IFRS Accounting

Staff paper

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IASB® meeting

Date	**September 2026**
Project	**Amortised Cost Measurement**
Topic	**EIR of a modified financial instrument**
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Objective and structure of the paper

1. The objective of this paper is to consider application issues raised by stakeholders about accounting for the effective interest rate (EIR) of a modified financial instrument, when a modification does not result in derecognition. The paper also discusses potential approaches to address those issues and asks the IASB whether it agrees with the staff recommendation.

2. The paper is structured as follows:

   (a) summary of staff recommendation and question for the IASB;

   (b) applicable requirements and issues;

   (c) reminder of the IASB's discussion in April 2026; and

   (d) staff analysis and recommendation.

3. This paper has two appendices:

   (a) Appendix A—Overview of IFRS 9 requirements; and

   (b) Appendix B—Illustrative Example.

Summary of staff recommendation and question for the IASB

4. We recommend that the IASB proposes amending IFRS 9 *Financial Instruments* to require that, when a modification of a financial instrument does not result in derecognition, an entity adjusts the EIR to reflect a change in the contractual interest rate that provides consideration for the time value of money or for credit risk.

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

Applicable requirements and issues

Applicable requirements

5. Paragraphs 5.4.3 and B5.4.6 of IFRS 9 set out the requirements for modification of financial assets and modification of financial liabilities that do not result in derecognition (emphasis added):

> 5.4.3 When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset in accordance with this Standard, an entity shall recalculate the gross carrying amount of the financial asset and shall recognise a modification gain or loss in profit or loss. The gross carrying amount of the financial asset shall be recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's **original effective interest rate**… .
>
> B5.4.6 If an entity revises its estimates of payments or receipts (excluding modifications in accordance with paragraph 5.4.3 and changes in estimates of expected credit losses), it shall adjust the gross

> carrying amount of the financial asset or amortised cost of a financial liability (or group of financial instruments) to reflect actual and revised estimated contractual cash flows. The entity recalculates the gross carrying amount of the financial asset or amortised cost of the financial liability as the present value of the estimated future contractual cash flows that are discounted at the financial instrument's **original effective interest rate** …. The adjustment is recognised in profit or loss as income or expense.

6. Following a modification that does not result in derecognition, interest revenue or interest expense continues to be recognised using the **original EIR** applied to the revised gross carrying amount of a financial asset or to the revised amortised cost of a financial liability, respectively.

7. Appendix A of this paper illustrates these requirements using a flowchart.

Application issues

8. During the post-implementation reviews of IFRS 9, stakeholders asked the IASB to clarify how a modification of a financial instrument affects the EIR of that instrument. In particular, they asked whether an entity adjusts the EIR after a modification that does not result in derecognition. A common example was a modification that changes the contractual interest rate from fixed to variable rate.

9. Some stakeholders, including preparers, suggested that the IASB reconsider the IFRS 9 requirements. Although IFRS 9 requires an entity to continue applying the original EIR when a modification of a financial asset or financial liability does not result in derecognition, those stakeholders believe that outcome does not provide useful information.

10. In particular, they said that maintaining the original EIR would result in:

   (a) interest revenue or interest expense continuing to be recognised using the pre-modification EIR. As a result, reported interest would not accurately reflect the return or cost that the instrument generates after its modification.

   (b) a catch-up adjustment being recognised immediately in profit or loss as modification gain or loss, even when the modification only changes the contractual interest rate applicable to the remaining life of the instrument.

   (c) misalignment between the contractual interest rate and the EIR which increases operational costs in terms of maintenance of information systems.

Reminder of the IASB's discussion in April 2026

11. At its April 2026 meeting, the IASB tentatively decided to clarify which re-estimations of expected contractual cash flows arising from existing contractual terms are accounted for by adjusting the EIR. Specifically, the IASB tentatively decided to propose amending paragraph B5.4.5 of IFRS 9 to require that an entity adjust the EIR to account for a re-estimation of the contractual cash flows of a financial asset or a financial liability that provides consideration for the time value of money or credit risk.

12. The IASB made this tentative decision in response to stakeholder feedback similar to that described in paragraphs 9–10 of this paper. The IASB's decision was informed by stakeholders' input, including investors' views, about the reporting outcome that provides more decision-useful information when contractual interest rates change.

