IFRS Accounting

Staff paper

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IASB® meeting

Date	**February 2026**
Project	**Amortised Cost Measurement**
Topic	**What constitutes 'modification' of financial instruments**
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Purpose and structure of the paper

1. The IASB is continuing the deliberations of issues in scope of the Amortised Cost Measurement project.

2. This paper provides the staff analysis and recommendation on whether the IASB should clarify what constitutes 'modification' of financial instruments, for purposes of applying IFRS 9 *Financial Instruments*.

3. This paper is structured as follows:

   (a) summary of staff recommendation;

   (b) question for the IASB;

   (c) background;

   (d) a reminder of the 2025 outreach feedback; and

   (e) staff analysis.

Summary of staff recommendation

4. We recommend the IASB clarifies what constitutes ‘modification’ of financial instruments, for purposes of applying IFRS 9. In particular, we recommend the IASB consider describing both modification of a financial asset and modification of a financial liability as ‘changes in contractual terms which change the nature, timing, amounts or uncertainty of contractual cash flows’.

Question for the IASB

Question for the IASB
Does the IASB agree with the staff recommendation in paragraph 4?

Background

Overview of applicable requirements in IFRS 9

5. For financial liabilities, paragraph 3.3.2 of IFRS 9 sets out requirements for modifications and exchanges with the same lender and describes modifications with reference to **modification of the terms** of an existing liability or a part of it (whether or not attributable to the financial difficulty of the debtor).

6. For financial assets, paragraph 3.2.3 of IFRS 9 focusses on an assessment of contractual rights and provides specific requirements when an entity derecognises a financial asset. Additionally, paragraph 5.4.3 of IFRS 9 sets out requirements for modification of financial assets that do not result in derecognition, referring to **modification of contractual cash flows**.

Stakeholders' requests for clarification

7. During the post-implementation reviews of IFRS 9, some stakeholders noted that the IFRS 9 does not define 'modifications' for purposes of applying the Standard. They said that the use of different terminology—modification of contractual terms versus contractual cash flows—in different parts of IFRS 9 to describe modifications creates application challenges and adds to diversity in practice.

8. These stakeholders often referenced the implementation of 'interest rate benchmark reform' (see paragraph 6.8.2 of IFRS 9) as an example of the application challenges that arise from inconsistent description of modifications within IFRS 9.

Summary of previous IASB discussions on modifications

Modifications in context of the interest rate benchmark reform

9. Between 2018-2020, in response to stakeholders' request, the IASB developed amendments to IFRS Accounting Standards to address issues that affected financial

reporting in the period before and during the interest rate benchmark reform, as described in paragraph 6.8.2 of IFRS 9 (the reform).

10. The IASB was informed that changes to financial assets or financial liabilities to effect the reform could be made by:

    (a) amending the contractual terms of a financial asset or a financial liability to replace the referenced interest rate benchmark with an alternative benchmark;

    (b) altering the method for calculating the interest rate benchmark without amending the contractual terms of the financial instrument; and/or

    (c) triggering the activation of an existing contractual term such as a fallback clause.

11. Stakeholders requested the IASB to clarify which of these changes constitute a modification of financial instruments in accordance with IFRS 9 and how to account for the changes arising from the reform.

12. The IASB observed that paragraph 5.4.3 of IFRS 9 refers to the ‘modification or renegotiation of the contractual cash flows’ of a financial asset, while paragraph 3.3.2 of IFRS 9 refers to the ‘modification of the terms’ of an existing financial liability. The IASB noted in paragraph BC5.297 of the Basis for Conclusions on IFRS 9 that although these paragraphs use different words, both refer to a change in the contractual cash flows or contractual terms after the initial recognition of the financial instrument. In both cases, such a change was not specified or considered in the contract at initial recognition.

13. As explained in paragraph BC5.298 of the Basis for Conclusions on IFRS 9, the IASB considered that if the amendments to IFRS 9 relating the reform applied only to cases in which the contractual terms were amended, the form rather than the substance of the change would determine the accounting treatment. This could cause the economic effects of a change in the basis for determining the contractual cash flows arising as a result of the reform to be obscured by the form of the change and not reflected in the

financial statements, and result in changes with equivalent economic effects being accounted for differently.

