
Financial Instruments Consultative Group meeting

Date **December 2025**

Project **Amortised Cost Measurement**

Topic **Deliberations of project topics**

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Introduction

- The IASB started the Amortised Cost Measurement project in response to feedback on its post-implementation reviews of IFRS 9 *Financial Instruments*.
- The project aims to make targeted improvements to IFRS 9, addressing application issues that are widespread and have a material effect on companies' financial statements.
- From September 2025, the IASB has started to deliberate potential solutions to application issues in scope of this project.
- After considering the input from its consultative groups, the IASB plans to make decisions about the proposed solutions during H1 2026.

Purpose of this meeting

The purpose of this meeting is to obtain your input on the following topics:

- 1. Changes in Effective Interest Rate (EIR).** This topic is most relevant to financial assets and financial liabilities with conditions linked to the contractual interest rate, such as credit ratchets, stepped interest or ESG-linked features.
- 2. Modifications of financial instruments.** This topic is relevant to all modified financial assets or financial liabilities.

In addition, the paper discusses application issues relating the interaction between modification, derecognition, and impairment requirements of IFRS 9, as well as the staff approach to potential improvements for these requirements. If you have any views on this topic, we welcome your input.

Structure of the paper

For each topic, this paper provides:

1

- an overview of the principles in IFRS 9

2

- feedback from stakeholders about the diversity in practice

3

- staff analysis of potential solutions the IASB might consider

4

- questions, describing the input we are seeking from you

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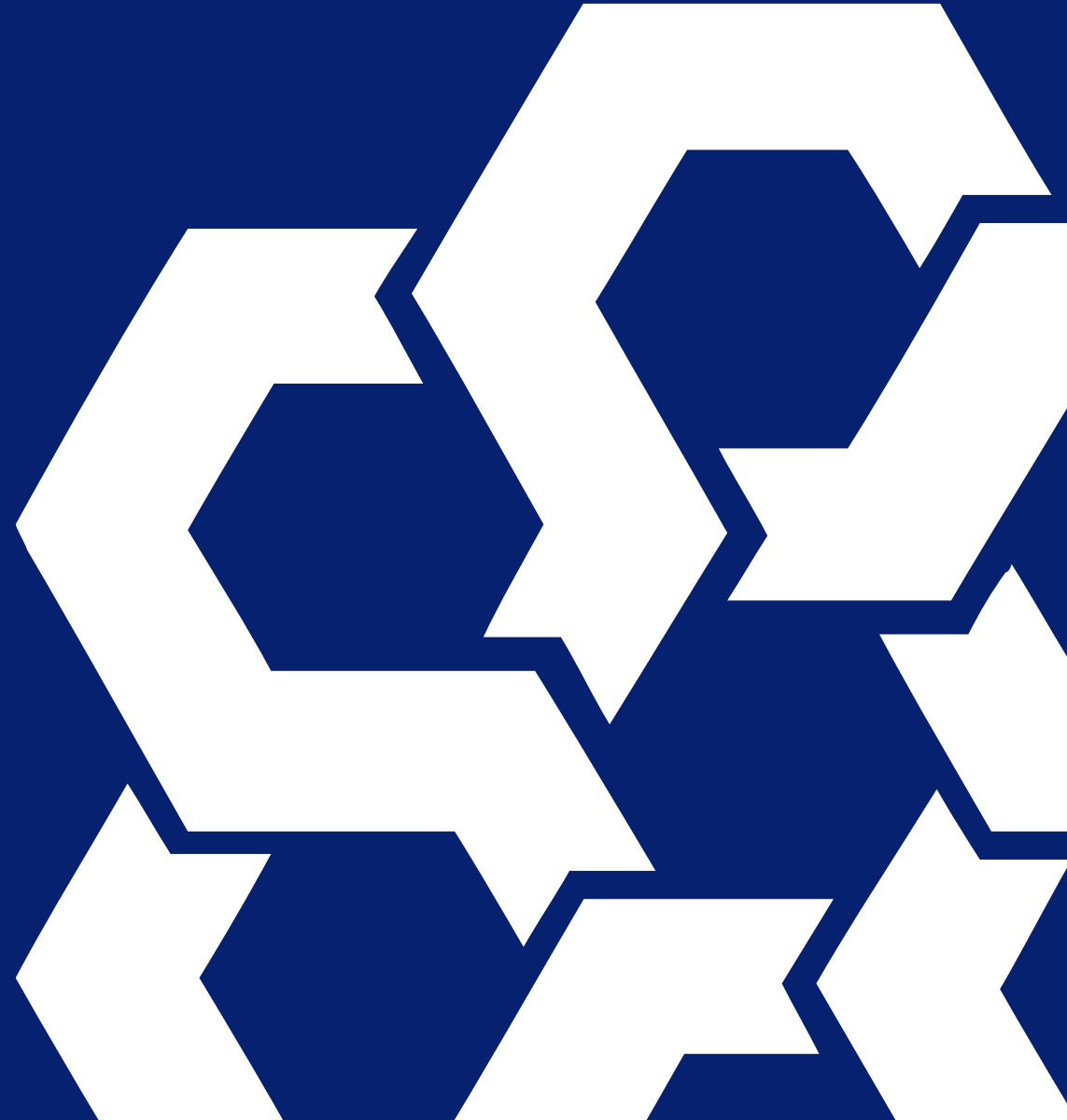
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Questions for FICG members



Questions for FICG members

1**Changes in EIR**(slides [12–23](#))**For changes in expected cash flows resulting from original contractual terms:**

To help the IASB develop a principles-based approach, in your view, when does recognising a catch-up adjustment in profit or loss (paragraph B5.4.6 of IFRS 9) provides useful information?

See slides [19–23](#) for an illustrative example and different views on the usefulness of the resulting information.

Questions for FICG members

2**Modifications**(slides [24](#)–[28](#))**For changes in expected cash flows resulting from contract modifications:**

- a. What is your view on the staff approach to potential improvements in modification requirements of IFRS 9, as described in slide [28](#)? Which factors do you consider important in assessing whether a modification of a financial instrument results in derecognition?
- b. What information about modified financial assets and financial liabilities is most useful for users of financial statements? How do they use that information for their analysis?

