The International Accounting Standards Board is an independent standard-setting body of the IFRS Foundation, a not-for-profit corporation promoting the adoption of IFRS Standards. For more information visit www.ifrs.org.

Staff paper
Agenda reference: 27C

IASB® meeting

Date April 2024
Project Post-implementation Review of IFRS 9—Impairment
Topic Interaction of impairment requirements with other requirements

Contacts
Alev Halit Ongen (alev.halitongen@ifrs.org)
Iliriana Feka (ifeka@ifrs.org)
Riana Wiesner (rwiesner@ifrs.org)

This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB). This paper does not represent the views of the IASB or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS® Accounting Standards. The IASB’s technical decisions are made in public and are reported in the IASB® Update.

Introduction

1. At this meeting, the IASB will discuss feedback on the interaction between the impairment requirements in IFRS 9 Financial Instruments and other requirements, received in response to the Request for Information Post-implementation Review of IFRS 9—Impairment (the RFI).

2. Specifically, this paper analyses the feedback on the interaction between the impairment requirements and the requirements:
   (a) in IFRS 9 relating to modifications, derecognition (including forgiveness) and write-off of financial assets; and
   (b) in other IFRS Accounting Standards.

3. This paper also provides the staff analysis, recommendations, and questions for the IASB, and is structured as:
   (a) a summary of staff recommendations and questions for the IASB;
   (b) a reminder of the requirements in IFRS 9;
   (c) a summary of feedback and staff analysis of that feedback; and
   (d) staff assessment of whether and when to take action in response to feedback.
4. This paper has one appendix: Appendix A—Analysis of other feedback for which the staff conclude no further action is required.

Summary of staff recommendations and questions for the IASB

5. The IASB decided in July 2022 that the Amortised Cost Measurement project would consider the interaction of the impairment requirements in IFRS 9 with the application questions on modification of financial assets (including modifications that lead to derecognition) and write-off requirements. The related matters identified in this paper (as summarised in paragraph 59 of this paper) would therefore be considered as part of that project. The staff recommend that the IASB take no further action on matters identified regarding the interaction between the impairment requirements and the other requirements in IFRS 9.

6. The staff also recommend that the IASB take no action on the matters identified regarding the interaction between impairment requirements in IFRS 9 and the requirements in other IFRS Accounting Standards.

<table>
<thead>
<tr>
<th>Questions for the IASB</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Does the IASB agree with the staff recommendation in paragraph 5 of this paper?</td>
</tr>
<tr>
<td>2. Does the IASB agree with the staff recommendation in paragraph 6 of this paper?</td>
</tr>
</tbody>
</table>

Reminder of the requirements in IFRS 9

Modification of financial assets

7. Paragraph 5.4.3 of IFRS 9 states that when the contractual cash flows of a financial asset are renegotiated or otherwise modified, and the renegotiation or modification does not result in the derecognition of that financial asset, an entity shall recalculate
the gross carrying amount of the financial asset and shall recognise a modification gain or loss in profit or loss.¹

8. Paragraphs B5.5.25 and B5.5.26 of IFRS 9 state that when the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a ‘new’ financial asset for the purposes of IFRS 9, with the date of the modification being the date of initial recognition of that new asset when applying the impairment requirements.

Derrecognition

9. Paragraph 3.2.3 of IFRS 9 states that a financial asset is derecognised (ie removed from the statement of financial position), when, and only when, either the contractual rights to the asset’s cash flows expire, or the asset is transferred and the transfer qualifies for derecognition. A transfer is not considered to arise when the contractual rights to cash flows of an asset are renegotiated or otherwise modified. Instead, an assessment of whether the cash flows have expired due to the modification is required.²

10. When measuring the carrying amount at the date of derecognition, an entity is required also to remeasure the loss allowance attributable to the financial asset at the date of derecognition.³

¹ Appendix A of IFRS 9 defines modification gain or loss as the amount arising from adjusting the gross carrying amount of a financial asset to reflect the renegotiated or modified contractual cashflows.
² The derecognition requirements for financial assets are summarised in the decision tree in paragraph B3.2.1 of IFRS 9.
³ On derecognition of a financial asset carried at amortised cost, the difference between the carrying amount (measured at the date of derecognition) and the consideration received (including any new asset obtained less any new liability assumed) is required to be recognised in profit or loss as per the requirements of paragraph 3.2.12 of IFRS 9. This is commonly referred to as a derecognition gain or loss.
**Write-off**

11. Paragraph 5.4.4 of IFRS 9 states that an entity shall directly reduce the gross carrying amount of a financial asset when the entity has no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. A write-off constitutes a derecognition event as per paragraph B3.2.16(r) of IFRS 9.

**Definition of a ‘credit loss’**

12. Appendix A of IFRS 9 defines a credit loss as the difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (ie all cash shortfalls), discounted at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired (POCI) financial assets). This definition is consistent with requirements for determining expected credit losses (ECL) as set out in paragraphs B5.5.28–B5.5.29 of IFRS 9.

**Summary of feedback and staff analysis**

13. As discussed at the IASB’s November 2023 meeting, the interaction of the impairment requirements, including the definition of a credit loss, with the other requirements in IFRS 9 is one of the areas that attracted most feedback in this PIR.

