IFRS Accounting

December 2022

Project Report and Feedback Statement

IFRS Accounting Standards

Post-implementation Review

IFRS 9 *Financial Instruments*—Classification and Measurement

Post-implementation Review

After issuing a new IFRS Accounting Standard (Accounting Standard) or major amendment, the International Accounting Standards Board (IASB) stands ready to act if evidence indicates a need for improvement to financial reporting. This evidence may arise from a variety of mechanisms, one of which is a post-implementation review.

This Project Report and Feedback Statement (Report) summarises the work the IASB completed and the conclusions it reached in the Post-implementation Review of IFRS 9 *Financial Instruments*—Classification and Measurement (Post-implementation Review).

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At a glance

The IASB carried out the Post-implementation Review of IFRS 9 *Financial Instruments*—Classification and Measurement between 2020 and 2022.

The objective of the Post-implementation Review was to assess whether the effects of applying the new requirements for users of financial statements, preparers, auditors and regulators are those the IASB intended when it developed the requirements.

The Post-implementation Review also provided an opportunity for the IASB to learn lessons that could be helpful for future standard-setting projects.

The IASB's conclusions on the Post-implementation Review

After analysing the evidence gathered in the Post-implementation Review, the IASB concluded that the classification and measurement requirements in IFRS 9 are working as intended. In particular, the IASB concluded that:

- stakeholders have no fundamental questions about the clarity or suitability of the objectives or principles in the new requirements.
- in general, the requirements can be applied consistently and provide useful information to the users of financial statements. However, clarification is needed in some areas to improve the understandability of the requirements (see 'Outcomes of the Post-implementation Review' section).
- stakeholders encounter no unexpected costs when applying or enforcing the classification and measurement requirements of IFRS 9, nor when using or auditing information the Accounting Standard requires a company to provide.

Outcomes of the Post-implementation Review

Matters requiring action as soon as possible

The IASB applied the approach on pages 10–11 of this Report to the matters arising from the Post-implementation Review. In applying this approach, the IASB identified as matters requiring action as soon as possible:

- the assessment of the contractual cash flow characteristics of financial assets with ESG-linked features (see Table C3 of Appendix C to this report on page 25);[1] and
- electronic cash transfers as settlement of a financial asset or liability (see Table C9 of Appendix C to this report on page 33).

The IASB started a standard-setting project in June 2022 to consider potential clarifications to the contractual cash flow characteristics assessment to respond to stakeholder feedback on financial assets with ESG-linked features in a timely manner.

The IASB will also develop complementary disclosure requirements to be included in IFRS 7 *Financial Instruments: Disclosures*. The proposed disclosure requirements will provide useful information to users of financial statements about contractual terms that could change the timing or amount of contractual cash flows of financial assets and financial liabilities.

1 ESG means 'environmental, social and governance'.

At a glance *continued...*

The IASB decided to propose amendments to IFRS 9 in relation to electronic cash transfers in response to concerns raised by stakeholders on both the Request for Information and the IFRS Interpretations Committee's related tentative agenda decision. Stakeholders' concerns related to the potential outcomes of applying the derecognition requirements in IFRS 9 to the settlement of a financial asset or a financial liability via electronic cash transfers.

The IASB also identified other matters that require standard-setting although these were not necessarily classified as high-priority matters, namely:

- clarifying the application of the contractual cash flow characteristics assessment to contractually linked instruments (see Table C3 of Appendix C to this report on page 25). The requirements for contractually linked instruments are part of, and therefore need to be considered along with, the clarifications to the general requirements on contractual cash flow characteristics.
- disclosures of fair value changes relating to equity instruments a company has presented in other comprehensive income rather than in profit or loss (OCI presentation election) (see Table C4 of Appendix C to this report on pages 26–27). These additional disclosures will provide a better balance of costs and benefits to users of financial statements and provide more transparent information about the performance of such investments.

Although these two matters on their own would not justify immediate action, the IASB decided that the most efficient approach would be to set out, in a single exposure draft, the proposed amendments on the matters set out in this section.[2] This approach considers stakeholders' capacity to provide high-quality feedback on the IASB's proposals and implement changes to Accounting Standards.

Matters to be added to the research pipeline

The IASB classified the findings related to amortised cost measurement and modifications of financial assets and financial liabilities as a medium priority. It decided to add a project to its research pipeline to explore whether the requirements for applying the effective interest method (see Table C7 of Appendix C to this report on pages 30–31) and for modifications of financial assets and liabilities (see Table C6 of Appendix C to this report on page 29) could be clarified in an effective manner.

Matters on which no further action is required

The IASB decided no further action was required on the other matters identified in the Post-implementation Review.

Appendix C to this Report provides a feedback summary and the IASB's response on each of the matters identified in the Post-implementation Review.

2 The IASB plans to issue an exposure draft as part of its project to clarify the classification and measurement requirements of IFRS 9.

Introduction

Post-implementation reviews

A post-implementation review is a mandatory step in the IFRS Foundation's due process. The IASB is required to conduct a post-implementation review of each new Accounting Standard or major amendment to an Accounting Standard. These reviews help the IASB to assess whether the effects of applying the new requirements for users of financial statements, preparers, auditors and regulators are those the IASB intended when it developed the requirements.

The IFRS Foundation's *Due Process Handbook* sets out the two phases of a post-implementation review. During both phases, the IASB reviews relevant academic research and other reports. In:

- the first phase, the IASB identifies matters to be examined, drawing on discussions with the IFRS Interpretations Committee (Committee), the IASB's advisory groups and other interested parties. The IASB consults publicly on the matters identified in the first phase of the post-implementation review.
- the second phase, the IASB considers the comments from the public consultation along with the information it has gathered from any additional analysis and other consultative activities.

A post-implementation review ends when the IASB presents its findings and sets out the steps it plans to take, if any, as a result of the review.

Objective of a post-implementation review

When the IASB issues a new requirement, it includes an effects analysis of the likely benefits and costs arising from that requirement. Costs comprise initial and ongoing financial and other costs.

The objective of a post-implementation review is to assess whether the information a company provides when it applies the new requirements affects users of financial statements, preparers, auditors and regulators in the way the IASB intended when it developed those new requirements.