Questions for FICG members

3

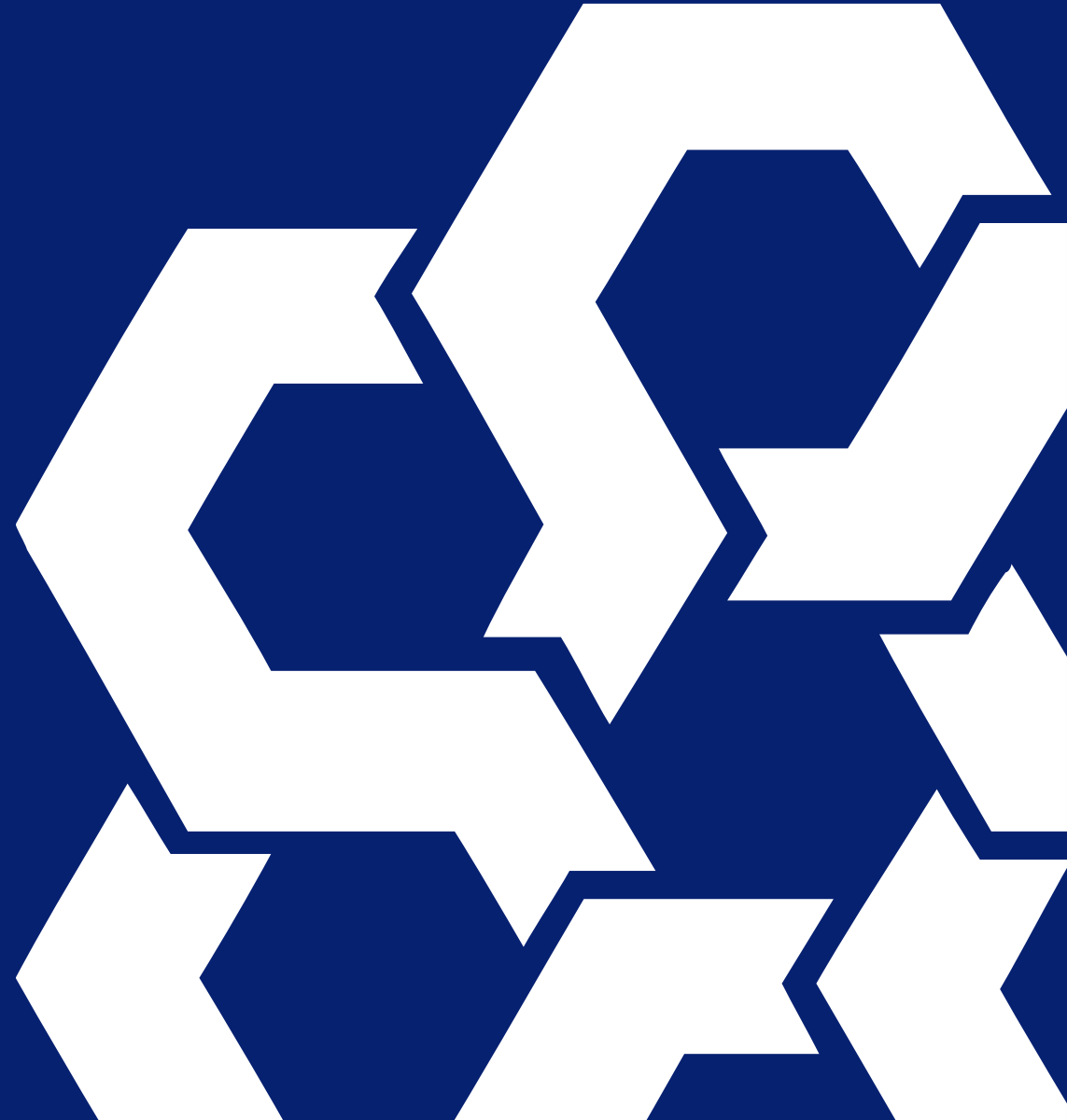
**Interaction
between
modifications,
derecognition
and
impairment**

(slides [29](#)–[33](#))

For the interaction between modifications, derecognition and impairment:

Do you have any views on the staff approach to potential improvements for these requirements, as described in slide [33](#)?

