Emerging Economies Group meeting

Date	**May 2024**
Project	**Amendments to the Classification and Measurement of Financial Instruments**
Topic	**Final amendments**
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Overview of amendments

Overview

The IASB's objectives

To respond to feedback on the PIR of the classification and measurement requirements in IFRS 9 by improving:

- the understandability of some of these requirements; and
- the usefulness of related information disclosed by an entity applying the requirements in IFRS 7

What amendments are being made?[1]

The IASB is making amendments to:

- derecognition of financial liabilities settled through electronic transfer;
- SPPI assessment in classifying financial assets; and
- disclosure of information about some financial instruments

[1] Please note that the amendments are still subject to change and should not be taken as final until they are published. The amendments are expected to be published in May 2024

Derecognition of financial liabilities

Derecognition of financial liabilities

When can an entity derecognise a financial liability?

- IFRS 9 usually requires a financial liability to be derecognised on the ***settlement date*** which is the date on which the liability is extinguished.
- An entity is permitted to deem a financial liability that is settled using an electronic payment system to be discharged ***before the settlement date*** if, and only, if the entity has initiated the payment instruction and there is:
  - no practical ability to withdraw, stop or cancel the payment instruction
  - no practical ability to access the cash
  - insignificant settlement risk

Classification of financial assets

Financial assets with ESG-linked features

When can an entity measure a financial asset with ESG-linked features at amortised cost?

- An entity applies guidance on assessing whether contractual cash flows are ***SPPI***, including considering:
    - elements of interest in a basic lending arrangement
    - contractual terms that change the amount or timing of contractual cash flows
- No exemption from SPPI requirements for ESG-linked features

Basic lending arrangements

When are contractual cash flows inconsistent with a basic lending arrangement?

- they are indexed to a variable that is not a basic lending risk or cost (for example, the value of equity instruments or the price of a commodity)
- they represents a share of the debtor's revenue or profit

*The assessment of interest focuses on **what** an entity is being compensated for, rather than **how much** compensation an entity receives, although the amount may indicate that the entity is being compensated for something other than basic lending risks or costs.*

Example

The interest rate on a loan is adjusted every reporting period to track the movements in a market-determined carbon price index during the preceding reporting period.

The contractual cash flows are not SPPI
The contractual cash flows are indexed to a variable (the carbon price index), which is not a basic lending risk or cost and is therefore inconsistent with a basic lending arrangement.

Contingent events that change contractual cash flows

What if…

- ***the contractual cash flows before and after a contingent event are consistent with a basic lending arrangement, but***
- ***the nature of the event does not relate directly to a change in basic lending risks or cost?***

The contractual cash flows are SPPI if, and only if, in all contractually possible scenarios, the contractual cash flows would not be significantly different from the contractual cash flows on a financial instrument with identical contractual terms, but without such a contingent feature.

Contingent events that change contractual cash flows

Example	***The contractual cash flows are SPPI***
The interest rate on a loan is adjusted every reporting period by a fixed number of basis points if the debtor achieves a contractually specified reduction in carbon emissions during the preceding reporting period. The interest rate resulting from the maximum possible cumulative adjustments would not be significantly different from the original interest rate on the loan	*The interest rate is adjusted by a fixed amount number of basis points, but the nature of the contingent event does not relate directly to a change in basic lending risks or costs.* *Since there is no significant difference between the interest rates on the loan before and after any adjustments over the life of the instrument, the entity concludes that the loan has cash flows that are SPPI.*