14. Most respondents including standard-setters and accounting firms said that the interaction of the impairment requirements with other requirements in IFRS 9 is generally well understood. However, a large majority of these respondents identified several challenges and application questions when applying the impairment requirements in IFRS 9 alongside the requirements for modifications, derecognition (including forgiveness) and write-off of financial assets as outlined in paragraphs 35–40 of this paper.

15. In addition, many respondents commenting on these challenges said that the agenda decision issued by the IFRS Interpretations Committee (Committee) in October
2022 regarding ‘Lessor Forgiveness of Lease Payments’ has created ambiguity about the meaning of ‘credit losses’. Specifically, whether the definition of a ‘credit loss’ in Appendix A of IFRS 9, which refers to ‘all cash shortfalls’, means that an entity is required to reflect all changes in expected cash flows resulting in an expected cash shortfall as an adjustment to ECL. Some of these respondents said that, prior to this agenda decision, it was widely understood that credit losses only capture the expected cash shortfalls arising from credit events.

16. A few respondents also identified other application questions regarding the interaction of the impairment requirements with the requirements in other IFRS Accounting Standards, including IFRS 16 Leases. These application questions and the staff’s analysis have been included in Appendix A. Application questions regarding the interaction of the impairment requirements with the requirements in IFRS 15 Revenue from Contracts with Customers are set out in Agenda Paper 6A of the IASB’s April 2024 meeting.

Definition of a credit loss

Feedback

17. Having acknowledged that the definition of credit losses in Appendix A of IFRS 9 refers to ‘all cash shortfalls’, many respondents (including standard-setters and accounting firms) who said that the Committee’s decision in October 2022 created ambiguity about the meaning of ‘credit losses’, also said that IFRS 9 does not provide sufficient guidance for entities:

(a) to distinguish between changes in expected cash flows that represent ECL and those representing modifications, revisions of estimated contractual cash flows (applying paragraph B5.4.6 of IFRS 9), derecognition (including forgiveness) and write-off of financial assets; or

(b) to determine the order in which these requirements are applied, if more than one set of requirements is applicable to a specific fact pattern.
18. Some of these respondents commented that, in their view, recognition of ECL should be limited to the cash shortfalls attributable to the deterioration of credit risk only, and not to all cash shortfalls. They consider this approach to be consistent with the concept of significant increases in credit risk and definition of expected credit losses in Appendix A of IFRS 9 which makes reference to credit losses.

19. These respondents raised significant concerns with the accounting outcome of recognising ECL for a cash shortfall that do not arise from borrower’s credit risk deterioration—in their view, such an outcome would not faithfully represent the economic substance of the change in expected cashflows.

20. Not all respondents who identified this matter shared their views on how expected cash shortfalls that are not attributable to deterioration of credit risk are to be accounted for. Some respondents said that current practice is not to account for such expected cash shortfalls until or unless there is a modification to the contractual terms. Others said that accounting for such shortfalls as an adjustment to the gross carrying amount of the financial asset (for example by applying paragraph B5.4.6 of IFRS 9, provided changes in expected cash flows do not meet the requirements in paragraph 5.4.3, 5.4.4, or 3.2.3 of IFRS 9) would be a more faithful representation of the economic substance of the change.

21. Respondents who raised significant concerns with the accounting outcome of recognising ECL for a cash shortfall that do not arise from borrower’s credit risk deterioration, provided some examples to illustrate their concerns, including the example of ‘payment holidays’—in which case, a borrower might have a legal entitlement to a ‘payment holiday’ for a specified period regardless of whether it is in financial difficulty or not.

22. As noted in paragraph 15 of this paper, a related issue pertaining to a specific fact pattern was discussed by the Committee. In this context, a few respondents suggested that the IASB incorporate the conclusions from this discussion into IFRS 9, but many others said this topic requires a broader consideration by the IASB and the outcome might not be applicable to other fact patterns that, on the surface, might appear similar
to the case discussed by the Committee. For example, one respondent asked the IASB to consider a fact pattern in which an expected future concession resulting in a change to the contractual cash flows is anticipated by the lender, but the discussions with the borrower have not yet commenced. In this fact pattern, it is assumed that the borrower would generally be expected to agree to the anticipated change because the change is in favour of the borrower (i.e., it would reduce the contractual cash flows).

23. For these respondents, resolving these application challenges is either of high or medium priority, because matters relating to the definition of credit losses are fundamental to the requirements for recognition of ECL. Therefore, in their view, it is important that the IASB develops guidance to support consistent application in this area.

24. Regarding prevalence of these transactions, some respondents gave the example that while most payment holidays discussed in paragraph 21 of this paper were observed during the covid-19 pandemic, some form of government loan subsidies continue to be granted, for example in response to increased interest rates.

**Staff analysis**

25. Feedback described in paragraph 18 of this paper indicates that some respondents view the reason or the nature of the events that led to an expected cash shortfall to be the determining factor as to whether a change in expected cash flows represents an adjustment to ECL or an adjustment to the gross carrying amount of a financial asset. The staff do not share that view.

26. The staff note that isolating a single reason or event that led to a change in expected cash flows might not always be possible or provide a faithful representation of the circumstances leading to the change. That is because, in many cases, a combination of reasons or events might have led to a change in the expected cash flows.

