
Financial Instruments Consultative Group meeting

Date **May 2026**

Project **Amortised Cost Measurement**

Topic **Modification of financial instruments**

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Introduction

- The Amortised Cost Measurement project aims to make targeted improvements to IFRS 9 *Financial Instruments* to address application issues that are widespread and have a material effect on companies' financial statements.
- In December 2025, the Financial Instruments Consultative Group (FICG) provided high-level input on improving modification requirements in IFRS 9.
- In February 2025, the IASB tentatively decided to clarify [what constitutes a 'modification'](#) and require a [principles-based approach](#) to assess whether a modification of a financial instrument is substantial, resulting in derecognition.
- At this meeting, the IASB is seeking additional feedback from the FICG on these tentative decisions.

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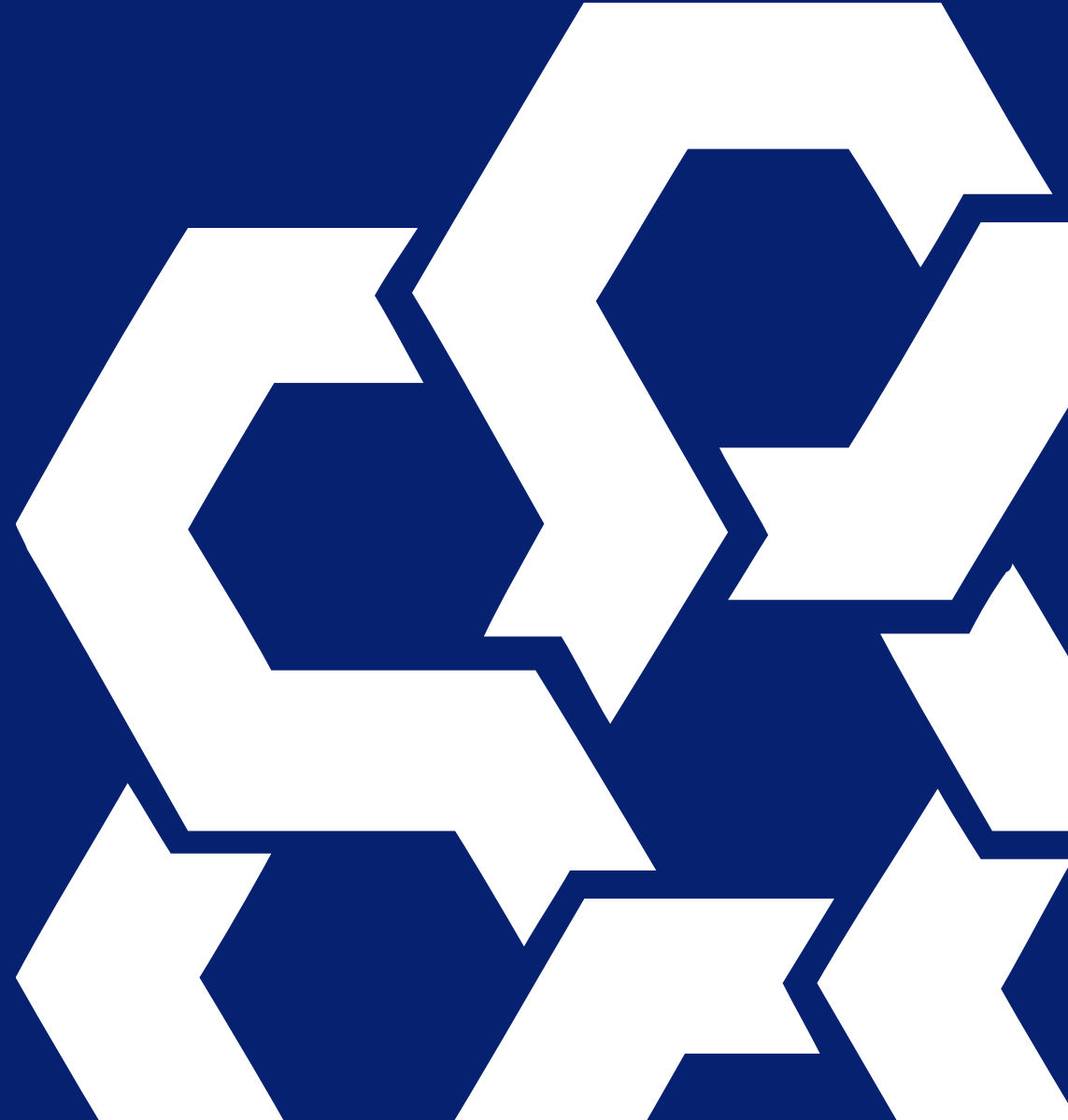
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Questions for FICG members



