IFRS Accounting

Staff paper

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Topic	**Loan commitments and financial guarantee contracts**
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Introduction

1. The purpose of this paper is to analyse the feedback on the application of the impairment requirements in IFRS 9 *Financial Instruments* to loan commitments and financial guarantee contracts (FGCs), in response to the Request for Information Post-implementation Review of IFRS 9—Impairment (the RFI).

2. The paper provides:

   (a) a summary of staff recommendations and questions for the IASB;

   (b) feedback analysis on application questions about loan commitments; and

      (i) What is a loan commitment?

      (ii) What is the scope of the exception in paragraph 5.5.20 of IFRS 9?

      (iii) How to apply the exception in paragraph 5.5.20 of IFRS 9?

   (c) feedback analysis on application questions about financial guarantee contracts.

      (i) How to assess if a FGC held is integral to a financial instrument?

      (ii) How to account for a non-integral FGC held?

      (iii) How to account for a FGC issued if premiums are received over time?

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3. For each application question, the paper provides:

   (a) a summary of IFRS 9 requirements to which the question relates;

   (b) a summary of feedback describing the question; and

   (c) staff analysis of the feedback and assessment of whether the IASB should take further action in response to the question applying the IASB's framework for responding to the matters identified in a post-implementation review (PIR).[1]

4. This paper has one appendix: Appendix A—Analysis of other comments.

Summary of staff recommendations

5. Based on the analysis in this paper, we recommend the IASB:

   (a) take no action on matters raised by respondents about loan commitments; and

   (b) classify as low priority the matters raised by respondents about financial guarantee contracts and consider these matters in the next agenda consultation.

Questions for the IASB

Questions for the IASB
1. Do IASB members agree with the staff recommendation to take no action on matters identified by respondents about loan commitments? 2. Do IASB members agree with the staff recommendation to classify as low priority the matters identified by respondents about financial guarantee contracts and consider these matters in the next agenda consultation?

[1] See Agenda Paper 27 of this meeting for the framework.

1. Loan commitments

1.1 What is a loan commitment?

Requirements

6. Paragraph 2.1(g) of IFRS 9 states that an issuer of loan commitments shall apply the impairment requirements of IFRS 9 to loan commitments that are not otherwise within the scope of IFRS 9.

7. The term 'loan commitment' is not defined in IFRS 9 or in other IFRS Accounting Standards. However, paragraph BCZ2.2 of the Basis for Conclusions on IFRS 9 explains that 'loan commitments are firm commitments to provide credit under pre-specified terms and conditions'.

Feedback

8. Some respondents (mostly standard-setters and accountancy bodies) said that the lack of definition for a loan commitment gives rise to various application matters and interpretative issues, resulting in diversity in application of the requirements. They, therefore, suggested the IASB includes a definition for loan commitments in IFRS 9 given that such a term is used in various parts of IFRS 9.

9. These respondents mentioned that, in practice, entities generally apply the impairment requirements in IFRS 9 to an arrangement that meets both the definition of financial instrument in paragraph 11 of IAS 32 *Financial Instruments: Presentation* and the description of a loan commitment in paragraph BCZ2.2 of the Basis for Conclusions on IFRS 9. However, they said even this is insufficient to determine how to account for a commitment to enter into a hybrid or a compound financial instrument—for example, whether a commitment to enter into a convertible bond, that is a compound instrument, represents a loan commitment that is subject to the impairment requirements or accounted for as a derivative.

10. We sought further input on this matter from the members of IFRS Interpretations Committee (Committee) and Accounting Standards Advisory Forum (ASAF) in March 2024 to supplement responses to the RFI on whether the matter is pervasive, has substantial consequences and its root cause.

11. Committee members reported that, in practice, entities generally have a common understanding of what a loan commitment is, including alignment to definition of a loan commitment for regulatory reporting purposes. In their view, entities have developed accounting practices in this area and that the incremental benefits of a potential amendment (eg elevating the description of a loan commitment from the Basis for Conclusions on IFRS 9 into the Accounting Standard) would not be expected to outweigh the costs and risk from unintended consequences.