13. In particular, some investors told the IASB that accounting for changes in contractual interest rates by adjusting the EIR, in general, provides more useful information in the statement of profit or loss than recognising a catch-up adjustment. That is because, adjusting the EIR results in the effect of such a change being recognised as interest revenue or expense in the period to which it relates, whereas a catch-up adjustment results in a one-off income or expense (often reported as a gain or loss).

14. They explained that they use interest revenue or interest expense information in the statement of profit or loss, which is calculated using the effective interest method, to predict an entity's interest cash flows for the future. Therefore, the information needs to be complete, and interest needs to be recognised in the period to which it relates.

15. In this context, they said that keeping the original EIR and recognising a catch-up adjustment—and consequently, recognising interest revenue or expense using the original EIR even when the contractual interest rate has changed—should be limited to transactions that are not business as usual. In their view, a catch-up adjustment is a useful mechanism to flag information that is out of the ordinary, warranting further enquiry.

16. Agenda Paper 11 of the IASB's April 2026 meeting provides the detailed feedback which informed the IASB's tentative decision noted in paragraph 11 of this paper.

17. The IASB's tentative decision in April 2026 and the investor feedback summarised in paragraphs 11–15 of this paper was made in the context of re-estimations of contractual cash flows that arise from existing contractual terms of a financial instrument. However, the basis for that decision is also relevant when the contractual interest rate is changed by a modification of contractual terms. In both cases:

    (a) **stakeholders' feedback is similar**. It suggests that, in general, keeping the original EIR when there has been a change in contractual interest rate might not provide most useful information.

    (b) **the economic effects are similar**. In both cases, expected cash flows change, and the holder receives or the issuer pays revised amounts, contractually described as interest.

Staff analysis and recommendation

18. This paper considers whether an entity could revise the EIR of a modified financial instrument even when the modification does not result in derecognition. This issue is therefore closely linked to the assessment of whether a modification is substantial and therefore results in derecognition. In particular, it depends on which modifications of contractual cash flows are regarded as substantial.

19. At its June 2026 meeting, the IASB tentatively decided to propose that assessing whether a modification of a financial instrument is substantial and therefore results in derecognition would be based on a holistic analysis of changes in contractual cash flows, considering both qualitative and quantitative factors.

20. One of the proposed factors to consider is the reason for the modification. A commercial renegotiation to reset the financial instrument to the current market terms would indicate that the modification is substantial. Consequently, the existing instrument would be derecognised, and the modified cash flows would be recognised as a 'new' instrument with a revised EIR. Conversely, a modification attributable to the borrower's financial difficulty would suggest the modification is not substantial.

21. In light of the IASB's June 2026 decisions, some fact patterns for which stakeholders might have originally raised the question about may already be addressed. However, the issue may remain relevant in other cases. The IASB should therefore consider clarifying whether an entity adjusts the EIR or continues applying the original EIR for a modified financial instrument that does not result in derecognition.

22. The IASB could consider the following two approaches:

    (a) Approach A—Keep the original EIR; and

    (b) Approach B—Adjust the EIR for consideration of time value of money or credit risk.

Approach A—Keep the original EIR

23. Under Approach A, the IASB would not amend IFRS 9. Applying current requirements in IFRS 9, when a modification of a financial asset or financial liability does not result in derecognition, an entity continues to apply the original EIR. That is, it maintains the EIR of a financial instrument that existed prior to its modification.

24. The mechanics of Approach A could be summarised as follows:

    (a) carrying amount of the financial instrument is adjusted to an amount equal to the revised cash flows discounted at the **original EIR**.

    (b) the resulting adjustment is recognised as a modification gain or loss. As set out in Appendix A of IFRS 9, such a gain or loss is calculated as the present value of the estimated future cash payments or receipts through the expected life of the modified financial instrument, discounted at:

        (i) the financial instrument's original EIR (or the original credit-adjusted EIR for purchased or originated credit-impaired financial assets); or

        (ii) when applicable, the revised effective interest rate calculated in accordance with paragraph 6.5.10 of IFRS 9.

    (c) fees or costs incurred as part of the modification adjust the carrying amount of the modified financial instrument and are amortised over its remaining term. [1]

25. See paragraphs B4–B5 of Appendix B of this paper for an example illustrating the mechanics of Approach A.

26. The main advantages of Approach A are that:

    (a) **it is conceptually coherent**. Approach A is based on the view that, when a modification of a financial instrument is not substantial and does not result in derecognition, the existing financial instrument continues to be recognised.