During a post-implementation review, the IASB revisits important or contentious matters that it considered when developing the new requirements. It also considers how a company applying the new requirements is affected by market developments that have occurred since those requirements were issued. Feedback on important or contentious matters and the effect of market developments are included in Appendix C to this report together with other feedback.

The IASB concludes a post-implementation review by deciding:

- whether the new requirements are generally working as intended. Respondents asking fundamental questions about the clarity and suitability of the core objectives or principles in the new requirements would suggest that the requirements are not working as intended.
- whether stakeholders have specific questions about applying the new requirements that require a response. If stakeholders have specific application questions, the IASB may still conclude that the new requirements are working as intended. However, the IASB will respond to those application questions if they meet the criteria necessary for the IASB to take further action (see the section 'Approach to assessing evidence').

Introduction *continued...*

A post-implementation review is not a standard-setting project and does not automatically lead to standard-setting, nor is it intended to resolve every application question.

However, a post-implementation review can identify improvements that could be made to a new requirement, to the standard-setting process or to the structure of an Accounting Standard.

The IASB's objectives when issuing IFRS 9—Classification and Measurement

IFRS 9 *Financial Instruments* was developed with the objective of improving the reporting requirements for financial instruments to make the information a company discloses more relevant and understandable to users of financial statements. IFRS 9 was issued in three discrete stages reflecting important areas of the requirements: classification and measurement, impairment and hedge accounting.

The IASB's objective when issuing the classification and measurement requirements of IFRS 9 was to improve the financial reporting relating to financial instruments. To do this, the IASB provided a single classification and measurement approach for financial assets that reflects the business model in which the assets are managed and their cash flow characteristics. The IASB also introduced a reclassification approach that reflects changes in a company's business model, to replace more complicated reclassification rules in IAS 39 *Financial Instruments: Recognition and Measurement*.

IFRS 9 also requires a company to present in other comprehensive income the effects of changes in the credit risk of financial liabilities designated under the fair value option. This requirement was a response to the volatility in profit or loss that resulted from issuers measuring their own debt at fair value (the so-called 'own credit' issue).

Timeline

The timeline of the Post-implementation Review is presented in Appendix D to this Report.

More information

More information about the project, including recordings of public meetings, is available on the IFRS Foundation's website.

First phase—Identifying matters and gathering feedback

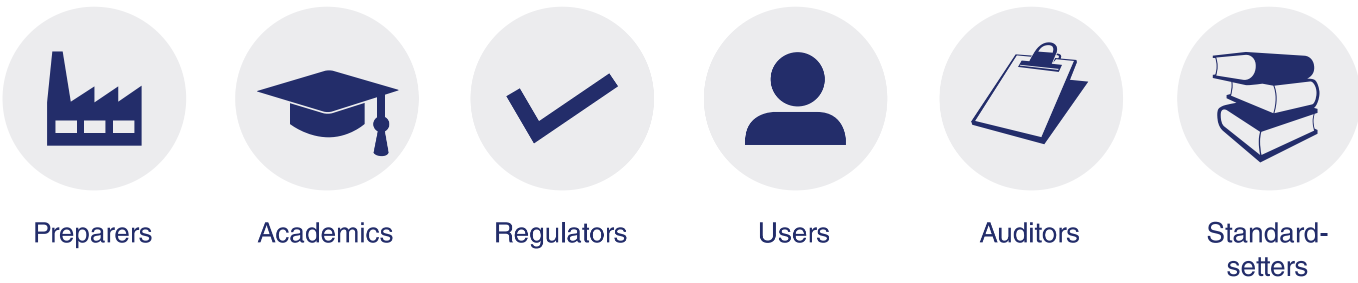
Identifying matters to be examined

In the first phase of the Post-implementation Review the IASB identified matters to be examined in a Request for Information. This included specific consideration of the OCI presentation election for investments in equity instruments (see Table C4 of Appendix C to this report on pages 26–27), which was a contentious matter during the development of IFRS 9 *Financial Instruments*. To identify matters to be examined, the IASB:

- attended more than 20 meetings to consult a wide range of stakeholders and other consultative bodies;
- reviewed academic research and other literature; and
- reviewed materials published alongside IFRS 9, including agenda decisions issued by the Committee.[3]

The IASB also called for further research into the effects of applying the classification and measurement requirements in IFRS 9, especially the effects of the OCI presentation election for investments in equity instruments. The IASB partnered with a reputable academic journal for the publication of the resulting papers.

Appendix B to this Report summarises how the IASB gathered evidence for the Post-implementation Review.



Feedback from the first phase

Feedback from the first phase of the Post-implementation Review provided evidence that:

- stakeholders generally agreed that the classification and measurement requirements work well in practice and are an improvement on the rule-based approach that companies previously applied under IAS 39 *Financial Instruments: Recognition and Measurement*;
- stakeholders often observed limited changes in how financial assets are classified when applying the classification and measurement requirements introduced in IFRS 9 compared to IAS 39; and
- users of financial statements and academics found some of the requirements in IFRS 9 complex and difficult to understand, but acknowledged the inherent complexity involved in accounting for financial instruments.

3 For further details on academic research and other literature reviewed, see Agenda Paper 3 from the IASB's July 2021 meeting.

First phase—Identifying matters and gathering feedback *continued...*

Stakeholders consistently commented on specific application matters, such as financial assets with ESG-linked features and recommended that the IASB:

- consider whether a specific area of the requirements could benefit from additional application guidance or clarification to support consistent application.
- reconsider the rationale behind a specific area of the requirements. Some stakeholders continued to disagree with the rationale the IASB had when it developed IFRS 9 (for example, because those stakeholders' conceptual views differed from the IASB's views).

Based on feedback from the first phase, the IASB identified specific matters to be included in the Request for Information. For matters on which specific application questions were raised or that were important during the development of IFRS 9, the IASB included 'Spotlight' boxes in the Request for Information to bring these matters to stakeholders' attention. The IASB asked questions about each of the matters on which it wanted more information. Appendix A to this Report sets out the questions asked in the Request for Information.

