
IASB[®] meeting

Date **June 2026**
Project **Amortised Cost Measurement**
Topic **Determining whether a modification results in derecognition**
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Objective and structure of the paper

1. At its [February 2026](#) meeting, the IASB tentatively decided to clarify the IFRS 9 *Financial Instruments* requirements on modification of financial instruments. In particular, it tentatively decided to propose a principles-based approach for determining whether a modification of a financial asset or financial liability results in derecognition.
2. Since then, the IASB consulted with the [Financial Instruments Consultative Group](#) (FICG) seeking input on the potential application guidance for this approach.
3. The objective of this paper is to further discuss the approach for determining whether a modification of a financial asset or financial liability is substantial and therefore results in derecognition.
4. The paper is structured as follows:
 - (a) [summary of staff recommendations and question for the IASB](#);
 - (b) [background](#);
 - (c) [summary of the IASB's discussion in February 2026](#);
 - (d) [feedback](#); and
 - (e) [staff analysis and recommendations](#).

Summary of staff recommendations and question for the IASB

5. We recommend the IASB propose that an entity determine whether a modification of a financial instrument is substantial, and therefore results in derecognition, based on a holistic analysis of the changes in the contractual cash flows. In making this assessment, the entity considers qualitative and quantitative factors. The 10% test in paragraph B3.3.6 of IFRS 9 may supplement the assessment, such as when qualitative factors are inconclusive, but would not be determinative on its own.
6. Qualitative factors an entity considers include, but are not limited to:
 - (a) a change in the currency in which principal or interest is denominated.
 - (b) a change in cash flow characteristics that alters the assessment of whether the cash flows are solely payments of principal and interest (SPPI) for a financial asset, or whether an embedded derivative is separated from the host contract for a financial liability.
 - (c) a change in borrower counterparty. A change in borrower counterparty would indicate a substantial modification. However, this may not be the case if the change is between entities under common control.
 - (d) the reason for the modification. A commercial renegotiation to reset the financial instrument to current market terms would indicate a substantial modification. In contrast, a modification attributable to the borrower's financial difficulty might indicate that the modification is not substantial.
7. We also recommend the IASB propose that whether a specific factor is relevant, and its weight compared to other factors, depends on the type of financial instrument, characteristics of financial instruments and general economic conditions. An entity considers reasonable and supportable information that is available without undue cost or effort and that is relevant for the particular financial instrument being assessed.

