Staff paper

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Project	**Amortised Cost Measurement**
Topic	**Subsequent changes to the Effective Interest Rate**
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Purpose and structure of the paper

1. In September 2025, the IASB discussed whether it should clarify the accounting for subsequent changes to the effective interest rate (EIR) and the potential alternatives for clarifying the applicable requirements in IFRS 9 *Financial Instruments*.

2. Since then, the IASB consulted with the Accounting Standards Advisory Forum (ASAF), the Emerging Economies Group (EEG), the Financial Instruments Consultative Group (FICG) and users of financial statements, seeking input on potential alternatives for clarifying the applicable requirements.

3. This paper provides a summary of the IASB's discussion in September 2025, feedback from consultative groups and investors, and our analysis of that feedback.

4. The paper is structured as follows:

   (a) summary of staff recommendations;

   (b) question for the IASB;

   (c) overview of applicable requirements;

   (d) a reminder of the IASB's discussion in September 2025;

   (e) stakeholders feedback; and

   (f) staff analysis and recommendations.

5. The paper includes one Appendix—Illustration of approaches.

Summary of staff recommendations

6. We recommend the IASB clarify the requirements in paragraph B5.4.5 of IFRS 9, as diversity in application stems primarily from unclear requirements.

7. In particular, we recommend the IASB amend paragraph B5.4.5 of IFRS 9 to require that re-estimation of contractual cash flows of a financial asset or a financial liability that provide consideration for the time value of money or for the credit risk are accounted for by adjusting the EIR.

8. Other re-estimation of contractual cash flows of a financial asset or a financial liability (excluding modifications and changes in estimates of expected credit losses) would continue to be accounted for as set out in paragraph B5.4.6 of IFRS 9.

Question for the IASB

Question for the IASB
1. Does the IASB agree with the staff recommendations in paragraphs 6–7 of this paper?

Overview of requirements in paragraphs B5.4.5–B5.4.6 of IFRS 9

9. Paragraphs B5.4.5–B5.4.6 of IFRS 9, applicable to financial instruments measured at amortised cost, provide application guidance on re-estimation of contractual cash flows arising from *existing* contractual terms.

   (a) paragraph B5.4.5 applies to re-estimation of cash flows that reflect movements in the market rates of interest:

   > For floating-rate financial assets and floating-rate financial liabilities, periodic re-estimation of cash flows to reflect the movements in the market rates of interest alters the effective interest rate. If a floating-rate financial asset or a floating-rate financial liability is recognised initially at an amount equal to the principal receivable or payable on maturity, re-estimating the future interest payments normally has no significant effect on the carrying amount of the asset or the liability.

   (b) paragraph B5.4.6 applies to all other re-estimation of contractual cash flows (excluding modifications and changes in estimates of expected credit losses):

   > If an entity revises its estimates of payments or receipts (excluding modifications … and changes in estimates of expected credit losses), it shall adjust the gross carrying amount of the financial asset or amortised cost of a financial liability (or group of financial instruments) to reflect actual and revised estimated contractual cash flows. The entity 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 effective interest rate …The adjustment is recognised in profit or loss as income or expense.'

Note on terminology for the remainder of this paper

For ease of reference, we refer to these terms in context of paragraphs B5.4.5–B5.4.6 of IFRS 9 as follows:

- '**changes in contractual interest rates**' refers to changes in contractual interest rates arising from activation of *existing* terms and conditions of financial instruments, not modification of contractual terms. These changes lead to re-estimation of contractual cash flows.
- '**adjusting the EIR**' refers to the accounting outcomes per paragraph B5.4.5.
- **'catch-up adjustment'** refers to the accounting outcomes per paragraph B5.4.6.

A reminder of the IASB's discussion in September 2025

10. In September 2025, the IASB considered three alternatives for clarifying when an entity accounts for a change in a contractual interest rate by adjusting the EIR:

    (a) **Alternative A**—the EIR is adjusted solely for changes in contractual interest rates that reflect movements in *general market-based variables*, such as the benchmark interest component or inflation rate. Under this alternative, most elements of the financial asset or liability calculations would remain fixed, including borrower-specific variables, such as the credit spread, reflecting the conditions on initial recognition of a financial instrument.