12. Committee members said that while some application challenges indeed arise in complex fact patterns (for example, a fixed-for-fixed conversion option whereby an entity is committing to pay a premium for equity options), these types of commitments are not pervasive, and the matter is unlikely to result in substantial operational or financial reporting consequences.

13. ASAF members said, generally, this matter is not pervasive or has no substantial consequences in practice. One ASAF member specifically said that the description of loan commitments in paragraph BCZ2.2 of the Basis for Conclusions on IFRS 9 has been applied for a long time as it was carried forward from IAS 39 and is easy to understand.

Staff analysis

14. According to the PIR feedback, while the current description of loan commitments alongside the definition of a financial instrument in IAS 32 are used for many loan commitments, most application questions arise in complex fact patterns (eg commitment to enter into a compound financial instrument). Therefore, simply moving the description from paragraph BCZ2.2 of the Basis for Conclusions on IFRS 9 into the Accounting Standard would not resolve those questions.

15. To resolve those complex questions, the IASB would need to develop a more comprehensive description or definition for loan commitments. However, evidence gathered in this PIR does not suggest that such a standard-setting activity would be justified. That is because, the PIR feedback and the input from the Committee and ASAF members suggest that these types of commitments are neither pervasive nor they result in substantial consequences in practice.

16. Regarding loan commitments to enter into a convertible bond that is a compound instrument, we note that paragraph 2.3 of IFRS 9 provides requirements which might help determine the accounting outcome in some of these fact patterns. For instance, paragraph 2.3(b) of IFRS 9 specifies that loan commitments that can be settled net in cash or by delivering or issuing another financial instrument are in scope of IFRS 9 and that these loan commitments are derivatives.

Assessment against the PIR criteria

17. For the reasons noted above, we do not think that the characteristics for the IASB to take further action are present for this matter. The staff therefore recommend that no action be taken on this matter.

1.2 What is the scope of the exception in paragraph 5.5.20 of IFRS 9?

Requirements

18. IFRS 9 generally requires that ECL is estimated over the contractual period. However, in response to stakeholders' concerns for revolving credit facilities such as credit cards and overdraft facilities, the IASB added the exception in paragraph 5.5.20 of IFRS 9. [2] This exception requires that ECL on some financial instruments is estimated over the period that the entity is exposed to credit risk, instead of over the contractual commitment period.

[2] See paragraphs BC5.254-BC5.261 of the Basis for Conclusions on IFRS 9 for the IASB's rationale and further context around the exception in paragraph 5.5.20 of IFRS 9.

19. Specifically, paragraph 5.5.20 of IFRS 9 sets out both:

    (a) the scope of the exception—financial instruments that include both a loan and an undrawn commitment component and for which the entity's contractual ability to demand repayment and cancel the undrawn commitment does not limit the entity's exposure to credit losses to the contractual notice period.

    (b) the measurement requirement—the entity shall measure ECL over the period that the entity is exposed to credit risk and ECL would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period.

20. Paragraphs B5.5.39 and B5.5.40 of IFRS 9 provide relevant application guidance, describing the characteristics of the financial instruments in scope of the exception in paragraph 5.5.20 of IFRS 9 and how to determine the period over which to measure ECL.

Feedback

21. A few respondents (a national standard-setter and an accounting firm) asked the IASB to clarify the scope of the exception in paragraph 5.5.20 of IFRS 9. Specifically, whether facilities, such as corporate overdrafts, that are managed on an individual basis are outside the scope of the exception in paragraph 5.5.20 of IFRS 9. This is because, in explaining the characteristics of financial instruments in scope of this exception, paragraph B5.5.39 of IFRS 9 makes a reference to financial instruments generally being managed on a collective basis.