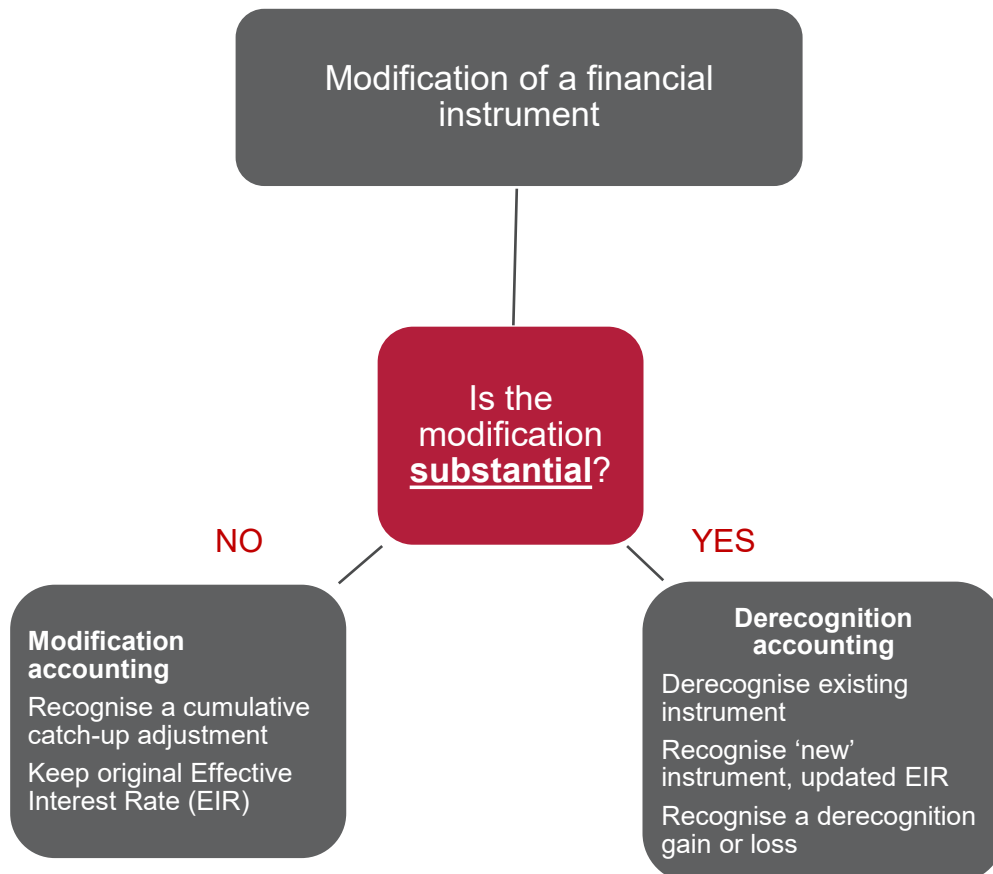
Question for the IASB

Does the IASB agree with the staff recommendations in paragraphs 5–7 of this paper?

Background

Overview of applicable requirements

8. The flowchart below summarises the modification accounting requirements.



9. For more information on the IFRS 9 modification and derecognition requirements, see paragraphs 31–34 of [Agenda Paper 11B](#) from the IASB’s February 2026 meeting.

Stakeholder requests and current practices

10. Most respondents to the post-implementation reviews of IFRS 9 requested additional guidance about how to assess whether a modification is substantial and therefore leads to derecognition, including when to use qualitative or quantitative factors, or both. In particular, they asked:

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- (a) for financial liabilities—whether assessing if a modification is substantial depends only on the outcome of the quantitative 10% test in paragraph B3.3.6 of IFRS 9, or also on qualitative factors.
- (b) for financial assets—how to assess if a modification is substantial, given IFRS 9 has no application guidance.
11. Most respondents, including auditors, said there is significant diversity in practice in how entities calculate the 10% test, including which cash flows are included in it. They added that, if the IASB retains the test, it should provide application guidance about how to do the test, particularly if it is extended to financial assets. This include whether, and if so how, possible extensions or contingent terms should be reflected in the discounted present value of cash flows.
12. In H1 2025, the IASB conducted outreach across many industries and geographical regions to understand both the causes of diversity in applying IFRS 9 amortised cost measurement requirements and entities' current practices. In summary:
- (a) for **financial liabilities**—the assessment is mainly the quantitative 10% test in paragraph B3.3.6 of IFRS 9. Some entities also do a qualitative assessment if the difference in carrying amounts is less than 10% test, while others do not.
- (b) for **financial assets**—the assessment is mainly qualitative. Many entities, including financial institutions, only apply a qualitative analysis, although a few also apply the 10% test as a supplement.
13. [Agenda Paper 11A](#) for June 2025 and [Agenda Paper 11B](#) for February 2026 provide detailed feedback on application challenges and current practices.

Summary of the IASB's discussion in February 2026

IASB's tentative decisions

14. In [February 2026](#), the IASB tentatively decided to clarify that a modification of a financial asset or a financial liability constitutes a change in contractual terms that changes the nature, timing, amounts or uncertainty of contractual cash flows.
15. In addition, the IASB tentatively decided to develop a principles-based approach for assessing whether a modification of a financial asset or a financial liability is substantial and results in derecognition.

Objective of modification assessment

16. The IASB discussed that the objective of assessing whether a modification of a financial asset or a financial liability is substantial is to determine 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.

