# STAFF PAPER

July 2022

**IASB® meeting**

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| **Project** | **Post-implementation review of IFRS 9—Impairment** | | |
| Paper topic | Project plan | | |
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## Purpose of this paper

1. In November 2021 the International Accounting Standards Board (IASB) decided to begin the post-implementation review (PIR) of the IFRS 9 *Financial Instruments* impairment requirements in the second half of 2022. This paper sets outs a plan for Phase 1 of the PIR project.

2. This paper does not include staff analysis or recommendations and the IASB is not asked to make any decisions based on this paper. The staff welcome questions or comments from IASB members on the plan set out in this paper.

## Structure of this paper

3. This paper provides:

   (a) reminders about the objective of a PIR, the two phases of a PIR and the impairment phase of the IFRS 9 project;

   (b) a plan for the PIR of IFRS 9—Impairment including:

      (i) objectives of this PIR;

      (ii) an outline of activities the IASB will carry out in Phase 1; and

      (iii) an anticipated timeline for Phase 1.

## Reminders[1]

### *Background*

4. A PIR is one of the mechanisms used to continually improve Accounting Standards. It differs from the other mechanisms to raise matters with the IASB in that it provides:

   (a) a planned opportunity to identify questions about a new Accounting Standard or major amendment to an Accounting Standard (new requirements), compared to other mechanisms which may identify questions on an ad-hoc basis at any time (both before and after PIRs).

   (b) an opportunity to consider the new requirements in their entirety, compared to other mechanisms which may focus on specific aspects of the new requirements.

### *Objective of a PIR*

5. The objective of a PIR is to assess the effect of the new requirements on users of financial statements, preparers, auditors and regulators following the issuance and application of those requirements.

6. Specifically, the IASB assesses whether:

   (a) overall, the new requirements are working as intended. Fundamental questions (ie 'fatal flaws') about the core objectives or principles—their clarity and suitability—would indicate that the new requirements are not working as intended.

   (b) there are specific questions about application of the new requirements. Such questions would not necessarily prevent the IASB from concluding that the new requirements are operating as intended but may nonetheless need to be

[1] Paragraphs 3.78 and 6.48–6.59 of the Due Process Handbook discuss post-implementation reviews (PIRs). Recently, there have been discussions on potential improvements to the description of PIRs and the framework for prioritising and responding to matters identified in PIRs, including the June 2022 IFRS Foundation Trustees' Meeting – Due Process and Oversight Committee (DPOC). The description of PIRs in this paper has been aligned to the agenda paper presented at that meeting. However, this description is subject to some final drafting improvements based on the discussion at the DPOC's June 2022 meeting.

addressed, if they meet the criteria for whether the IASB would take further action.

7. A PIR includes consideration of how contentious matters that the IASB considered during development of the new requirements and market developments since those new requirements were issued are being addressed in practice.

8. PIR findings can also identify improvements that should be made to the standard-setting process or the general structure of Accounting Standards.

9. A PIR is not a standard-setting project and does not automatically lead to standard-setting. It is also not intended to lead to the resolution of every application question.

### *Two phases of a PIR*

10. A PIR consists of two phases. Throughout both phases, the IASB reviews relevant academic studies and other reports and may conduct research and other outreach.

    (a) The first phase involves an initial identification and assessment of the matters to be examined, which are then the subject of a public consultation by the IASB in the form of a request for information (RFI).

    (b) In the second phase, the IASB considers the comments received from the public consultation along with information it has gathered from any additional analyses and other consultative activities.

11. The initial assessment (Phase 1) draws on the broad network of IFRS Accounting Standards-related bodies and interested parties, such as the IFRS Interpretations Committee, the IASB's consultative groups, securities regulators, national accounting standard-setting bodies, preparers, auditors and users of financial statements. The purpose of these consultations is to inform the IASB so it can establish an appropriate scope for the review. How extensive the consultations need to be in this phase will depend on the Accounting Standard being reviewed and on what the IASB already knows about the implementation of that Standard. The IASB needs to be satisfied that it has sufficient information to establish the scope of the review.

12. As part of the second phase, the IASB considers whether to take action on its findings. Prioritisation of findings identified in PIRs would be based on the approach described

in paragraphs 12–13 of the Agenda Paper 1C of the DPOC's June 2022 meeting. Specifically, prioritisation will result in findings to be addressed as soon as possible, findings to be added to the IASB's research pipeline or the IFRS Interpretations Committee's pipeline, findings to be considered in the next agenda consultation, or no action findings.

13. At the end of a PIR, the IASB publishes a Report and Feedback Statement summarising its findings and any actions it plans to take as a result of the PIR.

### *Impairment phase of the IFRS 9 project*

14. The IASB divided its overall project on financial instruments into three phases—classification and measurement, impairment and hedge accounting. Having published versions of IFRS 9 that introduced new classification and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013), in July 2014 the IASB published the final version of IFRS 9 including the new impairment requirements. The July 2014 version replaced earlier versions of IFRS 9 and completed the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 became effective for annual periods beginning on or after 1 January 2018.

15. The objectives of the impairment phase of the IFRS 9 project (as set out in the Project Summary published in July 2014) were to:

    (a) address the delayed recognition of credit losses under the impairment model in IAS 39 and complexity arising from using multiple impairment models; and

    (b) provide users of financial statements with more useful information about an entity's expected credit losses on its financial assets and its commitments to extend credit to facilitate users' assessment of the amount, timing and uncertainty of future cash flows.

