IFRS Accounting

Staff paper

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Topic	**Feedback analysis—General approach**
Contacts	Iliriana Feka (ifeka@ifrs.org) Riana Wiesner (rwiesner@ifrs.org)

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Introduction

1. The purpose of this paper is to analyse the feedback on the general approach to recognition of expected credit losses (ECL) in IFRS 9 *Financial Instruments*, in response to the Request for Information Post-implementation Review of IFRS 9—Impairment (the RFI).

2. This paper provides:

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

   (b) a reminder of the IFRS 9 requirements for the general approach;

   (c) a summary of feedback and staff analysis of that feedback; and

   (d) staff assessment of whether to take action in response to feedback.

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

Summary of staff recommendation

4. Based on the analysis in this paper, we recommend the IASB does not take any further action on matters identified with regards to the general approach in IFRS 9. The staff, however, plan to seek input from the IFRS Interpretations Committee (Committee) to obtain further evidence on whether the application challenges reported for intragroup

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financial instruments have substantial consequences and whether they arise from a financial reporting issue that can be addressed by the Committee.

Question for IASB

Question for IASB
Do IASB members agree with the staff recommendation in paragraph 4 of this paper, to not take any further action on matters identified with regards to the general approach in IFRS 9?

IFRS 9 requirements

5. Applying the general approach in IFRS 9, at each reporting date, an entity measures the loss allowance for a financial instrument at an amount equal to:
   (a) *12-month ECL,* if the credit risk on that financial instrument has not increased significantly since initial recognition; or
   (b) the *lifetime ECL,* if the credit risk on that financial instrument has increased significantly since initial recognition.

Feedback

6. Almost all respondents supported the general approach. They said that recognising two different amounts (ie 12-month and lifetime ECL) based on the extent of increases in credit risk since initial recognition provides useful information about changes in credit risk. This is also consistent with feedback from outreach with investors who noted that they use information about lifetime ECL as indication that an economic loss occurred because of changes in credit risk from initial expectations.

7. These respondents also shared the view that because the general approach requires recognition of lifetime ECL only when the credit risk of a financial instrument has

increased significantly since initial recognition, it appropriately avoids recognition of ECL that would have been ‘too much, too soon’.

8. Some of these respondents also noted that previous concerns raised by stakeholders about the potential for the general approach to lead to procyclicality (meaning that it could reflect or even magnify economic or financial fluctuations) were not observed in practice, including during times of economic crisis such as covid-19 pandemic. This feedback is consistent with findings from the academic literature review summarised in Agenda Paper 27C of this IASB meeting.

9. Almost all respondents said there are no fatal flaws and that the approach generally achieves an appropriate cost–benefits balance. It faithfully depicts expectations about credit losses, without excessive operational complexity. However, in context of costs–benefits balance, respondents suggested the IASB reconsider the application of the approach to:

    (a) financial instruments between entities under common control (intragroup financial instruments);[1]

    (b) financial instruments issued on non-commercial terms or for reasons that are not purely commercial (non-commercial financial instruments); and

    (c) purchased financial assets that are not credit-impaired.

10. Appendix A to this paper summarises other comments received, together with our analysis of those comments. By comparison, the comments in Appendix A represent a mixture of application questions and different matters raised by a few respondents. Based on our analysis of those comments, we recommend no action by the IASB.

[1] For this paper, intragroup financial instruments refer to instruments issued between parents and their subsidiaries or between entities under common control. They do not include financial instruments with associates and joint ventures.

A. Intragroup financial instruments

11. Some respondents among different stakeholder groups said that the costs of applying the general approach to intragroup financial instruments such as loans and receivables or financial guarantee contracts exceed the benefits of the resulting information to users of financial statements. The issue affects entities in jurisdictions where separate financial statements are prepared in accordance with IFRS Accounting Standards.

12. These respondents consider that the risk of credit losses from these instruments is generally low (eg because of financial support from a parent entity or other group entity). They, therefore, said that the costs of determining significant increases in credit risk (SICR) and measuring ECL are not justified. These respondents further shared the view that there are limited benefits from the ECL information on intragroup instruments because investors primarily rely on consolidated, rather than on separate, financial statements for decision useful information about credit risk.

