solely for discussion purposes.

Questions for CMAC and GPF members

Questions

Users

- Do you believe that the proposed disclosure requirements (including the scope of these requirements) would provide useful information for users of the financial statements? If not, please indicate which aspect of the proposals you disagree with? Do you have any alternative suggestions for the IASB to consider?
- Is there any useful information about these types of financial instruments that you believe is not currently captured by the proposed disclosure requirements? How would you use such information?

Preparers

- Do you have any views on the availability of data and costs to prepare these disclosures?
- Do you have any comments on the scope of these requirements?
- Are there any aspects of the disclosure requirements that you believe require further clarification?

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