Project Overview

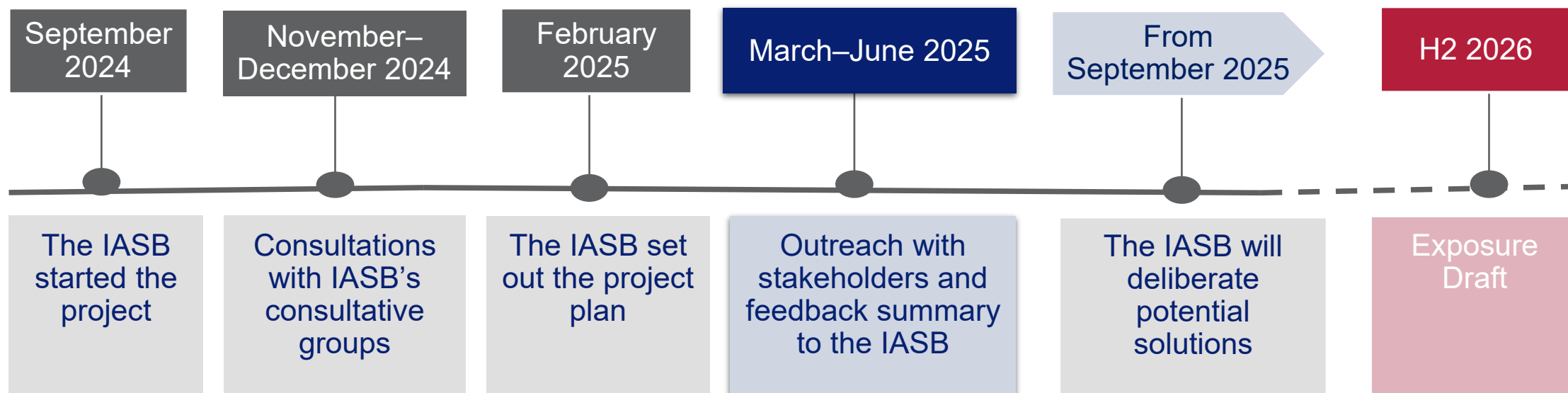


Objectives and timeline

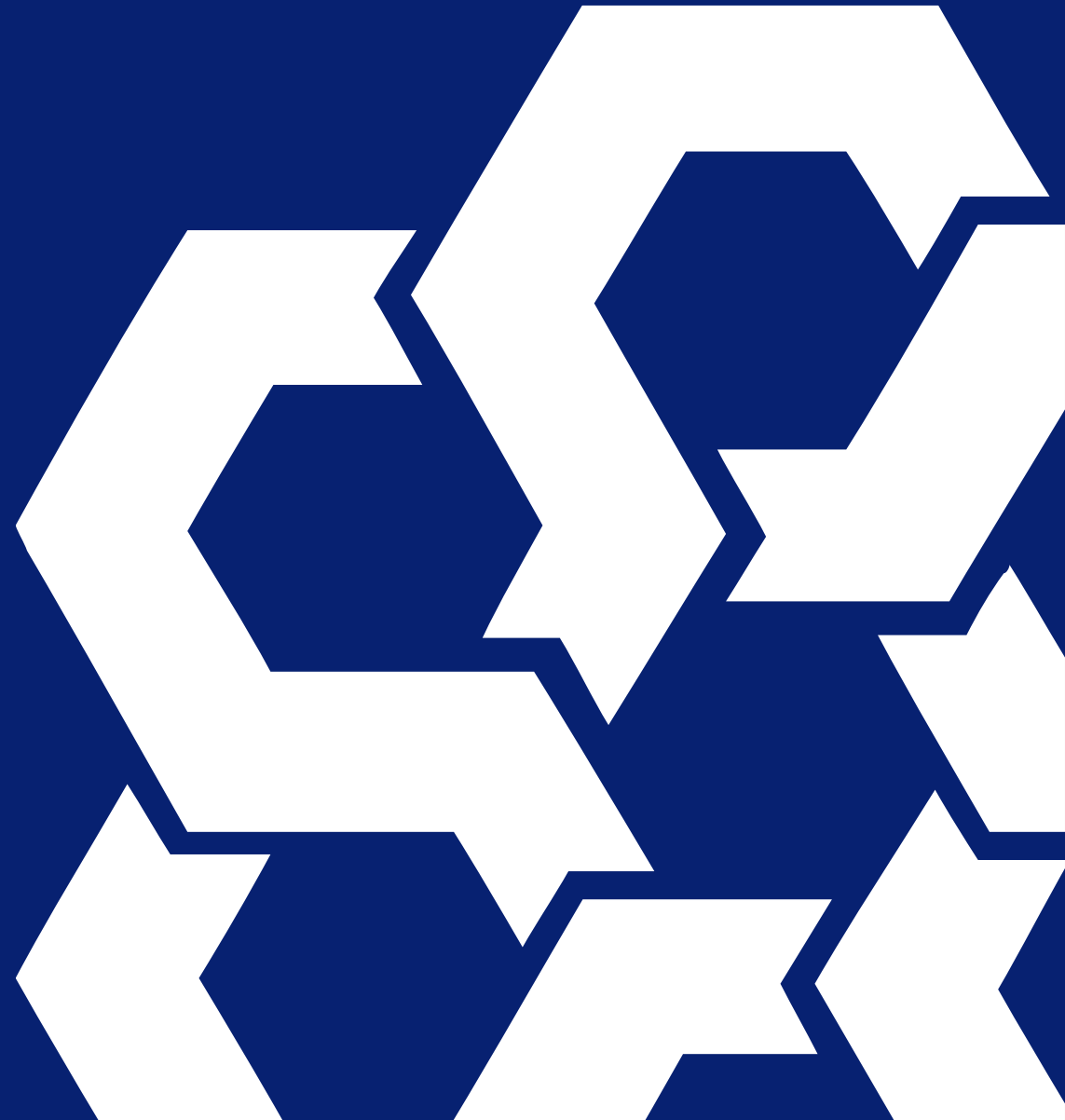
Objectives



- to **clarify principles** underlying the amortised cost measurement requirements in IFRS 9, addressing application issues that are widespread and have a material effect on companies' financial statements; and
- to **improve specific information** provided to **users** of financial statements about financial instruments measured at amortised cost



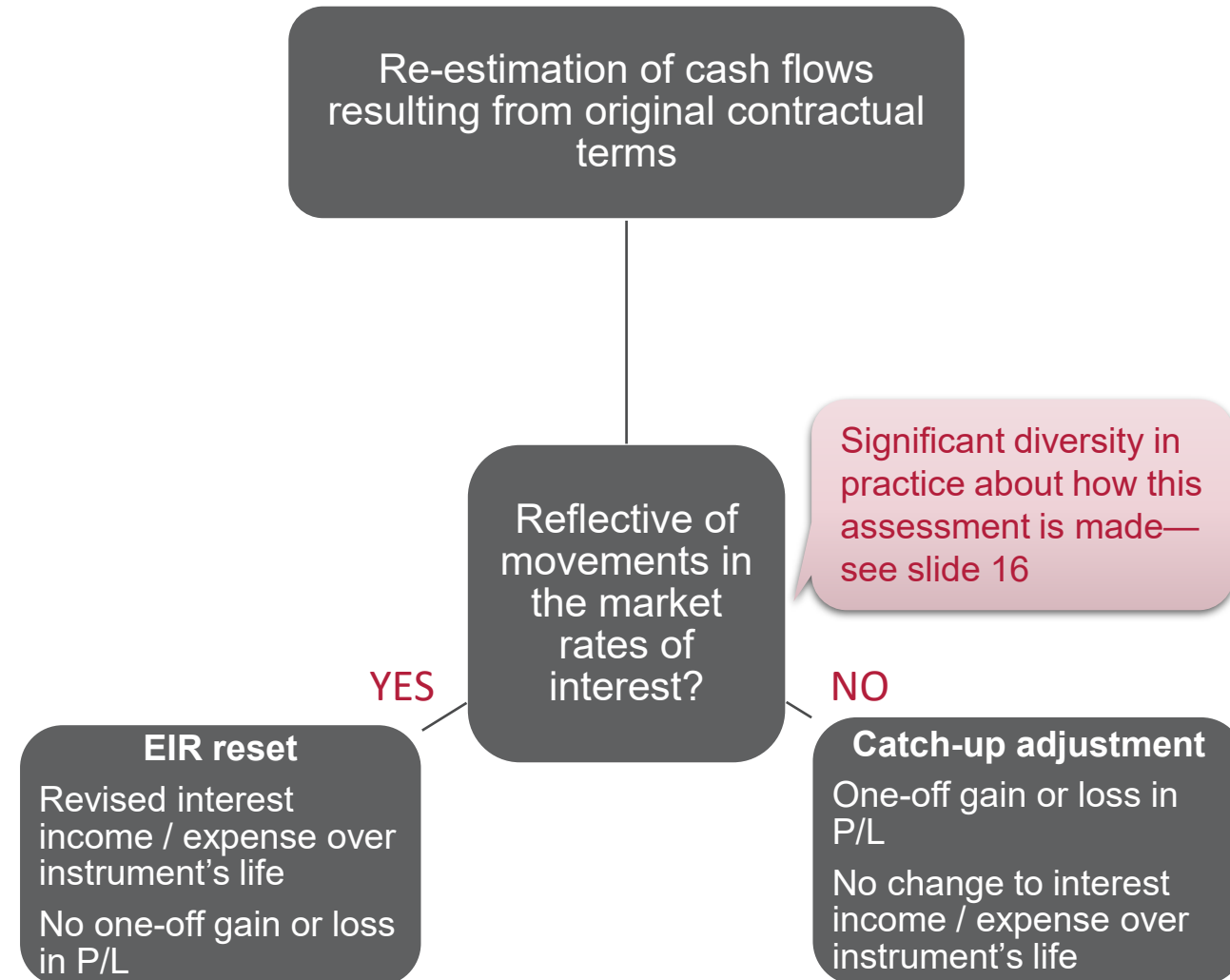
1 Changes in EIR



IFRS 9 requirements

Paragraph B5.4.5 and B5.4.6 of IFRS 9 set out requirements on accounting for changes in expected cash flows resulting from original contractual terms:

- paragraph B5.4.5 states that, for floating-rate financial instruments, periodic re-estimation of cash flows to reflect the movements in the **market rates of interest** alters the EIR, ie re-estimation of cash flows under the revised EIR without causing a one-time gain or loss in profit or loss (**EIR reset**).
- paragraph B5.4.6 requires that, for revisions of expected cash flows, the company recalculates the gross carrying amount of the financial asset or amortised cost of the financial liability as the present value of the estimated future contractual cash flows that are discounted at the financial instrument's **original EIR**, ie re-estimation of cash flows under the original EIR, causing a one-time gain or loss in profit or loss (**catch-up adjustment**).