13. In describing the root causes of the application issues faced, respondents pointed to:

    (a) *subjective terms and conditions.* Some contractual terms are not at arm's length basis, such as interest-free or below-market interest rate loans. Furthermore, unlike the financial instruments issued to third parties, some contractual terms might not be enforced between intragroup entities. For example, a parent entity issues a loan that is contractually payable on demand to a subsidiary. If the subsidiary has no financial ability to pay it immediately, the parent entity might avoid default by not demanding payment when due or turn the loan into an additional investment for the subsidiary.

    (b) *no experience of credit losses.* Generally, there is no historical experience of, or future expectations for, credit losses, including peer group experience for comparable financial instruments.

14. Respondents said these characteristics make it challenging to apply the principles of the general approach to intragroup financial instruments and might lead to accounting outcomes that do not capture the underlying economics of a transaction, such as:

(a) current statistical models lack reasonable and supportable information about credit losses for intragroup instruments. This results in high operational costs to develop specific statistical models or do exhaustive searches for alternative information. These techniques also do not capture the underlying subjective or qualitative factors—the amount of credit losses expected ultimately depends on the financial support from the parent or group entities and their incentive to prevent default.

(b) the assumption underpinning the general approach that the initial expectations about credit risk were reflected in the transaction price, generally, does not hold for intragroup assets, making it challenging—and somehow artificial—to determine SICR since initial recognition.

(c) measuring ECL requires an entity to consider *contractual* versus *expected* cash flows. However, as previously noted contractual terms might not always be enforced between intragroup entities or such terms might not be sufficiently specific. In this context, two application questions were also asked by a few respondents about determining ECL for particular intragroup on-demand loans and joint financial guarantee contracts. See Appendix A to this paper for specific questions asked and staff analysis of those questions.

15. Respondents shared a mixture of suggestions to resolve the application matters relating intragroup financial instruments:

(a) *extend the scope of the simplified approach or provide additional guidance*. Some respondents shared the view that if the simplified approach was applied to all intragroup financial instruments, it would reduce application costs because entities would not be required to assess SICR or measure ECL using forward-looking scenarios. Alternatively, these respondents suggested that the IASB add application guidance to support entities in applying the judgements required for assessing SICR of an intragroup instrument and measuring ECL. Specifically, application guidance that would be similar to paragraph B5.5.17 of IFRS 9 and paragraphs B5.5.49-B5.5.54 of IFRS 9.

(b) *scope out of the impairment requirements*. A few respondents suggested that the IASB consider removing intragroup instruments from the scope of IFRS 9, similar to the exemption in US GAAP. They said the usefulness of information from the resulting ECL to users of separate financial statements is limited.

(c) *provide educational material*. A few respondents said that educational material would be helpful, particularly for entities with less sophisticated credit risk management systems. They suggested the IASB provide explanatory material that highlights how entities can use of the simplifications and practical expedients in IFRS 9 to estimate ECL for intragroup financial instruments.

16. A few respondents who commented on the topic of ECL for intragroup instruments shared the view that addressing this matter should be of medium priority for the IASB. Although intragroup instruments are prevalent, the issue only affects entities that prepare separate financial statements applying IFRS Accounting Standards and while application challenges arise, the ECL model is ‘adaptable’. Other respondents did not comment on potential prioritisation.

B. Non-commercial financial instruments

17. A few respondents raised similar concerns about financial instruments such as loans to employees or sovereign debts. Application challenges included how to assess SICR or measure ECL in a cost-effective way for these instruments. Respondents said that, generally, there is no experience of credit losses for these instruments either. Even if there is a default, the amount is typically recovered, albeit later than contractually due.

18. A comment letter from public sector specialists in Australia also identified challenges from applying the general approach to statutory receivables of public sector entities that apply IFRS Accounting Standards. For example, an entity is asked to provide finance to particular borrowers without undertaking any credit assessment. Consequently, applying IFRS 9 requirements such as determining SICR which require multifactor and holistic analysis becomes challenging.

C. Purchased financial assets that are not credit-impaired

19. Some respondents said that the requirement to recognise at least 12-month ECL at each reporting date results in double-counting for the effect of initial credit loss expectations, immediately after initial recognition of instruments. IFRS 9 also requires that financial instruments are recognised at fair value at initial recognition which captures initial credit loss expectations. Together, these requirements result in understatement of the value of an instrument in its first reporting period.

