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## Islamic Finance Consultative Group meeting

Date **November 2023**

Topic **IASB Update on recent developments related to Financial Instruments**

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# Overview—IASB Projects related to Financial Instruments

		Next milestone
Post-implementation review of IFRS 9—Impairment	Research	Analyse feedback on the Request for Information during Q1-Q2 2024
Amendments to the Classification and Measurement of Financial Instruments	Maintenance	IFRS Amendment in H1 2024
Power Purchase Agreements	Maintenance	Decide project direction in Q1 2024
Financial Instruments with Characteristics of Equity	Standard-setting	Exposure Draft in Q4 2023
Dynamic Risk Management	Standard-setting	Exposure Draft expected in 2025

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# IASB projects related to Financial Instruments



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## PIR of IFRS 9—*Financial Instruments*: Impairment

### 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.

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# 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

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# 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

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# 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



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# 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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