Second phase—Summary of findings and the IASB's response

Gathering evidence

In the second phase of the Post-implementation Review, the IASB gathered evidence on the matters in the Request for Information. The IASB relied on three main sources of evidence:

- public consultation via the Request for Information;
- further meetings with stakeholders; and
- reviews of additional academic literature resulting from the call for research into the effects of the OCI presentation election for investment in equity instruments.[4]

Appendix B to this Report summarises how the IASB gathered evidence for the Post-implementation Review.

Approach to assessing evidence

The IASB applied a two-step approach to identifying and prioritising matters arising in the second phase of the Post-implementation Review. The IASB assessed:

- whether matters warranted further action; and
- how such matters should be prioritised.

Assessing whether matters warranted further action

The IASB took action, subject to prioritisation criteria, if there was evidence that:

- stakeholders had fundamental questions about the clarity and suitability of the objectives or principles in the new requirements;
- users of financial statements found the information that companies provided by applying the new requirements much less beneficial than expected (for example, there was frequent diversity in application); or
- companies found the costs of applying some or all of the new requirements and auditing and enforcing their application much greater than expected (or a market development since the new requirements were issued had made it costly to apply the requirements consistently).

Prioritising matters that warranted further action

The IASB prioritised matters as high, medium or low depending on the extent to which information gathered during the Post-implementation Review provided evidence that:

- the matter had substantial consequences.
- the matter was widely reported.
- the matter arose from a financial reporting issue to which the IASB or the Committee could effectively respond.
- the benefits of any action would be expected to outweigh the costs. To decide this, the IASB considered how disruptive and costly it would be for companies to apply updated requirements and how important the matter was to users of financial statements.

4 Additional academic research identified was discussed in Agenda Paper 3B for the June 2022 IASB meeting.

Second phase—Summary of findings and the IASB's response *continued...*

The IASB prioritised matters that arose in the second phase of the Post-implementation Review based on the characteristics set out in Table 1:

Table 1—Prioritisation of matters raised

Priority	Action taken	Matters to which the priority level applies
High	As soon as possible	The IASB rarely expects to use this category, which applies to matters: • that relate to the core objective or principles of a new requirement and lead the IASB to conclude in a post-implementation review that the new requirement is not working as intended; or • for which most of the prioritisation criteria are present to a large extent, the benefits of any action are expected to exceed the costs and solutions are needed urgently.
Medium	Add to the IASB's research pipeline or the Committee's pipeline for action before the next agenda consultation	Matters for which most of the prioritisation criteria are present to a large extent and for which the benefits of any action are expected to exceed the costs.
Low	Consider in the next agenda consultation and explore if the IASB decides to take action in its deliberations on the feedback to that agenda consultation	Matters for which: • some of the prioritisation criteria are present to some extent; and • the remainder of the prioritisation criteria are not present or there is insufficient information to conclude whether prioritisation criteria are present.
No action	Not applicable	Matters that show few or none of the criteria the IASB uses to prioritise its work. Matters in this category will not be explored unless: • stakeholders identify the matters as a priority in their feedback on a future agenda consultation; and • the IASB decides to take action in its deliberations on the agenda consultation feedback.

Second phase—Summary of findings and the IASB's response *continued...*

Overall conclusion

The IASB concluded that the classification and measurement requirements in IFRS 9 *Financial Instruments* are working as intended after considering the evidence gathered in the second phase of the Post-implementation Review.

Outcomes

The IASB applied the approach on pages 10–11 of this Report to the matters arising from the Post-implementation Review. Table 2 sets out the matters on which the IASB decided further action would be needed based on the feedback, distinguishing between matters requiring action as soon as possible and matters to be added to the research pipeline, and the IASB's responses.

Table 2—Outcomes of matters that require standard-setting

Matters requiring action as soon as possible	Outcome
Contractual cash flow characteristics—ESG-linked features	In May 2022, the IASB decided to start a maintenance project to clarify requirements for assessing the contractual cash flow characteristics of a financial asset with ESG-linked features. The IASB intended to respond to the issue before diverse practices became embedded among companies that apply IFRS 9 (Question 3 of the Request for Information). The IASB will also develop complementary disclosure requirements in IFRS 7 *Financial Instruments: Disclosures*.
Contractual cash flow characteristics—contractually linked instruments	In May 2022, the IASB decided to clarify the requirements for assessing the contractual cash flow characteristics of contractually linked instruments (Question 3 of the Request for Information). The IASB also decided that, although this matter was not assessed as high-priority, the most efficient approach would be to set out, in a single exposure draft, proposed amendments that would both include those amendments and clarify the requirements for financial instruments with ESG-linked features.[5]
Electronic cash transfers as settlement for a financial asset or liability	In October 2022, the IASB decided to respond to the application question on electronic cash transfers as settlement for a financial asset or liability (Question 9 of the Request for Information) as soon as possible and include it in the IASB's maintenance project. The IASB also decided that it would be most efficient to include any proposed amendments in the forthcoming exposure draft on the amendments to the classification and measurement of financial instruments.

5 The IASB plans to issue an exposure draft as part of its project to clarify the classification and measurement requirements of IFRS 9.

Second phase—Summary of findings and the IASB's response *continued...*

... continued **Table 2—Outcomes of matters that require standard-setting**	
Matters requiring action as soon as possible	**Outcome**
Disclosures for equity instruments for which the OCI presentation election is applied	In October 2022, the IASB tentatively decided to propose amendments to IFRS 7 to increase the usefulness and transparency of information a company provides about the overall performance of equity investments for which the OCI presentation election was made (Question 4 of the Request for Information). The IASB decided that it would be most efficient to include the proposed amendments in the forthcoming exposure draft on the other amendments to the classification and measurement of financial instruments.
Matters to be added to the research pipeline	**Outcome**
Amortised cost measurement	In July 2022, the IASB decided to add a project on amortised cost measurement to its research pipeline to explore whether the requirements for applying the effective interest method (Question 7 of the Request for Information) and for modifications of financial assets and liabilities (Question 6 of the Request for Information) could be clarified effectively. During any future standard-setting project, the IASB will also consider any potential findings from the Post-implementation Review of IFRS 9—Impairment.