20. These respondents acknowledged that this issue affects most financial instruments in scope of IFRS 9 and it was already considered by the IASB when developing the ECL model. Furthermore, they considered that the costs of any standard-setting would outweigh the benefits because the 'double-counting' effect under IFRS 9 is limited to 12-month ECL at the first reporting period, ie not a matter of substantial consequence.

21. For these reasons, only a few of these respondents suggested the IASB changes the general approach only for purchased financial assets. In their view, the double-counting problem is amplified in context of these instruments, reducing the usefulness of information about acquisitions to users of financial statements (for example, in case of purchased assets as part of a business combination). Consequently, entities make non-GAAP adjustments to provide users of financial statements with meaningful information.

22. There were mixed suggestions among these respondents about how to resolve this issue. A few said that the IASB should extend the approach currently applied to purchased or originated credit-impaired (POCI) financial assets or use a similar approach set out in US GAAP (referred to as the 'gross-up' approach). The POCI approach requires a credit-adjusted effective interest rate (EIR), thus, no initial ECL allowance. [2] In contrast, a prudential regulator suggested requiring specific disclosures to facilitate investors' analysis about these assets, instead of amending IFRS 9.

[2] See paragraphs 5.4.1(a) and 5.5.13-5.5.14 of IFRS 9 for the POCI approach.

Staff analysis

A. Intragroup financial instruments

23. We acknowledge that some assumptions and data sources informing the way ECL is implemented for financial instruments issued to third parties may not fully hold for intragroup instruments. Because of the characteristics of the instruments, entities might be required to adjust their ‘typical’ approach to estimating ECL (eg an approach that is primarily based on statistical models), so that the resulting ECL is consistent with the principles in IFRS 9, and the application costs are proportionate to the benefits of the resulting information. Adjusting the ECL approach is both required and allowed by the principle-based requirements of IFRS 9.

24. In our view, if estimating ECL is based on reasonable and supportable information and requirements are not applied mechanically, the principles in IFRS Accounting Standards allow an entity to adjust its ECL approach so that it is largely cost-effective:

    (a) IFRS 9 does not list acceptable techniques or methods for assessing SICR or measuring ECL. The most appropriate approach applied would vary depending on the entity’s credit risk management sophistication, the characteristics of a financial instrument and the availability of data. Specifically:

        (i) assessing SICR is reported as one of the main concerns. But IFRS 9 requires no bright lines nor mechanistic approaches and it emphasises that an exhaustive search for information is not required. Information does not necessarily need to flow through a statistical model or credit ratings process. Paragraph B5.5.12 of IFRS 9 notes various approaches for assessing SICR that can be consistent with IFRS 9, including those that do not include explicit probability of default as inputs (eg credit loss rate approach). Furthermore, paragraph B5.5.18 of IFRS 9 explicitly notes that what types of information are relevant for SICR depend on the credit risk characteristics at initial recognition.

Qualitative and non-statistical quantitative information available may be sufficient in some cases.

(ii) respondents also reported undue costs for measuring ECL. As noted in paragraph B5.5.42 of IFRS 9, estimating a probability weighted ECL amount may not need to be a complex analysis. In some cases, relatively simple modelling may be sufficient, without the need for a large number of detailed simulations of scenarios.

(b) both the assessment of SICR and the measurement of ECL are required to be based on reasonable and supportable information that is *available to an entity without undue cost or effort*. Paragraphs B5.5.49-B5.5.54 of IFRS 9 set out principles about undue cost or effort concept, including an acknowledgement that an entity may use internal data and that, in some cases, the best reasonable and supportable information could be the unadjusted historical information.

(c) IFRS 9 provides several simplifications and rebuttable presumptions to assess changes in credit risk or measure ECL. For example, to provide operational relief for financial instruments with a low risk of default, the IASB provided the exemption in paragraph 5.5.10 of IFRS 9 which allows an entity to not recognise lifetime ECL for instruments with low credit risk at the reporting date. Paragraphs B5.5.22-B5.5.24 of IFRS 9 describe the characteristics of the eligible instruments.

(d) paragraph 8 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* permits entities not to apply accounting policies set out in accordance with IFRS Accounting Standards when the effect of applying them is immaterial.