27. Appendix A of IFRS 9 defines gross carrying amount as the amortised cost of a financial asset before adjusting for any loss allowance. Therefore, there is a natural order for determining whether a change in expected cash flows is accounted for as an
adjustment to the gross carrying amount of a financial asset or as an adjustment to the ECL. Accordingly, applying IFRS 9, an entity assesses:

(a) first, whether the IFRS 9 requirements for adjusting the gross carrying amount of a financial asset are met; and 4

(b) then, if the change does not require an adjustment to the gross carrying amount, the entity assesses whether the change meets the definition of a credit loss and therefore should be accounted as ECL. This assessment is based on reasonable and supportable information that is available at that time.

28. The rationale for the requirement of establishing the appropriate gross carrying amount first, based on which the ECL is then determined, is explained in paragraphs BC5.240 and BC5.241 of Basis for Conclusions on IFRS 9. Those paragraphs explain that the IASB decided that an entity should adjust the gross carrying amount of a financial asset if it modifies the contractual cash flows and recognise modification gains or losses in profit or loss.

29. This is because, IFRS 9 requires a decoupled approach to interest revenue and recognition of ECL, not adjusting the carrying amount upon a modification would result in inflating interest revenue and the loss allowance for financial assets. It is specifically noted that for example, if credit losses are crystallised by a modification, an entity should recognise a reduction in the gross carrying amount. Furthermore, it is acknowledged that there may be situations in which adjusting the gross carrying amount results in recognition of a gain.

30. In the staff’s view, there is no ambiguity in the definition of a credit loss and in accordance with paragraph B5.5.28 of IFRS 9, a credit loss represents the present value of all cash shortfalls regardless of whether they result from a borrower being in financial difficulty or not.

---

4 The requirements for modification of financial assets' cash flows (paragraph 5.4.3 of IFRS 9) and accounting for changes in expected cash flows of financial assets applying paragraph B5.4.6 of IFRS 9 adjust the gross carrying amount of the financial asset. When considering derecognition or part derecognition of financial assets including forgiveness (paragraph 3.2.3 of IFRS 9) and write-off (paragraph 5.4.4 of IFRS 9), an entity also considers whether the gross carrying amount (or part of it) should be removed from the statement of financial position.
31. If an entity has reasonable and supportable information that it will not receive some of the contractual cash flows of a financial asset, and does not account for such expected cash shortfalls as ECL because they are not attributable to a deterioration in credit risk, it will not be complying with the objective of the impairment requirements in IFRS 9. Furthermore, such an outcome would reduce the usefulness of information to users of financial statements.

**Staff conclusion**

32. Therefore, in the staff’s view, in accordance with paragraph B5.5.28 of IFRS 9, credit losses represent present value of all cash shortfalls regardless of whether they result from borrowers being in financial difficulty or not. Therefore, the staff recommend that the IASB takes no further action on matters raised by respondents regarding the definition of a credit loss.

33. In our view, the order of application of the requirements in IFRS 9 are clear. If the IFRS 9 requirements for adjusting the gross carrying amount of a financial asset are met, an entity first adjusts the gross carrying amount of the financial asset and then determines the ECL associated with that adjusted amount.

34. Nonetheless, we acknowledge that the lack of clarity regarding the application of paragraph 5.4.3, 5.4.4, B5.4.6 and 3.2.3 of IFRS 9 has led to confusion amongst stakeholders in determining whether an expected cash shortfall represents an adjustment to gross carrying amount of a financial asset or an adjustment to ECL. The IASB had tentatively decided to consider clarifying the requirements regarding the application of these paragraphs as part of the forthcoming Amortised Cost Measurement project. We expect those clarifications would also help alleviate some of the concerns raised by the RFI respondents in distinguishing credit losses from other changes in expected cash flows.
Interaction of impairment requirements with other requirements in IFRS 9

Feedback

35. Many respondents, including banks and accounting firms, commented that IFRS 9 does not distinguish between modification or restructuring of credit-impaired financial assets (eg forbearance) and non-credit-impaired financial assets (eg commercial renegotiation). They noted that same modification requirements apply under both scenarios. Some of these respondents challenged this approach and suggested that the IASB consider drawing a distinction between the requirements, because of:

(a) presentation issues: When a modification is related to forbearance, it seems unclear whether modification gains or losses (as defined in Appendix A of IFRS 9) should be presented in the impairment line item in the statement of profit or loss or whether they should be accounted for as an adjustment to the gross carrying amount of the financial asset, and consequently presented separately as a modification gain or loss. Whilst separate presentation might be intuitive for a commercial restructuring, in these respondents’ view, it is not intuitive for forbearance because the recognition of a modification loss results in the ECL being reversed (reduced) and therefore, a credit being recognised in the impairment line in the statement of profit or loss applying the requirements in paragraph 5.5.8 of IFRS 9.

(b) potentially misleading ECL amount being recognised: When a financial asset—for which lifetime ECL had been recognised—is restructured because the borrower is in financial difficulty, and this leads to derecognition, the new financial asset would be recognised with a 12-month ECL unless it is considered to be originated credit-impaired. These respondents view the

---

5 In this context, forbearance refers to modifications where a lender grants a concession to the borrower because of its financial difficulties, with the aim of recovering as much as possible of the principal outstanding (for example a lender has forgiven part of the principal of the loan or has restructured more than one loan facility in the same restructuring deal with a number of changes including additional fees as part of the restructuring). In contrast, a commercial renegotiation refers to instances where a borrower is able to refinance instruments at an on-market rate offered by a number of different lenders (where for example the contractual interest rate or tenor of the existing loan might be changed).
decrease from lifetime to 12-month ECL to be counterintuitive, because the reason that led to a forbearance was the deterioration in credit quality in the first place.