Information to consider in assessing a modification

17. [Agenda Paper 11B](#) of the IASB's February 2026 meeting included preliminary staff view that the IASB could 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 test using the 10% threshold.
18. Some IASB members asked how this sequence would work in practice and on its potential implications for auditability. They said that any proposal on this matter should describe the outcome it is designed to achieve rather than prescribe the sequence of an assessment.

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19. A few IASB members also questioned the role of the 10% test within the approach. In particular, they challenged whether being positioned as a supplementary factor is appropriate. However, other IASB members supported the supplementary role of this test, noting that determining outcomes purely based on the absolute threshold of 10% test could lead to arbitrary outcomes and might encourage structuring opportunities to achieve a particular accounting outcome.
20. That paper also included preliminary views on the potential application guidance that would accompany the approach. This included factors that would indicate that the contractual cash flows under the original contractual terms are substantially different from those under the modified terms, such as:
- (a) a list of non-exhaustive qualitative factors:
 - (i) a change in the currency in which the principal or interest is denominated;
 - (ii) a change in counterparty, unless under common control;
 - (iii) a change in the basis for determining the contractual interest rate (such as a change from fixed to variable interest rate, or vice versa);
 - (iv) a change in the cash flow characteristics of a financial asset (for example, whether cash flows are SPPI); and
 - (v) a change in contractual terms that effectively aligns the terms of the financial instrument to prevailing market terms, made for commercial reasons. For example, extending the maturity or reducing the interest rate to align with prevailing market terms; and
 - (b) the quantitative 10% test—that is, the discounted present value of the cash flows based on the new terms is at least 10% different from the discounted present value of the remaining cash flows of the original financial instrument.
21. The paper also discussed a factor that might indicate that cash flows under the original contractual terms are **not** substantially different from those under the modified terms.

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22. This factor related to the reason for the modification. Where a lender grants concessions to a borrower in financial difficulty—for example, in a forbearance arrangement—to maximise recovery of contractual amounts, such as outstanding principal. In such circumstances the modification may indicate that the original and modified contractual cash flows are not substantially different.
23. Some IASB members expressed concerns about this factor. In their view, considering the reason for a modification of a financial asset would add subjectivity.

Feedback

Overall feedback from the FICG

24. In its [May 2026 meeting](#), FICG members supported:
- (a) the objective of the modification assessment described in paragraph 16;
 - (b) the modification assessment to be primarily based on an analysis of qualitative factors, supplemented by the quantitative 10% test where necessary; and
 - (c) the modification assessment to be largely symmetrical between financial assets and financial liabilities.
25. FICG members said the qualitative factors described in paragraph 20(a) are broadly consistent with aspects of their current practices. However, they welcomed standard-setting in this area because differing views among entities—and, in some cases, among accounting firms—have created application challenges about the significance of particular factors.
26. FICG members expressed support for the following factors:
- (a) **change in currency.** This was generally viewed as indicating a substantially different financial instrument, because change in currency is considered a fundamental change in the risk exposure of a financial instrument.

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- (b) **change in cash flow characteristics.** A change that alters the assessment of cash flow characteristics, such as SPPI assessment, would strongly indicate that the modified cash flows are substantially different from the original cash flows.
- (c) **a commercial renegotiation of the contractual terms** that effectively aligns the contractual cash flows of a financial instrument with current market terms. This was considered economically equivalent to issuing a new financial instrument and, in their view, should thus be accounted for in the same way.
27. FICG members strongly supported the factor described in paragraph 22. They said that a modification due to the borrower's financial difficulty—where the lender grants concessions it would not otherwise provide when originating a loan—is economically different from a commercial renegotiation to reset the financial instrument to current market terms. In their view, the accounting outcome should reflect that distinction.
28. Some FICG members said that, without this factor, entities might be required to account for a modification of an impaired financial asset as derecognition of the existing financial asset and the recognition of a new asset. They said that such an outcome could lead to several counter-intuitive effects, including:
- (a) **resetting ECL** measurement to 12-month ECL (stage 1)—in their view, this would not faithfully reflect the increased credit risk of the financial asset or how the entity manages that risk, and therefore would not provide useful information to users of financial statements; or
- (b) **applying POCI accounting**—in effect, entities might be required to apply purchased or originated credit-impaired (POCI) accounting. This would create application challenges, including reliably determining the credit-adjusted effective interest rate for a POCI financial asset, as required by IFRS 9.