[1] Agenda Paper 11C of this IASB meeting discusses the meaning of 'fees or costs incurred' and related application issues.

Therefore, Approach A provides a clear distinction between continuation accounting and derecognition accounting because the existing EIR also continues to apply.

(b) **it provides complete information about the gain or loss from modification**. Unlike changes in cash flows that arise from activation of existing contractual terms, a modification involves the parties changing the contract and may transfer value between them at the modification date. Approach A captures the full effect of that value transfer immediately as a modification gain or loss. In some cases, this may provide useful information. For example, if a modification reduces the contractual interest rate as concession because of the borrower's financial difficulty, Approach A would faithfully depict that part of the effect is an immediate loss of previously expected economic return, rather than simply lower interest for future periods.

(c) **it is operationally simpler and consistent with existing IFRS 9 mechanics**. Retaining the original EIR would avoid the need for entities to perform additional analysis of the nature of changes in contractual cash flows, such as to distinguish changes that represent consideration for the time value of money or credit risk from other changes to the contractual interest rate.

27. Although Approach A would not add new requirements, it would likely change current practice. Based on the findings from our 2025 outreach, entities generally adjust the EIR to reflect most changes in contractual interest rates, even when a modification does not result in derecognition.

Approach B—Adjust the EIR for consideration of time value of money or credit risk

28. Under Approach B, the IASB would extend the rationale for its April 2026 tentative decision to modifications that do not result in derecognition. An entity would adjust the EIR to reflect a change in the contractual interest rate that provides consideration for the time value of money or credit risk, before calculating any modification gain or loss. This approach would align the accounting for changes in contractual interest rates, regardless of whether the change arises from an existing contractual term or a contract modification.

29. When a modification solely changes the contractual interest rate to provide consideration for the time value of money or for credit risk, the mechanics of Approach B could be summarised as follows:

    (a) a revised EIR is determined that discounts the revised contractual cash flows to the carrying amount of the financial instrument immediately before the modification.

    (b) accordingly, no modification gain or loss is recognised in profit or loss for such a modification.

    (c) fees or costs incurred are amortised over the remaining life of the modified financial instrument.

30. When a modification changes both the contractual interest rate and other contractual terms, Approach B would require an entity to identify and account for:

    (a) the change in the contractual interest rate that provides consideration for the time value of money or credit risk; separately from

    (b) the other cash flow changes arising from the modification.

31. See paragraphs B6–B8 of Appendix B of this paper for an example illustrating the mechanics of Approach B.

32. The main advantages of Approach B are that:

(a) **it reflects economically similar repricing consistently, regardless of legal form**. If a contractual interest rate changes to provide consideration for the time value of money or credit risk, Approach B would reduce accounting differences that depend only on whether the change arises from an existing contractual term or a contract modification.

(b) **it is expected to provide more decision-useful information about interest revenue and interest expense**. Updating the EIR would result in interest being recognised using the revised contractual cash flows in the periods to which that interest relates. Reported interest would therefore reflect the return or cost that the modified financial instrument contractually generates. As discussed in paragraphs 13–15 of this paper, some investors said that such information would be more useful because they use interest revenue and interest expense as a run-rate measure in forecasting future interest cash flows. Approach B would also avoid some counterintuitive gains or losses that would occur applying Approach A. For example, applying Approach A:

  (i) if the contractual rate decreases, the entity recognises an immediate modification loss but continues to recognise interest at the original higher EIR; and

  (ii) if the contractual rate increases, the entity recognises an immediate modification gain but continues to recognise interest at the original lower EIR.

  Furthermore, applying Approach B, changes other than those related to the time value of money or for credit risk would still be recognised immediately as a modification gain or loss.

(c) **it could reduce operational costs.** Revising the EIR to account for the time value of money or credit risk consideration would better align the EIR with the contractual interest rate. Many prepares said that this would reduce operational costs involved with maintaining information systems. Although distinguishing between changes that represent consideration for the time value of money or credit risk from other changes to the contractual interest rate would add a degree of operational complexity, we note that this approach might cause less change in practice (see paragraph 27 of this paper).