The IASB decided no further action was required on the other matters identified in the Post-implementation Review.

A summary of the feedback on all these matters and the IASB's responses is set out in Appendix C to this Report.

Appendix A—Questions in the Request for Information

<table>
<tr><th colspan="2">Table A1—Request for Information</th></tr>
<tr><th>Number</th><th>Questions</th></tr>
<tr><td>1</td><td>Classification and measurement

Do the classification and measurement requirements in IFRS 9 Financial Instruments:

(a) enable an entity to align the measurement of financial assets with the cash flow characteristics of the assets and how the entity expects to manage them? Why or why not?

(b) result in an entity providing useful information to the users of the financial statements about the amount, timing and uncertainty of future cash flows? Why or why not?

Please provide information about the effects of the classification and measurement changes introduced by IFRS 9, including the ongoing costs and benefits in preparing, auditing, enforcing or using information about financial instruments.

This question aims to help the IASB understand respondents' overall views and experiences relating to the IFRS 9 classification and measurement requirements. Sections 2–8 of the Request for Information seek more detailed information on the specific requirements.</td></tr>
<tr><td>2</td><td>Business model for managing financial assets

(a) Is the business model assessment working as the IASB intended? Why or why not?

Please explain whether requiring entities to classify and measure financial assets based on the business model assessment achieves the IASB's objective of entities providing users of financial statements with useful information about how an entity manages its financial assets to generate cash flows.

(b) Can the business model assessment be applied consistently? Why or why not?

Please explain whether the distinction between the different business models in IFRS 9 is clear and whether the application guidance on the evidence an entity considers in determining the business model is sufficient.

If diversity in practice exists, please explain how pervasive the diversity is and its effect on entities' financial statements.

(c) Are there any unexpected effects arising from the business model assessment? How significant are these effects?

Please explain the costs and benefits of the business model assessment, considering any financial reporting or operational effects for preparers of financial statements, users of financial statements, auditors or regulators.

In responding to (a)–(c), please include information about reclassification of financial assets (Spotlight 2 of the Request for Information).</td></tr>
</table>

Appendix A—Questions in the Request for Information *continued...*

<table>
<tr><th colspan="2">Table A1—Request for Information</th></tr>
<tr><th>Number</th><th>Questions</th></tr>
<tr><td>3</td><td>Contractual cash flow characteristics

(a) Is the cash flow characteristics assessment working as the IASB intended? Why or why not?

Please explain whether requiring entities to classify and measure a financial asset considering the asset’s cash flow characteristics achieves the IASB’s objective of entities providing users of financial statements with useful information about the amount, timing and uncertainty of future cash flows.

If, in your view, useful information could be provided about a financial asset with cash flows that are not Solely Payments of Principal and Interest (SPPI) applying IFRS 9 (that is, an asset that is required to be measured at fair value through profit or loss applying IFRS 9) by applying a different measurement approach (that is, using amortised cost or fair value through OCI) please explain:

(i) why the asset is required to be measured at fair value through profit or loss (that is, why, applying IFRS 9, the entity concludes that the asset has cash flows that are not SPPI).

(ii) which measurement approach you think could provide useful information about the asset and why, including an explanation of how that approach would apply. For example, please explain how you would apply the amortised cost measurement requirements to the asset (in particular, if cash flows are subject to variability other than credit risk). (See Section 7 of the Request for Information for more questions about applying the effective interest method.)

(b) Can the cash flow characteristics assessment be applied consistently? Why or why not?

Please explain whether the requirements are clear and comprehensive enough to enable the assessment to be applied in a consistent manner to all financial assets within the scope of IFRS 9 (including financial assets with new product features such as sustainability-linked features).

If diversity in practice exists, please explain how pervasive the diversity is and its effect on entities’ financial statements.

(c) Are there any unexpected effects arising from the cash flow characteristics assessment? How significant are these effects?

Please explain the costs and benefits of the contractual cash flow assessment, considering any financial reporting effects or operational effects for preparers of financial statements, users of financial statements, auditors or regulators.

In responding to (a)–(c), please include information about financial instruments with sustainability-linked features (Spotlight 3.1 of the Request for Information) and contractually linked instruments (Spotlight 3.2 of the Request for Information).</td></tr>
</table>

Appendix A—Questions in the Request for Information *continued...*

Table A1—Request for Information	
Number	**Questions**
4	**Equity instruments and other comprehensive income** (a) Is the option to present fair value changes on investments in equity instruments in OCI working as the IASB intended? Why or why not? Please explain whether the information about investments in equity instruments prepared applying IFRS 9 is useful to users of financial statements (considering both (i) equity instruments measured at fair value through profit and loss; and (ii) equity instruments to which the OCI presentation option has been applied). For equity instruments to which the OCI presentation option has been applied, please explain whether information about those investments is useful considering the types of investments for which the IASB intended the option to apply, the prohibition from recycling gains and losses on disposal and the disclosures required by IFRS 7 *Financial Instruments: Disclosures*. (b) For what equity instruments do entities elect to present fair value changes in OCI? Please explain the characteristics of these equity instruments, an entity's reason for choosing to use the option for those instruments, and what proportion of the entity's equity investment portfolio comprises those instruments. (c) Are there any unexpected effects arising from the option to present fair value changes on investments in equity instruments in OCI? How significant are these effects? Please explain whether the requirements introduced by IFRS 9 had any effects on entities' investment decisions. If yes, why, how and to what extent? Please provide any available evidence supporting your response which will enable the IASB to understand the context and significance of the effects. In responding to (a)–(c), please include information about recycling of gains and losses (Spotlight 4 of the Request for Information).