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29. A few FICG members who supported this factor noted that distinguishing changes due to borrower's financial difficulty from other simultaneous renegotiation changes may be challenging.
30. Some FICG members suggested clarifying or refining the following factors:
- (a) **change in counterparty.** They agreed that a change in borrower is generally considered to be indicative of a substantially different instrument due to changed credit risk. However, they noted that when a modification involves a change in borrower from one entity to another under common control, such a change in a borrower may not represent a substantially different instrument;
 - (b) **change in the basis for determining interest.** They expressed concern that routine or temporary changes, such as step-ups or promotional rates, could be unintentionally captured by this factor. In their view, these changes in contractual interest rates would not normally indicate a substantially different instrument. One FICG member noted that, in some markets, contractual terms commonly allow the interest rate to change from fixed to floating rate after a specified period. If that change arises from an existing contractual term, it is not treated as a substantial change in contractual cash flows. Similarly, making such a change through a contract modification should not, on its own, indicate a substantial modification.
31. Two members raised concerns relating the role of the 10% test within the approach. Their views however differed:
- (a) one member suggested requiring the 10% test in all circumstances, rather than only when qualitative analysis is inconclusive. In their view, the quantitative 10% test is more objective than qualitative assessment.
 - (b) by contrast, another member said that the 10% test should not be required at all. In their view, including the test in any form would, in practice, make it determinative, even when qualitative factors already meet the objective of the

assessment. Thus, the 10% test would add cost and operational burden without providing a clear incremental benefit.

32. Some members also asked for clarification on changes that might affect expected rather than contractual cash flows, such as some additions of collateral or guarantees. In this context, they suggested that the IASB emphasise that the modification assessment is based only on contractual cash flows and does not take into account cash flows the entity expects to receive from financial assets, which are considered when measuring ECL.

Feedback on decision-useful information

33. We discussed accounting for modification of financial instruments with the FICG members in December 2025 and May 2026, seeking input about decision-useful information for modified contractual cash flows.
34. In Q1 2026, the IASB also met with some individual investors, seeking input on accounting for changes in contractual interest rates and what financial reporting information would be decision useful.
35. Although investor responses were limited, the following themes emerged about accounting for changes in contractual cash flows arising from existing or modified contractual terms:
- (a) preference for alignment between contractual cash flows and accounting. They explained that they use interest income or expense information in the statement of profit or loss, calculated using the effective interest method, to predict an entity's interest cash flows for the future. Therefore, the information about interest needs to be complete, and generally be recognised in the period that it (contractually) relates to.
 - (b) modifications with different economic substance should be accounted for differently. They said modifications attributable to the borrower's financial

difficulty, which are typically off-market, are economically different from on-market modifications, and the accounting should reflect that difference. We note this is consistent with feedback from other FICG members, summarised in paragraphs 27–28.

36. In light of the approach deliberated by the IASB for assessing modifications, we asked FICG members with an investor background, whether users of financial statements would need any information about modified financial instruments beyond that already required by IFRS 7 *Financial Instruments: Disclosures*. Members did not identify any additional information needs.

Staff analysis and recommendations

37. Based on our analysis of the IASB’s discussion in February 2026 and the feedback received, we identified some refinements to the approach.
38. To support the IASB’s discussion of those refinements, the next sections analyse:
- (a) [the recommended approach for assessing modifications](#);
 - (b) [the recommended application guidance](#); and
 - (c) [the expected benefits and costs](#).