22. We also asked input from the Committee members and ASAF members on this matter. They said that in their experience, this issue is not pervasive and does not have substantial consequences. Some Committee members shared the view that the requirements in IFRS 9 regarding this matter are clear. Similarly, ASAF members said that they are not aware of significant application issues on this matter in their jurisdiction.

Staff analysis

23. We note that, in essence, respondents are asking whether the general characteristics identified in paragraph B5.5.39 of IFRS 9 are required characteristics, or merely examples of typical characteristics. Specifically, whether the characteristic of being managed on individual, and not on collective, basis would prevent a facility from falling within the scope of paragraph 5.5.20 of IFRS 9.

24. Paragraph 5.5.20 of IFRS 9 sets out the required features of the financial instruments falling within its scope—those are:

    (a) that the financial instrument includes both a loan and an undrawn commitment component; and

    (b) the **entity's contractual ability to demand repayment and cancel the undrawn commitment <u>does not limit the entity's exposure to credit losses to the contractual notice period</u>**. [Emphasis added.]

25. Paragraph B5.5.39 of IFRS 9 provides application guidance for identifying the financial instruments that are consistent with the principles in paragraph 5.5.20 of IFRS 9. It explains that, because of the nature of the financial instrument, the way in which the financial instruments are managed, and the nature of the available information about significant increases in credit risk, for some financial instruments, the entity's exposure to credit losses is not limited to the contractual notice period. It further notes that these financial instruments generally have three characteristics, including being managed on a collective basis.

26. We note that the supporting application guidance in paragraph B5.5.39 of IFRS 9 reinforces the features described in paragraph 5.5.20 of IFRS 9 by setting out general characteristics which, while not determinative, are consistent with those features. We also note that, as explained in paragraphs BC5.254─BC5.257 of the Basis for Conclusions on IFRS 9, those characteristics were developed in discussions with stakeholders during the development of IFRS 9.

27. Therefore, in our view, the focus is not purely on the basis in which a financial instrument is being managed but it is on the effect, ie what an entity is able to achieve/enforce with such a management and the nature of the available information resulting from it.

28. In other words, we think an entity is required to assess whether the way in which the entity manages a financial instrument means that it can limit its exposure to credit losses to the contractual notice period. If so, then the instrument will not fall in the scope of the exception in paragraph 5.5.20 of IFRS 9 and measuring ECL over the contractual life would be a faithful representation of ECL. This would be consistent with the IASB's view noted in paragraph BC5.260 of the Basis for Conclusions on IFRS 9, that for most loan commitments, the contractual period over which an entity is committed to provide credit (or a shorter period considering prepayments) is the correct conceptual outcome.

29. Specific facts and circumstances would therefore need to be considered and an entity is required to apply judgement to determine whether the entity's exposure to credit losses is limited to the contractual notice period. If an instrument is managed on an individual basis, we think an entity is required to assess whether, in fact, the entity's contractual ability to demand repayment and cancel the undrawn commitment would not limit the entity's exposure to credit losses to the contractual notice period.

Assessment against the PIR criteria

30. PIR feedback, consistent with the input from the Committee and ASAF members, does not suggest that the matter is necessarily prevalent or resulting in substantial consequences in practice. Therefore, we do not think that the characteristics for the IASB to take further action are present. Accordingly, the staff recommend no further action be taken on this matter.

1.3 How to apply the exception in paragraph 5.5.20 of IFRS 9?

Requirements

31. Paragraph B5.5.40 of IFRS 9 provides application guidance about determining the period that an entity is exposed to credit risk and ECL would not be mitigated by credit risk management actions, noting that an entity considers factors such as historical information and experience about:

    (a) the period over which the entity was exposed to credit risk on similar financial instruments;

    (b) the length of time for related defaults to occur on similar financial instruments following a significant increase in credit risk; and

    (c) the credit risk management actions that an entity expects to take once the credit risk on the financial instrument has increased, such as the reduction or removal of undrawn limits.