Questions for FICG members

1

Definition of a modification

(slide [11](#))

What is your view on the proposed definition of a modification:

a. Definition

Do you agree with the proposed definition of a modification of a financial asset and a financial liability, as described in slide [11](#)?

b. Scope

Are there any changes in contractual cash flows of a financial instrument that you would consider a modification but might not be captured by the proposed definition?

Questions for FICG members

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Approach and application guidance

(slides [13–18](#))

See [Appendix](#) for illustrative examples

What are your views on the proposed approach for assessing modifications of financial instruments. This could include:

a. Capturing the appropriate population

Would the proposed approach appropriately capture financial instruments that are substantially different, following a modification?

b. Requiring a qualitative assessment

Do you think it is appropriate for all modification assessments, including those for financial liabilities, to require analysis of qualitative indicators?

c. Non-exhaustive list of qualitative indicators

Are the qualitative indicators outlined in slides [15–16](#) appropriate? Are there any indicators that are unclear or missing?

d. Role of the 10 percent test

What role should the 10 percent quantitative test play in the modification assessment (see slide [17](#))?

Questions for FICG members

3

**Information
about
modifications**

(slides [13–18](#))

See [Appendix](#)
for illustrative
examples

From an investor perspective, what are your views on the proposed approach for assessing modifications of financial instruments. This could include:

a. Faithful representation

Do you think the proposed approach would result in outcomes that faithfully reflect when a financial instrument is substantially different after modification?

b. Disclosures

If the IASB finalises this approach are there any additional information you would need about modifications, and how would you use it? See slide [18](#) for a summary of existing disclosure requirements.

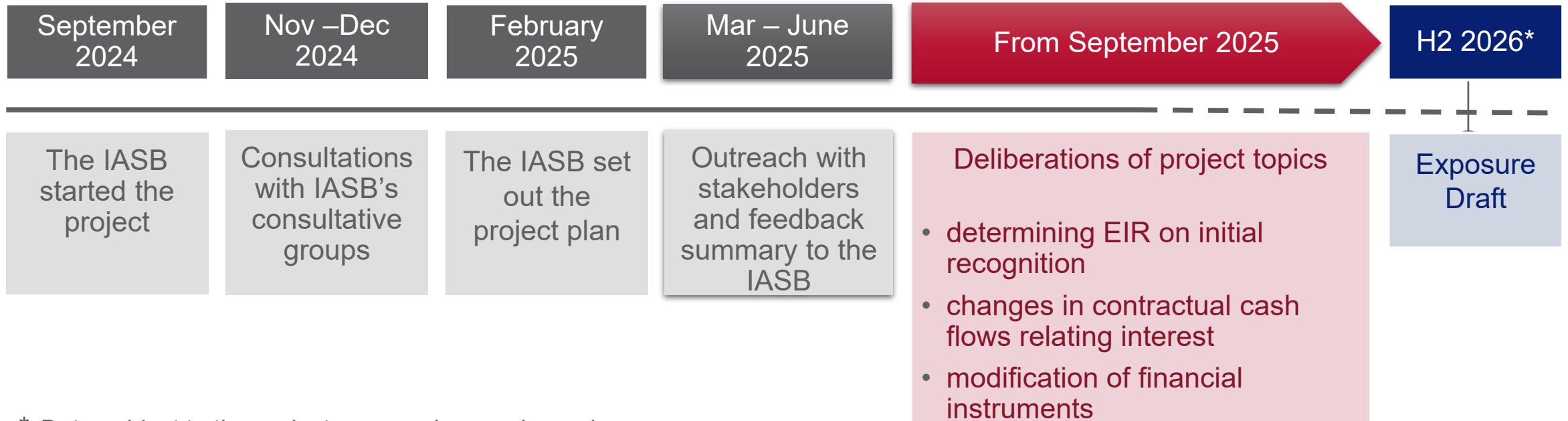
Project Overview

Project overview

Objectives



- to **address challenges** with applying amortised cost measurement requirements in IFRS 9
- to **improve information** provided to **users** of financial statements about financial instruments measured at amortised cost



* Date subject to the project progressing as planned

Definition of a modification



What constitutes a modification?