16. To meet those objectives, the 'expected credit losses' model in IFRS 9 introduced the following main changes to the impairment requirements compared to IAS 39:

    (a) the same impairment model is applied to all financial instruments that are subject to impairment accounting, removing a major source of complexity in IAS 39;

(b) entities are required to recognise expected credit losses at all times and to update the amount of expected credit losses recognised at each reporting date to reflect changes in credit risk, eliminating the threshold for recognising credit losses so that it would no longer be necessary for a credit event to have occurred before credit losses are recognised;

(c) a forward-looking impairment model, broadening the information that is required to be considered. Entities are required to base their measurement of expected credit losses on relevant information about past events, including historical credit loss information for similar financial instruments, current conditions and reasonable and supportable forecasts. Thus, the effects of future credit loss expectations need to be considered; and

(d) improve disclosures about expected credit losses and credit risk, requiring entities to provide information that explains the basis for their expected credit loss calculations and how they measure expected credit losses and assess changes in credit risk.

17. Significant matters raised during the development of the IFRS 9 impairment requirements were set out in the Basis for Conclusions of IFRS 9, the Effects analysis[2] and Basis for Conclusions of IFRS 7 *Financial Instruments: Disclosures*. Those matters included:

(a) 12-month versus lifetime expected credit losses—recognition of lifetime expected credit losses only after a significant increase in credit risk;

(b) assessment of significant increases in credit risk. In particular, approaches for determining significant increases in credit risk (for example, collective versus individual assessment, absolute versus relative assessment of changes in credit risk);

(c) expected credit losses for loan commitments and financial guarantee contracts; and

(d) objective-based disclosure requirements in IFRS 7.

[2] The analysis of effects of IFRS 9, published in July 2014, is included in the Basis for Conclusions on IFRS 9.

## PIR of IFRS 9—Impairment

### *Objectives*

18. Consistent with the requirements set out in the *Due Process Handbook* and with the objective of PIRs discussed in paragraphs 5–9 of this paper, for the PIR of IFRS 9—Impairment the IASB will consider whether:

    (a) the objective of the new requirements is being met;

    (b) the benefits to users of financial statements from the resulting information are broadly as expected (or whether, for example, there is significant diversity in application); and

    (c) the costs of applying some or all of the new requirements and auditing and enforcing their application are broadly as expected (or whether there is a significant market development since the new requirements were issued for which it is costly to apply the new requirements consistently).

19. These objectives will determine the questions that we ask stakeholders in Phase 1 outreach. The objectives will also provide the IASB with a framework to analyse feedback for the purpose of determining the scope of the RFI.

### *Phase 1 activities*

#### *Outreach*

20. During Phase 1, IASB members and staff will perform outreach with preparers, auditors, users of financial statements, regulators and standard-setters. We will do this by consulting the IASB's consultative bodies at their public meetings, as well as gathering detailed input through meetings with small groups that have a particular interest in impairment requirements in IFRS 9 (such as users of financial statements, industry groups, regulators and auditors).

21. The purpose of the Phase 1 outreach will be to provide the IASB with sufficient information to identify the matters for which it will seek further feedback through the RFI. The IASB will therefore seek to balance the extent of input requested from stakeholders in this phase and the feedback obtained from stakeholders in response to the RFI.

22. Paragraph 6.51 of the *Due Process Handbook* specifies that a PIR considers the issues that were important or contentious during the development of the Accounting Standard, as well as issues that have come to the attention of the IASB after the Accounting Standard was issued. This will include considering market developments, issues that the IASB is aware of through, for example, implementation support it provided after IFRS 9 was issued, feedback from meetings with regulators and other stakeholders, and questions raised to the IFRS Interpretations Committee.

23. When seeking feedback on such issues, we will ask that stakeholders consider the issues in the context of the objectives set out in paragraph 18 of this paper. In our view, focusing Phase 1 outreach in this way will provide stakeholders with a clear understanding of the purpose of the outreach. In turn this will support stakeholders in the activities they carry out to gather and prepare feedback for the IASB. Furthermore, the framework for prioritising and responding to matters identified in PIRs (see paragraph 12 of this paper) will support stakeholders by managing their expectations.

*Review of academic and other research related to the implementation of impairment requirements and related disclosures*

24. As noted at the November 2021 meeting, a number of academic studies related to impairment requirements in IFRS 9 have either been completed or will be available soon. These include papers discussing the effects of impairment requirements in IFRS 9, submitted to the joint IASB/FASB/The Accounting Review conference in November 2022.

25. During Phase 1 we will review academic research and other materials (for example, benchmarking surveys, regulatory reports and analysis of financial statements) relevant to this PIR. We will report our findings to the IASB at a future meeting.

## ***Phase 1 timeline***

26. Based on previous PIRs and considering the due process for PIRs, we expect the PIR will take around 18–24 months to complete. The anticipated timeline can be summarised as follows:

| Activity | Timeline |
|---|---|
| **Phase 1 outreach**<br>As noted in paragraph 20, one way the IASB will gather input is through its consultative bodies. They all have at least one public meeting in the fourth quarter 2022. | September 2022 to February 2023 |
| **Publication of the RFI** | H1 2023 |
| **Comment period for the RFI** | 120 days |

27. The staff have considered how this timing would fit with possible timings of consultations on other projects on the IASB's work plan. At present, we see no issue with targeting publication of the RFI in the first half of 2023 (that is, we do not anticipate a risk of overburdening stakeholders with too many consultation documents at the same time). We considered the fact that this timeline may overlap with the expected exposure draft on clarifying amendments to the requirements in IFRS 9 for assessing a financial asset's contractual cash flow characteristics, resulting from the PIR on IFRS 9 classification and measurement. Nonetheless, due to the narrow scope of that project we do not anticipate it to be a significant issue.

| Question for the IASB |
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| Do you have any comments on the project objectives, Phase 1 activities or Phase 1 timeline? |