Staff paper

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Project	**Amortised Cost Measurement**
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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 sets out the staff analysis and recommendations on whether the IASB should clarify requirements in IFRS 9 *Financial Instruments* for determining whether modification of a financial asset or a financial liability result in derecognition.

3. This paper is structured as follows:

   (a) summary of staff recommendations;

   (b) questions for the IASB;

   (c) background;

   (d) summary of feedback from consultative groups in Q4 2025; and

   (e) staff analysis and views.

4. The paper includes one appendix: Appendix A—Review of accounting firms' manuals.

Summary of staff recommendations

5. We recommend the IASB consider clarifying the requirements for determining whether modification of a financial asset or a financial liability result in derecognition, as diversity in application stems primarily from unclear requirements and insufficient application guidance in IFRS 9.

6. In particular, we recommend the IASB:

   (a) to clarify that a substantial modification of the contractual terms of an existing financial asset or a part of it is accounted for as the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset as a 'new' financial asset. This clarification would be consistent with the requirements in paragraph 3.3.2 of IFRS 9 which apply to financial liabilities. It would also be consistent with the reference to 'substantial modifications' of financial assets in paragraph B5.5.26 of IFRS 9.

   (b) to require a principles-based approach for assessing whether modification of a financial instrument is substantial and hence results in derecognition, applying IFRS 9.

7. If the IASB agrees with these recommendations, we will then proceed to analyse potential application guidance that might accompany the principles-based approach. Specifically, we will further analyse and refine the qualitative and quantitative indicators for assessing whether a modification of a financial asset or a financial liability is substantial and hence results in derecognition, applying IFRS 9. A preliminary analysis of those indicators is included in paragraphs 51–60 of this paper.

Questions for the IASB

Questions for the IASB
1. Does the IASB agree with the staff recommendations in paragraphs 5–6 of this paper?
2. Do IASB members have any questions or comments on the qualitative or quantitative indicators preliminarily discussed in this paper? Are there any points you would like the staff to research further?

Background

Stakeholders' requests for clarification

8. Most respondents to the requests for information in the post-implementation reviews of IFRS 9 were of the view that there is insufficient guidance in IFRS 9 about how to determine whether a modification results in derecognition including how to assess whether a modification is 'substantial' and when to use qualitative or quantitative indicators or both. In particular, they asked:

   (a) for financial liabilities—whether the assessment of a modification as 'substantial' is purely e based on the quantitative 10 per cent test (as described in paragraph B3.3.6 of IFRS 9) or an entity can conclude on the assessment based on qualitative factors, even if the 10 per cent test is not met.

   (b) for financial assets—how to assess if a modification results in derecognition given IFRS 9 has no application guidance.

H1 2025 outreach

9. 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 the root causes of diversity in application of the amortised cost measurement requirements in IFRS 9 (H1 2025 outreach).

10. The IASB discussed the feedback from this outreach in June 2025. Nonetheless, to provide context for the staff analysis on this paper, paragraphs 11–15 summarise how the entities involved in this outreach currently determine whether modifications to a financial instrument result in derecognition.

Summary of current practices

11. Almost all outreach participants said that determining whether a modification results in derecognition of a financial instrument is the area with the greatest diversity in

application. They attributed this diversity to insufficient guidance in IFRS 9 and the guidance being asymmetrical between financial assets and financial liabilities.

12. For **financial liabilities**, most participants said that the main analysis is based on the 10 per cent test (as specified in paragraph B3.3.6 of IFRS 9). Some said they supplement it with a qualitative analysis if the 10 per cent test is not met, a few others said that they rely solely on the 10 per cent test, without any further qualitative assessment.

13. In contrast, for **financial assets**, majority of participants said that the main analysis is based on qualitative assessment. Many, including participants from financial institutions, said they perform only qualitative analysis (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 said they apply the 10 per cent test as a supplement to the qualitative analysis.