(c) regulatory intervention: Prudential regulators in some jurisdictions might prefer that entities do not derecognise a financial asset that was subject to forbearance but treat it as a modified asset instead. As a result of this type of regulatory intervention—in the absence of any specific guidance in IFRS 9—some entities might develop accounting policies for assessing when a modification leads to derecognition of a financial asset, aligning their policy with some regulators’ expectations. This means, they might develop accounting policies that automatically categorise forbearance as a non-substantial modification without requiring the need to carry out further qualitative or quantitative assessments. This might give rise to diversity in practice between regulated and unregulated entities.

36. As mentioned in paragraph 17(b) of this paper, many respondents also asked for further guidance in terms of the order in which entities shall apply IFRS 9 requirements, ie whether the requirements for write-off (eg part derecognition), modifications or impairment are applied first.

37. Some respondents acknowledged and welcomed the IASB’s forthcoming Amortised Cost Measurement project, which aims to address application issues relating to modification of financial assets. They reiterated their previous feedback that represents significant application challenges in practice and supported the IASB’s decision to consider additional findings from the PIR of impairment requirements alongside them because of the interaction between these requirements.

38. These respondents explained that the requirements for modification of financial assets in paragraph 5.4.3 of IFRS 9 are less specific when compared with the requirements of paragraph B3.3.6 of IFRS 9 for financial liabilities. Paragraph 5.4.3 only refers to ‘modifications that did not result in derecognition’ without providing any further guidance on how to assess if that is the case, leading to diversity in practice. Whether
the modification results in derecognition or not, could have a significant consequential impact on measuring ECL and related disclosures.

39. In addition, some respondents (including some accounting firms, standard-setters and preparers) said that there are various challenges related to accounting and presentation of write-off losses. For example, they said that IFRS 9 is not clear or results in counterintuitive outcomes in:

(a) accounting for a write-off, particularly for a financial asset for which the amount to be written-off is greater than the ECL recognised before the asset is written-off. In such cases, they asked whether the write-off should be accounted for by reducing the gross carrying amount of the financial asset or the write-off should be considered as realisation of losses already reflected in ECL, therefore only accounting for the difference (amount to be written-off less ECL already recognised) as an additional impairment loss in profit or loss.

(b) the recognition of recoveries from amounts previously written-off (whether recoveries are recognised when cash is received or when likelihood of recovery becomes virtually certain). Some respondents also said that the lack of guidance on presentation of these recoveries leads to diversity in the statement of profit or loss.

40. A few respondents also requested further clarification of what is meant by ‘no reasonable expectation of recovering a financial asset’ as referred to in paragraph 5.4.4 of IFRS 9; explaining that the lack of guidance led to diversity in practice, resulting in more conservative approaches (early write-off) in some jurisdictions.

Staff analysis

41. As explained in paragraphs BC5.231–BC5.235 of Basis for Conclusions on IFRS 9, the IASB has previously considered, but rejected, limiting the modification requirements to modification of credit-impaired assets or modifications undertaken for
credit risk management purposes. The IASB decided that modification requirements apply to all modifications or renegotiations of contractual terms, regardless of whether they have been performed for commercial or other reasons that are unrelated to credit risk management. The IASB’s rationale is summarised below:

(a) It could be operationally difficult to determine the reason of modifications (ie whether they are performed for commercial or credit risk management reasons), as per feedback from stakeholders. In this regard, the IASB removed the requirement from IFRS 7 Financial Instruments: Disclosures to disclose the carrying amount of financial assets that would otherwise be past due or credit-impaired but whose terms have been renegotiated, and noted in paragraph BC54A of the Basis for Conclusions on IFRS 7 the difficulty in identifying financial assets whose terms have been renegotiated for reasons other than credit reasons, especially when commercial terms of loans are often renegotiated regularly for reasons that are not related to credit deterioration (ie impairment).

(b) The requirements are consistent with previous requirements in paragraph AG8 of IAS 39 Financial Instruments: Recognition and Measurement which did not differentiate between modifications based on the reason for the modification and thus, applied to all revisions of estimates of payments or receipts.

(c) Even if the intention of a modification could be clearly identified to be for commercial purposes, any change in the contractual terms of a financial instrument will have a consequential effect on the credit risk of the financial instrument since initial recognition and will affect the measurement of the loss allowance.

(d) The difficulty involved in discerning the purpose of modifications, and to what extent a modification is related to credit risk reasons, could create opportunities for manipulation. This could happen if entities were able to select a ‘preferred’ treatment for modifications simply because of the purpose of the modification. Limiting the scope of the modification requirements in
Section 5.5 of IFRS 9 to those undertaken for credit reasons could therefore result in different accounting treatments for the same economic event.

42. Therefore, in the staff’s view, developing requirements that distinguish between forbearance and commercial renegotiations might not be appropriate and might lead to the same problems as discussed in paragraphs BC5.231–BC5.235 of Basis for Conclusions on IFRS 9.