    (b) **Alternative B**—the EIR is adjusted for changes in any component of a contractual interest rate as long as they reflect *movements in market rates of interest* (both general market-based and borrower-specific variables such as credit spread). Under this alternative, the EIR would be adjusted only if a contractual interest rate is reset to its prevailing market rate of interest.

    (c) **Alternative C**—the EIR is adjusted for changes in a contractual interest rate that reflect *any contractually specified variable*, regardless of whether such a change is representative of movements in market rates of interest. Under this alternative, the EIR would be adjusted as specified in the contract and thus, be consistent with the contractual interest payments or receipts, as and when they happen. The EIR would be adjusted even when such changes are inconsistent with market rates prevailing at the time the contingent event occurs.

11. For each alternative, the IASB discussed the advantages, disadvantages and the effects to current practice. The IASB concluded that none of these alternatives, on its own, achieved an optimal balance between expected costs for preparers and benefits from the resulting information to users of financial statements (investors).

12. The IASB noted that alternatives A–C represent three distinct approaches, each at opposite ends of a broad spectrum. To better balance expected costs and benefits, the IASB might therefore need to explore an approach that combines elements of these alternatives. However, the IASB decided to first seek input from stakeholders.

13. In Q4 2025 and Q1 2026, the IASB met with its consultative groups and individual investors (collectively, stakeholders), seeking input on the accounting for changes in contractual interest rates. Specifically, the IASB sought input on:

    (a) what financial reporting information is decision-useful for these changes; and

    (b) a potential accounting approach that might better balance expected costs and benefits, compared to alternatives A–C.

14. Stakeholders' feedback focused on changes in contractual interest rates that are linked to movements in *credit risk* which they noted would be impacted differently by alternatives A–C. In this context, they often referenced financial instruments with features linked to borrower's credit risk, such as credit ratchet features. For example, a loan in which the contractual interest rate (specifically credit margin component) is adjusted based on a scale of predetermined rates (ratcheted) on the occurrence of specified events related to the borrower's credit risk. [1]

Stakeholders feedback

15. Overall, both consultative group members and investors supported the IASB's efforts to clarify the requirements in paragraphs B5.4.5–B5.4.6 of IFRS 9, noting significant application challenges and diversity in practice.

16. These stakeholders generally agreed with the IASB's conclusions in paragraphs 11–12. Most consultative group members, particularly national standard-setters or preparers, viewed Alternative A as conceptually pure (ie most aligned to amortised cost being a cost-based measure) but questioned whether it results in useful information, particularly if an interest rate is linked to the borrower's credit risk.

17. In contrast, Alternative C was considered easier to apply but lacking clear principles and, therefore, less conceptually robust. According to many stakeholders, adjusting the EIR for any changes in contractual interest rates, might reduce usefulness of

[1] For an illustration of this example refer to pages 20–22 of the Agenda paper 1 of the FICG's meeting in December 2025.

information to investors. That is because, adjusting the EIR prospectively results in no adjustment to the carrying amounts of financial assets or financial liabilities in statement of financial position or catch-up adjustments in statement of profit or loss. As such, it would fail to provide information about the cumulative effect of changes in contractual cash flows, even if such changes are of unusual or unexpected nature.

18. Alternative B received less support due to being similar to a fair value approach, which was considered inconsistent with the principles of amortised cost, as well as operationally complex.

19. Many stakeholders, such as national standard-setters and preparers, suggested the IASB develop an approach that combines elements of alternatives A and C to balance conceptual merits with practicality. A few of these stakeholders specified what that approach could be, such as:

    (a) a **principles-based approach**—using the IFRS 9 principle for solely payments of principal and interest on the principal amount outstanding (SPPI) or a variation of it. They acknowledged the SPPI principle applies to financial assets, not financial liabilities, but offered no further suggestion.

    (b) **Alternative C with disclosure**—require Alternative C (see paragraph 10(c)) plus added disclosures, though stakeholders did not specify what disclosures.