Requests for clarification

- The IASB has been repeatedly asked to clarify the requirements for accounting for changes in expected cash flows resulting from original contractual terms. Specifically:
 - how does a company account for subsequent changes in estimated interest cash flows—by resetting the EIR (paragraph B5.4.5) or recognising a catch-up adjustment (paragraph B5.4.6)?
 - what is the meaning of a ‘floating rate’ financial instrument in paragraph B5.4.5—does it refer to the overall contractual rate or a component thereof?
 - what is the meaning of ‘movements in market rates of interest’ in paragraph B5.4.5—does it include any adjustments to the contractual interest rate?
- The IASB acknowledged that the requirements in paragraphs B5.4.5–B5.4.6 of IFRS 9 are not sufficiently clear. Furthermore, it is not clear what each set of requirements is designed to achieve or what information they aim to provide.
- The diversity in practice is generally attributable to unclear requirements. So, the IASB needs to explore potential solutions.

Financial instruments subject to application issues

Over the years, stakeholders requested clarifications on paragraphs B5.4.5–B5.4.6 with reference to different contractual terms and conditions, such as:

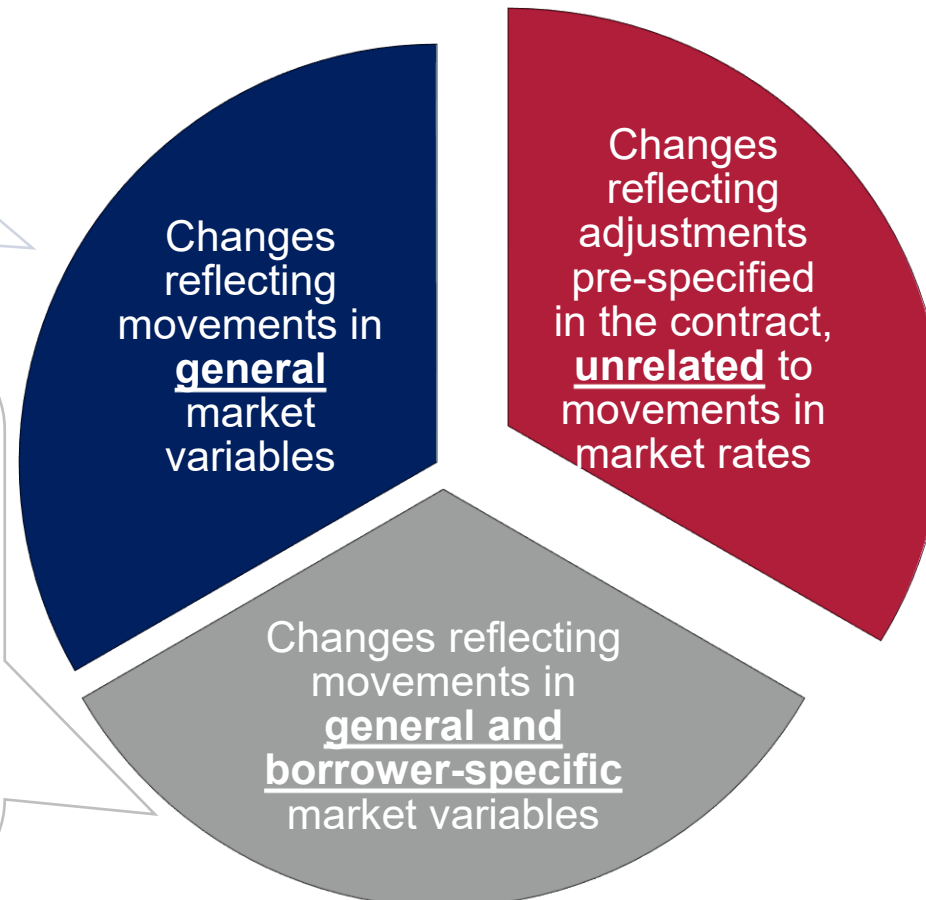
- **credit ratchet features.** For example, a loan with a credit margin that is adjusted based on a scale of predetermined rates (ratcheted) on the occurrence of specified events related to the borrower's credit risk.
- **stepped interest features.** For example, a predetermined rate of interest on the principal amount that increases progressively over the instrument's life.
- **ESG-linked features.** For example, a predetermined change in the contractual interest rate that is contingent on the borrower meeting specific ESG targets.
- **TLTRO III transactions.** The third programme of the targeted longer-term refinancing operations (TLTROs) of the European Central Bank (ECB). The TLTROs link the amount a participating bank can borrow and the interest rate the bank pays on each tranche of the operation to the volume and amount of loans it makes to non-financial corporations and households.

Why there is diversity in practice?

Changes in contractual interest rates

- A few companies reset the EIR **only** for these changes
- For example, movements in benchmark interest rates (eg SONIA)

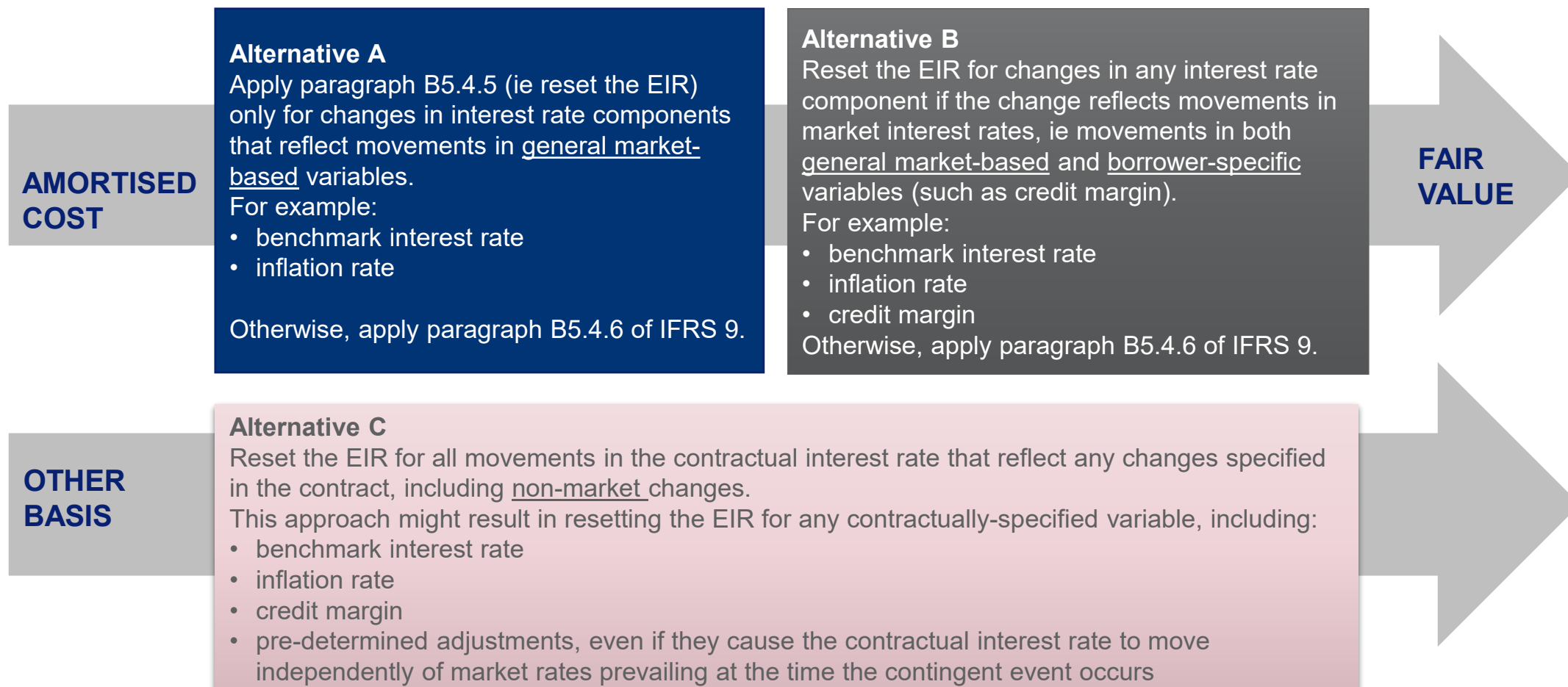
- Some companies reset the EIR for changes (including in credit margin) if the change aligns with movements in market interest rates
- For example, changes aligned with movements in the market rate for similar instruments, with similar credit rating