Appendix A—Questions in the Request for Information *continued...*

Table A1—Request for Information	
Number	**Questions**
5	**Financial liabilities and own credit** (a) Are the requirements for presenting the effects of own credit in OCI working as the IASB intended? Why or why not? Please explain whether the requirements, including the related disclosure requirements, achieved the IASB's objective, in particular, whether the requirements capture the appropriate population of financial liabilities. (b) Are there any other matters relating to financial liabilities that you think the IASB should consider as part of this post-implementation review (apart from modifications, which are discussed in Section 6)? Please explain the matter and why it relates to the assessments the IASB makes in a post-implementation review.
6	**Modifications to contractual cash flows** (a) Are the requirements for modifications to contractual cash flows working as the IASB intended? Why or why not? Please explain what changes you consider to be modifications of a financial asset for the purpose of applying paragraph 5.4.3 of IFRS 9 and as a modification of a financial liability for the purpose of applying paragraph 3.3.2 of IFRS 9. Does the application of those paragraphs, and the disclosure requirements related to modifications, result in useful information for users of financial statements? (b) Can the requirements for modifications to contractual cash flows be applied consistently? Why or why not? Please explain whether the requirements enable entities to assess in a consistent manner whether a financial asset or a financial liability is modified and whether a modification results in derecognition. Have the requirements been applied differently to financial assets and financial liabilities? If diversity in practice exists, please explain how pervasive the diversity is and its effects on entities' financial statements.

Appendix A—Questions in the Request for Information *continued...*

Table A1—Request for Information	
Number	**Questions**
7	**Amortised cost and the effective interest method** (a) Is the effective interest method working as the IASB intended? Why or why not? Please explain whether applying the requirements results in useful information for users of financial statements about the amount, timing and uncertainty of future cash flows of the financial instruments that are measured applying the effective interest method. (b) Can the effective interest method be applied consistently? Why or why not? Please explain the types of changes in contractual cash flows for which entities apply paragraph B5.4.5 of IFRS 9 or paragraph B5.4.6 of IFRS 9 (the 'catch-up adjustment') and whether there is diversity in practice in determining when those paragraphs apply. Please also explain the line item in profit or loss in which the catch-up adjustments are presented and how significant these adjustments typically are. If diversity in practice exists, please explain how pervasive the diversity is and its effect on entities' financial statements. In responding to questions (a)–(b), please include information about interest rates subject to conditions and estimating future cash flows (Spotlight 7 of the Request for Information).
8	**Transition** (a) Did the transition requirements work as the IASB intended? Why or why not? Please explain whether the combination of the relief from restating comparative information and the requirement for transition disclosures achieved an appropriate balance between reducing costs for preparers of financial statements and providing useful information to users of financial statements. Please also explain whether, and for what requirements, the IASB could have provided additional transition reliefs without significantly reducing the usefulness of information for users of financial statements. (b) Were there any unexpected effects of, or challenges with, applying the transition requirements? Why or why not? Please explain any unexpected effects or challenges preparers of financial statements faced applying the classification and measurement requirements retrospectively. How were those challenges overcome?

Appendix A—Questions in the Request for Information *continued...*

Table A1—Request for Information	
Number	**Questions**
9	**Other matters** (a) Are there any further matters that you think the IASB should examine as part of the post-implementation review of the classification and measurement requirements in IFRS 9? If yes, what are those matters and why should they be examined? Please explain why those matters should be considered in the context of the purpose of the post-implementation review, and the pervasiveness of any matter raised. Please provide examples and supporting evidence when relevant. (b) Considering the IASB's approach to developing IFRS 9 in general, do you have any views on lessons learned that could provide helpful input to the IASB's future standard-setting projects?

Appendix B—How the IASB gathered evidence

Public consultation through a Request for Information

In September 2021, the IASB published Request for Information *Post-implementation Review—IFRS 9* Financial Instruments—*Classification and Measurement* (Request for Information) for public comment. The Request for Information was open for comment until 28 January 2022. The IASB received 95 comment letters, which are available on the IFRS Foundation's website.[6]

The data in these tables should be considered in conjunction with other consultative activities undertaken to gather feedback during the Post-implementation Review.

Respondents to the Request for Information represented various stakeholder groups:

Table B1—Respondents by stakeholder type

Type of respondent	Number of respondents	Percentage of respondents (%)
Accounting firm	9	10
Preparer	36	38
Regulator	8	8
Standard-setting and/or accountancy body	33	35
User of financial statements	1	1
Other	8	8
Total	**95**	**100**

Respondents to the Request for Information represented different geographical regions:

Table B2—Respondents by geographical region

Geographical region	Number of respondents	Percentage of respondents (%)
Africa	2	2
Asia	21	22
Europe	49	52
Latin America	6	6
North America	4	4
Oceania	4	4
Global[7]	9	10
Total	**95**	**100**

6 Included in this total is one comment letter received after the comment period deadline.

7 'Global' means respondents representing more than one geographical region.

Appendix B—How the IASB gathered evidence *continued...*

Stakeholder engagement

During the Post-implementation Review, IASB members and technical staff met with a wide range of stakeholders, which included participating in 24 stakeholder-engagement events during the first phase and 21 events during the second phase of the Post-implementation Review. Stakeholders consulted included academics, users of financial statements, preparers, regulators, auditors and standard-setters, and the IFRS consultative bodies (Capital Markets Advisory Committee, Global Preparers Forum, Accounting Standards Advisory Forum). Some of the events were facilitated by standard-setters or professional accountancy bodies.

The events included participants from various stakeholder groups:

Table B3—Participants by stakeholder type		
Type of participant	**Number of events**	**Percentage of events (%)**
Academics	3	7
Accounting firms	6	13
Preparers and industry organisations	19	42
Regulators and government agencies	2	5
Standard-setters	6	13
Users of financial statements	3	7
Mixed groups	6	13
Total	**45**	**100**

The events included participants from various geographical regions:

Table B4—Participants by geographical region		
Geographical region	**Number of events**	**Percentage of events (%)**
Asia	3	7
Europe	19	42
North America	1	2
Global[8]	22	49
Total	**45**	**100**

8 'Global' means events that included participants from more than one geographical region.

Appendix B—How the IASB gathered evidence *continued...*

Review of academic research

The IASB reviewed academic research using EBSCO, the Social Science Research Network, Google Scholar and other databases of academic studies. The IASB searched these databases using a set of keywords based on topics within the scope of the Post-implementation Review. The IASB also reviewed papers submitted by academics who participated in meetings and the 2020 IASB Research Forum and reviewed the Special Issue of the *Australian Accounting Review* on the application and effect of the IFRS 9 classification and measurement requirements. The IASB examined both published and unpublished manuscripts identified from the search.