14. Some outreach participants from financial institutions said that they determine the accounting outcome for financial assets, qualitatively, based on the reason for a modification. When a financial asset is modified for commercial reasons—such as, repriced to market rate of interest—they consider it a substantial modification. In such cases, they derecognise the original asset and recognise a 'new' asset at market terms, as this change is viewed as economically similar to prepaying the old asset and issuing a new one at the prevailing interest rate. In contrast, modifications made to maximise recovery of the original cash flows are usually considered non-substantial modifications, hence not accounted for as derecognition.

15. Overall, most outreach participants asked the IASB for clarifications and additional application guidance on performing the modification assessment required by IFRS 9. Some suggested the clarifications be principle-based, for example, in the form of qualitative factors that entities are required to consider in assessing whether a modification results in derecognition. Others suggested retaining the '10 per cent test' but asked for guidance about its calculation (for example, whether potential extensions should be reflected in the discounted present value of cash flows).

Summary of feedback from consultative groups in Q4 2025

16. During Q4 2025, the IASB consulted with the Global Preparers Forum (GPF), the Accounting Standards Advisory Forum (ASAF), the Emerging Economies Group (EEG), and the Financial Instruments Consultative Group (FICG), seeking feedback to inform the IASB's potential improvements to modification requirements.

17. We asked consultative groups for their views on a potential principles-based approach that combines qualitative and quantitative indicators to assess modifications of financial instruments.

18. For similar reasons to those referred in paragraph 11, consultative groups supported the IASB's efforts to clarify the requirements in IFRS 9 for modification of financial instruments, particularly for financial assets.

19. Most members of consultative groups said that a principles-based approach would be an optimal solution. Some said that the IASB should require an entity to assess a modification against qualitative indicators first before any quantitative analysis, to avoid a mechanical application of requirements. Others suggested the IASB include the quantitative threshold of 10 per cent in the form of a rebuttable presumption for both financial assets and liabilities.

20. Many members, including financial institution representatives said that the reason for modifying a financial asset is an important consideration. They typically differentiate between commercial modifications—aimed at maintaining customer relationships or originating assets on market terms—and forbearance modifications which focus on maximising recovery of principal amounts when borrowers face financial difficulties. In their view, if a financial asset is modified as part of forbearance, then it may be more challenging to conclude that the original financial asset should be derecognised in its entirety. Examples of forbearance practices include reducing interest rates, delaying the payment of principal and amending covenants.

21. Other members were of the view that while the reason for the modification matters, in itself, it should not determine whether a modification results in derecognition.

22. Although the investors in consultative groups did not provide a particular view on the approach for assessing modifications, an investor member of the FICG said that, to enhance transparency about modification effects, information such as modification gains or losses should be presented separately from impairment—even if the reason for modification is attributable to the financial difficulty of the debtor.

23. An ASAF member noted that US GAAP sets out specific modification requirements, depending on the type of financial instruments. They said that, in their jurisdiction, preparers opposed a principles-based approach with quantitative and qualitative indicators, as it would require making judgements about the level of analysis needed to reach a conclusion. Furthermore, the member explained that investors in the same jurisdiction usually favour treating modifications as derecognition because they believe this provides more useful information.

24. Some consultative group members provided additional comments:

    (a) some said that an approach for accounting of modifications that is symmetrical between financial assets and liabilities is desirable but might be difficult to achieve in practice due to the interaction with the impairment requirements in IFRS 9 which are applicable only to financial assets.

    (b) some other members reiterated the need for application guidance that is appropriately tailored to revolving credit facilities, such as credit cards and overdrafts. They said that performing the modification assessment for these facilities is particularly challenging because these instruments might not have a fixed maturity or repayment structure. For example, if a revolving credit facility is undrawn, the EIR would have not been determined and the carrying amount might be zero, making it challenging to perform a quantitative analysis, such as the 10 per cent test.

Staff analysis and views

25. To facilitate the IASB's discussion of potential improvements, next sections provide:

    (a) staff analysis and views on areas for improvement in IFRS 9;

    (b) staff analysis and views on a principles-based approach for assessing whether a modification is 'substantial'; and

    (c) staff preliminary analysis on potential application guidance to accompany the principles-based approach.

Areas for improvement

Why are entities required to assess the effects of modification

26. Paragraph 3.1.1 of IFRS 9 requires recognition of a financial asset or a financial liability when, and only when, an entity becomes party to the contractual provisions of the instrument (except where the regular way purchase or sale exception applies).