- Many companies reset the EIR even for changes in interest cash flows which do not represent movements in market interest rates
- For example, pre-specified adjustments to a contractual interest rate inconsistent with movements in market interest rates prevailing at the time of change

Potential alternatives to clarifying paragraph B5.4.5

This illustration summarises three alternatives the IASB preliminarily discussed in September 2025



IASB deliberations of potential alternatives

- Alternatives A–C discussed in September 2025 represent three distinct approaches, each at opposite ends of a broad spectrum
 - None of these alternatives, in its current form, achieve an optimal balance between costs and benefits
 - There may be other possible alternatives, combining elements of alternatives A–C, that better balance costs and benefits
 - To explore those other alternatives, the IASB will seek input from its consultative groups.
- The IASB is seeking input from stakeholders to inform its decision on this topic:
 - input from investors will help the IASB to determine what information is decision-useful for investors
 - input from the IASB's consultative groups will help the IASB identify other alternatives that might better balance costs and benefits

Illustrative Example

Fact pattern

- Bank ABC issues a 5-year loan of CU1,000 on 1 January 2011 with a contractual interest rate of 4%, which represents the market rate of interest for a similar instrument with a similar credit rating at this date.
- The contract specifies that the contractual interest rate will increase by 1% following an increase in the risk of default occurring compared to the risk at initial recognition.
- Bank ABC determines the EIR at initial recognition to be 4% (no fees or costs).
- Bank ABC does not use a blended rate to provide for the possibility of the contractual interest rate increasing in the future.

Accounting schedule for the loan—EIR at 4%					
Opening date	Opening balance	Interest in P/L	Cash flow	Closing balance	Closing date
01/01/2011	1,000	40	(40)	1,000	31/12/2011
01/01/2012	1,000	40	(40)	1,000	31/12/2012
01/01/2013	1,000	40	(40)	1,000	31/12/2013
01/01/2014	1,000	40	(40)	1,000	31/12/2014
01/01/2015	1,000	40	(1,040)	(0)	31/12/2015

Note

As at 1 January 2014, the market interest rate for a similar instrument with a similar credit rating is 6%.

Illustrative Example (continued)

Fact pattern

- On 1 January 2014 the risk of default occurring on the loan increases, triggering the **1% increase** in the contractual interest rate. The contractual interest rate is now 5%.
- Depending on whether Bank ABC accounts for this change by resetting the EIR (paragraph B5.4.5) versus recognising a catch-up adjustment (paragraph B5.4.6), the revised accounting schedules would be as follows:

See slide 21 for illustrative presentation

Revised accounting schedule for the loan—EIR reset to 5%					
Opening date	Opening balance	Interest in P/L	Cash flow	Closing balance	Closing date
01/01/2014	1,000	50	(50)	1,000	31/12/2014
01/01/2015	1,000	50	(1,050)	-	31/12/2015

See slide 22 for illustrative presentation

Revised accounting schedule for the loan—original EIR 4%						
Opening date	Opening balance	One-off gain in P/L	Interest in P/L	Cash flow	Closing balance	Closing date
01/01/2014	1,000	20	40	(50)	1,010	31/12/2014
01/01/2015	1,010	-	40	(1,050)	-	31/12/2015

Note

According to the original accounting schedule, the loan's amortised cost is CU1,000 as at 1 January 2014 (the date when Bank ABC revises expected cash flows). Bank ABC now expects to receive CU50 in 2014 and CU1,050 on 31 December 2015, yielding a present value of CU1,020 (CU50 and CU1,050 discounted at the original EIR of 4%). Consequently, Bank ABC increases the loan's amortised cost by CU20 and recognises a one-off gain in P/L applying paragraph B5.4.6 of IFRS 9.

Illustrative example—EIR reset

- Applying paragraph B5.4.5, Bank ABC would reset the EIR prospectively based on the revised interest rate of 5%, resulting in increased interest revenue over time.
- Bank ABC presents loans and advances to customers in its statement of financial position, net of expected credit losses.

Bank ABC

Statement of profit or loss (extract)

For the year ended

31/12/11 31/12/12 31/12/13 31/12/14 31/12/15

Continuing operations

	CU	CU	CU	CU	CU
Interest revenue	40	40	40	50	50
Net interest income	40	40	40	50	50
Credit impairment losses	-5	-	-	-8	-
Operating profit	35	40	40	42	50

Bank ABC

Statement of financial position (extract)

As at

31/12/11 31/12/12 31/12/13 31/12/14 31/12/15

	CU	CU	CU	CU	CU
Loans and advances to customers	995	995	995	992	-
Total assets	995	995	995	992	-

Note

- For ease of reference, in this example, the timing of increases in expected credit losses (ECL) and the resulting credit impairment losses in profit or loss is aligned with the increase in interest revenue calculated using the revised contractual interest rate.
- In reality, as ECL reflects forward looking information, the increase in credit losses may be recognised earlier than the increase in interest revenue.

Illustrative example—Catch-up adjustment

- Applying paragraph B5.4.6, Bank ABC would keep the original EIR of 4%, resulting in constant interest revenue. Bank ABC would recognise a one-off gain of CU20 in 2014 to reflect the revision of expected cash flows from the loan.
- Bank ABC presents loans and advances to customers in its statement of financial position, net of the expected credit losses.