14. Accordingly, the IASB concluded that the scope of the amendments related to the reform of interest rate benchmarks should include all changes to a financial asset or financial liability as a result of the reform, regardless of the legal form triggering those changes.

15. The IASB noted that in each of the situations outlined in paragraph 10 of this paper, the basis for determining the contractual cash flows of a financial instrument changes as a result of the reform. Therefore, it collectively referred to these changes as 'changes in the basis for determining the contractual cash flows of a financial asset or a financial liability'.

16. In August 2020, the IASB published the Interest Rate Benchmark Reform—Phase 2 — Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, including providing relief relating the accounting for 'changes in the basis for determining the contractual cash flows of a financial asset or a financial liability' resulting from the reform.

Modifications in IFRS 9, beyond interest rate benchmark reform

17. In developing the amendments relating interest rate benchmark reform, the IASB had initially considered clarifying what constitutes a modification of a financial instrument in the 'permanent' requirements in IFRS 9 (ie the requirements that are not related to the interest rate benchmark reform).

18. However, as discussed in the February 2020 IASB meeting, amending the requirements in IFRS 9 more broadly would have required additional time and careful consideration to ensure that any unintended consequences were avoided.

19. Accordingly, the IASB decided to limit the scope of any amendment only to changes made in the context of the reform—including the clarification of what constitutes a modification of a financial instrument in accordance with IFRS 9.

20. At the time, the IASB noted that it might still, in the future, amend the requirements of IFRS 9 to clarify the ambiguity arising from differences in the description of a modification of a financial liability (such as in paragraph 3.3.2), and modification of financial assets (such as in paragraph 5.4.3).

A reminder of the 2025 outreach feedback

21. As explained in Agenda Paper 11 of this meeting, in H1 2025, the IASB met with stakeholders from various industries and geographical regions to gather information about current practices and the root causes of diversity in application of the amortised cost measurement requirements in IFRS 9 (2025 outreach).

22. Outreach feedback suggests that despite the difference in wording between paragraphs 3.3.2 and 5.4.3 of IFRS 9, there is a consistent practice regarding what constitutes a modification of a financial asset or liability. All outreach participants said that only a change in **contractual terms** of a financial asset or a financial liability is considered a modification.

23. Outreach participants said that greater alignment in terminology would be beneficial, as inconsistencies within IFRS 9 requirements present practical challenges and may lead to unintended outcomes.

24. However, they noted that they would be concerned if the IASB were to make amendments to IFRS 9 requiring entities to account for modifications even if the terms of a contract remain unchanged (for example, changes in cash flows arising from original terms and conditions such as in-contract covenants being triggered). They said that such an amendment would significantly increase operational costs for tracking changes in contractual cash flows and be inconsistent with the nature of financial instruments. They also noted that IFRS 9 has separate requirements to account for re-estimation of cash flows arising from original terms and conditions of an instrument, such as the requirements in paragraphs B5.4.5–B5.4.6 of IFRS 9.

Staff analysis

25. As noted in the background section of this paper, during the post-implementation reviews of IFRS 9, the IASB was asked to clarify what constitutes a modification of a financial instrument in accordance with IFRS 9. Furthermore, as noted in paragraph 20, the IASB had already identified the need for clarification to address the ambiguity arising from the internal inconsistency in IFRS 9.

26. Accordingly, we think the IASB should consider making such clarification as part of the Amortised Cost Measurement project.

27. As discussed in June 2025, in exploring potential solutions, the IASB would need to consider, to what extent the requirements should be aligned between financial assets and financial liabilities. To the extent that differences in requirements or terminology are justified, potential clarifications should also include clear explanations for the basis for such differences to avoid any unintended consequences.

28. During our research and analysis of the modification requirements in IFRS 9, and considering the evidence gathered during the 2025 outreach (see paragraphs 22–24 of this paper), we have not identified a robust rationale that would justify the differences in description of modifications between financial assets and liabilities.