43. The staff do not share the same concerns as the respondents who consider the requirements of paragraph B5.5.26 to be counterintuitive in cases of forbearance (see feedback in paragraph 35(b) of this paper). This is because, if the probability of default has been reduced as a result of the modification (i.e., the new terms are more affordable for the borrower) and the new asset no longer meets the requirements for the recognition of lifetime ECL, then the requirements for measuring ECL should allow the loss allowance on such newly recognised assets to be measured at an amount equal to 12-month ECL, consistent with the treatment of unmodified financial assets.

44. It is explained in paragraph BC5.239 of Basis for Conclusions on IFRS 9 that, in the IASB’s view, allowing the loss allowance on such newly recognised assets to be measured at an amount equal to 12-month ECL when they no longer meet the requirements for the recognition of lifetime ECL faithfully represents the economics of the transaction and that faithful representation should not be overridden for anti-abuse purposes. In addition, when developing the requirements in IFRS 9, the IASB observed that entities also modify financial instruments for reasons other than increases in credit risk and, therefore, it would be difficult from an operational standpoint to prescribe asymmetrical guidance only for financial assets that have been modified because of credit risk factors, as discussed in paragraph 42 of this paper.

45. The staff note that a modification gain or loss adjusts the gross carrying amount of the financial assets and is recognised in the profit or loss. However, IFRS 9 does not prescribe which line item a modification gain or loss should be presented in the statement of profit or loss. The staff also note that, in the view of the IFRS Transition
Resource Group for Impairment of Financial Instruments (ITG), as concluded in their April 2015 meeting, modification gains or losses should be presented separately from the impairment losses and their reversals.

46. However, the staff already acknowledged in Agenda Paper 3A for IASB’s July 2022 meeting that, because of the close interaction between forbearance and impairment requirements in IFRS 9, the presentation of modification gains or losses might require further consideration.

47. Regarding the order of application of requirements, if a financial asset is modified as part of forbearance, and as part of that forbearance, an entity plans to modify a financial asset in a way that would result in forgiveness of part of the existing contractual cash flows, then the entity might need to consider whether any portion of the financial asset should be written-off before the modification takes place.

48. This is because an impending forgiveness of particular cash flows might mean that the lender has no reasonable expectation of recovery of those cash flows, therefore the entity first reduces the gross carrying amount of the financial asset accordingly (see paragraph 27 of this paper) before assessing whether the modification is a substantial modification or not. Subsequently the lender will be required to assess the ECL of the financial asset in accordance with paragraphs B5.5.25 and B5.5.26 of IFRS 9 if a substantial modification has occurred.

49. However, the staff acknowledge that the sequence or hierarchy of modifications and expiry of the contractual rights to cash flows, and the consequential impact on recognition of ECL might not always be clear.

50. As explained in paragraphs 67 and 68 of Agenda Paper 3A for IASB’s July 2022 meeting, the IASB decided to consider this topic under the forthcoming Amortised Cost Measurement project, which, amongst other application issues, aims to clarify:

(a) what constitutes a modification including the interaction of (or the boundary between) modification and expiry of the rights to cash flows (ie modification vs derecognition);
(b) the sequence or hierarchy of modifications, and expiry of the contractual rights to cash flows; and

(c) treatment of fees and costs resulting from the modification of an original contract.6

51. The staff agree with the respondents feedback that potential clarifications to the requirements in IFRS 9 regarding what constitutes a modification and modifications that lead to derecognition of a financial asset might have a consequential impact on measuring ECL, hence we recommend that the IASB, when considering the matters described in paragraph 50 of this paper, also considers the potential impact of these requirements on measuring ECL.

52. Paragraph 5.4.4 of IFRS 9 requires an entity to directly reduce the gross carrying amount of a financial asset when it has no reasonable expectations of recovering that financial asset. However, there is no specific guidance explaining how to assess whether there is no reasonable expectation of recovery. This is because, such an assessment would involve judgement and the factors considered might differ for different types of financial assets, for each entity’s credit risk management and debt collection policy, and for different jurisdictions an entity operates in. Therefore, in the staff’s view, introducing additional guidance would not eliminate the diversity observed in practice.

53. In the staff’s view, an entity should apply judgement in assessing whether there is no reasonable expectation of recovery of a financial asset, and reconsider its assessment when facts and circumstances change—for example, if an entity is continuously recovering a high level of amounts previously written-off, the entity is expected to reassess the appropriateness of the criteria it had used to make its assessment.

---

6 The IASB had already amended paragraph B3.3.6 of IFRS 9 and added B3.3.6A to address accounting treatment of fees and costs resulting from the modification of a financial liability, but no similar guidance has been added for fees and costs resulting from the modification of a financial asset.
54. As noted in Section 5.5 of IFRS 9, under the impairment requirements in IFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for ECL, and the ECL amount is updated at each reporting date to reflect changes in credit risk since initial recognition. That is to say, entities are required to provide timely information about ECL.

55. Therefore, in the staff’s view, an entity would generally be expected to have considered increasing the ECL amount on a financial instrument in a timely manner, adequately in advance of reaching the point of no reasonable expectation of recovery—the point when a write-off is appropriate. Consequently, the staff do not expect cases in which the amount to be written-off being greater than the ECL to be prevalent.

