
Islamic Finance Consultative Group meeting

Date **May 2024**

Topic **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

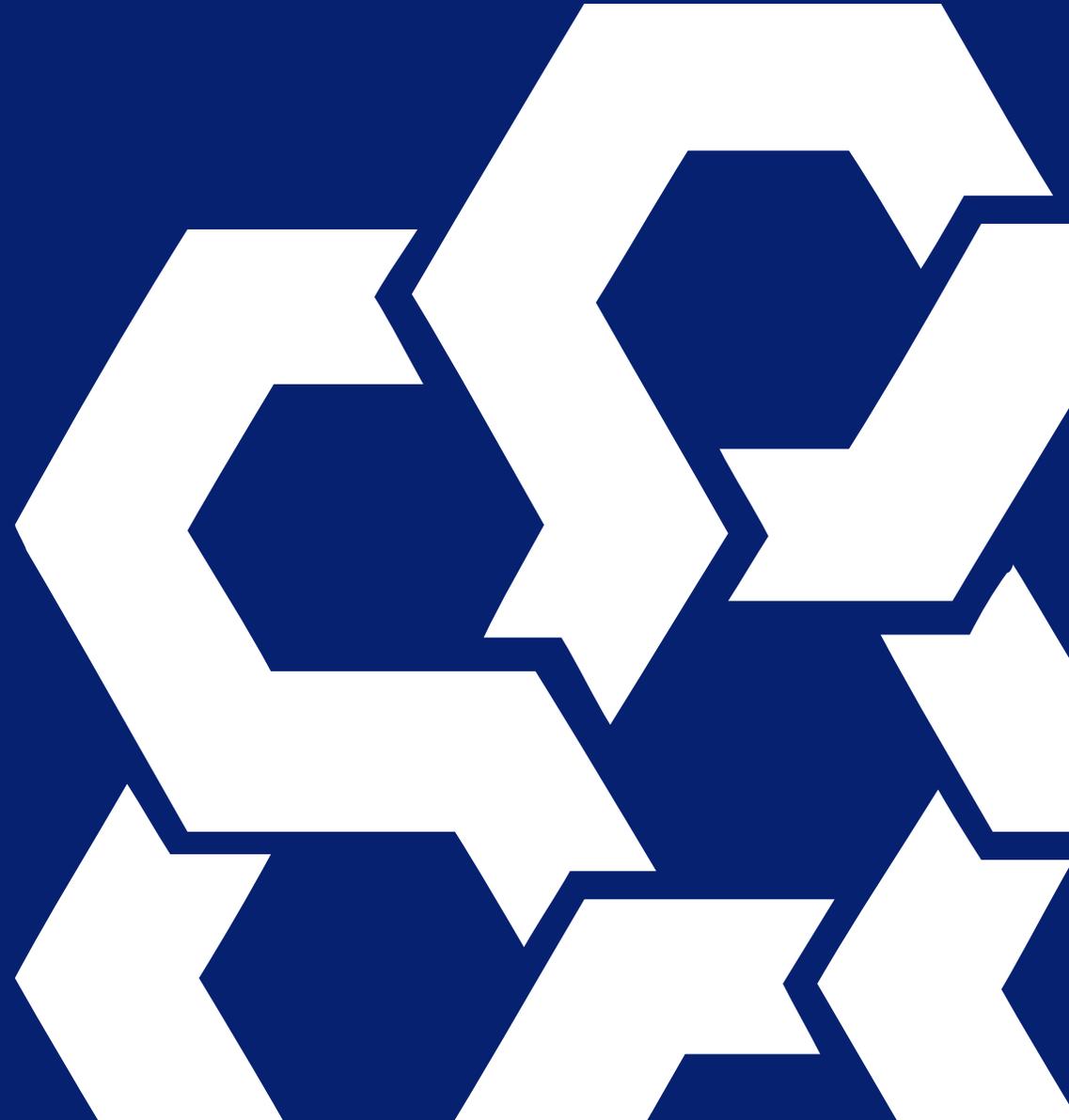
Financial Instruments with Characteristics of Equity

Dynamic Risk Management

Overview—IASB Projects related to Financial Instruments

		Next milestone
Post-implementation review of IFRS 9—Impairment	Research	Feedback statement in Q3 2024
Amendments to the Classification and Measurement of Financial Instruments	Maintenance	IFRS Amendment in Q2 2024
Power Purchase Agreements	Maintenance	Exposure Draft in Q2 2024
Financial Instruments with Characteristics of Equity	Standard-setting	Analyse feedback on the Exposure Draft from Q2 2024 onwards
Dynamic Risk Management	Standard-setting	Exposure Draft expected in H1 2025

IASB projects related to Financial Instruments



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 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

- Publish feedback statement in Q3 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

- Final amendments to IFRS 9 expected May 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 using as a hedging instrument virtual PPAs or physical PPAs that are accounted for as derivatives

Next steps

- Publish Exposure Draft – expected in May 2024

Financial Instruments with Characteristics of Equity

Purpose

- Improve information entities provide in their financial statements about financial instruments they have issued
- Address challenges with applying IAS 32 *Financial Instruments: Presentation*

Approach

- Clarify IAS 32 classification principles to address practice issues:
 - fixed-for-fixed condition
 - effects of laws or regulations
 - obligations to purchase own equity instruments
 - contingent settlement provisions
 - shareholder discretion
 - reclassification
- Improve presentation and disclosure
- Provide application guidance and illustrative examples

Next milestone

- Discuss feedback on the [Exposure Draft](#)

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 H1 2025

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