FASB | IASB Education Meeting

Date	**29 September 2023**
Project	**Amendments to the Classification and Measurement of Financial Instruments**
Topic	**ESG-linked financial instruments**
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Current IFRS 9 requirements

Financial assets (Section 4.1 of IFRS 9)

Measurement determined by

- business model
- contractual cash flow characteristics

No separation of embedded derivatives. Instruments can only be measured at amortised cost or FVOCI if cash flows on the instrument in its entirety represent solely payments of principal and interest (SPPI)

Financial liabilities (Sections 4.2 & 4.3 of IFRS 9)

Need to consider embedded derivatives

An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate […] or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Embedded derivatives are separated from the host and accounted for as a derivative unless it is closely related to the host contract or the hybrid contract as a whole is measured at FVPL

Feedback received in PIR of IFRS 9—Classification and Measurement

Financial assets[1]

Most respondents asked for additional application guidance in IFRS 9 to assess whether the contractual cash flows of financial assets with ESG-linked features are SPPI and therefore can be measured at amortised cost or FVOCI

Financial liabilities

Respondents did not consider further guidance a priority. A few respondents observed that they consider ESG-linked features in financial liabilities to be non-financial variables specific to a party to the contract and are therefore not considered to be embedded derivatives

[1] Also see AP3B of the April 2022 IASB meeting

Exposure Draft published in March 2023

Financial assets

The IASB proposed

- clarification of 'basic lending arrangement '
- clarification of assessing terms that change the timing or amount of contractual cash flows
- examples to illustrate the application of these principles to assets with ESG-linked features
- disclosure requirements for instruments with changes in cash flows linked to a contingent event specific to the debtor

Financial liabilities

- No amendments proposed to classification and measurement requirements.
- Proposed disclosure requirements also applicable to financial liabilities.

Feedback on proposals in Exposure Draft

Financial assets

Respondents supported the IASB's aims but expressed concerns about some aspects of the proposals (for example, concerns that the requirement for a contingent event to be specific to the debtor would exclude group-wide ESG targets).

Respondents also expressed concerns about the scope of the proposed disclosure requirements.

Financial liabilities

Respondents expressed concerns about the scope of the proposed disclosure requirements, including some respondents recommending that financial liabilities should be excluded from the scope

Next steps

- Summary of feedback discussed at the September 2023 IASB meeting
- The IASB will analyse feedback and redeliberate on proposed amendments

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