Feedback

32. In addition to the scope issue described in question 1.2, some respondents also said that it is challenging to determine the period over which to measure ECL for revolving credit facilities (eg credit cards and overdraft facilities) that are within the scope of paragraph 5.5.20 of IFRS 9. For example, what is the maximum period over which to measure ECL for credit cards which can be contractually withdrawn by the lender with as little as one day's notice. However, in practice, lenders continue to extend credit for a longer period and may only withdraw the facility after the credit risk of the borrower increases.

33. Therefore, they suggested the IASB provide more explicit application guidance on this matter, in addition to that in paragraph B5.5.40 of IFRS 9. Some of these respondents said that the education material issued by the IASB in May 2017 and the discussions of the Transition Resource Group for Impairment of Financial Instruments (ITG) in April and December 2015 contain helpful conclusions for this matter and

thus, suggested the IASB incorporate them into IFRS 9 to assist wider accessibility and enforcement. For example, the ITG discussed that an entity considers the reporting date to be *starting-point* and considers factors such as credit risk management actions that it expects to take for determining the *ending-point* of the maximum period to consider when measuring ECL in accordance with paragraphs 5.5.20 and B5.5.40 of IFRS 9.

34. One accounting firm identified this application issue but said it has not found evidence that the matter results in diversity in practice which would materially affect entities' financial statements and the usefulness of the resulting information to users of financial statements. Others did not comment on whether the matter is pervasive or results in substantial consequences in practice.

Staff analysis

35. We acknowledge the usefulness of the education material, including the ITG discussions. We, however, note that determining the period over which to measure ECL for different revolving facilities would depend on specific facts and circumstances (for example, the credit risk management actions an entity expects to take for such facilities and available information that is reasonable and supportable).

36. This is consistent with the ITG conclusions. For instance, the ITG noted that, in determining the appropriate period over which to measure ECL, an entity's ability to segment and stratify the portfolio into different sections of exposures in accordance with how those exposures are being managed will be relevant. For example, an entity may be able to identify exposures with specific attributes that are considered more likely to default and consequently would have shorter average lives than those that are expected to continue performing.[3]

37. In our view, paragraph B5.5.40 of IFRS 9 provides adequate guidance for entities to apply judgement specific to the contractual terms of a financial instrument and other

[3] See paragraphs 40-44 of April 2015 meeting summary notes.

facts and circumstances to determine the period for measuring ECL. Applying IFRS 9 entities are required to consider all three factors set out in paragraph B5.5.40 of IFRS 9, including the impact of credit risk management actions as required by B5.5.40(c).

38. As previously noted, adding additional application guidance would be a standard-setting activity, ie following the same due process as amendments to an Accounting Standard. In our view, the PIR feedback has not provided evidence that paragraph B5.5.40 of IFRS 9 is insufficient or unclear and hence that a standard-setting activity is warranted.

39. We acknowledge that adding available education material into IFRS 9 as additional application guidance might facilitate further accessibility and enforcement. However, it would not eliminate the requirement to apply judgement to specific facts and circumstances. In our view, the costs of such a standard-setting action, including the risk of unintended consequences, are likely to outweigh the incremental benefits of the resulting information.

Assessment against the PIR criteria

40. Based on staff analysis, the application guidance in IFRS 9 provides well described factors to guide entities in determining the period over which to measure ECL for revolving facilities.

41. Consistent with the overall feedback, we think PIR feedback does not provide evidence that the issue results in substantial operational or financial reporting consequences. Therefore, we do not think that the characteristics for the IASB to take further action are present for this matter. Accordingly, the staff recommend no action be taken on this matter.

2. Financial guarantee contracts

2.1 How to assess if a FGC held is integral to a financial instrument?

Requirements

42. Paragraph B5.5.55 of IFRS 9 requires that for the purposes of measuring ECL, the estimate of expected cash shortfalls shall reflect the cash flows expected from collateral and other credit enhancements (eg a FGC) that are *part of the contractual terms* and are not recognised separately by the entity.

