IFRS Accounting

Staff paper

Agenda reference: 27

IASB® meeting

Date	**February 2023**
Project	**Post-implementation Review of IFRS 9—Impairment**
Topic	**Cover note**
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Purpose and structure

1. This cover note provides:

   (a) background on the International Accounting Standards Board's (IASB's) previous discussions about the post-implementation review (PIR) of the expected credit losses (ECL) requirements in IFRS 9 *Financial Instruments*;

   (b) an overview of the outreach activities carried out in phase 1 of the PIR;

   (c) an overview of the papers for this meeting; and

   (d) an outline of next steps.

Background

2. In November 2021 the IASB decided to begin the PIR of the ECL requirements in IFRS 9 in the second half of 2022. In July 2022, the IASB discussed the plan for phase 1 of the PIR (identification of matters to be examined).

3. Between September 2022−January 2023, IASB members and staff have been performing outreach. The purpose of gathering this feedback was to assist the IASB in identifying matters to gather further information on in the form of a request for information (RFI). The IASB will analyse responses to the RFI in phase 2 of the PIR

to assess whether the ECL requirements in IFRS 9 are working as intended, and what, if any, actions the IASB will take as a result of the findings of the PIR.

4. Consistent with the requirements set out in the *Due Process Handbook* and the summary on the Post-implementation Review project page, the objective of a PIR is to assess whether the effects of applying the new requirements on users of financial statements, preparers, auditors and regulators are as intended when the IASB developed those new requirements.

5. To meet this objective, the questions asked to stakeholders during phase 1 outreach of this PIR were set, consistent with the PIR framework, in context of the IASB assessing whether there is *evidence* that:

   (a) there are fundamental questions (ie 'fatal flaws') about the clarity and suitability of the core objectives or principles in the ECL requirements;

   (b) the benefits to users of financial statements of the information arising from applying the ECL requirements are significantly lower than expected (for example, there is significant diversity in application); or

   (c) the costs of applying the ECL requirements and auditing and enforcing their application are significantly greater than expected (or there is a significant market development since the requirements were issued for which it is costly to apply them consistently).

Outreach in phase 1 of the PIR

6. During phase 1 outreach we attended 30 meetings and spoke to a wide range of stakeholders from across the world including banks, corporates, investors and analysts, accounting firms, regulators, standard setters, and academics.

7. As part of this outreach, we spoke to the following consultative bodies:

   (a) Accounting Standards Advisory Forum;

   (b) Capital Markets Advisory Committee;

(c) Global Preparers Forum; and

(d) Islamic Finance Consultative Group.

8. In addition, we attended meetings targeted to particular stakeholders, including a meeting in November 2022 with investors and analysts that focus on financial institutions and other meetings targeting corporate preparers of different industries held during outreach period.

9. We asked stakeholders to consider the questions set out in paragraph 5 of this paper in relation to each of the following areas of the requirements:

(a) the general approach to recognition of ECL;

(b) determining significant increases in credit risk;

(c) measurement of ECL;

(d) purchased or originated credit-impaired financial assets;

(e) simplified approach for trade receivables, contract assets and lease receivables;

(f) loan commitments and financial guarantee contracts;

(g) interaction between ECL and other requirements;

(h) transition; and

(i) disclosures

10. We also asked particular stakeholders additional questions which could be more relevant to those groups. For example, for the October 2022 Capital Markets Advisory Committee (CMAC) meeting, we asked whether applying the credit risk disclosure requirements in IFRS 7 *Financial Instruments: Disclosures* results in useful information to users of financial statements about ECL amounts, including the main judgements and estimates involved in measurement of ECL. See Agenda Paper 4 of the October 2022 CMAC meeting for specific questions asked in phase 1 outreach.

Papers for this meeting

11. The papers for this meeting are as follows:

    (a) *Agenda Paper 27A: Analysis of outreach feedback—General model*

    This paper summarises general feedback on the application of the ECL requirements as well as specific feedback regarding the general approach to recognition of ECL, determining significant increases in credit risk and measurement of ECL.

    (b) *Agenda Paper 27B: Analysis of outreach feedback—Other areas*

    This paper provides the analysis of feedback for the remaining areas of the ECL requirements in IFRS 9 such as purchased or originated credit-impaired financial assets; simplified approach for trade receivables, contract assets and lease receivables; loan commitments and financial guarantee contracts; interaction between ECL and other requirements; and transition.

    (c) *Agenda Paper 27C: Analysis of outreach feedback—Disclosures*

    This paper analyses feedback from outreach related to the credit risk disclosure requirements in IFRS 7.

    (d) *Agenda Paper 27D: Review of academic literature*

    This paper provides a summary of academic literature review on the application of ECL requirements.

Next steps

12. The IASB will be asked to approve the publication of, and set a comment period for, the RFI at a future meeting—after IASB members have reviewed a pre-publication draft.

13. The staff expect the RFI will be published around the end of May 2023.