56. IFRS 9 does not provide further guidance on how entities present a write-off loss in the statement of profit or loss or how to account for subsequent recoveries of a financial asset that has been written-off. Because a write-off is only appropriate to the extent there are no reasonable expectations of recovery in respect of the amount to be written-off, the staff expect such recoveries not to be frequent.

57. However, the staff acknowledge that there are application questions raised about the accounting for subsequent recoveries of a financial asset following a write-off, with some stakeholders saying that it is challenging to determine whether the recoveries constitute the recognition of a new financial asset or the re-recognition of the previously written-off asset.

Staff conclusion

58. The staff recommend that the IASB take no action on differentiating the accounting outcome between different types of modifications based on the reason for the modification.

59. However, we recommend that the IASB holistically considers as part of the forthcoming Amortised Cost Measurement project:
(a) the requirements for presentation of modification gains or losses resulting from forbearance (see paragraph 46 of this paper);

(b) interaction between modification and derecognition requirements and the consequential impact on recognition of ECL (see paragraph 49 and 51 of this paper); and

(c) the requirements for the presentation of a loss arising from writing-off a financial asset in the statement of profit or loss and the accounting for any post write-off recoveries (see paragraphs 56–57 of this paper).

Staff assessment of whether and when to take action in response to PIR feedback

60. The staff assessed the above topics against the PIR framework to determine whether and when to take action on those topics.

**Step 1—Is further action needed?**

<table>
<thead>
<tr>
<th>PIR evaluation requirements</th>
<th>Staff response</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Are there fundamental questions (ie ‘fatal flaws’) about the clarity and suitability of the core objectives or principles in the new requirements?</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>Almost all respondents shared the view that there are no fatal flaws regarding the clarity and suitability of the core objectives or principles in the impairment requirements in IFRS 9.</td>
</tr>
<tr>
<td></td>
<td>Most respondents identified some specific areas for which further clarification and additional application guidance might be needed to support consistent application of impairment requirements alongside other requirements in IFRS 9.</td>
</tr>
<tr>
<td></td>
<td>Notwithstanding the consequential impact on ECL, we note that these issues are arising primarily from</td>
</tr>
<tr>
<td>2. Are the benefits to users of financial statements of the information arising from applying the new requirements significantly lower than expected?</td>
<td>Yes</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Many respondents raised concerns that there is insufficient guidance for entities to distinguish between credit losses, modification losses, revision of estimated contractual cash flows (application of paragraph B5.4.6 of IFRS 9), derecognition losses and write-off losses. Lack of guidance results in diversity in practice which affects the usefulness of information to users of financial statements. Because some of these concerns stem from application questions pre-dating IFRS 9 and fall under the scope of the forthcoming Amortised Cost Measurement project, the staff recommend that specific application questions arising from applying impairment requirements alongside other requirements of IFRS 9 are considered as part of that project.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>3. Are the costs of applying some or all of the impairment requirements in IFRS 9 and auditing and enforcing their application significantly greater than expected?</th>
<th>Yes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Feedback indicates that insufficient application guidance on the interaction between IFRS 9 requirements on modifications, revision of estimated contractual cash flows (application of paragraph B5.4.6), derecognition and write-off and the consequential impact on measuring ECL has resulted in significant application, audit and enforcement challenges.</td>
<td></td>
</tr>
</tbody>
</table>

61. In July 2022, the IASB added Amortised Cost Measurement in its research project pipeline, acknowledging the potential interaction of the impairment requirements in IFRS 9 with the application questions on modification of financial assets—including restructuring of credit-impaired financial assets and modifications that lead to derecognition—and written-off requirements. At the time, the IASB noted that any
decision on starting a standard-setting project will also consider potential findings of the post-implementation review (PIR) of the impairment requirements in IFRS 9.

62. The related matters identified in this PIR (as summarised in paragraph 59 of this paper) would therefore be considered as part of the forthcoming Amortised Cost Measurement project, when determining the scope of that project.

63. Accordingly, the staff do not consider it necessary to separately assess the priority of the matters identified in this paper. We recommend taking no other action on these matters.
Appendix A—Other feedback

The following tables provide application questions identified by a few respondents about the interaction between IFRS 9 impairment requirements and other requirements. Based on the staff analysis, the staff conclude no further action is required for these matters.

A1. Modification and/or derecognition of loan commitments

<table>
<thead>
<tr>
<th>Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paragraph 2.1(g) of IFRS 9 states that all loan commitments are in scope of derecognition requirements of IFRS 9.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Application question</th>
</tr>
</thead>
<tbody>
<tr>
<td>A few respondents said that it is unclear whether the existence of lender’s ability to revise the terms and conditions of a loan commitment facility based on periodic credit reviews:</td>
</tr>
<tr>
<td>(1) would be regarded as triggers for derecognition; and</td>
</tr>
<tr>
<td>(2) would also limit the life of the facility for the purposes of ECL measurement.</td>
</tr>
<tr>
<td>They said that it is unclear how entities are required to determine when changes are substantial resulting in a derecognition of the original facility and recognition of a new facility and suggested that the IASB provides guidance on how to connect modification and derecognition requirements in IFRS 9 with the characteristics of revolving credit facilities or financial instruments comprising a drawn amount and an undrawn commitment.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Staff analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Modification and derecognition of loan commitments</td>
</tr>
<tr>
<td>The forthcoming Amortised Cost Measurement Project aims to clarify the boundary between modifications and derecognition requirements for financial instruments. Therefore, when determining the scope of that project, the modification and derecognition of loan commitments (including loan commitments in scope of Section 5.5 of IFRS 9) could also be considered.</td>
</tr>
<tr>
<td>(2) Period considered for purposes of measuring ECL</td>
</tr>
</tbody>
</table>
| In the staff’s view, the lender’s ability to revise the terms and conditions of the facility based on periodic credit reviews, would not automatically limit the term of the facility to the period up to the review, for the purposes of measuring ECL. Although the ability to modify a contract before the end of the contractual term might trigger a substantial modification assessment that may eventually
result in the derecognition of the facility and/or any drawn amounts, such an outcome cannot typically be estimated at the inception of the facility.