The recommended approach for assessing modifications

39. We acknowledge IASB members’ concerns about prescribing the sequence in which an entity considers qualitative and quantitative factors. Nonetheless, we continue to think the IASB should clarify that the 10% test is not sufficient, on its own, to determine whether a modification is substantial. Without that clarification, accounting outcomes could, in practice, be driven solely by the 10% threshold.
40. We would have significant concerns with such outcomes for the following reasons:

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- (a) **arbitrary outcomes and structuring opportunities.** The 10% test uses an absolute threshold, which can produce outcomes that do not necessarily faithfully reflect the economic effect of a modification. For example, modified cash flows may fall just below the threshold even when the nature, timing or uncertainty of those cash flows is substantially different from the original cash flows, such as after a change in currency. Conversely, in some economic environments, such as periods of high interest rates, many modifications may exceed the threshold even when the contractual terms have not otherwise changed significantly relative to the original instrument.
- (b) **diversity in application.** As described in paragraph B3.3.6 of IFRS 9, the 10% test is a comparison between the discounted present value of the cash flows under the new terms and that of the remaining cash flows under the existing financial instrument. However, the outcome of that test can vary depending on which contractual cash flows are included. For example, different outcomes could arise depending on whether an entity includes cash flows arising from options or contingent terms, and how it reflects those cash flows in the calculation. This might encourage structuring opportunities to achieve a particular accounting outcome. As noted in paragraph 11, stakeholders have reported significant diversity in application of this test.
41. We note that most FICG members broadly supported the preliminary approach. As noted in paragraph 24, they supported:
- (a) emphasis on qualitative analysis of multiple factors; and
- (b) avoiding outcomes determined solely by the quantitative 10% test.
42. We therefore recommend the IASB propose that an entity determine whether a modification of a financial instrument is substantial by doing a holistic analysis of the changes in the contractual cash flows. In making this assessment, the entity considers qualitative and quantitative factors. The 10% test in paragraph B3.3.6 of IFRS 9 may

be used, such as when qualitative factors are inconclusive, but would not be sufficient on its own to determine whether a modification is substantial.

43. In other words, the 10% test may supplement or be used alongside the analysis of factors. However, an entity cannot conclude that a modification is substantial based solely on this test.
44. We also note that consistent with the definition of a modification, noted in paragraph 14, the assessment of whether a modification results in derecognition would be based on the contractual rather than on the expected cash flows of a financial instrument. As such contract modifications that do not change contractual cash flows but only affect the expected credit losses would not be subject of this assessment.

The recommended application guidance

45. We continue to think the application guidance accompanying the approach should include two components:
 - (a) a non-exhaustive list of qualitative factors; and
 - (b) the quantitative 10% test.

Qualitative factors

46. Consistent with FICG feedback, we continue to think the non-exhaustive list of qualitative factors should include the following:
 - (a) a change in currency, which would indicate that a modification is substantial.
 - (b) a change in cash flow characteristics that alters the assessment of SPPI for a financial asset, or whether an embedded derivative is separated from the host contract for a financial liability. Such changes would indicate a modification is substantial.

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- (c) a change in counterparty was intended to consider a change in borrower. Although a change in borrower counterparty would typically indicate a substantial modification because of changed credit risk profile, this may not be the case if the change is between entities under common control.
 - (d) the reason for the modification. A commercial renegotiation to reset the financial instrument to current market terms would indicate a substantial modification. In contrast, a modification attributable to the borrower's financial difficulty might indicate that the modification is not substantial.
47. Regarding the reason for a modification, we acknowledge the application challenge noted by a few FICG members, as described in paragraph 29. However, the recommended approach does not require assessing each contractual change in isolation. Instead, it requires a holistic assessment of the modified financial instrument, including whether the lender agreed to change contractual cash flows in a way it would not have accepted had the borrower not experienced financial difficulty in meeting its contractual obligations.
48. In response to FICG feedback on changes in the basis for determining interest, we continue to think that changing a contractual interest rate from fixed to floating, or vice versa, would result in a substantially different financial instrument because it changes the instrument's exposure to market risk. However, given the risk of unintended consequences from different interpretations of what constitutes a floating rate, we recommend excluding this factor from the list of qualitative factors.
49. We also recommend the IASB explain that:
- (a) the qualitative factors in the list are not intended to discuss all factors that may be relevant to the assessment of a modification nor specify the relative importance of the factors.
 - (b) analysis of modifications of financial instruments is a multifactor and holistic analysis; whether a specific factor is relevant, and its weight compared to other