27. Subsequent to entering the contract, the parties may agree to change the terms of the contract. Such changes may include extending or shortening the maturity date, increasing or decreasing the interest rates, altering the mechanism for determining the interest rate, amending the payment schedule, deferring or even forgiving payments.

28. The effects of some changes might simply result in the variation of the contractual terms, while others might be more substantial and effectively result in the creation of a new contract. Substantial changes to the terms of a contract could be made either by modifying the current contractual terms or by cancelling/extinguishing the current contract and replacing it with a new one. However, regardless of the manner in which such changes to a contract are made, the economic effects are the same.

29. Accordingly, IFRS 9 requires that when the contractual terms or cash flows are substantially modified, such a modification needs to be accounted for in the same way as a derecognition, to represent the substance rather than the form of a modification. Specifically, when contractual terms are modified, an entity is required to evaluate the extent to which the revised terms alter the economic effects arising from the contractual rights and obligations of the financial instrument.

30. Applying IFRS 9, a financial instrument is derecognised if the modification results in substantial changes to the economic effects of the original contract. Conversely, modifications that do not have a significant economic effect do not result in derecognition for accounting purposes.

What constitutes a 'substantial' modification

31. Sections 3.2 and 3.3 of IFRS 9 set out the requirements on derecognition of financial assets and financial liabilities, respectively. Section 5.4 of IFRS 9 includes some requirements on modification of financial assets.

32. In particular, for financial assets:

    (a) paragraph 3.2.3 of IFRS 9 requires that a financial asset is derecognised when the contractual rights to its cash flows expire. However, there is no guidance on how to apply the concept of 'expiry' to modifications of financial assets.

    (b) paragraph 5.4.3 of IFRS 9 sets out requirements for a modification of the contractual cash flows that does not result in its derecognition. Paragraph B5.5.25 of IFRS 9 states that, in some circumstances, the renegotiation or modification of the contractual cash flows of a financial asset can lead to the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset. In those circumstances, the modified asset is considered a 'new' financial asset for the purposes of IFRS 9.

33. However, neither paragraph 5.4.3 nor paragraph B5.5.25 explain how to determine whether modification of a financial asset leads to its derecognition. Paragraph B5.5.26

of IFRS 9 merely refers to 'a substantial modification' of a distressed asset as an example of a modification that results in derecognition. There is no guidance about how to assess whether a modification is 'substantial'.

34. Conversely, for financial liabilities, IFRS 9 provides requirements and application guidance for modifications and exchanges of financial liabilities with the same lender. Specifically, paragraph 3.3.2 of IFRS 9 states that a substantial modification of the terms of a financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Paragraph B3.3.6 of IFRS 9 further states that the terms of a financial liability are substantially different if the discounted present value of the cash flows under the new terms is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

Clarifying the underlying principles

35. As previously noted, one of the reasons why there is diversity in applying the modification requirements in IFRS 9, is these internal inconsistencies. Therefore, if any improvements were to be made, it should be considered if and to what extent the requirements and the related application guidance should be aligned between financial assets and financial liabilities. To the extent that differences are justified, potential improvements should also include providing clear explanations for the basis for such differences, to avoid any unintended consequences.

36. The staff think that an approach to assessing modifications that is broadly consistent between financial assets and liabilities would result in the accounting between the borrower and the lender to be largely symmetrical. For example, if a contract modification is negotiated between a borrower and a lender, ideally both parties should reach the same conclusion as to whether such a modification results in derecognition of the financial instrument. However, we also acknowledge that there might also be factors that are different between borrowers and lenders.

37. Therefore, in our view, potential improvements to the requirements should consider an approach that applies the same principles to evaluate modification of both financial assets and financial liabilities, accompanied by application guidance appropriately tailored to each category.

38. The analysis of IFRS 9 requirements, as outlined in paragraphs 31–34 of this paper, demonstrates that, although not explicitly stated, the principle that a substantial modification of contractual terms or cash flows results in derecognition underpins the derecognition requirements for both financial liabilities and financial assets. This was also acknowledged in the Agenda Decision *Derecognition of financial instruments upon modification* published in September 2012.