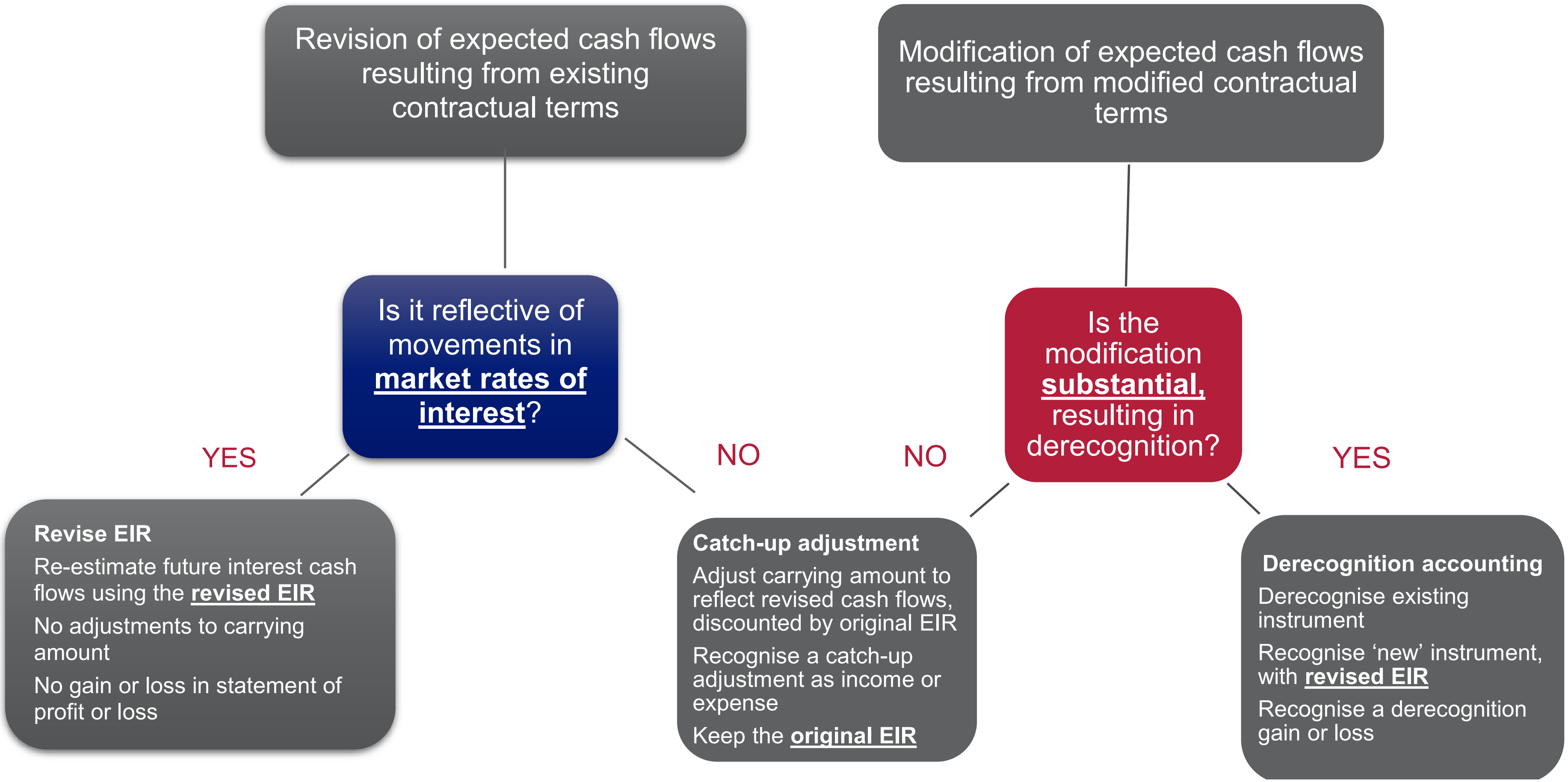
33. Regarding expected effects on current practice, for the reasons noted in paragraph 27 of this paper, the extent of change is expected to be less significant than under Approach A.

Staff recommendation

34. Based on the analysis in this paper, on balance, the staff recommend Approach B. In our view, Approach B would provide more useful information to investors for the reasons discussed in paragraph 32 of this paper. Likewise, it would address preparers' concerns summarised in paragraph 10 of this paper. As a result, we think that the expected benefits from Approach B would exceed the expected operational costs.

35. We therefore recommend that the IASB proposes amending IFRS 9 to require that, when a modification of a financial instrument does not result in derecognition, an entity adjusts the EIR to reflect a change in the contractual interest rate that provides consideration for the time value of money or for credit risk.

