This paper has been prepared for discussion at a public education meeting of the US Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB). It is not intended to represent the views of the boards or any individual member of either board or the staff. Comments on the application of IFRS® Accounting Standards or US GAAP do not purport to set out acceptable or unacceptable application of IFRS Accounting Standards or US GAAP. Tentative technical decisions are made in public and reported in FASB Action Alert or in IASB Update. Official positions of the FASB or the IASB are determined after extensive due process and deliberations.
Current IFRS 9 requirements

**Financial assets (Section 4.1 of IFRS 9)**

Measurement determined by
- business model
- contractual cash flow characteristics

No separation of embedded derivatives. Instruments can only be measured at amortised cost or FVOCI if cash flows on the instrument in its entirety represent solely payments of principal and interest (SPPI)

**Financial liabilities (Sections 4.2 & 4.3 of IFRS 9)**

Need to consider embedded derivatives

*An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate [...] or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.*

Embedded derivatives are separated from the host and accounted for as a derivative unless it is closely related to the host contract or the hybrid contract as a whole is measured at FVPL.
Feedback received in PIR of IFRS 9—Classification and Measurement

Financial assets¹

Most respondents asked for additional application guidance in IFRS 9 to assess whether the contractual cash flows of financial assets with ESG-linked features are SPPI and therefore can be measured at amortised cost or FVOCI.

Financial liabilities

Respondents did not consider further guidance a priority. A few respondents observed that they consider ESG-linked features in financial liabilities to be non-financial variables specific to a party to the contract and are therefore not considered to be embedded derivatives.

¹ Also see AP3B of the April 2022 IASB meeting
The IASB proposed
- clarification of 'basic lending arrangement '
- clarification of assessing terms that change the timing or amount of contractual cash flows
- examples to illustrate the application of these principles to assets with ESG-linked features
- disclosure requirements for instruments with changes in cash flows linked to a contingent event specific to the debtor

Financial liabilities
- No amendments proposed to classification and measurement requirements.
- Proposed disclosure requirements also applicable to financial liabilities.
Feedback on proposals in Exposure Draft

Financial assets
Respondents supported the IASB’s aims but expressed concerns about some aspects of the proposals (for example, concerns that the requirement for a contingent event to be specific to the debtor would exclude group-wide ESG targets).

Respondents also expressed concerns about the scope of the proposed disclosure requirements.

Financial liabilities
Respondents expressed concerns about the scope of the proposed disclosure requirements, including some respondents recommending that financial liabilities should be excluded from the scope.
Next steps

• Summary of feedback discussed at the September 2023 IASB meeting
• The IASB will analyse feedback and redeliberate on proposed amendments