Islamic Finance Consultative Group meeting

Date: November 2023

Topic: IASB Update on recent developments related to Financial Instruments

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Contents

Overview

Post-implementation review of IFRS 9—Impairment

Amendments to the Classification and Measurement of Financial Instruments

Power Purchase Agreements

Financial Instruments with Characteristics of Equity

Dynamic Risk Management
## Overview—IASB Projects related to Financial Instruments

<table>
<thead>
<tr>
<th>Project</th>
<th>Next milestone</th>
</tr>
</thead>
<tbody>
<tr>
<td>Post-implementation review of IFRS 9—Impairment</td>
<td>Research</td>
</tr>
<tr>
<td></td>
<td>Research</td>
</tr>
<tr>
<td></td>
<td>Analyse feedback on the Request for Information during Q1-Q2 2024</td>
</tr>
<tr>
<td>Amendments to the Classification and Measurement of Financial Instruments</td>
<td>Maintenance</td>
</tr>
<tr>
<td></td>
<td>IFRS Amendment in H1 2024</td>
</tr>
<tr>
<td>Power Purchase Agreements</td>
<td>Maintenance</td>
</tr>
<tr>
<td></td>
<td>Decide project direction in Q1 2024</td>
</tr>
<tr>
<td>Financial Instruments with Characteristics of Equity</td>
<td>Standard-setting</td>
</tr>
<tr>
<td></td>
<td>Exposure Draft in Q4 2023</td>
</tr>
<tr>
<td>Dynamic Risk Management</td>
<td>Standard-setting</td>
</tr>
<tr>
<td></td>
<td>Exposure Draft expected in 2025</td>
</tr>
</tbody>
</table>
IASB projects related to Financial Instruments
Objective

• Assess the effects on stakeholders of applying the expected credit losses (ECL) requirements to financial instruments

Request for Information feedback

• Overall, the PIR feedback is very positive. Almost all respondents said that the ECL requirements:
  • result in more timely recognition of credit losses compared to IAS 39; and
  • work as intended with no fundamental questions (‘fatal flaws’).

• Respondents however identify specific application challenges and suggest the IASB make targeted improvements to the requirements, including disclosure requirements.

Next milestone

• The IASB will analyse detailed feedback on the Request for Information.
• The IASB expects to complete its discussions by the end of Q2 2024.
Amendments to IFRS 9: Classification and Measurement

Objective

- Narrow-scope amendments in response to the Post-implementation Review of IFRS 9 Classification and Measurement

Areas of focus

- Derecognition of financial liabilities settled through electronic cash transfers
- Contractual cash flow characteristics of financial assets
- Disclosure requirements for equity instruments for which fair value changes are presented in other comprehensive income

Next milestone

- IFRS Amendment expected in H1 2024
Power Purchase Agreements (PPAs)

Objective
• Explore whether narrow-scope amendments could be made to better reflect PPAs in financial statements

Project scope
• Own-use requirements for physical PPAs
• Hedge accounting requirements for virtual PPAs

Next steps
• IASB will decide on project direction in Q1 2024
Financial Instruments with Characteristics of Equity

Purpose

• Improve the information entities provide in their financial statements about financial instruments that they have issued

• Address challenges with applying IAS 32 Financial Instruments: Presentation

Approach

• Clarify IAS 32 classification principles to address practice issues (for example, classification of financial instruments settled in an entity’s own equity instruments)

• Improve presentation and disclosure

• Provide application guidance and illustrative examples

Next milestone

• Publish Exposure Draft in Q4 2023
Dynamic Risk Management

Objective

- Develop an accounting model to better reflect the effect of dynamic risk management in a company’s financial statements

DRM model

- The DRM model addresses the challenges in applying the hedge accounting requirements to dynamic interest rate risk management activities
- Showing the effect of using derivatives to mitigate repricing risk on the current net open risk position
- Tentative decisions made about the mechanics of the DRM model and
- Next focus area is presentation and disclosure requirements

Next milestone

- Publish Exposure Draft – expected in 2025
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