Bank ABC

Statement of profit or loss (extract)

For the year ended

	31/12/11	31/12/12	31/12/13	31/12/14	31/12/15
Continuing operations					
	CU	CU	CU	CU	CU
Interest revenue	40	40	40	40	40
Net interest income	40	40	40	40	40
Credit impairment losses	-5	-	-	-8	-
Gain from revision of loan cash flows				20	
Operating profit	35	40	40	52	40

Bank ABC

Statement of financial position (extract)

As at

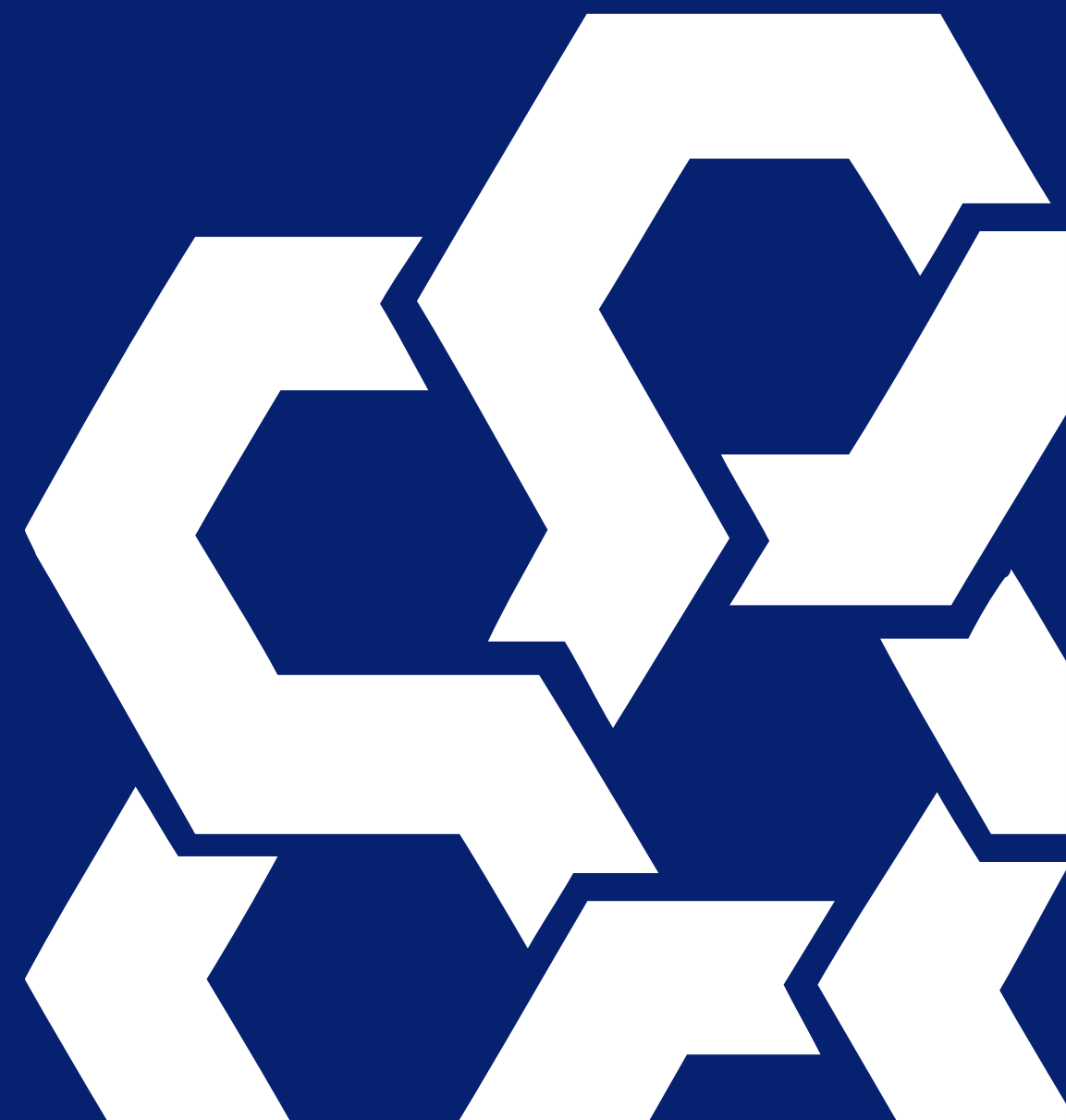
	31/12/11	31/12/12	31/12/13	31/12/14	31/12/15
	CU	CU	CU	CU	CU
Loans and advances to customers	995	995	995	1,012	-
Total assets	995	995	995	1,012	-

Illustrative Example—views on useful information

For this example, what accounting outcome do you think would provide more useful information? Please explain why.

- **EIR reset, applying paragraph B5.4.5 of IFRS 9.** Proponents of this view say:
 - resetting the EIR to 5% more faithfully represents the economics of the loan as it would align with the **over-time** increase in contractual cash flows. However, they acknowledge that the change does not reflect movements in market interest rates (as specified in paragraph B5.4.5).
 - recognising a one-off gain in P/L seems counterintuitive when the increase in interest rate is due to deterioration of the borrower's credit risk.
- **Catch-up adjustment, applying paragraph B5.4.6 of IFRS 9.** Proponents of this view say:
 - when the loan was issued, Bank ABC did not expect the increase in interest rate to occur, as evidenced by Bank ABC determining the EIR at 4% at initial recognition, instead of using a blended rate to provide for the possibility of the contractual interest rate increasing in the future. So, keeping the EIR at 4% and recognising a **one-off** gain better represents such an unexpected change in contractual cash flows.
 - keeping the original EIR is also more consistent with amortised cost, which is a cost-based measure. Continuously revising an instrument's EIR results in an approach that is akin to cash accounting.