25. While IFRS 9 requires a principle-based approach to determine ECL, it has clearly described requirements that would also be relevant to intragroup instruments, such as:

(a) the assessment of SICR is separate to the measurement of ECL. As required by paragraph B5.5.7 of IFRS 9, the assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a

default occurring since initial recognition not on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

(b) credit risk analysis is a multifactor and holistic analysis, considering both quantitative and qualitative factors. As noted in paragraphs B5.5.16-B5.5.18 of IFRS 9, whether a specific factor is relevant, and its weight compared to other factors, will depend on the type of product, characteristics of the financial instruments and the borrower as well as the geographical region.

(c) measuring ECL considers the amount as well as timing of payments. As noted in paragraph B5.5.28 of IFRS 9, a credit loss arises even if the entity expects to be paid in full but later than when contractually due because ECL consider the amount and timing of payments.

(d) low credit risk for the purposes of the exemption in paragraph 5.5.10 of IFRS 9 is not the same as low risk of loss. As noted in paragraph B5.5.22 of IFRS 9, financial instruments are not considered to have low credit risk when they are regarded as having a low risk of loss simply because of the value of collateral and the financial instrument without that collateral would not be considered low credit risk. Financial instruments are also not considered to have low credit risk simply because they have a lower risk of default than the entity's other financial instruments or relative to the credit risk of the jurisdiction within which an entity operates.

26. Consistent with the IASB's educational material, we think that mechanically applying an ECL methodology which fails to reflect the actual entity's expectations would be inconsistent with the impairment requirements in IFRS 9. For example, in the case outlined in paragraph 14(a) of this paper, developing statistical models or gathering externally available information that fail to depict borrower-specific information, including qualitative information, would in our view, be inconsistent with IFRS 9. As noted in paragraph 24(a) of this paper, an entity can reflect that information without using complex techniques. Considering paragraph B5.5.18 of IFRS 9 an entity might determine that the more relevant information in that case is the qualitative and non-statistical quantitative information available internally.

27. Although the terms and conditions of an intragroup instrument might not be at arm's length basis, applying IFRS 9 can faithfully reflect the economics of the transaction. Paragraph B5.1.1 of IFRS 9 requires that, even if part of the consideration given or received is for something other than the financial instrument, an entity measures the fair value of the financial instrument. For example, measuring the fair value of a below-market interest rate loan as the present value of all future cash receipts discounted using the prevailing market rate(s) of interest for a similar instrument. Any additional amount lent is an expense or a reduction of income unless it qualifies for recognition as some other type of asset (eg an additional investment in the subsidiary).

28. Similarly, contrary to feedback in paragraph 14(b) of this paper, assessing SICR can faithfully depict changes in credit risk even if pricing of a financial instrument does not reflect initial credit loss expectations. IFRS 9 does not require that the assessment of SICR is based on quantitative factors only. As required in paragraph B5.5.18 of IFRS 9, an entity is required to also consider qualitative factors considering the credit risk characteristics at initial recognition. For example, whether the financial instrument suffered significant changes, such as reductions in financial support from parent entity or change in the quality of credit enhancement.

29. Some respondents view intragroup instruments as 'low risk' instruments, thus, think the costs of determining the risk of default or estimating ECL are not justified. We do not think that generalisations about the extent of credit risk or related losses can be made which would hold true for all intragroup financial instruments. A financial instrument does not automatically have low risk simply by virtue of arising from transactions between entities under common control. Facts and circumstances would need to be considered, for example, whether the borrower has a strong capacity to meet its contractual cash flow obligations.

30. Some respondents who commented on this topic suggested the IASB extend the scope of the simplified approach to all intragroup instruments. In our view, the simplified approach would not be an adequate response. While it would remove the need to track increases in credit risk, thus allowing an entity to recognise lifetime ECL from the

date of initial recognition, it would not resolve the problem of lack of information noted in paragraph 13(b) of this paper which would be required to measure ECL. It may even paradoxically exacerbate the problem for some assets. Recognising lifetime ECL requires an entity to estimate the expected credit losses that result from all possible default events *over the expected life* of a financial instrument, rather than only within the 12 months after the reporting date.