Decision-useful information

Feedback from investors

20. Investors said that accounting for changes in contractual interest rates by adjusting the EIR, in general, provides more useful information in the statement of profit or loss than recognising a catch-up adjustment. That is because, adjusting the EIR results in recognition of such a change as interest income or expense in the period that it relates to, whereas a catch-up adjustment results in a one-off income or expense (often reported as a gain or loss).

21. They explained that they use interest income or interest expense information in the statement of profit or loss, which is calculated using the effective interest method, to predict an entity's interest cash flows for the future. Therefore, the information needs to be complete, and interest needs to be recognised in the period that it relates to. They also noted that, generally, the information has predictive value if it is part of the 'business as usual' activities of an entity.

22. In contrast, for financial instruments measured at amortised cost, they consider information about gains or losses as an exceptional item—one-off or finite in nature—hence they typically exclude it from their predictive analysis.

23. In this context, they said that the application of paragraph B5.4.6 of IFRS 9—and consequently, the recognition of interest income or expense using the original EIR even when the contractual interest rate has changed—should be limited to transactions that are not business as usual. In their view, a catch-up adjustment is a useful mechanism to flag information that is out of the ordinary, warranting further inquiry.

24. Nonetheless, the investors we consulted did not all agree on how to differentiate between changes that should be accounted for as EIR versus as catch-up adjustments:

    (a) some said that a change in a contractual interest rate which compensates the lender for 'primary' lending risks should be an EIR adjustment. They noted that, alongside consideration for the passage of time, consideration for credit risk represents a key element of interest. Accordingly, any related changes should be accounted for as interest income or interest expense, ie as EIR, not as catch-up, adjustments. For financial instruments with contractual interest rates changes linked to movements in borrower's credit risk, such as the example in paragraph 14, they indicated that recognising a catch-up adjustment might lead to counterintuitive outcomes because the entity would recognise a one-off income when the borrower's credit risk worsened.

    (b) an investor said that changes in contractual interest rates, other than repricing to prevailing market rates, should be accounted for as a catch-up adjustment. In their view, such an accounting outcome would signal to investors that there

are changes in interest cash flows that are not aligned with prevailing market rates of interest. This is useful information because financial instruments are recognised at fair value on initial recognition (paragraph B5.1.1 of IFRS 9). Thus, this investor would prefer Alternative B (described in paragraph 10(b)).

(c) another investor said that '[if the contractual interest rate changes due to the worsening of the borrower's credit risk], recognising a one-off income or expense is more useful as this avoids creating misleading 'run-rate' earnings when a borrower's condition is deteriorating. Otherwise, interest income would show strong performance even while underlying risks worsen. One-off income or expenses allow investors to more easily look through the effect.'

25. We asked these investors about other changes in contractual interest rates, such as those linked to an ESG-feature. The investors referenced in paragraph 24(a) said that such changes are arguably not directly related to 'primary' lending risks and should be accounted for as catch-up adjustments. Others questioned whether—in the current environment—the effects of these features represent material information.

Feedback from other stakeholders

26. Similar to investors, other stakeholders such as national standard-setters and preparers said that, in general, accounting for changes in contractual interest rates by adjusting the EIR provides more useful information than recognising a catch-up adjustment.

27. These stakeholders expressed views similar to those summarised in paragraphs 16–19. In particular, most said that consideration for changes in borrower's credit risk, as reflected in the credit spread component of an interest rate, should be accounted for by adjusting the EIR, irrespective of whether the contractual interest rate is reset to its prevailing market rate of interest. In their view, this accounting outcome provides a more accurate representation of the economic substance of the transaction.

28. Specifically, they said that by adjusting the EIR an entity would recognise the change in interest income or expense in the periods to which that consideration relates to.

In their view, this provides more relevant information about the nature and timing of the cash flows to be paid or received. This accounting outcome would:

(a) align the recognition of interest income or expense with the cash flows that are contractually described as 'interest' and the related period. In particular, discussing financial instruments where interest rates are linked to movements in credit risk, such as the example in paragraph 14, they noted that these interest changes typically compensate the lender for movements in borrower's credit risk starting from the period in which the risk changes and thereafter. Contractually, such a compensation does not relate to earlier periods.