43. In Appendix A of IFRS 9, the definition of credit loss states that the cash flows that are considered in measuring ECL shall include cash flows from credit enhancements that are *integral to the contractual terms* of a financial instrument.

Feedback

44. Many respondents raised concerns about diversity in practice when assessing whether cash flows from a FGC can be reflected in measurement of ECL by the holding entity. They attributed this diversity in application to lack of application guidance in IFRS 9 to determine whether a FGC is part of, or integral to, the contractual terms of a financial instrument. Ultimately, this diversity results in different measurement of ECL between entities and thus, reduces the usefulness of information to users of financial statements.

45. These respondents suggested the IASB add application guidance for determining the FGCs that are considered part of (or integral to) the contractual terms for the purposes of measuring ECL applying paragraph B5.5.55 of IFRS 9. For instance, a standard-setter suggested the IASB add a list of non-exhaustive factors that entities would be required to consider in assessing whether a FGC is part of (integral to) the contractual terms of a financial instrument (eg whether the FGC is entered into at or around the same time as the financial instrument and in contemplation thereof).

46. We discussed this matter with the Committee members. They were generally of the view that this is not an issue that currently results in substantial consequences, even though application questions frequently arise in practice. However, a few Committee members said this matter represented significant application challenges in the past—for example, during the covid-19 pandemic when entities frequently acquired FGCs for protection against credit losses. Furthermore, they said the issue is exacerbated by the fact that IFRS Accounting Standards are not explicit in how to account for the effect of FGCs held that an entity determines are not part of (integral to) a financial instrument (see question 2.2 in this paper).

47. Committee members also said that, although in practice entities have developed accounting policies based on, for example, cases enforced by securities regulators in some jurisdictions, diversity in practice remain and sometimes result in arbitrary accounting outcomes. One such example is when some entities generally include in the measurement of ECL cash flows from FGCs that are acquired simultaneously with issuing a loan but account for such cash flows separately when acquiring a similar FGC subsequently.

48. However, Committee members also acknowledged that it would be difficult for the IASB to provide helpful guidance given that the economic substance is often dependent on the legal terms and conditions and the effect of laws and regulations in particular jurisdictions.

49. We also discussed this matter with ASAF members, with some saying this matter gives rise to application challenges in practice in their jurisdiction, including the accounting for the related transaction fees. They suggested the IASB provide application guidance. A few other ASAF members shared the view that the matter does not warrant standard-setting.

Staff analysis

50. We acknowledge that IFRS 9 does not provide application guidance for determining whether or when credit enhancements are part of (or integral to) the contractual terms of an instrument.

51. We note that questions about how to determine which FGCs fall in scope of paragraph B5.5.55 of IFRS 9 have been previously submitted to the ITG (see paragraphs 14–18 of minutes of ITG discussions in December 2015) and the Committee (see the Committee Agenda Decision in March 2019). We also note that most questions arise for FGCs acquired subsequent to issuing a financial instrument and that these FGCs are widespread.

52. Consistent with the ITG discussions in December 2015, we think an entity would be required to apply its judgement in determining whether a FGC is 'integral to the contractual terms' and in making that assessment, an entity is required to consider relevant facts and circumstances.

53. Accordingly, in our view, if the IASB were to consider adding application guidance in IFRS 9, such a guidance could not be conclusive / exhaustive. Therefore, it would not eliminate the need to exercise judgement relevant to specific facts and circumstances.

54. We also note the feedback from a few Committee members who said that providing helpful application guidance might not be straightforward because the economic substance is often dependent on the legal terms and conditions, including the effect of laws and regulations, in particular jurisdictions.

55. Nonetheless, we acknowledge stakeholders' recurring feedback on this matter, ie the matter has been previously raised at the ITG and Committee but application questions remain. In that context, some application guidance, even if not exhaustive, might support application of requirements, as well as auditing and enforcing that application.