2 Modifications of financial instruments



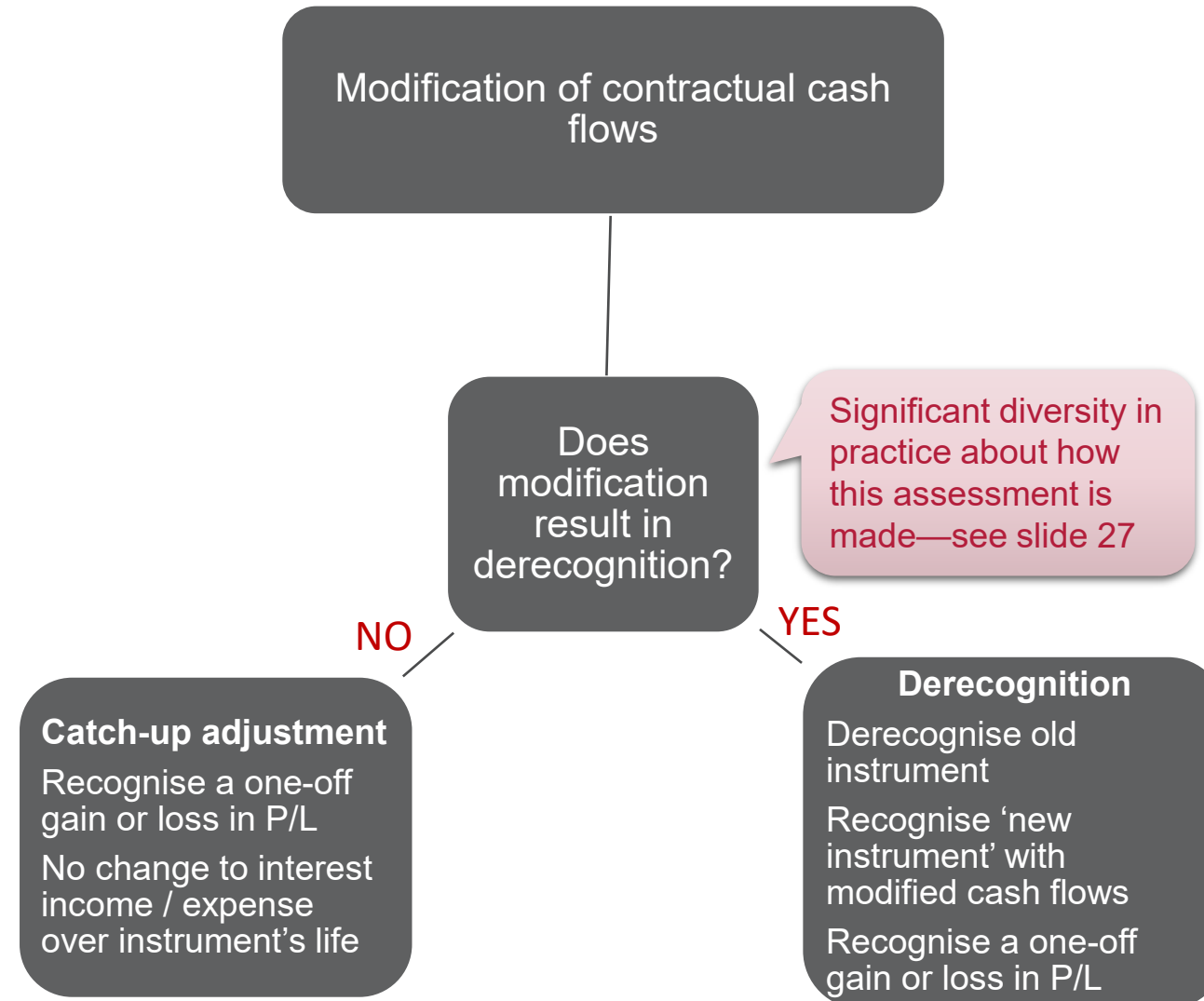
IFRS 9 requirements

Financial liabilities

- Paragraph B3.3.6 of IFRS 9 provides application guidance on assessing whether a modification is substantial, resulting in derecognition of a financial liability.
- The guidance sets out a quantitative test—'**10% test**' (ie if the discounted present value of the cash flows under the new terms is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability)

Financial assets

- Paragraph 3.2.3 of IFRS 9 focusses on an assessment of contractual cash flows and provides specific requirements for when a company derecognises a financial asset.
- Paragraph 5.4.3 of IFRS 9 sets out requirements for modifications of financial assets that do not result in derecognition.
- IFRS 9 has no specific guidance on assessing whether a modification results in derecognition of an asset.



Requests for clarification

- The IASB has been informed that assessing whether a modification of a financial instrument is ‘substantial’—and thus results in derecognition of that instrument—is one of the areas of greatest diversity in practice.
 - Most respondents to the PIRs of IFRS 9 asked the IASB to clarify requirements and provide application guidance on this assessment. They further asked:
 - for financial liabilities—whether the assessment of a modification as ‘substantial’ is based solely on the quantitative 10% test (as described in paragraph B3.3.6) or also involves consideration of qualitative factors, when the 10% test is not met.
 - for financial assets—how to assess if a modification results in derecognition given IFRS 9 has no guidance.
 - how to assess modifications of revolving credit facilities, such as credit cards and overdrafts.
- The IASB acknowledged that IFRS 9 does not provide sufficient application guidance about this assessment, in particular for financial assets
 - Given the diversity in practice and asymmetrical guidance in IFRS 9 between financial assets and financial liabilities, the IASB needs to explore potential improvements to IFRS 9

Why there is diversity in practice?

Financial liabilities

- Some companies first do the 10% test (specified in paragraph B3.3.6) and, if that test is not met, then they also do a qualitative assessment (for example, assessing if terms such as maturity or currency have changed). Others rely solely on the 10% test, without any further qualitative assessment.

Financial assets

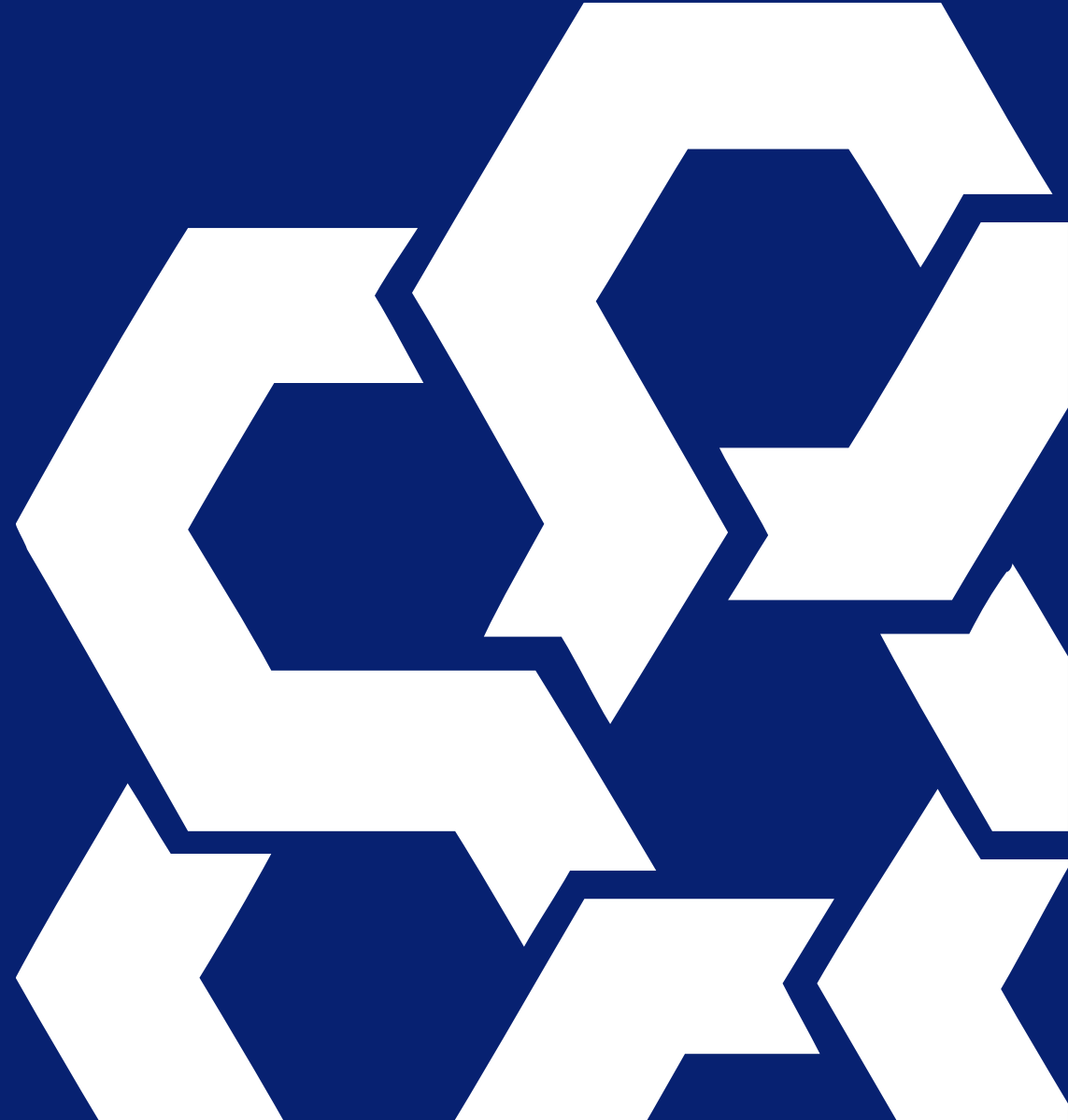
- Some companies perform only qualitative tests (for example, by considering whether a modification results in a financial asset no longer having cash flows that are solely payments of principal and interest), whereas a few others apply the 10% test in addition to a qualitative test.
- Other companies, specifically some financial institutions, determine the accounting outcomes based on the staging of the modified financial asset for ECL and the reason behind the modification, rather than performing additional qualitative or any quantitative assessment:
 - if a modified financial asset is classified in stage 1 (performing) for ECL purposes, they would deem any modification as **substantial** modification and therefore, derecognise the asset.
 - if a modified financial asset is classified in stage 2 (underperforming) or stage 3 (credit-impaired), they would deem it as a **non-substantial modification** and either account for it applying paragraph B5.4.6 of IFRS 9 or not account for such a modification at all because, in their view, the effect of such modification would have already been captured through ECL.