Therefore, when determining ECL, an entity would be required to consider the maximum contractual period over which it is exposed to credit risk of a financial instrument, and for loan commitments period over which it has a present contractual obligation to extend credit as per the requirements in paragraphs 5.5.19–5.5.20 and B5.5.38 of IFRS 9.

The Amortised Cost Measurement Project aims to clarify the boundary between modifications and derecognition requirements for financial instruments. In the staff’s view, no further clarification to the remaining requirements of IFRS 9 is considered necessary.

A2. Contractually linked instruments (CLIs)

Requirements

Paragraph B4.1.20 of IFRS 9 states that in some types of transactions, an issuer may prioritise payments to the holders of financial assets using multiple contractually linked instruments (tranches). Each tranche has a subordination ranking that specifies the order in which any cash flows generated by the issuer are allocated to the tranche. In such situations, the holders of a tranche have the right to payments of principal and interest on the principal amount outstanding only if the issuer generates sufficient cash flows to satisfy higher-ranking tranches.

Appendix A of IFRS 9 defines a credit loss as the difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (ie all cash shortfalls), discounted at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

Application question

A few respondents commented that it is not clear how the definition of credit losses apply when calculating the ECL of a CLI, for which the issuer of the instrument is not required to make payments to holder to the extent that it does not receive sufficient cash from the underlying pool of assets. Because a ‘cash shortfall’ is the difference between the contractual cash flows that are due to the entity under the contract and the cash flows that the entity expects to receive, and it might be argued that for such a CLI this difference is generally zero.
Staff analysis

Although this application question was asked in reference to CLI instruments, in the staff’s view, the same question could also apply to instruments with non-recourse features, ie contractual features that limit an entity’s ultimate right to receive cash flows, to the cash flows generated by specified assets (see paragraph B4.1.16 of IFRS 9 and the forthcoming amendments to IFRS 9 regarding the classification and measurement of financial assets) or any other financial asset arising from a pass-through transfer that meets the conditions listed in paragraph 3.2.5 of IFRS 9.

Therefore, in the staff’s view, an entity is first required to determine the revised gross carrying amount of the CLI instrument, taking into account revised estimated contractual cash flows, then assess the ECL of that revised gross carrying amount accordingly.

The staff recommend that no action is taken on this question, as the feedback on this matter does not provide evidence that the requirements for determining ECL for CLIs are unclear or insufficient.

A3. IAS 10 Events after the reporting period

Requirements

Paragraph 9(b)(i) of IAS 10 Events after the reporting period provides the bankruptcy of a customer that occurs after the reporting period as an example of an adjusting event, because bankruptcy confirms that the loan was credit-impaired at the end of the reporting period.

Application question

A few respondents asked for clarification on whether and how to adjust the ECL amounts when this amount at the reporting date already considers the possibility of bankruptcy because it represents a probability-weighted amount as required by IFRS 9. For example, they asked whether an entity would be required to override the probability-weighting as at the reporting date and assign a 100% weighting once such an adjusting event occurs.

Staff analysis

Paragraph 3(a) of IAS 10 defines adjusting events as those that provide evidence of conditions that existed at the end of the reporting period. Bankruptcy of a customer is considered an adjusting event, because conditions indicating a possible bankruptcy after the reporting date would have been expected to exist at the end of the reporting period (ie reporting date).
Paragraph 5.5.17(c) of IFRS 9 requires that an entity shall measure ECL in a way that reflects reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. IFRS 9 does not specifically require new information that becomes available after the reporting date to be reflected in the measurement of ECL at the reporting date. Because at the reporting date, the probability of bankruptcy is expected to exist, an entity would be expected to take this scenario into consideration with its appropriate weighting using the information available at the reporting date when determining the ECL as at that date.

**The staff recommend that no action is taken on this question, as feedback does not indicate that the matter is pervasive or expected to have substantial consequences.**

---

**A4. Accrued operating lease income**

**Requirements**

Paragraph 2.1(b)(i) of IFRS 9 specifically states that finance lease receivables and operating lease receivables (ie individual payments currently due and payable by the lessee) are in the scope of the IFRS 9 requirements for measuring ECL.