Assessment against the PIR criteria

56. Credit enhancements such as FGCs are prevalent, but PIR feedback does not suggest that there are substantial operational or financial reporting consequences that would require immediate action to be taken. However, some feedback indicates that application questions arise frequently in practice and particularly, in times of economic crisis whereby the effect from these FGCs is more prominent.

57. As noted in the staff analysis, we think this matter could be addressed by the IASB but only to some extent. Application of judgement will continue to be required for determining the outcome specific to particular facts and circumstances. Therefore, in our view, any application guidance the IASB might provide could not be exhaustive / conclusive and hence would not eliminate the requirement to apply judgement.

58. Furthermore, we note that the phrase 'integral' is used not only in the context of ECL measurement in IFRS 9, but the phrase is used in other contexts as well—in IFRS 9 and in other IFRS Accounting Standards. Therefore, any potential clarifications or amendments with regards to how the phrase is applied with regards to ECL measurement, also need to consider those other Accounting Standards and the risk of unintended consequences.

59. Based in the above analysis, considering the prioritisation criteria of the IASB's framework for responding matters identified in a PIR, we think some of the prioritisation characteristics are present to some extent but the remainder of the prioritisation characteristics are not met. Accordingly, we recommend the IASB classifies it as a low priority matter.

60. According to the PIR framework low priority matters would be considered in the next agenda consultation and explored if the IASB decides, in its deliberations on the feedback to that agenda consultation, to take action.

2.2 How to account for a non-integral FGC held?

Requirements

61. As mentioned in previous question, IFRS 9 or other IFRS Accounting Standards do not provide explicit requirements about the accounting for FGCs held by an entity that are not part of (or integral to) the contractual terms of a financial instrument, hence cannot be reflected in the measurement of ECL.

62. However, paragraph 53 of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* requires that where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision.

Feedback

63. Many respondents (including accounting firms and standard-setters) raised this issue alongside question 2.1 in this paper. These respondents suggested the IASB introduce specific requirements about the accounting for non-integral FGCs held.

64. Respondents said that, in absence of more specific requirements, entities generally apply IAS 37 to account for non-integral FGCs they hold. However, some respondents are of the view that the accounting outcome applying IAS 37 does not always faithfully depict the economic substance of the transaction.

65. Specifically, because of the different recognition thresholds between IAS 37 (ie virtually certain) and IFRS 9 (ie expected credit losses), an entity recognises a reimbursement asset applying IAS 37 in a different reporting period to recognition of ECL for the related financial instrument (ie a timing mismatch). Respondents however

did not provide specific fact patterns in which they observe substantial financial reporting consequences from this timing mismatch.

Staff analysis

66. We acknowledge respondents' comments in this matter and note that this question naturally follows from question 2.1 in this paper.

67. However, we note that this matter is beyond the scope of this PIR which focuses on the impairment requirements in IFRS 9. Deliberations about developing requirements to separately account for FGCs held might have implications not only in the context of IFRS 9, but also other IFRS Accounting Standards (eg IAS 37).

68. We note that the PIR feedback indicates that FGCs held are widespread and lack of specific requirements gives rise to some diversity in practice and application challenges. However, feedback also indicated that the consequences might not be substantial because many entities ultimately apply IAS 37 requirements.

69. In our view, the fact that applying IAS 37 might result in recognition of a reimbursement asset at a different reporting period to recognition of ECL for a financial instrument does not automatically mean unfaithful representation of the economic substance. For example, this accounting outcome might be a faithful representation of the economic substance if there is no clear relationship between an FGC and a particular financial instrument.

Assessment against the PIR criteria

70. In the light of staff conclusion about question 2.1 in this paper, and the connection between these two application matters, we recommend the IASB assigns this matter a low priority and therefore, it considers the matter at the next agenda consultation.