31. We also considered the suggestion that the IASB provide more application guidance to support entities in applying the specific judgements required in assessing SICR or measuring ECL. That guidance would be, for example, more factors to consider for an intragroup financial instrument, in addition to what is already in paragraph B5.5.17 of IFRS 9. Adding a few more factors that may be relevant in assessing changes in credit risk is unlikely to help all intragroup instruments and will not remove the need to holistically consider the characteristics of the financial instrument being assessed. We also note that the application guidance in paragraphs B5.5.17(k)–B5.5.17(n) of IFRS 9 already discuss how the changes in the quality of financial support or credit enhancement from a parent or other group entity might be relevant factors for determining SICR.

32. Similarly, what constitutes reasonable and supportable information without undue cost or effort would depend on the availability of data in particular circumstances. Adding more guidance to what is already in paragraphs B5.5.49-B5.5.54 of IFRS 9 is unlikely to result in significant incremental benefits. We therefore do not think that the benefits of amending IFRS 9 to add further application guidance would outweigh the costs, considering the extent of potential disruption and operational costs from the change.

33. We also do not think an exemption from the impairment requirements in IFRS 9 is justified for intragroup financial instruments. That is because:

    (a) one of the main benefits of the principles-based IFRS 9 requirements is that one impairment model applies to all economically similar financial instruments, regardless whether they are issued to third parties or entities

under common control. In our view, intragroup financial instruments can be economically similar to instruments issued to third parties, thus an exemption is not justified.

(b) as noted in paragraph 29 of this paper, we do not agree with the generalisation that all intragroup instruments have low loss risk, thus an exemption might lead to material ECL being omitted. This rationale is consistent with the IASB's basis for concluding to not provide an exemption from recognition and measurement requirements for intragroup financial guarantee contracts (see paragraph BCZ2.14 of the Basis for Conclusions on IFRS 9).

34. We considered the request to provide educational material. That material could remind entities about the applicable principles and requirements of the general approach and importantly, what IFRS 9 does not necessarily require (for example, similar to the discussion in paragraphs 23-25 of this paper). Those insights might support entities in estimating ECL for intragroup instruments in a cost-effective way.

35. However, in considering whether educational material is an adequate response, we note that, in this project and others, some respondents have indicated that educational materials are not the best tool for changing behaviour or improving consistency in practice because they are non-authoritative and therefore not enforceable and are not commonly translated or applied in some jurisdictions. As discussed in the November 2023 meeting, respondents have asked the IASB to incorporate key conclusions from specific educational material into the Standard, to achieve the intended effects. For this reason, on balance, we do not recommend the IASB provide educational material on this matter.

36. Based on our analysis set out in this paper, we think IFRS 9 provides an adequate basis for entities to determine ECL for intragroup financial instruments, applying the general approach. The application costs can be proportionate to the benefits of the resulting information, provided the requirements are not applied mechanically and estimating ECL is based on reasonable and supportable information without undue cost or effort.

37. Nonetheless, we plan to seek input from the Committee to obtain further evidence on whether the application challenges reported for intragroup financial instruments have substantial consequences and whether they arise from a financial reporting issue that can be addressed by the Committee (for example, through an agenda decision). We will seek input from the Committee on this matter, alongside other PIR matters which will be discussed in the Committee's 2024 March meeting.

B. Non-commercial financial instruments

38. An entity will need to assess whether a statutory receivable meets the definition of a financial asset in paragraph 11 of IAS 32 *Financial Instruments: Presentation*. Statutory receivables that arise from an imposition of an obligation by law or regulation and do not represent a contractual right to receive cash are not considered financial assets. However, if such a receivable is a financial asset and subject to the impairment requirements in IFRS 9, notwithstanding the application challenges raised, we think some of the principles highlighted in paragraphs 23-28 of this paper would also be relevant to these instruments.

39. Similarly, for an employee loan or sovereign debt, if they are in scope of the impairment requirements in IFRS 9, the applicable principles in IFRS 9, including those described in paragraphs 23-28 of this paper could allow an entity to adjust its approach to estimating ECL. We note that paragraph B5.5.28 of IFRS 9 clarifies that because ECL considers both the amount and the timing of payments, a credit loss arises even if the entity expects to be paid in full but later than contractually due.