The IASB did two academic reviews, before and after it published the Request for Information. The review of academic research included 17 studies within the scope of the Post-implementation Review—13 of these have been published in academic papers and four are unpublished working papers. The unpublished working papers included a summarised review of academic papers that provided US GAAP evidence on available-for-sale securities and unrealised gains and losses.

The findings from the academic research included:

- evidence that in the year of initial application of IFRS 9, most financial instruments of a sample of European banks remained in the same category as they were under IAS 39 *Financial Instruments: Recognition and Measurement*;
- mixed evidence on whether the use of the OCI presentation election after the implementation of IFRS 9 is associated with management intending to influence the company's reported profit or loss;
- evidence that after IFRS 9 was implemented, the value relevance of earnings decreased and the value relevance of other comprehensive income increased; and
- evidence that investors' information processing of changes in companies' own credit risk is affected by whether companies present the changes in profit or loss or in other comprehensive income.

Appendix C—Feedback summary and the IASB's responses

Classification and measurement

Table C1—Question 1 of the Request for Information	
Feedback	**The IASB's response**
Most respondents reported that the requirements generally work well in practice. A company that applies the requirements measures its financial instruments in a way that provides users of financial statements with useful information about the amount, timing and uncertainty of the company's future cash flows. Respondents expressed mixed views: • on whether the principle-based approach in IFRS 9 *Financial Instruments* increased or reduced complexity compared to the approach in IAS 39 *Financial Instruments: Recognition and Measurement*; and • on whether the benefits achieved from the classification approach in IFRS 9 outweighed the costs incurred to apply the new requirements. Some respondents said that, generally, the change from IAS 39 to IFRS 9 had not resulted in extensive changes to how they classified financial assets. However, some companies incurred substantial costs and effort when making the transition to IFRS 9.	This question was intended to help the IASB understand respondents' overall views and experiences relating to the IFRS 9 classification and measurement requirements. The majority of respondents said that the requirements generally work well in practice and result in measurement of financial instruments that provides useful information to users of financial statements about the amount, timing and uncertainty of a company's future cash flows. The IASB considered respondents' feedback on specific areas of the classification and measurement requirements in its responses to questions 2–9 of the Request for Information. There were no application questions that required the IASB to make decisions on this topic.

Appendix C—Feedback summary and the IASB's responses *continued...*

Business model for managing financial assets

Table C2—Question 2 of the Request for Information	
Feedback	**The IASB's response**
Most respondents shared the view that, generally, the business model assessment achieves the IASB's objective of providing users of financial statements with useful information about how a company manages its financial assets to generate cash flows. Most of the feedback on the business model related: • to whether companies could apply the requirements consistently; and • to the requirement to reclassify financial assets when there is a change in business model. Respondents expressed mixed views on consistent application. Some stakeholders requested more detailed application guidance to increase the comparability of companies' information; other stakeholders expressed concern that more detailed application guidance could disrupt practice or result in rule-based requirements that are inappropriate in some circumstances. Generally, regulators, standard-setters and investors provided positive feedback on the IFRS 9 requirements for reclassification. However, preparers suggested the IASB reduce the restrictiveness of the requirements.	The IASB decided to take no further action on these matters as feedback indicated the business model assessment is working as intended. The IASB noted that respondents' suggested improvements generally relate to specific transactions, rather than fundamental aspects of IFRS 9. In the IASB's view, IFRS 9 already provides detailed application guidance on these matters and any further guidance would risk making the requirements rule-based. Furthermore, if the IASB broadened the scope of changes to which the reclassification requirements are applied, it would increase the complexity of the requirements within IFRS 9 and make it harder for users to understand the information provided in financial statements.[9]

9 For further details see Agenda Paper 3B from the IASB's October 2022 meeting.

Appendix C—Feedback summary and the IASB's responses *continued...*

Contractual cash flow characteristics

Table C3—Question 3 of the Request for Information

Feedback	The IASB's response
Most respondents said that the contractual cash flow characteristics assessment generally works as the IASB intended and that the requirements can be applied consistently to most financial assets. In their view, the requirements achieve the IASB's objective of providing users of financial statements with useful information about the amounts, timing and uncertainty of future cash flows. However, respondents identified two types of financial instruments to which companies found it challenging to apply the requirements consistently, namely: • financial instruments with ESG-linked features; and • contractually linked instruments. Some respondents raised other application challenges and asked the IASB to either provide additional application guidance or educational material, or to clarify the requirements. These application challenges relate to determining: (a) whether a financial asset has non-recourse features; (b) whether a company needs to consider the cash flows arising from bail-in legislation; (c) whether interest rates that are contractually adjusted for inflation introduce leverage; (d) whether interest rates including a government-imposed leverage factor are regulated interest rates; (e) whether a prepayment feature includes reasonable compensation for the early termination of the contract; and (f) whether particular types of interest rates include a modified time value of money element.	The IASB decided to add a project to its workplan to clarify requirements for assessing the contractual cash flow characteristics of a financial asset in relation to financial instruments with ESG-linked features and contractually linked instruments.[10] For other application questions, the IASB decided: • to consider matter (a) as part of its analysis of contractually linked instruments; • to consider whether consequential amendments are required in relation to matter (b) after its Financial Instruments with Characteristics of Equity project has developed further; • to take no further action on matters (c) and (d) based on discussions with the Accounting Standards Advisory Forum (ASAF) members that suggested these questions are neither widespread nor expected to have a material effect on companies' financial statements; and • to take no further action on matters (e) and (f) because the IASB previously considered these matters and discussions with stakeholders suggest practice has been established.[11]