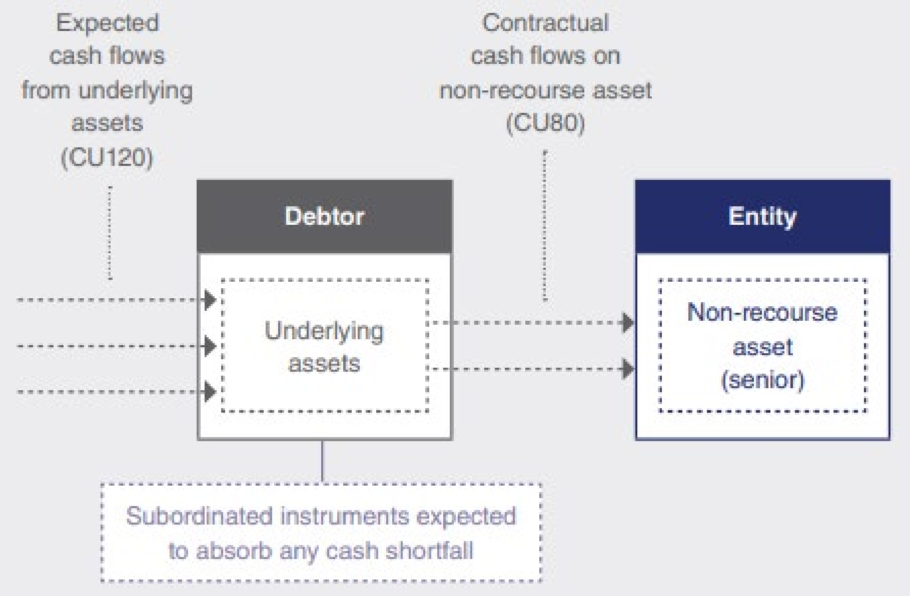
Non-recourse features

When does a financial asset have non-recourse features?

- the right to receive cash flows is limited to the cash flows from specified assets

What does the entity need to assess in the case of financial assets with non-recourse features?

- the link between the particular underlying assets or cash flows and the contractual cash flows of the financial asset being classified
- how this link is affected by other contractual arrangements, such as subordinated debt or equity instruments issued by the debtor

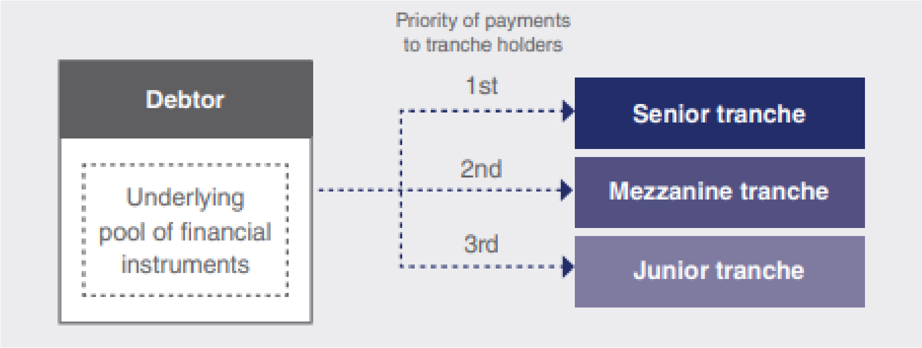


Example of structure in which (a) cash flows from the underlying assets are expected to exceed those of the financial asset; and (b) any cash shortfall is expected to be absorbed by subordinated instruments issued by the debtor.

Contractually linked instruments (CLIs)

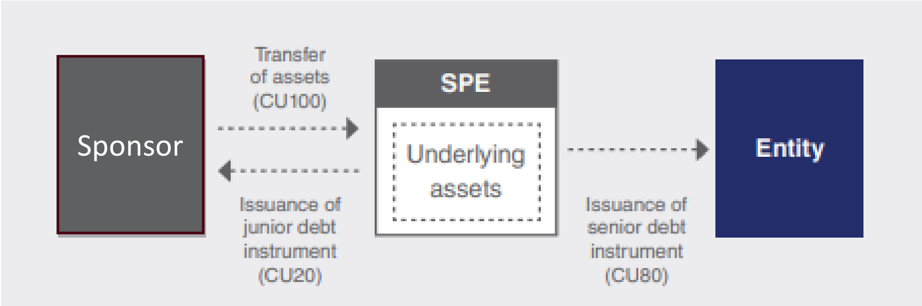
What is in scope of the CLI requirements?

- multiple CLIs creating concentrations of credit risk that result in the disproportionate allocation of losses



What is not in scope of the CLI requirements?

- Secured lending arrangements where the sponsor holds the junior instrument in the SPE



The underlying pool in a CLI transaction may include financial instruments that are not in scope of the classification criteria of IFRS 9, if their cash flows are SPPI equivalent

Disclosures

Disclosures

Equity investments with gains and losses presented in OCI

- disclosures per class of equity investment
- the FV change during the reporting period, showing separately the FV change related to investments derecognised during the period

Contractual terms that could change the amount of contractual cash flows based on a contingent event that does not relate directly to basic lending risks and costs

- a qualitative description of the nature of the contingent event
- quantitative information about the changes to contractual cash flows the gross carrying amount of financial assets and the amortised cost of financial liabilities subject to those terms

Effective date and transition

Effective date and transition

- An entity shall apply these amendments for annual reporting periods beginning on or after 1 January 2026
- An entity can elect to apply early either:
  - all the amendments at the same time
  - only the amendments related to the classification of financial assets
- An entity shall apply the amendments retrospectively, but is not required to restate comparatives

Question for EEG members

- Do you have any comments or questions on the amendments to IFRS 9?

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