**Application question**

Paragraph 107 of IFRS 15 requires an entity to assess a contract asset for impairment in accordance with IFRS 9. A few respondents noted that, in IFRS 16, the lessor accounting requirements for operating leases do not include a similar reference to IFRS 9 impairment requirements for accrued operating lease income, even though such balances are similar in nature to contract assets that an entity recognises under its contracts with customers applying IFRS 15. These respondents asked the IASB to consider including accrued operating lease income in scope of IFRS 9 impairment requirements as well.

**Staff analysis**

In the staff’s view, the requirements in paragraph 2.1(b)(i) of IFRS 9 are clear that a lessor is only required to apply the impairment requirements in IFRS 9 to an operating lease receivable from the date on which it recognises that receivable. Accrued operating lease income does not represent an operating lease receivable, ie an amount due and payable by the lessee to the lessor, and therefore is not subject to impairment requirements of IFRS 9.
The staff recommend that no action is taken on this question at this PIR, as the matter does not relate to impairment requirements in IFRS 9. The staff recommend sharing this matter with the IFRS 16 PIR Project Team who might consider it as part of the forthcoming PIR of IFRS 16.

A5. Unguaranteed residual value

Requirements

Paragraph 77 of IFRS 16 states that a lessor shall review regularly estimated unguaranteed residual values used in computing the gross investment in the lease. If there has been a reduction in the estimated unguaranteed residual value, the lessor shall revise the income allocation over the lease term and recognise immediately any reduction in respect of amounts accrued.

Application question

A few respondents asked the IASB to clarify whether a lessor is required to exclude the unguaranteed residual value of the asset being leased under a finance lease from the measurement of ECL in accordance with IFRS 9.

Staff analysis

Whilst paragraph 77 of IFRS 16 is clear that a reduction in the unguaranteed residual value affects the income allocation, IFRS 16 does not provide explicit guidance on whether the change is reflected in finance lease income or impairment expense.

The staff recommend that no action is taken on this question at this PIR, as the matter does not relate to impairment requirements in IFRS 9. The staff recommend sharing this matter with the IFRS 16 PIR Project Team who might consider it as part of the forthcoming PIR of IFRS 16.

A6. Presentation – interaction with lessor accounting in IFRS 16

Requirements

As per paragraph 82(ba) of IAS 1 Presentation of financial statements, impairment losses (including reversals of impairment losses or impairment gains) determined in accordance with Section 5.5 of IFRS 9 are presented in a separate line item in the statement of profit or loss.
Application question

A few respondents asked the IASB to clarify:

- *presentation in the statement of profit or loss*: Specifically, whether a lessor is required to present impairment losses in profit or loss separately (ie paragraph 82(ba) of IAS 1) or a lessor is permitted to present those amounts within finance income (ie because paragraph 82(ba) of IAS 1 is intended to apply only to assets entirely within the scope of IFRS 9); and

- *presentation in the statement of financial position*: Specifically, whether a lessor is required to present the ‘net investment in the lease’ including the ECL allowance or should the allowance be presented as a separate amount adjacent to the ‘net investment in the lease’.

Staff analysis

Regarding presentation of impairment losses in statement of profit or loss, paragraph 82(ba) of IAS 1 refers to impairment losses determined in accordance with Section 5.5 of IFRS 9. Therefore, it also includes impairment losses on lease receivables that are in scope of Section 5.5 of IFRS 9 as per paragraph 2.1(b)(i) of IFRS 9.

Regarding presentation of the ECL allowance of a lease receivable in the statement of financial position, the staff note that the matter does not arise from the requirements in IFRS 9 and therefore, might be more effectively considered during the PIR of IFRS 16.

The staff recommend sharing this matter with the IFRS 16 PIR Project Team who might consider it as part of the forthcoming PIR of IFRS 16.

A7. Interaction between IFRS 9 and IFRS 17 Insurance Contracts

Requirements

IFRS 17 *Insurance Contracts* is the starting point for an insurer to consider how to account for its right to receive premiums under an insurance contract. In applying IFRS 17, premiums from a policyholder collected through an intermediary is included in the measurement of a group of insurance contracts. However, IFRS 17 is silent on whether future cash flows within the boundary of an insurance contract are removed from the measurement of a group of insurance contracts only when these cash flows are recovered or settled in cash.
Therefore, an insurer can apply an accounting policy choice that premiums receivables remain in the measurement of a group of insurance contracts under IFRS 17 until recovered or settled in cash or it is removed from the measurement of the group of insurance contracts and is recognised as a separate financial asset under IFRS 9.

### Application question

A few respondents asked the IASB to consider the interaction between IFRS 9 and IFRS 17, without including any specific application questions or fact patterns. One respondent explained that it is not clear whether insurance premium receivables are included within the measurement of insurance contracts under IFRS 17 or are subject to impairment requirements of IFRS 9, which may lead to diversity in practice.

### Staff analysis

It is not clear from the feedback whether there are any significant issues regarding the application of IFRS 9 requirements for measuring ECL in conjunction with IFRS 17 or how pervasive these issues are.

In regard to premium receivables, the Committee received a submission in [March 2023](#) about how an entity that issues insurance contracts (insurer) accounts for premiums receivable from an intermediary, and concluded in [October 2023](#) that a project would not be sufficiently narrow in scope that neither the IASB nor the Committee could address the issue in an efficient manner. The Committee therefore decided not to add a standard-setting project to the work plan.

**Accordingly, in the staff’s view, no further clarification to the requirements of IFRS 9 is considered necessary.**