factors, will depend on the type of instrument, characteristics of the financial instruments as well as the economic environment. An entity considers reasonable and supportable information that is available without undue cost or effort and that is relevant for the particular financial instrument being assessed.

Quantitative test

50. [Agenda Paper 11B](#) for the IASB's February 2026 meeting included a preliminary staff view that the quantitative 10% test should include only contractual changes not already considered in the qualitative assessment. We agree with IASB members that this approach would not be effective. We therefore recommend clarifying that the 10% test calculation reflects all contractual changes, regardless of whether a change has also been considered as part of the qualitative analysis.
51. We also recommend that the IASB clarify that:
- (a) as discussed at the IASB's February 2026 meeting, an entity accounts for any write-offs and other partial derecognition events in accordance with paragraph 5.4.4 of IFRS 9 before applying the quantitative test to assess whether a modification of a financial asset is substantial. This sequencing is important because a write-off affects the outcome of the modification assessment, particularly when a quantitative assessment is used.
 - (b) an entity applies a consistent basis when estimating contractual cash flows for the original and modified terms. In particular, an entity would be required to use consistent assumptions when considering terms such as extensions (for example, whether an existing extension option would be exercised) and associated fees and costs (that is, fees and costs incurred as part of the modification are included in the modified cash flows).

The expected benefits and costs

52. In our view, the recommended approach might strike an appropriate balance between the expected benefits and costs.¹ In particular, the recommendations might:
- (a) **address an identified gap in IFRS 9.** Stakeholders have reported application challenges because IFRS 9 does not currently provide explicit requirements or sufficient application guidance for determining whether a modification results in derecognition. Clarifying the requirements and providing application guidance for this important area of financial instruments accounting would help reduce diversity in practice and the related application and audit costs;
 - (b) **provide decision-useful information while preserving judgement.** The recommendations are based on ongoing stakeholder feedback about an approach that would be practical for preparers yet provide useful information to users of financial statements. They are designed to support consistent application while allowing entities to apply judgement to reflect the specific facts and circumstances of a modification. In particular:
 - (i) **useful information.** The approach sets a clear objective and requires a holistic assessment, including considering the reason for modification. It distinguishes modifications made to align with current market terms from those involving lender concessions. Indicative feedback from investors suggests this distinction provides useful information (see paragraph 35(b)); and
 - (ii) **pragmatic solution.** Providing a clear objective, supported by application guidance, should enable entities to apply judgement, when necessary, without incurring undue cost or effort. The combination of qualitative factors and quantitative test also supports this balance.

¹ Additional expected benefits and costs were discussed in [Agenda Paper 11B](#) of the IASB's February 2026 meeting.

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53. In terms of expected effects on current practice, we expect the clearer requirements to support more consistent application. The most significant changes are likely to affect entities that currently determine accounting outcomes using limited or no qualitative analysis—for example, by relying only on the 10% test. Entities that currently do not consider the qualitative factors described in the recommended application guidance might also need to change their practice.
54. We note the preference of investors for alignment between contractual cash flows and accounting (paragraph 35(a)). The IASB would be addressing this feedback:
- (a) by clarifying which modifications result in derecognition (as discussed in this paper). As noted in paragraph 8, derecognition accounting leads to a ‘new’ instrument with updated EIR, aligning contractual cash flows with accounting.
 - (b) by considering stakeholder feedback on the appropriate EIR for a modified financial instrument even when modification does not result in derecognition. As noted in Agenda Paper 11 for this meeting, the IASB will consider this matter at future meetings.