Current requirements

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)

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**

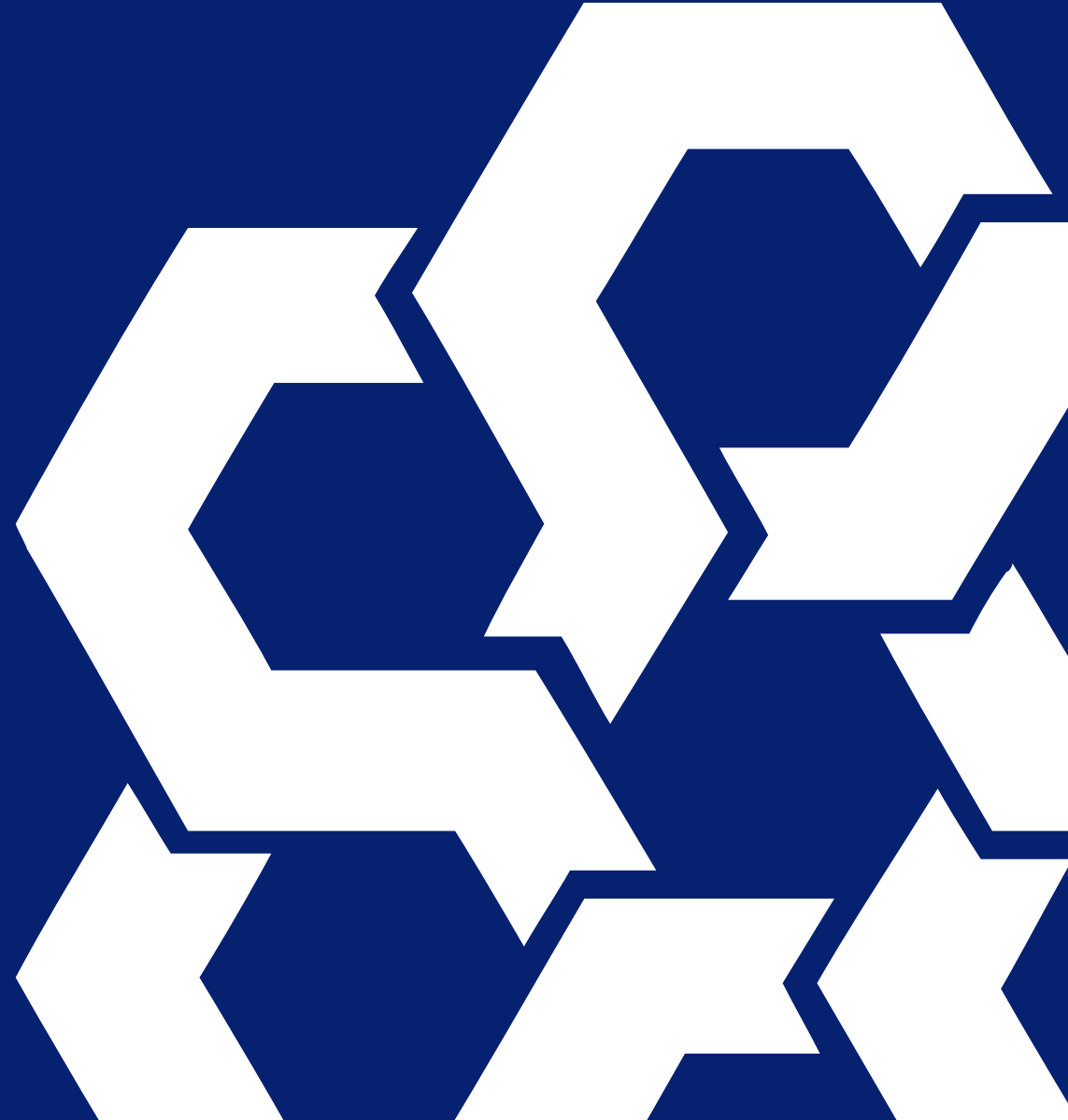
Proposed definition

Financial assets and liabilities

A modification of a financial asset or a financial liability is a change in contractual terms which **changes the nature, timing, amounts or uncertainty** of contractual cash flows



