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Project	**Post-implementation review of IFRS 9—Classification and Measurement**
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CONTACTS

Matthias Schueler	mschueler@ifrs.org
Riana Wiesner	rwiesner@ifrs.org

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Introduction

1. At this meeting, the IASB will discuss feedback to *Request for Information and comment letters: Post-implementation review of IFRS 9—Classification and Measurement* (the RFI) on accounting for **modifications of financial assets and financial liabilities.**

2. This paper provides:

   (a) a summary of general feedback;

   (b) key application challenges identified;

   (c) a reminder of the IFRS 9 requirements regarding modifications of financial assets and financial liabilities relevant to the key application questions;

   (d) staff analysis and preliminary views in relation to the key application challenges identified; and

   (e) the following question for the IASB:

Question for IASB
Do you have questions or comments about the feedback summarised or the preliminary staff views in this paper?

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Summary of general feedback

3. As discussed in Agenda Paper 3A in March 2022, most respondents provided feedback about modifications of financial assets and financial liabilities. Even though respondents acknowledged that the modification requirements were not necessarily introduced by IFRS 9, they consider the PIR as the ideal opportunity to provide input and feedback on their experience with applying the requirements.

4. Some respondents consider the requirements to work as intended and suggest no amendments or clarifications are needed. In their view, assessing whether a modification results in derecognition requires judgement and there is already established practice to resolve any questions that arise. In addition, they consider the guidance developed by the accounting firms over the years has been helpful in supporting entities making those judgements. These respondents are concerned that any potential amendments to the requirements would disrupt practice and involve significant costs for preparers to implement which would exceed any incremental benefit to be gained by users of the financial statements.

5. Some respondents considered that, although in their experience the requirements for modifications of financial liabilities give rise to few questions in practice, the requirements could be clarified.

6. However, most respondents, including most of the accounting firms, said that modifications of financial assets is one of the areas for which most questions arise in practice and that IFRS 9 could benefit from clarification and additional application guidance.

7. With regards to financial assets, respondents attributed the practice questions and differences in application to the fact that there is no underlying principle to determine when a modification results in derecognition. Many respondents said that the requirements for financial assets in paragraph 5.4.3 of IFRS 9 are less specific than the comparable requirements for financial liabilities.

Key application challenges

8. The following paragraphs expand on the specific topics and resulting application challenges related to modifications of financial assets and financial liabilities identified from the feedback. Feedback on the interactions of modifications with the effective interest method are discussed in Agenda Paper 3B for this meeting.

What constitutes a modification?

9. Some respondents stated that IFRS 9 does not provide a specific definition of the term 'modification'. They further said that IFRS 9 is unclear as to what constitutes a modification of financial instruments whether it refers to changes in contractual terms of the financial instruments or changes in contractual cash flows.

10. Some respondents said that before the IBOR Reform and its Effects on Financial Reporting (IBOR Reform) project and specifically Phase 2 of that project, they normally considered modifications to constitute changes in contractual terms resulting from a bi-lateral agreement of the parties to the contract. They did not consider changes to the underlying calculation of indexes used as the basis of the contractual cash flows (as was highlighted in the Board's deliberations on accounting for the effects of the IBOR Reform) to be modifications. In their view, any such changes (for example, refinements of methodologies used to calculate a benchmark interest rate) were in the scope of paragraph B5.4.5 of IFRS 9 and resulted in an adjustment to the EIR.[1]

11. Therefore, respondents are concerned that the deliberations on the IBOR Reform project seemed to expand the scope of modifications, further creating confusion about what constitutes a modification for the purposes of IFRS 9. Even though the amendments of the IBOR Reform project did not define such changes as modifications for the purposes of IFRS 9, respondents are concerned that if similar changes in the future have to be accounted for as modifications, it would not only lead to significant practical challenges, but also a potential loss of information to users of the financial statements. Consider for example a scenario where the calculation methodology for a specified benchmark rate is changed. If this change in the basis for

[1] Also see Agenda Paper 3B for this meeting.

determining the contractual cash flows is considered a modification, an entity applying paragraph B5.4.6 of IFRS 9 to financial liabilities or paragraph 5.4.3 of IFRS 9 to financial assets would be required to calculate a 'catch up' adjustment using the original effective interest rate (ie which is based on the original methodology). In addition, the entity would have to recognise interest using the original effective interest rate, even though the rate based on the original methodology no longer exists. Respondents were of the view that such an outcome would not reflect the economic substance of the change in calculation methodology and therefore would not provide useful information to users of financial statements.

When does a modification lead to derecognition?

12. Most respondents were of the view that there is insufficient guidance in IFRS 9 on how to determine if a modification leads to derecognition including how to assess whether a modification is 'substantial' and when to use qualitative or quantitative indicators or both. Respondents said that this is an area where most questions arise in practice and as a result give rise to substantial diversity in practice in how modifications are accounted for.

13. Respondents generally agreed that there are less application issues regarding the guidance for derecognition of financial liabilities. Interpretation issues in this area are mainly related to the question of whether the assessment of a modification as 'substantial' is purely be based on the quantitative 10 per cent test (as described in paragraph B3.3.6 of IFRS 9) or if the consideration of qualitative factors might be acceptable and sufficient to conclude on the assessment if the 10 per cent test is not met.

14. For financial assets, most respondents agreed that the requirements for modification of financial assets in paragraph 5.4.3 of IFRS 9 are less specific compared to the requirements for financial liabilities. This is because that paragraph only refers to 'modifications that did not result in derecognition' without providing any further guidance on how to assess if that is the case. As a result, respondents said that entities have developed a variety of interpretations and accounting policies to assess whether a modification results in the derecognition of a financial asset.