(b) avoid recognising income or expense 'prematurely'. In their view, recognising a catch-up adjustment should be limited to items that are of a 'true' one-off or exceptional nature. Otherwise, an entity might risk recognising income or expense prematurely. That is because a catch-up adjustment represents the cumulative effect of a change all throughout the life of a financial instrument, including the effect which, contractually, relates to future periods.

29. Some consultative group members said that, in some specific cases, changes in contractual interest rates are better reflected as catch-up adjustments, instead of EIR adjustments. Examples included the third programme of the targeted longer-term refinancing operations (TLTRO III transactions) and interest payments or receipts determined by local laws or regulations. In their view, these changes are typically not directly related to 'basic' lending or borrowing risks.

Operational costs

30. Some consultative group members, particularly preparers, said that alternative B (see paragraph 10(b)) would be operationally complex as it would require entities to distinguish between changes in contractual interest rates that reflect movements in prevailing market rates of interest versus the changes that are 'non-market'. Doing so would require market value data that is not always readily available. For example, a quoted interest rate in an active market for a retail loan (similar as to currency, term, type of interest rate and other factors) with a similar credit risk may not exist or be accessible in many cases.

Staff analysis and recommendations

31. Based on our analysis of the feedback summarised in paragraphs 15–30, we find the key messages from majority of stakeholders—some investors and most other types of stakeholders—to be broadly consistent.

32. In particular, the majority of feedback suggests that the IASB explores an approach in which changes in contractual interest rate that relate to consideration for 'primary' or 'basic' lending risks are accounted for by adjusting the EIR. Although different stakeholders use different terms to describe the meaning of primary or basic lending risks, it is clear that elements of interest such as time value of money and credit risk are considered part of such concept.

33. To facilitate the IASB's discussion of this approach, next sections provide:

    (a) an analysis of the IFRS 9 requirements for classifying financial instruments at amortised cost;

    (b) an analysis of the proposed approach; and

    (c) the staff recommendation.

IFRS 9 requirements for classifying financial instruments at amortised cost

34. IFRS 9 sets out requirements for classification of financial instruments on initial recognition of a financial instrument. It specifies requirements for financial assets and financial liabilities qualifying to be subsequently measured at amortised cost. These requirements differ between financial assets and financial liabilities. In particular:

    (a) **for financial assets**, the requirements include the condition for *contractual cash flow characteristics*—that the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI. Paragraphs B4.1.7–B4.1.26 of IFRS 9 provide guidance on how to apply this condition.

    (b) **for financial liabilities**, the requirements include assessing whether a derivative is embedded in a financial instrument. An embedded derivative is

separated from the host contract and subsequently measured at fair value if specified conditions are met. One of the conditions is that the *economic characteristics and risks* of the embedded derivative are not closely related to the economic characteristics and risks of the host. Paragraphs B4.3.5 and B4.3.8 of IFRS 9 provide guidance on how to apply this condition.

35. **In relation to SPPI**, paragraph B4.1.7A of IFRS 9 states that contractual cash flows that are SPPI are consistent with a basic lending arrangement. In a basic lending arrangement, consideration for the *time value of money and credit risk* are typically the *most significant elements of interest* [emphasis added]. However, in such an arrangement, interest can also include consideration for other basic lending risks (for example, liquidity risk) and costs (for example, administrative costs) associated with holding the financial asset for a particular period of time. In addition, interest can include a profit margin that is consistent with a basic lending arrangement.

36. Paragraph B4.1.7A of IFRS 9 also states that the contractual terms that introduce exposure to risks or volatility in contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI.

37. As noted in paragraph B4.1.9A of IFRS 9, time value of money is the element of interest that provides consideration for only the passage of time. That is, the time value of money element does not provide consideration for other risks or costs associated with holding the financial asset. In order to assess whether the element provides consideration for only the passage of time, an entity applies judgement and considers relevant factors such as the currency in which the financial asset is denominated and the period for which the interest rate is set. Paragraphs B4.1.9B–B4.1.9E of IFRS 9 provide further application guidance an entity applies to determine that a consideration is for the time value of money.