C. Purchased financial assets that are not credit-impaired

40. As explained in paragraphs BC5.87-BC5.108 of the Basis for Conclusions on IFRS 9, the general approach is a practical approximation of a model proposed by the IASB in 2009. That model would require an entity to recognise the initial ECL over the life of the asset through the credit-adjusted EIR; and any changes in ECL when occurred. In the IASB's view, the 2009 model would most faithfully represent ECL as it would

determine the carrying amount, interest revenue and impairment gains or losses to be recognised through a single, integrated calculation.

41. At the time, stakeholders supported the conceptual merits of the 2009 model but rejected it on the basis of significant operational challenges, such as estimating the full expected cash flows for all financial instruments; and applying a credit-adjusted EIR to those cash flow estimates.

42. To address the operational challenges and reduce unintended consequences, the IASB ultimately decided for the general approach which decouples the measurement and allocation of initial ECL from the determination of the EIR.

43. We note that, in essence, a few respondents to the RFI are now suggesting the IASB reconsider the 2009 model or a very similar approach to apply to purchased assets, instead of the general approach.

44. As further explained in paragraphs BC5.198-BC5.213 of the Basis for Conclusions on IFRS 9, the IASB had acknowledged that the recognition of 12-month ECL would result in an overstatement of ECL, and a resulting understatement of the value of a financial instrument, immediately after initial recognition. In particular, the initial carrying amount of financial assets would be below their fair value. However, isolating initial credit loss expectations for recognition over the life of all financial instruments was considered operationally complex. The IASB concluded the general approach to be superior to all the practical alternatives considered at the time.

45. We agree with respondents that the conceptual reasoning for this matter is relevant to both originated and purchased financial instruments. Accordingly, changing the general approach to achieve a more conceptually faithful outcome but doing so only for purchased assets, in our view, would not be justified. Such a change would create an arbitrary distinction between originated and purchased assets—a distinction that does not exist in IFRS 9 because the nature and underlying economics between these assets are similar. In our view, if the IASB were to reconsider the general approach, it should do so for all relevant financial instruments.

46. In light of PIR feedback that the general approach generally works as intended with no fatal flaws and the small population of respondents who asked the IASB to reconsider this issue, we do not think that a major overhaul of the general approach is justified. We also note the conclusion reached by some respondents, as described in paragraph 20 of this paper, that the 'double-counting' effect under IFRS 9 is unlikely to be substantial to warrant a major overhaul of the general approach.

47. We also considered, but rejected, the suggestion to add a specific disclosure about initial ECL for purchased assets to facilitate investors' analysis. In our view, the requirements in IFRS 7 *Financial Instruments: Disclosures* already require entities to explain changes in ECL which would enable entities to provide information about the effect from the initial ECL for purchased assets (for example, see paragraph 35B and paragraphs 35H-35I of IFRS 7).

Staff assessment—Is further action needed?

48. The staff assessed the above topics against the PIR framework to determine whether any further action needs to be taken:

PIR evaluation requirements	Staff assessment	
	Intragroup and non-commercial financial instruments	***Purchased financial assets that are not credit-impaired***
Are there fundamental questions (ie 'fatal flaws') about the clarity and suitability of the core objectives or principles in the new requirements?	**No.** PIR feedback and the staff analysis in this paper on the matters identified indicated that the general approach requirements are working as intended and that there are no fundamental questions about the clarity and suitability of the core objectives or principles in IFRS 9.	
Are the benefits to users of financial statements of the information arising from applying the new requirements significantly lower than expected?	**No.** PIR feedback did not provide any evidence that the benefits to users of financial statements of information arising from applying the general approach requirements to intragroup or non-commercial financial instruments are significantly lower than expected.	**No.** Although a few respondents raised concerns about the counter-intuitive outcome and the reduced usefulness of information about purchased assets, majority of these respondents did not indicate that the issue significantly lowers the benefits of the resulting information to users of financial statements.

PIR evaluation requirements	Staff assessment	
	Intragroup and non-commercial financial instruments	***Purchased financial assets that are not credit-impaired***
Are the costs of applying the new requirements and auditing and enforcing their application significantly greater than expected?	**It depends.** Feedback indicates that, in some cases, the application costs for intragroup financial instruments might exceed the benefits of the resulting information if requirements are applied mechanically. In our view, IFRS 9 provides an adequate basis for determining ECL for these instruments and applying the requirements mechanically would be inconsistent with the principles in IFRS 9 and might increase application costs. The staff, however, plan to seek further input from the Committee to inform the IASB's assessment of this matter.	**No.** PIR feedback did not provide any evidence that the cost of applying, auditing or enforcing the application of the general approach requirements for purchased assets are significantly greater than the IASB expected when developing the requirements.