Approach for assessing modifications and application guidance



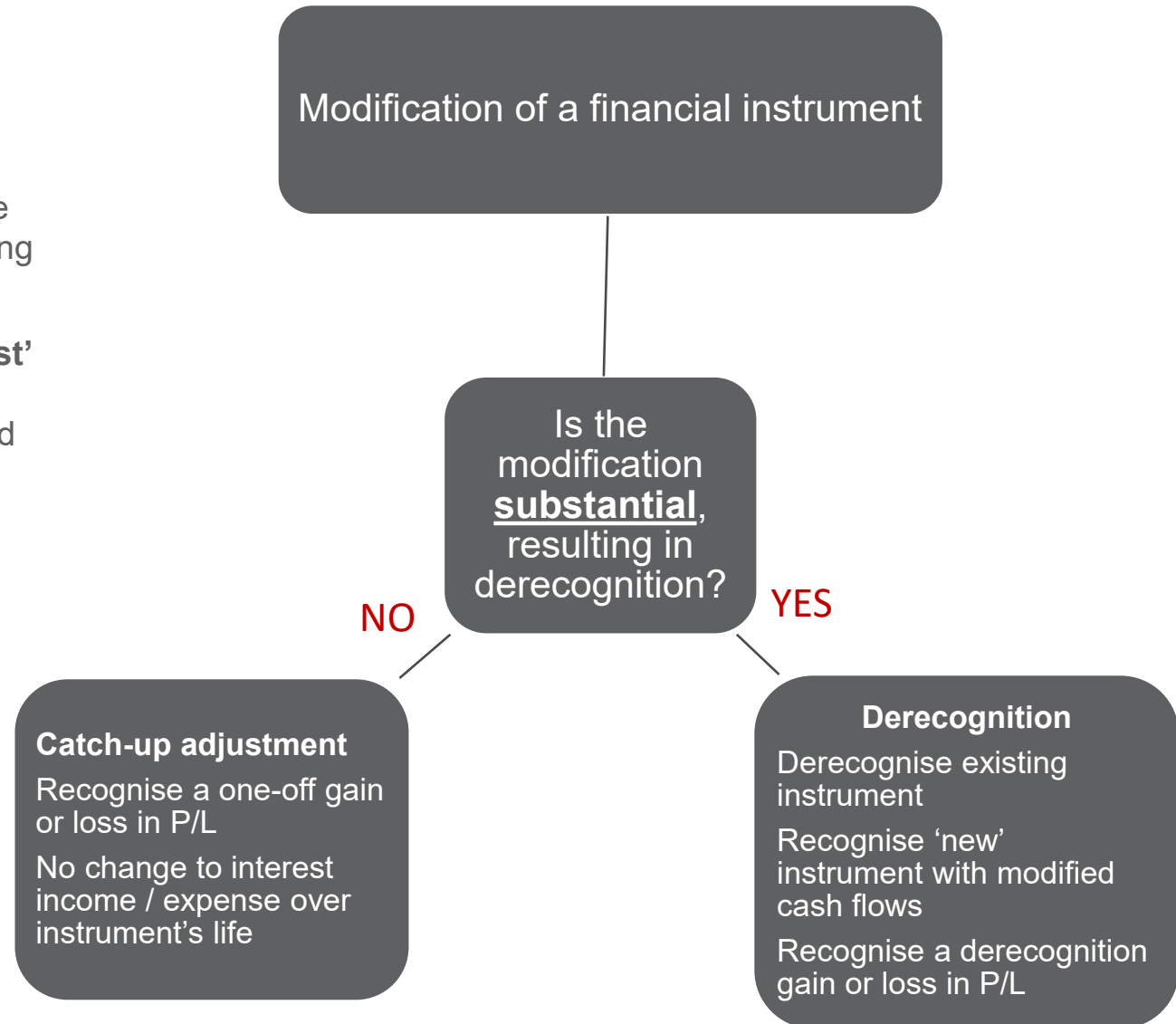
Current requirements

Financial liabilities

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

Financial assets

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



The proposed principles-based approach

Determine whether a modification is substantial...