38. Paragraphs B4.1.10– B4.1.13 of IFRS 9 include examples illustrating contractual cash flows that are SPPI, including those that provide consideration for credit risk. One of the examples is a financial instrument with an interest rate that is reset to a higher rate

if the debtor misses a particular number of payments. The IASB noted that it is likely in this case that the contractual cash flows over the life of the instrument will be SPPI because of the relationship between missed payments and an increase in credit risk (ie the higher rate of interest provides consideration for increased in credit risk).

39. **In relation to the embedded derivatives**, paragraph 4.3.1 of IFRS 9 notes that 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 variable such as interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable.

40. An embedded derivative is separated from the host and subsequently measured at fair value if conditions specified in paragraph 4.3.3 of IFRS 9 are met. One of the conditions is that the *economic characteristics and risks* of the embedded derivative are not closely related to the economic characteristics and risks of the host.

41. Examples of *not closely related* economic characteristics and risks include:

    (a) equity-indexed interest or principal payments embedded in a host debt instrument—by which the amount of interest or principal is indexed to the value of equity instruments—are not closely related to the host instrument because the risks inherent in the host and the embedded derivative are dissimilar.

    (b) commodity-indexed interest or principal payments embedded in a host debt instrument—by which the amount of interest or principal is indexed to the price of a commodity (such as gold)—are not closely related to the host instrument because the risks inherent in the host and the embedded derivative are dissimilar.

42. Examples of *closely related* economic characteristics and risks include the following. In these examples, an entity does not account for the embedded derivative separately from the host contract:

(a) an embedded derivative in which the underlying is an interest rate or interest rate index that can change the amount of interest that would otherwise be paid or received on an interest-bearing host debt contract.

(b) an embedded derivative in a host contract which is an inflation-related index such as an index which links payments to a consumer price index (unleveraged index and relating to inflation in the entity's own economic environment).

43. Although the requirements on SPPI differ from those on embedded derivatives, based on our analysis, we note that both sets of requirements are based on similar principles. Specifically, both sets of requirements:

(a) focus on assessment of contractual *cash flow characteristics* and associated *risks* to determine whether a financial asset or a financial liability qualifies for subsequent measurement at amortised cost. For both financial assets and liabilities measured at amortised cost, the contractual cash flow characteristics ought to be principal and interest.

(b) refer to similar risks—such as interest rate benchmark- or inflation-indexed interest—to illustrate the types of risks inherent in financial instruments that are eligible for measurement at amortised cost. Equity- or commodity-indexed principal or interest illustrate the types of risks inherent in both financial assets and financial liabilities that are not eligible for measurement at amortised cost.

44. Accordingly—by virtue of being classified as subsequently measured at amortised cost—the financial assets and financial liabilities in scope of B5.4.5–B5.4.6 of IFRS 9 would generally not be expected to reference risks that are unrelated to primary or basic lending or borrowing risks.

45. The concept of 'basic lending risks and costs' in IFRS 9 applies solely in context of financial assets. Nonetheless, IFRS 7 *Financial Instruments: Disclosures* requires information about both financial assets and financial liabilities with contingent features that do not relate directly to changes in basic lending risks and costs. See paragraph 20C of IFRS 7 for this disclosure requirement.

Analysis of the proposed approach

46. In light of our analysis in paragraphs 34–45, to enhance clarity of any proposed approach, we think the IASB should specify the elements of interest that would be accounted for by adjusting the EIR, instead of referring to 'primary' or 'basic' risks.

47. Consistent with stakeholders' feedback and the IASB's observations, the time value of money and credit risk are typically considered the most significant elements of interest.

48. Aligned with most stakeholders' feedback, particularly investors, we therefore think the proposed approach should capture only the significant elements of interest—time value of money and credit risk. Specifically, under this approach, the EIR would be adjusted for changes in contractual interest rates that provide consideration for:

    (a) the time value of money; or

    (b) the credit risk associated with the instrument.