Staff approach to potential improvements

- In exploring potential solutions, the IASB needs to consider the extent to which the application guidance should be aligned between financial assets and financial liabilities.
- The staff preliminary view is that the IASB could consider:
 - a **principles-based approach** to assessing whether a modification is substantial (and thus results in derecognition). For example, a factors-based approach, providing a non-exhaustive list of **factors** a company would be required to consider in assessing whether a modification results in derecognition.
 - to the extent possible, that the assessment approach be symmetrical between financial assets and financial liabilities. However, factors exclusive to financial assets—such as ‘solely payments of principal and interest’ and expected credit losses—might also need to be considered.
 - specifying that the 10% test not be the **only** or **determining** factor in assessing whether a modification results in derecognition.
 - providing guidance on how companies assess modifications of revolving credit facilities, such as credit cards and overdrafts (these instruments might not have a fixed term or repayment structure).

3

Interaction between modifications, derecognition and impairment



IFRS 9 requirements

Modification of financial assets

Paragraphs B5.5.25 and B5.5.26 of IFRS 9: 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. The date of the modification is the date of initial recognition of that new asset when applying the impairment requirements.

Definition of a ‘credit loss’

Appendix A of IFRS 9 defines a credit loss as the difference between all contractual cash flows that are due to a company in accordance with the contract and all the cash flows that the company expects to receive (ie *all cash shortfalls*), discounted at the original effective interest rate.

Derecognition

Paragraph 3.2.3 of IFRS 9: 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 an asset’s cash flows are renegotiated or otherwise modified—instead, a company assesses whether the cash flows have expired due to the modification.

Write-off

Paragraph 5.4.4 of IFRS 9: the gross carrying amount of a financial asset is reduced when the company has *no reasonable expectation of recovering* a financial asset in its entirety or a portion thereof. A write-off constitutes a derecognition event (paragraph B3.2.16(r) of IFRS 9).

Requests for clarification

Modification versus partial derecognition



- Stakeholders have asked for clarifications about how to distinguish between modifications and partial derecognition, including the order of applying the requirements.
- This concern was raised mostly in the context of financial assets for which IFRS 9 has no specific guidance on how to assess if a modification results in derecognition. For example, if a company uses the notion of ‘expiry to the rights (or cancellation) of the contractual cash flows’ as stated in paragraph 3.2.3(a) of IFRS 9. This would mean that nearly all modifications result in (partial) derecognition even if there is very little change to the contractual terms.



Modification, derecognition versus impairment

- Stakeholders also asked the IASB to clarify when to account for changes in expected cash flows as a modification, write-off, or impairment, including what is the required order of applying the relevant requirements in IFRS 9.
- Commonly raised fact patterns and questions include:
 - if, as part of forbearance, a company plans to modify a financial asset in a way that would result in **forgiveness of part of the existing contractual cash flows**—is the company required to consider whether a portion of the asset should be written off before the modification takes place? If so, would such a write-off affect application of the modification or impairment requirements, and what is the required order of applying the requirements?
 - if a new law is enacted that either imposes an automatic change in the contractual cash flows of a financial asset (eg a **payment holiday**) or gives borrowers an option to require such a change—when and how does the lender evaluate whether the contractual terms of a financial asset subject to the law are effectively changed? How is such a change accounted for applying IFRS 9, including what is the required order of applying the impairment, write-off or modification requirements?

Staff analysis of feedback

Modification, derecognition versus impairment



Appendix A of IFRS 9 has clear definitions for the:

- gross carrying amount of a financial asset—the amortised cost of a financial asset **before adjusting** for any loss allowance.
- credit loss—the difference between all **contractual cash flows that are due to a company** in accordance with the contract and all the cash flows that the company expects to receive (ie all cash shortfalls)

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 an adjustment to the ECL.

A company cannot avoid remeasuring the gross carrying amount of a financial asset following a modification, as this would be inconsistent with the definitions in IFRS 9 for gross carrying amount and for credit loss.



However, we acknowledge that the presentation of modification gains or losses in some situations might appear counterintuitive. That is because, for a modification made solely due to deterioration of the borrower's credit risk, the accounting outcome might be the release of ECL allowance (ie a gain in the impairment line item in the statement of profit or loss) and a modification loss in a different line item. Recognising an impairment gain might be considered contradictory to the deterioration in the borrower's credit risk since initial recognition, and the lender might now expect lower cash flows than at origination of the financial instrument.

Staff approach to potential improvements

- In exploring potential solutions, the IASB could consider clarifying that a company is required to assess:
 - **firstly**, whether the IFRS 9 requirements for adjusting the gross carrying amount of a financial asset are met; and
 - **secondly**, if the change does not require an adjustment to the gross carrying amount, the company assesses whether the change meets the definition of a credit loss and therefore should be accounted for as ECL. This assessment is based on reasonable and supportable information that is available at that time.
- 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–BC5.241 of Basis for Conclusions on IFRS 9.
- 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), a company also considers whether the gross carrying amount (or part of it) should be removed from the statement of financial position.

To address the issue on presentation of modification gains or losses (described in the previous slide), the IASB could consider requiring companies to present the modification gain or loss within the impairment line item in the statement of profit or loss.

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