29. Therefore, we think the IASB should consider aligning the description of modification of a financial asset (eg in paragraphs 5.4.3 and B5.5.27 of IFRS 9) with that of a financial liability (eg in paragraphs 3.3.2 and B3.3.6–B3.3.6A). Specifically, we believe, to a minimum, a modification should be described by reference to changes in contractual terms.

30. Aligning the terminology would make it clear that modification of a financial asset and a financial liability in accordance with IFRS 9 involves a change in contractual terms of the instrument. Although this clarification is unlikely to impact current practices—since entities already consider ‘modifications’ to be ‘changes in contractual terms’ for both assets and liabilities—it can still improve understanding of

the requirements. Additionally, refining these requirements may help prevent future questions and debates over their application.

31. We acknowledge that describing modification of a financial instrument with reference to a change in its **contractual terms** may result in the legal form rather than the substance of the change to determine the accounting treatment. However, as noted in stakeholders' feedback (see paragraph 24), IFRS 9 already provides requirements for accounting of re-estimation of cash flows or revisions of estimated payments or receipts arising from original contract terms (see paragraphs B5.4.5–B5.4.6 of IFRS 9).

32. Furthermore, we observe that this approach to describing modifications would not only ensure alignment within IFRS 9 but also be consistent with the how other IFRS Accounting Standards, such as IFRS 16 *Leases* describe modifications.

33. Aligning the wording used to refer to modifications of financial assets and financial liabilities as described in paragraphs 29–30 of this paper would be an improvement to the requirements. Nonetheless, we think the IASB could further refine clarification regarding what constitutes a modification.

34. While we remain of the view that modifications of financial instruments should involve changes in contractual terms, we also acknowledge that not all changes in contractual terms result in changes to the contractual cash flows of a financial instrument. For example, adding collateral or waiving a covenant do not necessarily change contractual cash flows, so these adjustments may not impact modification accounting as contemplated in IFRS 9.

35. That is because, under IFRS 9, modifications are accounted for as follows:

    (a) **modifications that do not result in derecognition**—an entity is required to recalculate the gross carrying amount of the financial asset or the amortised cost of a financial liability and recognise a modification gain or loss in profit or loss. The entity recalculates the gross carrying amount of the financial asset or the amortised cost of a financial liability as the present value of the modified contractual cash flows that are discounted at the financial instrument's original effective interest rate.

(b) **modifications that result in derecognition**—an entity is required to derecognise the existing financial instrument and subsequently recognise the modified contractual cash flows as a 'new' financial instrument. The difference between the existing and the new financial instrument is recognised in profit or loss.

36. As explained in paragraph 35, applying IFRS 9, modifications are accounted for in the financial statements based on the effects from changes in the contractual cash flows.

37. We note that the amortised cost accounting in IFRS 9 is fundamentally based on the nature, timing, amounts, or uncertainty of contractual cash flows. For example:

(a) calculating the effective interest rate;

(b) assessing contractual cash flows of financial assets for purposes of classification as measured at amortised cost (or fair value through other comprehensive income);

(c) determining whether a contract includes an embedded derivative;

(d) calculating a gain or loss resulting from a modification or a change in estimated cash flows (as required by paragraph B5.4.6 of IFRS 9); or

(e) recognising expected credit losses on financial assets.

38. We therefore believe that more clarity and consistency might be achieved by describing a modification as a change in the contractual terms which changes the nature, timing, amounts or uncertainty of contractual cash flows. This description would be applicable to both financial assets and financial liabilities.

39. At first glance, the proposed description of modification appears narrower than the broad concept of 'changes in contractual terms' referenced in entities' existing

practices (see paragraph 22). However, in our view, the proposed description more accurately reflects the modifications currently being accounted for under IFRS 9.

40. For instance, we note this description would be consistent with some of the guidance provided by accounting firms in their manuals. In particular, some accounting firms explain that changes in terms, such as waving a covenant, do not change timing or amounts of cash flows and as such they do not affect financial instruments accounting. See Appendix A of Agenda Paper 11B of this meeting for a description of this guidance.