Appendix A—Overview of IFRS 9 requirements



In April 2026, the IASB tentatively decided to propose amending IFRS 9 to clarify how to determine which revisions of contractual interest rates adjust the EIR.

In June 2026, the IASB tentatively decided to propose amending IFRS 9 to clarify how to determine whether a modification of a financial instrument results in derecognition.

Appendix B—Illustrative example

B1. In this Appendix, we provide an example to illustrate the mechanics of Approach A and Approach B, as discussed in this paper.

Fact pattern

B2. An entity holds a financial asset with a gross carrying amount before modification of **CU100,000**, a contractual interest rate of **4%** (also the original EIR), and remaining contractual term of **3 years**. The financial asset contract is subsequently modified to:

(a) increase the contractual interest rate to **5%**, to compensate the lender for the time value of money and the borrower's increased credit risk; and

(b) extend the remaining contractual term to **5 years**.[2]

B3. The entity determines that this modification is not substantial and therefore does not result in derecognition of the financial asset.

Approach A

B4. Under Approach A, the entity would account for the modification as follows:

Step	Mechanics under Approach A	Illustrative amounts *(rounded to the nearest unit)*
1. Remeasure the modified asset	The entity remeasures the modified financial asset using the revised contractual cash flows, discounted at the **original EIR**.	**Revised cash flows** CU5,000 in years 1–5 Repayment of CU100,000 in year 5 **Present value at 4%** **CU104,452**
2. Recognise the modification gain	The entity compares the carrying amount immediately before the modification with the remeasured carrying amount and recognises the difference immediately in profit or loss.	**Modification gain** **CU104,452 − CU100,000** **= CU4,452**
3. Recognise interest after modification	After the modification, the entity recognises interest revenue by applying the original EIR to the revised carrying amount over the remaining contractual term.	**Annual interest at original EIR** Year 1 **CU4,178** Year 2 **CU4,145** Year 3 **CU4,111** Year 4 **CU4,075** Year 5 **CU4,039**

[2] For simplicity, assume there are no costs or fees in this example.

B5. This example illustrates that, under Approach A, the full effect of the modification is measured using the original EIR. As a result, the increase in contractual interest rate and the extension of the contractual term are reflected through an immediate modification gain, while interest revenue after modification continues to be recognised using the original lower EIR.

Approach B

B6. Under Approach B, the entity would account for the modification as follows:

Step	Mechanics under Approach B	Illustrative amounts *(rounded to the nearest unit)*
1. Identify the interest-rate change	The entity identifies separately the change in the contractual interest rate from **4% to 5%**, which provides consideration for the time value of money and the borrower's increased credit risk. The extension of the remaining contractual term from **3 years to 5 years** is identified as the other change in contractual cash flows.	
2. Determine the revised EIR	The entity first determines a revised EIR using the revised contractual interest cash flows, assuming the original remaining contractual term of three years is unchanged.	**Cash flows over original term** CU5,000 in years 1–2 CU105,000 in year 3 **Revised EIR** **5%**
3. Remeasure the modified asset	The entity then remeasures the modified financial asset using the full revised contractual cash flows, discounted at the revised EIR.	**Revised cash flows** CU5,000 in years 1–5 Repayment of CU100,000 in year 5 **Present value at 5%** **CU100,000**
4. Recognise the modification gain or loss	Because the revised EIR reflects the change in the contractual interest rate, no modification gain or loss arises from that change.	**Modification gain or loss** **CU100,000 − CU100,000** **= CU nil**
5. Recognise interest after modification	After the modification, the entity recognises interest revenue by applying the revised EIR over the remaining contractual term.	**Annual interest at revised EIR** Year 1 **CU5,000** Year 2 **CU5,000** Year 3 **CU5,000** Year 4 **CU5,000** Year 5 **CU5,000**

B7. This example illustrates that, under Approach B, the change in the contractual interest rate that provides consideration for the time value of money or credit risk is reflected prospectively through the revised EIR. That is, interest revenue after modification would be recognised using the revised higher EIR.

B8. Furthermore, in this example, the other change in contractual cash flows—the extension of the remaining contractual term from 3 years to 5 years—does not result in a modification gain or loss. However, other changes in contractual cash flows could result in a modification gain or loss, which would be recognised immediately in profit or loss.