10 For further details see Agenda Paper 3B and Agenda Paper 3C from the IASB's April 2022 meeting.

11 For further details see Agenda Paper 3A from the IASB's April 2022 meeting.

Appendix C—Feedback summary and the IASB's responses *continued...*

Equity instruments and other comprehensive income

<table>
<tr><th colspan="2">Table C4—Question 4 of the Request for Information</th></tr>
<tr><th>Feedback</th><th>The IASB's response</th></tr>
<tr><td>
Respondents expressed mixed views about the option companies have for equity investments to present subsequent changes in fair value in other comprehensive income (OCI) and the requirement not to reclassify gains or losses on disposal to profit or loss (recycling). These views are consistent with feedback the IASB has received on many previous occasions—confirming that stakeholders hold differing, and often strong, views about:
(a) the role of OCI and whether it should be used to distinguish between 'realised' and 'unrealised' gains and losses; and
(b) the importance of reporting amounts in profit or loss versus the importance of reporting amounts in OCI and when amounts in OCI are recycled or not.
Respondents who suggested the IASB amend IFRS 9 to require recycling agreed that requirements for recycling have to be accompanied by a robust impairment model.
However, some respondents, including securities and prudential regulators, reported that they had not identified any evidence that the IFRS 9 requirements had resulted in unexpected effects or affected companies' investment decisions.
continued ...
</td><td>
The IASB decided not to make any changes to the requirements for equity investments in IFRS 9, including the OCI presentation election, because it did not identify evidence:

of fundamental questions about the suitability or clarity of the requirements for equity investments, including the OCI presentation election; or
of the benefits to users of financial statements, or costs of applying the requirements, being significantly different from what the IASB expected.

The IASB will continue to monitor and evaluate any new evidence—as it does for all requirements—that indicates that users of financial statements consider the OCI presentation election to result in information that is neither relevant nor a faithful representation of a company's performance.
However, in responding to stakeholders' requests to increase the usefulness and transparency of information provided about the overall performance of equity investments for which the OCI presentation election was made, the IASB tentatively decided to propose additional disclosure requirements to be added to IFRS 7 Financial Instruments: Disclosures.
continued ...
</td></tr>
</table>

Appendix C—Feedback summary and the IASB's responses *continued...*

... continued	
Table C4—Question 4 of the Request for Information	
Feedback	**The IASB's response**
Respondents also reported mixed practice about the scope of equity instruments for which companies use the OCI presentation election. A few respondents reported that the OCI presentation election is rarely used or is used only for 'strategic investments'. Many other respondents, mainly insurers, said they either apply, or intend to apply, the OCI presentation election to all their equity investments not held for trading. Some respondents also suggested that the IASB expand the scope of the OCI presentation election to include indirect equity holdings and 'equity-like' instruments such as puttable instruments as described in IAS 32 *Financial Instruments: Presentation*.	The IASB decided that it would be most efficient to include the proposed amendments in the forthcoming exposure draft on the other amendments to the classification and measurement of financial instruments.[12]

12 For further details see Agenda Paper 3A from the IASB's October 2022 meeting.

Appendix C—Feedback summary and the IASB's responses *continued...*

Financial liabilities and own credit

<table>
<tr><th colspan="2">Table C5—Question 5 of the Request for Information</th></tr>
<tr><th>Feedback</th><th>The IASB's response</th></tr>
<tr><td>Respondents provided limited feedback on this topic. Most respondents said:
the financial liability requirements generally worked well; and
the requirement to present own credit risk in OCI is a welcome change compared to IAS 39 and works as intended.
However, a few respondents said that the requirements for separating fair value changes resulting from changes in own credit risk from other fair value changes:
are difficult to apply. These respondents said it is particularly difficult to apply these requirements to complex financial instruments with embedded derivatives and other features.
should be extended to financial liabilities that are required to be measured at fair value through profit or loss (instead of applying only to financial liabilities designated at fair value through profit or loss).</td><td>Feedback indicated that there are no fundamental questions about the clarity and suitability of the requirements for financial liabilities, including the presentation of own credit changes in OCI for financial liabilities designated at fair value through profit or loss. The IASB therefore decided to take no further action on this matter.</td></tr>
</table>

Appendix C—Feedback summary and the IASB's responses *continued...*

Modifications to contractual cash flows

Table C6—Question 6 of the Request for Information	
Feedback	**The IASB's response**
Some respondents said that the requirements for the modification of financial assets or financial liabilities work as intended and that there are no fundamental questions about the suitability of the requirements. However, most respondents said that there is diversity in practice and that companies are not consistently applying the requirements. Respondents recommended that additional application guidance be provided to improve consistency in the application of the requirements, including guidance: • that clarifies what constitutes a modification; • that clarifies when a modification leads to derecognition, including how to assess whether a modification is 'substantial' and when to use qualitative or quantitative indicators or both; • that clarifies the difference between partial derecognition and modification, and the subsequent accounting for the remaining or modified financial instrument; and • that clarifies where and how to recognise a modification gain or loss in profit or loss. Respondents also requested that the IASB provide further guidance on the requirements for financial assets: • that clarifies whether, and if so, to what extent, the reason for a modification (for example, forbearance versus on-market renegotiations) affects whether a modification results in derecognition; and • that clarifies the relationship between modifications and the application of the effective interest method (Question 7 of the Request for Information) and the expected credit loss requirements in IFRS 9.	The IASB decided to add a project on amortised cost measurement to its research pipeline. The project will aim to clarify the requirements in IFRS 9 for modifications of financial assets and liabilities and applying the effective interest method (Question 7 of the Request for Information).[13] The IASB acknowledged the potential intersection of the application questions on modifications and amortised cost measurement, and the expected credit loss requirements in IFRS 9. The IASB will consider any potential findings from the Post-implementation Review of IFRS 9—Impairment when deciding on the scope of, and before starting work on, this project.

13 For further details see Agenda Paper 3A from the IASB's July 2022 meeting.

Appendix C—Feedback summary and the IASB's responses *continued...*

Amortised cost and the effective interest method

Table C7—Question 7 of the Request for Information	
Feedback	**The IASB's response**
Most respondents said that in applying IFRS 9, amortised cost as a measurement basis provides useful information to users of the financial statements about the amount, timing and uncertainty of future cash flows. Some respondents said that the effective interest method is working as intended and that the requirements are well understood. However, as with the responses to Question 6 (modifications), most respondents said that the effective interest method gives rise to many application questions in practice because of the lack of guidance and clear principles to help preparers decide how to account for adjustments to contractual cash flows. Respondents identified the most challenging and interpretative areas as: • how to reflect uncertainty that arises from conditions attached to the contractual interest rate, for example, a reduction in the contractual rate based on the borrower's performance in meeting lending or ESG-linked targets; and • how to account for subsequent changes in estimates of future contractual cash flows, for example, when to apply paragraph B5.4.5 or B5.4.6 of IFRS 9. *continued ...*	The IASB decided to add a project on amortised cost measurement to its research pipeline. The project will clarify the requirements in IFRS 9 for modifications of financial assets and liabilities (Question 6 of the Request for Information) and applying the effective interest method.[14] The IASB acknowledged the potential intersection of the application questions on modifications and amortised cost measurement, and the expected credit loss requirements in IFRS 9. The IASB will consider any potential findings from the Post-implementation Review of IFRS 9—Impairment when deciding on the scope of, and before starting work on, this project.