2.3 How to account for a FGC issued if premiums are received over time?

Requirements

71. Paragraph 4.2.1 of IFRS 9 sets out requirements for classification of financial liabilities. Specifically, paragraph 4.2.1(c) of IFRS 9 requires that, after initial recognition, an issuer of a FGC shall (unless paragraph 4.2.1(a) or (b) of IFRS 9 applies) subsequently measure it at the higher of:

    (a) the amount of the loss allowance determined in accordance with IFRS 9; and

    (b) the amount initially recognised (see paragraph 5.1.1 of IFRS 9) less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15 *Revenue from Contracts with Customers*.

72. Paragraph 5.1.1 of IFRS 9 requires that, at initial recognition, an entity shall measure a financial asset or financial liability at its fair value plus or minus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability in the case of a financial asset or financial liability not measured at fair value through profit or loss.

Application question

73. A few respondents suggested the IASB provide application guidance on how to apply paragraph 4.2.1(c) of IFRS 9 to FGCs for which premiums are received over time, rather than upfront.

74. Specifically, the question is whether the issuer of such a FGC accounts for it by recognising two separate amounts—a receivable for future premiums not yet due and a separate corresponding liability for its obligation to provide protection to the holder (gross approach)—or whether the issuer recognises a single net amount in accordance with paragraph 4.2.1(c) of IFRS 9, hence it does not separately account for the components of such a contract (net approach).

75. These respondents reported that the lack of specific requirements in this area has led to different interpretations developing over time (including differences in the guidance developed by accounting firms) and ultimately resulted in diversity in practice. Specifically, some entities apply a gross approach, others apply a net approach.

76. Committee members and ASAF members generally agreed with the respondents to the RFI that there is some diversity in practice in accounting for these types of FGCs. However, these members said they are not aware of this matter resulting in substantial consequences in practice.

77. Different Committee members expressed different views on what is the appropriate accounting treatment in such cases and noted the long-standing debate on this matter. For example, one member made reference to US GAAP which requires the gross approach. Another member noted that applying IFRS Accounting Standards, an entity may account for a FGC issued applying IFRS 17 *Insurance Contracts* which, in their view, requires net approach. Due to the history and different practices already established, a Committee member said that resolving this matter would require considerable consultation and standard-setting efforts. This member expressed the view that this matter is not a high priority matter.

Staff analysis

78. We note that this matter relates to requirements about classification and measurement of a FGC and its root cause is not the impairment requirements in Section 5.5 of IFRS 9. Accordingly, we think that deliberations about this issue would not be effectively done within the confines of this PIR.

79. In our view, considering the appropriate course of action to resolve this matter might require broader consultation and consideration of other IFRS Accounting requirements, including, for example, IFRS 17.

Assessment against the PIR criteria

80. Considering this matter in isolation, we think there is insufficient information to conclude whether the prioritisation characteristics are present because the matter has implications in areas beyond impairment requirements in IFRS 9 and potentially beyond IFRS 9.

81. However, if the IASB agrees with the staff recommendation to consider the topic of accounting for FGCs held as part of its next agenda consultation (see application questions 2.1 and 2.2 in this paper), we think this matter which relates to accounting for FGCs issued by an entity could also be added for consideration at the next agenda consultation.

82. Therefore, we recommend the IASB assigns this matter a low priority and therefore, it considers the matter at the next agenda consultation.

Appendix A—Analysis of other comments

A1. This table summarises other comments on loan commitments. By comparison, these comments represent matters raised only by a few respondents. Based on our analysis of those comments, we recommend no action by the IASB.