39. Therefore, we recommend clarifying that a substantial modification of the contractual terms of an existing financial asset, or a part of it, is accounted for as derecognition of the existing financial asset and the subsequent recognition of the modified financial asset as a 'new' financial asset. This principle would then need to be accompanied by application guidance about how entities assess whether a modification of a financial asset is 'substantial'.

40. In our view, explicitly stating this principle in the section of requirements for financial assets (for example in section 3.2 of IFRS 9) would be an important step to clarify the requirements and enhance internal consistency between IFRS 9 requirements for financial assets and liabilities.

Principles-based approach

41. Following clarification of the underlying principle, the IASB would then need to consider developing an appropriate approach for assessing whether a modification is 'substantial'.

42. As the IASB previously discussed, to determine whether a modification is substantial and hence results in derecognition, an entity needs to consider whether the nature,

timing, amounts, or uncertainty of the cash flows under the original contractual terms are substantially different from those under the modified terms. [1]

43. We agree with this perspective. Accordingly, we think assessing whether a financial instrument is substantially modified should require consideration of qualitative, and perhaps also quantitative, indicators.

44. As noted in paragraphs 32–34, IFRS 9 does not currently include any qualitative indicators for entities to consider in determining whether a modification of a financial asset or a financial liability results in derecognition. Regarding quantitative indicators, paragraph B3.3.6 of IFRS 9 explains that the terms of a financial liability are substantially different if present value of the cash flows under the new terms is at least 10 per cent different from the present value of the remaining cash flows of the original financial liability. Although the quantitative 10 per cent indicator is included for financial liabilities only, many stakeholders analogise to this requirement when assessing the modification of financial assets.

45. Feedback suggests diversity in how stakeholders consider the role and importance of this quantitative indicator. However, we are of the view that the intention in IFRS 9 was not to require the exclusive use of the '10 per cent test' to assess if a modification of a financial liability is substantial. This is because there might be fact patterns where the use of qualitative indicators would be more appropriate.

46. Specifically, applying the 10 per cent test alone might provide an incomplete analysis of modifications and may lead to inappropriate accounting outcomes. For example, consider a financial liability denominated in US dollars, that is modified to be denominated in UK sterling. Such a change might, on the date of assessment, result in a difference between the new and original carrying amounts that is less than 10 per cent. However, stakeholders would generally agree that such a change is fundamental

[1] In 2009, the IASB discussed potential alternatives to clarifying the requirements on accounting for a 'substantial modification' of a financial liability or an exchange of one debt instrument for another debt instrument with 'substantially different terms'. Two of the alternatives discussed at that time required an entity to consider whether the nature, timing, amounts, or uncertainty of the cash flows under the original contractual terms are substantially different from those under the modified terms. See Agenda Paper 15A of December 2009 IASB meeting for further details.

and results in the modified financial liability being substantially different from the original instrument.

47. Therefore, we did not consider a quantitative-only approach. In our view, although such an approach might appear to be simpler, it would still require application guidance to support consistent application (as noted in paragraph 15). We are also of the view that this approach may result in the mechanical application of the requirements, leading to arbitrary outcomes and potentially encouraging the structuring of opportunities to achieve a particular outcome. These disadvantages would become even more pronounced when assessing modifications of financial assets.

48. In our recent outreach with consultative group members, most supported a principle-based approach that would require consideration of qualitative and quantitative indicators (see paragraph 19). That approach was also supported by most outreach participants, and would be consistent with some current practices (see paragraphs 12–13).

49. Based on this analysis, in our view, the IASB should develop a principles-based approach with qualitative, and potentially quantitative, indicators for assessing whether modification results in derecognition applying IFRS 9.

50. Consistent with feedback from consultative groups, to avoid exclusive reliance on a quantitative threshold, such as the 10 per cent test, we think the IASB should require an entity to:

(a) first, perform a qualitative assessment of a modification; and

(b) only if the qualitative assessment is not determinative, perform a quantitative assessment using the 10 per cent test.

