EAA–EFRAG–IASB workshop

Date  30 June 2023
Project  PIR of IFRS 9 Financial Instruments—Impairment
Topic  Request for Information
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Introduction
The IFRS 9 journey

- **Post-financial crisis**
- **IFRS 9 issued**
- **IFRS 9 effective**
- **PIR of IFRS 9—Classification and Measurement started**
- **PIR of IFRS 9—Impairment started**

**2009**
- IFRS 9 developed in three phases
- IASB accelerates project to improve accounting for financial instruments, including address the ‘too little, too late’ problem

**2014**
- IFRS 9 issued

**2018**
- IFRS 9 effective

**2020**
- PIR of IFRS 9—Classification and Measurement started

**2022**
- PIR of IFRS 9—Impairment started

**Completed in 2022**
- IASB concluded that the requirements are generally working well but some clarifications are needed.
- IASB proposed amendments considering the stakeholders’ feedback

**PIR of IFRS 9—Hedge accounting will follow**
A forward-looking impairment model

Addressing ‘too little, too late’

During the financial crisis, many stakeholders, including the G20, highlighted the delayed recognition of credit losses as weakness in the accounting standards at the time.

In response, the IASB developed an expected credit losses impairment model that provides useful information to investors about expected credit losses to reflect changes in credit risk.

<table>
<thead>
<tr>
<th>Issues with IAS 39 impairment model</th>
<th>Solutions in IFRS 9</th>
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<tbody>
<tr>
<td>Delayed recognition of credit losses until evidence of a trigger event</td>
<td>Expected credit losses recognised throughout instrument’s life. No need for a trigger event</td>
</tr>
<tr>
<td>Credit losses reflective of past events and current conditions—future losses not considered</td>
<td>More timely recognition of expected credit losses based on historical, current and forecast information</td>
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<tr>
<td>Multiple impairment models for financial instruments</td>
<td>Same impairment model is applied to all financial instruments that are subject to impairment accounting</td>
</tr>
<tr>
<td>Limited relevant information about changes in credit risk</td>
<td>Improved disclosures explaining the basis of expected credit losses and of changes in credit risk</td>
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Post-implementation review of IFRS 9—Impairment

**Objective**
Opportunity to assess the effects of the new requirements on companies, investors, auditors and regulators

**Scope**
- Impairment requirements in IFRS 9
- Credit risk disclosures in IFRS 7

**Request for information**
- Published: 30 May 2023
- Comments due: 27 September 2023
Request for Information
Request for Information—what topics are being examined?

1. Overall—impairment
2. General approach to recognising ECL
3. Determining significant increases in credit risk
4. Measuring ECL
5. Simplified approach for trade and lease receivables
6. Purchased or originated credit-impaired financial assets
7. Interaction of ECL requirements with other requirements
8. Transition
9. Credit risk disclosures
10. Other matters
Request for Information—what questions is the IASB asking?

1. Objectives
   - Are there fundamental questions (fatal flaws) about the clarity and suitability of the core objectives or principles in the impairment requirements?

2. Benefits
   - Are the benefits to users of financial statements from resulting information significantly lower than expected? (or there is significant diversity in application)

3. Costs
   - Are the costs of applying the requirements greater than expected?

Can the requirements be applied consistently?
Credit risk disclosures
Credit risk disclosures—objectives

Objective-based disclosure requirements enable users to understand the effect of credit risk on the amount, timing and uncertainty of future cashflows.

Entities’ credit risk management practices and how they relate to recognition and measurement of ECL

Quantitative and qualitative information to evaluate amounts in the financials arising from ECL

Entities’ credit risk exposure including significant credit risk concentrations
IFRS 7 approach—disclosure objectives and minimum requirements

**Quantitative**
- Reconciliation of loss allowance showing key drivers for change
- Explanation of gross carrying amounts showing key drivers for change
- Gross carrying amount per *credit risk grade or delinquency*
- Write-offs, recoveries, modifications

**Qualitative**
- Inputs, assumptions and techniques used to estimate expected credit losses (and changes in techniques)
- Inputs, assumptions and techniques used to determine ‘significant increase in credit risk’ and ‘default’
- Inputs, assumptions and techniques used to determine ‘credit impaired’
- Write off policies, modification policies, collateral
Rationale for the IFRS 7 approach

• The IASB included a combination of disclosure objectives and minimum requirements to allow an entity to decide, in the light of its circumstances, how much detail to disclose, how much emphasis to place on different aspects of the disclosure requirements.

• The approach aimed to strike the right balance between:
  - **comparable information**—that is, the same requirements apply to all entities so that users receive comparable information about the risks to which entities are exposed.
  - **relevant information**—that is, the disclosures provided depend on the extent of an entity’s use of financial instruments and the extent to which it assumes associated risks, aimed to avoid disclosure overload.
## Preliminary feedback

<table>
<thead>
<tr>
<th>Topic</th>
<th>Description</th>
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<tbody>
<tr>
<td>Determining significant increases in credit risk (SICR)</td>
<td>- Insufficient or lack of entity-specific information about (1) what is deemed a SICR and (2) how ‘default’ is defined</td>
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<tr>
<td>Post-model adjustments or management overlays</td>
<td>- Lack of entity-specific information about the recognised amounts, rationale and risks covered by the entity’s post-model adjustments</td>
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<tr>
<td>Reconciliation from the opening balance to the closing balance of ECL</td>
<td>- Gross carrying amounts not included in the reconciliation table, making it hard to understand the key drivers for movements in ECL during the period</td>
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| Sensitivity analysis *(not a requirement in IFRS 7)* | - Only some entities provide this analysis  
- Even when analysis is provided, difficult to understand ultimate effect |