Feedback	Staff analysis	Conclusion
Practice of rolling over loans with short contractual period		
One respondent reported that, in Japan, there are loans whose contractual periods are set for short periods (eg one month or three months) but that are expected to be collected over a long term, because the entity has a practice of rolling them over. They explained that contractual periods are set as short-term for protective reasons by creating an opportunity for the creditor to amend contractual terms. In the respondent's view, the end of a formal contractual period for such a loan is merely the timing of reassessing a covenant for the loan and ECL should be measured over a longer period ie not limited to contractual period. Therefore, this respondent suggested the IASB amends the exception in paragraph 5.5.20 of IFRS 9 so that these financial instruments also fall in scope of that exception (ie similar to revolving facilities).	By virtue of being an exception, the scope of paragraph 5.5.20 of IFRS 9 is intentionally narrow and designed to address specific issues. As explained in paragraphs BC5.254–BC5.261 of the Basis for conclusions on IFRS 9, the exception in paragraph 5.5.20 of IFRS 9 intends to address specific concerns—that, for revolving credit facilities, the contractual ability to demand repayment and cancel the undrawn commitment does not necessarily prevent an entity from being exposed to credit losses beyond the contractual notice period. If the loans identified in the feedback are set for protective reasons and reviewed by the creditor at the end of contractual period, the creditor's exposure to credit losses is likely to be limited to the contractual period. In such a case, measuring ECL over the contractual life would be a faithful representation of the entity's exposure to credit risk and the resulting measurement of ECL. Accordingly, extending the exception in paragraph 5.5.20 of IFRS 9 would not be justified.	No action.

Feedback	Staff analysis	Conclusion
Difficulty of estimating ECL for loan commitments		
One respondent said estimating ECL for loan commitments can be challenging due to the lack of historical data and the reliance on forward-looking information. In the respondent's view, this raises questions about the accuracy and reliability of the credit loss estimates for such instruments.	Paragraph B5.5.13 of IFRS 9 notes the default patterns in the past for comparable financial instruments are considered in estimating ECL. In accordance with paragraph B5.5.51 of IFRS 9, an entity does not need to undertake an exhaustive search for information and is required to consider reasonable and supportable information that is available without undue cost or effort. Furthermore, as noted in Agenda Paper 27A of the IASB's February 2024 meeting, IFRS 9 requires no bright lines nor mechanistic approaches to estimate ECL. Information does not necessarily need to flow through a statistical model or credit ratings process. Qualitative and non-statistical quantitative information available may be sufficient in some cases. Therefore, we think the requirements in IFRS 9 provide an adequate basis for entities to estimate ECL based on the information an entity has available.	No action.
Significant increase in credit risk (SICR) for a loan from a draw-down from a credit card		
Two respondents said it is unclear what is considered 'the date of initial recognition' for the purpose of assessing SICR for a	Regarding the date of initial recognition for the purpose of assessing SICR, in our view, the requirements in IFRS 9 are clear. Paragraph	No action.

Feedback	Staff analysis	Conclusion
financial asset that is recognised following a draw down from a credit card or a similar facility. Specifically, whether an entity assesses changes in credit risk at the reporting date compared to the date the credit card facility (ie the loan commitment) is issued or to the date that the draw down asset is recognised. Furthermore, these respondents said there are diverse views on whether the issue of a new credit card or a new credit review constitutes a 'new originated loan' or 'an extension of the existing loan' which in turn affects SICR assessment. These respondents however did not provide particular fact patterns on which such diversity is observed.	B5.5.47 of IFRS 9 states that, for the purpose of applying the impairment requirements, a financial asset that is recognised following a draw down on a loan commitment shall be treated as a continuation of that commitment instead of as a new financial instrument. The ECL on the financial asset shall therefore be measured considering the initial credit risk of the loan commitment *from the date that the entity became a party to the irrevocable commitment*. This is consistent with the ITG conclusion (see paragraph 47 of April 2015 meeting summary notes). Regarding the question of whether the issue of a new credit card or a new credit review constitutes a 'new originated loan' or 'an extension of the existing loan', we think the answer would depend on particular facts and circumstances. For example, whether the requirements for derecognition of a financial instrument in Section 3 of IFRS 9 are met with respect to the 'old credit card'. Furthermore, the credit risk management actions that an entity takes upon the issue of a new credit card, or a new credit review would also need to be considered. This is consistent with the ITG conclusion (see paragraphs 48-49 of April 2015 meeting summary notes).	