Potential application guidance

51. To support consistent application of the principles-based approach, the IASB would need to provide application guidance about:

    (a) the qualitative indicators an entity applies to determine whether the nature or uncertainty of the modified contractual cash flows is considered substantially different from those prior to modification. This guidance could be in the form of a list of non-exhaustive factors to consider.

    (b) the quantitative indicators an entity applies to determine whether the timing or amounts of the modified contractual cash flows are considered substantially different from those prior to modification. This guidance could in the form of a quantitative calculation, such as the existing 10 per cent test.

52. For the qualitative assessment referred to in paragraph 50(a), based on the staff preliminary analysis, the following qualitative indicators might be considered. These factors might indicate substantial modifications that result in derecognition.

    (a) a change in the currency in which the principal or interest is denominated;

    (b) a change in counterparties to the contract, unless the new counterparty shares common control;

    (c) addition or removal of a contingent interest rate;

    (d) a change in the basis for determining interest (such as a change from fixed rate to floating rate, or vice versa); and

    (e) a change in other contractual terms—such as extension of maturity—which effectively reprices the modified instrument to its current market value (ie including repricing to prevailing market interest rate).

53. For the quantitative assessment referred to in paragraph 50(b), we think that instead of specifying how to perform the 10 per cent test (see request in paragraph 15), the IASB

could simply clarify the purpose of the quantitative assessment—that is, to identify substantial modifications that are not otherwise captured by the qualitative assessment. For example, if a modification introduces an option feature in the contract, the entity includes this change in the 10 per cent test only if it has not already been considered in the qualitative assessment, for example, in evaluating the factors described in paragraph 52(e).

Additional application guidance for financial assets

54. Considering the relationship between the modification requirements and other requirements in IFRS 9 which apply solely to financial assets, the IASB could develop further application guidance that relates to financial assets only.

55. This includes considering the relationship between modification requirements and the requirements for:

   (a) **classification and measurement**—the IASB could clarify that a modification of contractual terms that results in a change of the contractual cash flow characteristics of the financial asset, as determined applying IFRS 9, is considered a substantial modification. Specifically, if a modification causes the resulting contractual cash flows to no longer consist solely of payments of principal and interest on the outstanding principal, as required by paragraphs 4.1.2(b) or 4.1.2A(b) of IFRS 9, or the reverse situation.

   (b) **write-offs**—the IASB could clarify that an entity first accounts for any write-offs (including partial derecognition) in accordance with paragraph 5.4.4 of IFRS 9, before applying the quantitative approach for assessing whether a modification of a financial asset is 'substantial' and hence results in its derecognition. This is because, a write-off affects the outcome of the modification assessment, particularly when using a quantitative assessment.

56. Another relevant factor to consider for financial assets might be the reason for the modification. Specifically:

(a) for financial liabilities, paragraph 3.3.2 of IFRS 9 is clear that a 'substantial modification' of the terms of a financial liability constitutes derecognition of that liability, whether or not the modification is attributed to the financial difficulty of the debtor.

(b) for financial assets, as previously noted, paragraph B5.5.26 of IFRS 9 refers to 'a substantial modification' of a distressed asset as an example of a modification that results in derecognition. This implies that a modification of a financial asset that is attributable to the financial difficulty of the debtor might result in its derecognition.

57. Feedback from consultative groups (see paragraphs 20–21) also supports the idea that, whether or not a modification of a financial asset is attributable to the financial difficulty of the debtor, could be a relevant factor to consider. However, the reason might not, in itself, determine whether or not a modification results in derecognition.

58. Accordingly, we think the IASB could clarify that, when assessing modification of a financial asset, consideration should be given to the reason for a modification; however, it should not be regarded as the determining factor. In particular, an entity could consider whether a modification of a financial asset is aimed at recovering the principal amount of a financial asset and hence the entity is granting concessions it would not otherwise make. Such modifications might not be considered substantial.

Application guidance for revolving credit facilities

59. We considered the application challenges noted in paragraph 24(b) for revolving facilities, such as credit cards and overdrafts. In our view, a qualitative assessment of a modification—that is, evaluating the indicators outlined in paragraph 52—would be equally relevant for revolving credit facilities. However, we acknowledge the practical challenges that might arise if required to perform the 10 per cent quantitative test.