    Oher changes in contractual cash flows of a financial instrument would be accounted for by recognising a catch-up adjustment (ie applying paragraph B5.4.6 of IFRS 9).

49. In our view, the approach, as described in paragraph 48, would address most concerns from stakeholders. In particular, by also capturing credit risk, the proposed approach would address most concerns with Alternative A. It combines elements of alternatives A and C (as described in paragraph 10), which was suggested by the IASB members and stakeholders, to better balance expected benefits and costs.

50. The proposed approach is expected to provide decision useful information because:

    (a) the changes in estimated contractual cash flows that relate to key elements of interest would be recognised as interest income or interest expense in the statement of profit or loss. That is, the accounting would appropriately capture the *nature* of the cash flows.

    (b) the changes in estimated contractual cash flows would be recognised in the period that they contractually relate to, aligning the *timing* of cash flows

between accounting and contractual terms and conditions, as well as with any related risk management.

(c) the remainder of changes in estimated contractual cash flows would be recognised as catch-up adjustments, indicating changes in cash flows that are unrelated to key aspects of interest.

51. As noted earlier, interest can also include consideration for other lending risks (for example, liquidity risk) and costs (for example, administrative costs), as well as a profit margin. Under the proposed approach, changes in these elements would be accounted for by recognising a catch-up adjustment. In our view, this outcome would capture the changes that investors said they would perceive as not necessarily business as usual, for which a catch-up adjustment might provide useful information for their analysis (see paragraphs 22–23).

52. Examples of changes in contractual interest rates that might provide consideration for the time value of money or credit risk include:

(a) a variable interest rate instrument in which the contractual interest rate is indexed to a benchmark interest rate, for example Sterling Overnight Index Average (SONIA). An entity assesses whether the element provides consideration for only the passage of time, considering relevant factors such as the currency in which the financial asset is denominated and the period for which the interest rate is set. The entity determines that the interest amount reflects consideration for the time value of money.

(b) a bond with a contractual interest rate linked to an inflation index of the currency in which the instrument is issued. The inflation link is not leveraged. In this example, interest is linked to an inflation index which resets the time value of money to a current level, ie the interest rate on the instrument reflects ‘real’ interest. Thus, the entity determines that the interest amounts are consideration for the time value of money.

(c) a loan in which the contractual interest rate increases based on a scale of predetermined rates (ratcheted) if the borrower's credit rating worsens. In this

example, interest is linked to movements in borrower's credit rating, compensating the lender for changes in the credit risk of the instrument. Thus, the entity determines that the interest amounts are consideration for the credit risk.

53. Examples of changes in contractual interest rates that might not provide consideration for the time value of money or credit risk include:

(a) a loan with in which the contractual interest rate is adjusted by a fixed number of basis points if the borrower achieves a contractually specified reduction in carbon emissions. In this example, interest is linked to a carbon emissions target. The entity determines that the interest amounts are not consideration for time value of money or credit risk.

(b) a loan in which the contractual interest rate is indexed to the borrower's net income. In this example, the interest amounts are linked to borrower's performance. Thus, they are not consideration for the time value of money or the credit risk (unless an entity determines that the indexing to the borrower's performance results in an adjustment that only compensates the holder for changes in the credit risk of the instrument).

54. The main advantages of the proposed approach are that it is expected:

(a) to provide useful information to investors (see paragraph 50). It would also address the long-standing concerns of preparers and other stakeholders regarding application of paragraph B5.4.6 of IFRS 9 to account for changes linked to borrower's credit risk (see paragraph 28).

(b) to be operationally simpler because it would generally align with contractually specified variables, as well as avoid the operational challenges noted in paragraph 30. In addition, the proposed approach would use concepts of time value of money and credit risk, which are already explained in IFRS 9, reducing implementation challenges.

55. We considered whether preparers might face application challenges in identifying the link between a change in contractual interest rate of a financial instrument and the element that gave rise to such a change. However, we noted that these changes arise from terms and conditions agreed upon on initial recognition of a financial instrument. Therefore, we concluded that the link between a change in the contractual rate and the element (or the term or condition) that gave rise to it would be generally identifiable from the financial instrument contract, by both parties to a contract.