14 For further details see Agenda Paper 3B from the IASB's July 2022 meeting.

Appendix C—Feedback summary and the IASB's responses *continued...*

... continued

Table C7—Question 7 of the Request for Information

Feedback	The IASB's response
Respondents also identified areas that would benefit from clarification and further explanation, including: • the meaning of a 'floating rate' financial instrument in paragraph B5.4.5 of IFRS 9 and whether this refers to the overall contractual rate or only a component of that rate; • the meaning of 'movements in market rates of interest' in paragraph B5.4.5 of IFRS 9 and whether this includes any adjustments to the contractual interest rate set out in the contract; • the effect on the effective interest rate of a financial instrument following a modification of contractual cash flows, for example, when the basis of calculation of interest changes from a fixed to a floating rate or vice versa; • the accounting for any unamortised transaction costs and any fees received as part of a modification of contractual cash flows; and • the meaning of 'fees and costs incurred' in paragraph 5.4.3 of IFRS 9 and whether this includes fees received, fees paid and costs paid by both the lender and the borrower.	

Appendix C—Feedback summary and the IASB's responses *continued...*

Transition

Table C8—Question 8 of the Request for Information	
Feedback	**The IASB's response**
Respondents provided limited feedback on this topic. Generally, respondents said the transition requirements worked well and the reliefs provided achieved an appropriate balance between reducing costs for preparers and providing useful information to users of financial statements. A few respondents said that, despite the reliefs provided, some companies incurred substantial costs in applying IFRS 9 for the first time. A few respondents commented on the prohibition from applying IFRS 9 to financial assets derecognised in the comparative period (if a company chooses to restate comparative information). These respondents said that, with hindsight, this prohibition should have been optional rather than mandatory to enable those companies that wanted to fully restate comparative information to be able to do so.	This question was intended to help the IASB understand whether the transition disclosures achieved an appropriate balance between reducing costs for preparers of financial statements and providing useful information to users of financial statements. The IASB was not asked to make any decisions about this topic since the feedback generally acknowledged that the requirements and reliefs provided on transition to IFRS 9 achieved a good balance between costs for preparers and benefits for users.

Appendix C—Feedback summary and the IASB's responses *continued...*

Other matters—Electronic cash transfers as settlement for a financial asset or liability

Table C9—Question 9 of the Request for Information	
Feedback	**The IASB's response**
Respondents provided limited feedback on this question. However, one matter raised by respondents referred to the discussion at the IFRS Interpretations Committee's (Committee) September 2021 meeting on cash received via electronic transfer as settlement for a financial asset.[15] These respondents asked the IASB to consider the implications of the Committee's tentative decision because, in their view, applying the requirements set out in the tentative agenda decision would have substantial impacts on long-standing and established practice. Therefore, these requirements would be challenging and costly to apply. See Table C10 of this appendix for feedback on other matters raised by respondents in relation to Question 9 of the Request for Information.	Although the Committee's tentative agenda decision focused on the application of the derecognition requirements to financial assets, most of the practical concerns raised by stakeholders were about financial liabilities. To reduce diversity in practice and assist with the consistent application of the derecognition requirements in IFRS 9, the IASB decided to clarify that for the derecognition of financial assets (except for 'regular way' transactions) and financial liabilities, an entity applies settlement date accounting. The IASB also decided to develop an accounting policy choice to allow an entity to derecognise a financial liability before it delivers cash on the settlement date when specified criteria are met. These proposed amendments will be included in the planned exposure draft, which will include other amendments to the classification and measurement requirements for financial instruments.

15 For further details see project page for Cash Received via Electronic Transfer as Settlement for a Financial Asset (IFRS 9).

Appendix C—Feedback summary and the IASB's responses *continued...*

Other matters—Other application questions

Table C10—Question 9 of the Request for Information	
Feedback	**The IASB's response**
Respondents provided limited feedback on this question. One matter reported in response to this question—relating to cash received via electronic transfer as settlement for a financial asset—is discussed in a separate table (Table C9 of this appendix). Respondents also said the IASB should consider other matters, including: • purchased or originated credit-impaired financial assets; • the derecognition of financial assets; • contracts to buy and sell non-financial items; • equity investments and OCI transaction costs; and • financial assets and liabilities held for trading.	The IASB decided that it would consider the application questions on purchased or originated credit-impaired financial assets as part of the upcoming post-implementation review on the impairment requirements in IFRS 9. After consulting with the ASAF members, the IASB decided to take no further action on the remaining matters because they are not widely reported or expected to have a material effect on companies' financial statements. Additionally, IFRS 9 provides enough guidance for the application question about financial assets and liabilities held for trading.[16]

16 For further details see Agenda Paper 3 from the IASB's September 2022 meeting.

Appendix D—Timeline of the Post-implementation Review

FIRST PHASE

October 2020–June 2021	The IASB consulted stakeholders and reviewed academic research.
July 2021	The IASB decided which matters would be examined further and prepared the Request for Information.
September 2021	Request for Information published.

SECOND PHASE

October 2021–January 2022	Extensive and focused consultation with stakeholders.
January 2022	Request for Information comment deadline—95 comment letters received.
March 2022	Summary of feedback and other evidence presented to the IASB.
April 2022–November 2022	Further consultation with stakeholders and an update on academic research. The IASB assessed evidence gathered in the second phase and decided the project outcomes.
December 2022	The IASB published the Project Report and Feedback Statement.

Notes

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