60. To address these challenges, the IASB could consider actions such as the following:

(a) develop a different quantitative indicator for these facilities. This would mean keeping a qualitative and quantitative approach; however, the quantitative test would be slightly different to the 10 per cent test described in paragraph B3.3.6 of IFRS 9. For example, the IASB could require assessing whether a change in contract terms alters a facility's credit limit by more than 10 percent, in which case it would be considered a substantial modification.

(b) require a qualitative only approach for these facilities. This would mean that for the purposes of such facilities, the quantitative indicator noted in paragraph 53 of this paper would not be available. Consequently, the modification assessment for these instruments would be based only on the qualitative indicators, as described in paragraphs 52 and 54–58.

Staff preliminary views on advantages and disadvantages

61. In our preliminary view, the main advantages of the principle-based approach described in paragraphs 35–60 would be:

(a) establishing clear principles with accompanying application guidance, aimed at supporting greater consistency in application. Clearly articulated principles, including uniform terminology, for all financial instruments subject to modification assessments under IFRS 9 would reduce application challenges and promote consistency in application. It would also enhance understanding of requirements and increase the potential for future proofing the requirements.

(b) establishing a consistent approach for assessing modification of both financial assets and financial liabilities. A consistent approach, that is based on the same principles, reduces interpretative issues, and achieves symmetry in accounting between a lender and a borrower.

(c) providing application guidance, appropriately tailored to financial liabilities, financial assets including revolving credit facilities where needed. This type of guidance would respond to long-standing requests by stakeholders.

62. The main disadvantages of such an approach would be:

(a) it requires application of judgement and hence might not resolve all differences in modification outcomes. As with any principles-based approach, assessing whether a modification results in a substantially different financial instrument would be based on all facts and circumstances and hence would require judgement. And different entities might apply their judgement in different ways. However, the proposed approach would be supplemented with application guidance consisting of qualitative and quantitative changes that the IASB believes represent a change in the nature, amount, timing, or uncertainty of contractual cash flows under the original terms, as described in this paper. Such application guidance would support greater consistency in application.

(b) it still uses the quantitative threshold of 10 per cent which is an arbitrary threshold. Using any quantitative threshold inherently requires drawing an arbitrary line, which might encourage structuring opportunities to circumvent such rules. However, the approach would require a qualitative assessment to be done first before doing a quantitative assessment. This would avoid relying solely on a quantitative test and reduce the risk of structuring opportunities.

63. In terms of the potential effect on current practices, this approach is likely to require changes for some entities, especially those that currently rely exclusively on a quantitative approach, such as the 10 per cent test. For entities that currently use only a qualitative approach, the extent of change required may vary based on the qualitative indicators they presently consider to be substantial modifications.

64. However, we believe the benefits to be gained from the approach would outweigh the costs of potential changes to entities' current practices. The approach would not only benefit preparers and auditors of the financial statements, but also users of financial statements—who might have greater confidence that any modification gains or losses reflect substantial changes to the nature, amount, timing, or uncertainty of contractual cash flows, with reduced opportunities for structuring.

Appendix A— Review of accounting firms' manuals

Topic	Financial liabilities	Financial assets
Overall	Accounting firms generally note that IFRS 9 provides insufficient guidance and includes the 10 per cent quantitative test only in the guidance for derecognition of financial liabilities.	
Quantitative, qualitative, or mixed approach	An accounting firm noted that an entity applying IFRS 9 has an accounting policy choice: • either it can apply only the quantitative '10 per cent test'; or • if the '10 per cent test' is passed, it could choose to also perform a qualitative assessment for de-recognition. If the '10 per cent test' is failed, however, the existing liability is de-recognised, regardless of whether the entity's policy is to also perform a qualitative analysis.	Different accounting firms provided different guidance on the approach, notably: • that in limited circumstances, a simple qualitative assessment will be sufficient, including altering the currency, replacement of a new debtor or failure to the SPPI. If it is not already clear from a qualitative assessment that a modification has resulted in a substantial change in a financial asset, it is appropriate to apply a '10 per cent test'. • that the holder of the financial asset should perform a quantitative and qualitative evaluation of whether the modification is substantial. An entity needs to develop its own accounting policies. It may, but is not required to, analogise to the guidance of financial liabilities. • another accounting firm provided specific illustrations that for a loan with prepayable feature, if the interest rate is renegotiated, the lender may apply its judgement and select an appropriate accounting: derecognise the old loan and recognise a new one, treat it as a modification. It also addressed that the accounting is from the lender's perspective but is applicable to both financial assets and financial liabilities.