...considering qualitative and quantitative indicators...

... account for a substantial modification as derecognition of the existing financial instrument and the recognition of a 'new' instrument.

The objective would be 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



An entity would be **required** to assess a modification using a **qualitative analysis** and, if outcome is inconclusive, supplement it with a **quantitative analysis**



An entity would account for a substantial modification by:

- derecognising the **existing** instrument
- recognising modified cash flows as a **'new'** instrument
- recognising a derecognition **gain or loss** in P/L

Same principle, applicable to both financial assets and financial liabilities

The IASB has not yet decided on these indicators

Qualitative indicators

The proposed approach would **require** analysis of **qualitative indicators** (ie any modification assessment must involve a qualitative analysis; outcomes cannot be determined by quantitative analysis alone)

Potential application guidance—qualitative indicators for financial assets and financial liabilities

The IASB staff is considering the following non-exhaustive list of factors, each of which may indicate that a modification is substantial:

- 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. a change in the **basis for determining interest** (such as a change from fixed rate to floating rate); and
- d. a change in contractual terms for commercial reasons that **effectively aligns the terms of the financial instrument to current market terms**. For example, extending the maturity or reducing the interest rate to align with prevailing market terms.

The IASB has not yet decided on these indicators

Additional qualitative indicators

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

Potential application guidance—additional qualitative indicators for financial assets

In addition to the qualitative indicators described in slide [15](#), the IASB staff is also considering the following indicator and contra-indicator in context of financial assets:

- **Solely of Payments of Principal and Interest (SPPI)**—if a modification causes the resulting contractual cash flows to no longer be consistent with SPPI condition in IFRS 9, or vice versa; that might indicate substantial modification
- **Economic rationale for modification**—if a modification is aimed at recovering the principal amount of a financial asset and hence the entity is granting concessions to a borrower it would not otherwise make (for example, forbearance); that might indicate the modification is not substantial

Some IASB members expressed concerns on the economic rationale as a contra-indication. In their view, considering the rationale behind a modification for financial assets would add a layer of subjectivity and reduces the symmetry in the approach for assessing modifications between financial assets and financial liabilities.

The IASB has not yet decided on these indicators

Quantitative indicator

The proposed approach would require a **supplementary** quantitative **10 percent test**, where qualitative analysis cannot determine the outcome.

(ie a modification assessment might include the quantitative 10 percent test; however, quantitative analysis alone)

Potential application guidance—quantitative indicator

- The quantitative analysis would be in the form of the existing '**10 percent test**'—the discounted present value of the cash flows under the new terms is at least 10 percent different from the discounted present value of the remaining cash flows of the original financial instrument (B3.3.6 of IFRS 9).
- Entities would be required to apply a consistent basis for estimating contractual cash flows in comparing pre- with post- modification cash flows. Specifically, **consistent estimation assumptions** in considering terms such as:
 - potential extensions (ie whether an existing extension option would be exercised)
 - associated fees and costs (ie fees and costs incurred as part of modification are considered part of the modified cash flows)

Summary of disclosure requirements

IFRS 7 *Financial Instruments: Disclosures* requires **disclosures** about **modified financial assets** that have not resulted in derecognition, including the following:

- information to enable users to understand the nature and effect of modifications of contractual cash flows on these modified financial assets and the effect of such modifications on the measurement of ECL:
 - the amortised cost before modification and any net modification gain or loss for assets modified while measured at an amount equal to lifetime ECL
 - the gross carrying amount at period end of assets modified while at lifetime ECL that reverted to 12-month ECL during the period
- an explanation of significant changes in gross carrying amount and how these contributed to changes in the loss allowance, including relevant qualitative and quantitative information about the modification of financial assets that have not resulted in derecognition
- how modification requirements in paragraph 5.5.12 of IFRS 9 are applied, including how an entity:
 - assesses whether credit risk of a modified financial asset has improved so that ECL reverts to being measured at an amount equal to 12-month ECL; and
 - monitors subsequent deterioration requiring a return to lifetime ECL.

No specific disclosure requirements in IFRS 7 about **modified financial liabilities**

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