Appendix A—Analysis of other comments

A1. This table summarises application questions and other comments on the general approach, together with our analysis and conclusions.

Feedback	Staff analysis	Conclusion
Determining ECL for on-demand intragroup loans		
A few respondents asked application questions regarding estimating ECL for particular on-demand intragroup loans. For example, a parent entity issues a loan that is contractually payable on demand to a subsidiary that is unable to pay it immediately. Realistically, the parent entity does not intend to demand the loan until a time that the subsidiary can repay it. In this context, they asked what is the maximum period over which the parent entity shall measure ECL—is it up to a day, reflective of the 'on demand' contractual term, or is it a longer period, reflecting the parent entity's intentions to not demand payment in near term.	We note that the maximum period applying paragraph 5.5.19 of IFRS 9 would be the maximum contractual period and not a longer period. An entity would reflect the expected time to recover the loan in the measurement of ECL (see paragraph B5.5.28 of IFRS 9). Other factors would also require consideration, including the effective interest rate on which the ECL are discounted to the reporting date. Unlike paragraph 5.5.19 of IFRS 9, paragraph 5.5.20 of IFRS 9 allows a loss allowance to be measured over a period longer than the contractual period if the financial instrument has both a loan and an undrawn commitment component. For the purpose of this question, we have assumed there is no loan commitment, thus paragraph 5.5.20 of IFRS 9 would not apply.	No action.
Determining ECL for joint financial guarantees		
A few respondents also asked about determining ECL for joint financial guarantees. For example, when two entities under	Determining ECL for a joint financial guarantee contract issued by two entities under common control would depend on the terms and conditions of the	No action.

Feedback	Staff analysis	Conclusion
common control jointly provide a guarantee over a loan issued to an intragroup debtor by a third-party bank. A national standard-setter said these types of contracts generally do not contain specific terms about the share of losses to be borne by each guarantor, making it challenging to determine the respective exposure at default and thus, could result in under/overestimated ECL. They suggested the IASB provide application guidance on measuring ECL for each guarantor in their respective separate financial statements. They, however, did not comment on what basis would the IASB provide guidance given that the exposure at default is based on contractual and legal terms.	contract. For example, if a guarantor can be individually held liable for all the losses that the guarantee holder incurs because a specified debtor fails to make payment when due, the amount of such losses would be the exposure at risk for the purposes of its separate financial statements. Based on our analysis, we think this is not necessarily a financial reporting issue arising from the impairment requirements in IFRS 9 and as such, cannot be resolved by the IASB.	
Scope of general approach versus the simplified approach		
A few respondents asked whether intragroup short-term receivables are in scope of the simplified or the general approach in IFRS 9.	We note the simplified approach only applies to trade receivables or contract assets that result from transactions that are within the scope of IFRS 15 *Revenues from contracts with customers* and lease receivables that result from transactions that are within the scope of IFRS 16 *Leases*. Therefore, the general approach would apply to intragroup receivables, unless they arise from transactions in scope of IFRS 15 or IFRS 16.	No action.

Feedback	Staff analysis	Conclusion
Convergence with US GAAP		
A few respondents raised concerns that the different approaches under IFRS 9 and US GAAP to account for expected credit losses reduce international comparability, suggesting the IASB and FASB explore potential convergence. One of these respondents suggested the IASB reconsider the general approach of the ECL model and instead consider applying the gross-up approach in US GAAP. This respondent had also suggested the FASB further extends the scope of the gross-up approach to include all financial instruments.	We agree that convergence would have yielded positive effects towards international comparability. However, as explained in paragraphs BC5.109-BC5.117 of the Basis for Conclusions on IFRS 9, the IASB and the FASB had examined ways of achieving convergence, without success. Furthermore, the IASB had considered, but rejected, the gross-up approach (see paragraphs BC5.219-BC5.220 of the Basis for Conclusions on IFRS 9). In the light of the feedback received (see paragraphs 6-8 of this paper), we do not think an overhaul of the general approach is justified.	No action.