56. The main disadvantage of the proposed approach is that it could result in the EIR of a financial instrument being frequently adjusted throughout its life. As discussed in September 2025, mechanically, amortised cost works with variable contractual cash flows if those cash flows are reliably determinable. However, as the variability in contractual cash flows increases, amortised cost essentially *ceases to allocate the effective return* and increasingly becomes a fair value-like measure. In such cases, amortised cost does not provide superior information compared to fair value measurement. Furthermore, for such instruments, amortised cost loses the benefit of being a simple measurement technique and becomes increasingly more difficult to apply.

57. In terms of potential effects on current practices, the proposed approach is likely to require some, but not significant, changes to current practice. As discussed in June 2025, majority of entities apply paragraph B5.4.5 of IFRS 9 to account for most changes in contractual interest rates. However, we note that the population of changes that concerned most stakeholders were those linked to borrower's credit risk. The proposed approach would capture those changes, addressing those concerns.

58. We considered but rejected the other approaches mentioned by a few stakeholders, as noted in paragraph 19. That is because:

    (a) an approach that would require adjusting the EIR for all financial assets and financial liabilities that met the SPPI condition of IFRS 9 would, in effect, lead to all changes in contractual interest rates of amortised cost instruments to be accounted for as EIR adjustments. There would be no catch-up adjustments,

which would be inconsistent with the feedback from investors. It might also result in interpretative issues because, as previously noted, the SPPI condition does not apply to financial liabilities.

(b) requiring Alternative C (see paragraph 10(c)) with added disclosure. Feedback from investors does not identify issues that would necessarily be resolved through added disclosure. IFRS 7 already requires information about financial assets and financial liabilities with contingent features (see paragraph 45).

Staff recommendation

59. Based on our analysis, the proposed approach achieves an appropriate balance between expected benefits from the resulting information to investors and expected application costs for preparers.

60. In our view, the proposed approach would also reduce the diversity in application of requirements in paragraphs B5.4.5–B5.4.6 of IFRS 9. As the IASB discussed in its June 2025 meeting, the diversity in application of these requirements arises because, among other reasons, IFRS 9 does not articulate what such requirements are designed to achieve or what information they aim to provide to investors.

61. At that meeting, the IASB noted that any potential amendment would therefore need to clarify what information is each set of requirements designed to provide. Based on our analysis of the information resulting from proposed approach, as summarised in paragraph 50, the proposed approach provides that clarification. In fact, the proposed approach is designed based on the feedback from stakeholders about financial reporting information that would be useful for changes in contractual interest rates.

62. For these reasons, we recommend the IASB amend paragraph B5.4.5 of IFRS 9 to require the proposed approach, as described in paragraph 48 of this paper.

Appendix A—Illustration of approaches

A1. The following illustration summarises the proposed approach discussed in this paper, and the alternatives A–C discussed in the IASB's September 2025 meeting.

Alternative A

EIR is adjusted solely for changes in contractual interest rates that reflect movements in general market-based variables, such as:

- benchmark interest rate
- inflation index

Alternative B

EIR is adjusted for any changes in a contractual interest rate as long as they reflect movements in market rates of interest (both general market-based and borrower-specific variables such as credit spread).

This might result in repricing to market value of:

- benchmark interest rate
- inflation index
- credit spread or other elements

Alternative C

EIR is adjusted for changes in a contractual interest rate that reflect any contractually specified variable, including non-market changes.

As a result, the EIR might be adjusted for any contractually specified variable, including:

- benchmark interest rate
- inflation index
- credit spread
- pre-determined adjustments, even if they cause the contractual interest rate to move independently of market rates prevailing at the time the contingent event occurs

The proposed approach

EIR is adjusted for changes in contractual interest rates that provide consideration for the time value of money or the credit risk associated with the instrument.

As a result, the EIR might be adjusted for movements in:

- benchmark interest rate
- inflation index
- credit spread