Topic	Financial liabilities	Financial assets
10 per cent quantitative test	An accounting firm noted that IFRS 9 is not clear whether the '10 per cent test' is the definition of 'substantially different', or whether it is only an example such that a broader analysis that considers qualitative factors can also be performed. Another accounting firm noted that if the difference in the present value of the cash flows under the quantitative assessment is at least 10 percent, then a modification should be accounted for as an extinguishment in all cases. However, if the difference in the present values of the cash flows is less than 10 per cent, then an entity should perform a qualitative assessment to determine whether the terms of the two instruments are substantially different.	One accounting firm noted that it would be inappropriate to conclude that a financial asset should continue to be recognised based solely on the outcome of a '10 per cent test', there is nothing to preclude such a test from being included as one of the indicators for de-recognition, alongside other qualitative factors. Another firm provided a similar view. Specifically, that considering the interaction between the derecognition and impairment requirements, it may not be appropriate to apply the same '10 per cent test' or threshold, particularly in cases of forbearance. And a write-off before the modification will impact the result of the quantitative evaluation of whether derecognition of the financial asset is appropriate A different accounting firm noted that when applying a '10 per cent test' for the financial asset, in the case of a modification or renegotiation of a credit-impaired financial asset or a purchased or originated credit-impaired financial asset that was subject to a write-off, it may be appropriate to consider the expected (rather than the contractual) cash flows before modification or renegotiation and compare those with the contractual cash flows after modification or renegotiation, in particular, when the modification or renegotiation can be seen as a concession to the borrower that in substance modifies the contract to reflect those expected cash flows. .

Topic	Financial liabilities	Financial assets
Qualitative factors	For financial liabilities, accounting firms provide different qualitative factors to consider in the modification assessment, such as: a. a change in the currency in which the liability is denominated. b. a change in the interest basis (such as a change from fixed rate to floating rate, or vice versa). c. a change in any conversion features in the instrument. d. a substantial change in covenants. e. The liability was prepayable at par, with no significant penalty at the date of the renegotiation, which results in the renegotiated rate approximating the current market rate of interest for the new terms and conditions. f. The liability was close to its maturity date at the date of the renegotiation and was extended for a significant additional period, which results in the renegotiated rate approximating the current market rate of interest for the new terms and conditions (including the new maturity date). An accounting firm specifically noted the purpose of a qualitative assessment is to identify substantial differences in terms that by their nature are not captured by a quantitative assessment.	Similarly, for financial assets, accounting firms provide different qualitative factors to consider in the modification assessment, such as: a. loan forbearance (short payment holiday with capitalised interest) – usually not a significant expiry of cash flows; assess for impairment. But complex multi-instrument restructuring that materially changes expected cash flows – treated as expiry and derecognise. b. insertion of profit-share/equity incentive – if upside potential exceeds original cash flows, derecognise; if upside only helps recover principal, modification. c. significant term extension when borrower is sound –likely expiry. d. interest-rate change – evaluate size, maturity and rate environment; may indicate expiry. e. extra collateral/credit enhancements – rarely an expiry. f. covenant waiver not affecting cash amount/timing – not significant; continue recognition. g. change of payer (e.g. parent assumes subsidiary debt) – if credit quality gap is large or new payer is third party, treat as expiry. h. change of currency – unless pegged, viewed as expiry due to new economic exposure. i. economic settlement in disguise (prepayable at par near market rate, or maturity extended to market rate) – derecognised. Two accounting firms mentioned that if the modification is part of a troubled debt restructuring, its objective is usually to maximise recovery of the original contractual cash flows rather than to originate a new asset on current market terms. Such modifications therefore are not usually considered to be derecognition events.