15. Firstly, respondents are of the view that there are several possible approaches to analyse modifications of financial assets in IFRS 9, for example:

    (a) using the notion of 'expiry to the rights (or cancellation) of the contractual cash flows' as stated in paragraph 3.2.3(a) of IFRS 9. This would mean that nearly all modifications result in (partial) derecognition even if there is very little change to the contractual terms; or

    (b) using the hierarchy in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to analogise to the notion of a substantial change of the terms of a financial liability, including the 10 per cent test, as required by paragraphs 3.3.2 and B3.3.6 of IFRS 9.

16. Respondents confirmed that although the latter approach is the most common approach applied in practice, there is uncertainty about which of the approaches is the most appropriate for financial assets (especially in light of the Interpretations Committee's agenda decision on Greek Government Bonds) or whether both are permissible, and if so, how they might interact with each other.[2]

17. Secondly, respondents are uncertain if the reason for a modification (ie forbearance vs commercial renegotiations) affects whether a modification results in derecognition or not. In this context, forbearance refers to modifications where a lender grants a concession to the borrower because of its financial difficulties, with the aim of recovering as much as possible of the principal outstanding (for example a lender has forgiven part of the principal of the loan or has restructured more than one loan facility in the same restructuring deal with a number of changes including additional fees as part of the restructuring). In contrast, a commercial renegotiation refers to instances where a borrower is able to refinance instruments at an on-market rate offered by a number of different lenders (where for example the contractual interest rate or tenor of the existing loan might be changed).

18. Some respondents argued that if the original contract contains a prepayment option which is exercisable without significant penalty, they may regard any commercial renegotiation as a derecognition of the original and the recognition of a new financial

[2] IFRIC Update, September 2012 'IAS 39 *Financial Instruments: Recognition and Measurement*—Derecognition of financial instruments upon modification'.

instrument, even though there might not be a substantial difference in the contractual terms.

19. Lastly for those entities relying wholly or in part on the quantitative 10 per cent test as required for financial liabilities to assess derecognition, uncertainty remains over which cash flows to include in the 10 per cent test. This includes consideration of the fees, costs or other cash flows that might be paid or received by the lender and borrower. Those questions arise both in cases of forbearance activities and in cases of commercial renegotiations.

What is the difference between partial derecognition and a modification?

20. Related to the question of how to assess whether a modification leads to derecognition of a financial asset or financial liability, some respondents raised concerns about the distinction between modifications and partial derecognition, including the order of applying the requirements. This question is also related to the approaches to analyse changes to contractual cash flows as described in paragraph 15 following a modification, for example when the contractual terms are modified to reduce the interest rate from say 5 per cent to 2 per cent.

21. Some respondents are of the view that IFRS 9 is unclear if the assessment of whether the modification leads to derecognition is based on:

    (a) the notion of the expiry (or cancellation) to the right of the contractual cash flows (ie expiry of the right to receive the difference between 5 per cent and 2 per cent) and therefore be accounted for as a partial derecognition; or

    (b) a modification of contractual terms applying paragraph 5.4.3 or paragraph B5.4.6 of IFRS 9 and the recognition of an associated gain or loss in profit or loss.

22. Although the resulting gain or loss recognised in both cases might be the same (ie the difference between 5 per cent and 2 per cent interest), respondents said that depending on the approach chosen, entities could report different accounting outcomes, leading to diversity in practice. For example, if the change is accounted for as a modification, the difference in the gross carrying amount might be more than 10 per cent and therefore lead to derecognition of the entire instrument. On the other hand, if the change is accounted for as a partial derecognition, only the difference would be

recognised as a gain or loss and the remaining carrying amount would continue to be accounted for as an existing instrument.

23. A few respondents questioned if the requirements for write off in paragraphs 5.4.4 and B3.2.16(r) of IFRS 9 are not sufficient to ensure consistent application and comparability. For example, a few respondents were concerned that a lack of detailed guidance might lead to inconsistencies in the implementation of internal write off policies which might be indicated through relatively high post-write off recovery rates.

24. Lastly some respondents were of the opinion that the interaction between the derecognition (or partial derecognition) requirements with the impairment requirements for financial assets is unclear. In particular, they mentioned the application of paragraph B5.5.26 of IFRS 9 when the modification of a financial asset that is credit–impaired result in derecognition of the original financial asset and the recognition of a new financial asset. In their view, whether the new financial asset is recognised as originated credit–impaired might be influenced by the regulatory treatment which typically requires a 'cure period' of good financial behaviour before the financial asset can be considered to no longer be credit–impaired (ie if new financial asset can be allocated to stage 1 of the expected credit loss (ECL) model).

Calculation and recognition of a modification gain or loss

25. A few respondents are of the opinion that when a credit–impaired financial asset is modified, the resulting modification gain or loss should be recognised as part of the ECL charge (ie in cases where this has already be provided for against the allowance account) and not as a separate modification gain or loss. In their view, to do otherwise would distort the reporting of an entity's credit-related losses. The level of such losses would depend on whether the lender has previously written off some of the amounts due. This is demonstrated in the case of a modification loss, where the corresponding release of the ECL allowance account is recognised in different line items of the profit and loss account.

26. Further, some respondents were unsure on how to calculate the modification gain or loss regarding the treatment of fees. Respondents are of the view that paragraph 5.4.3 of IFRS 9 distinguishes between, and accounts differently for, fees charged to the

borrower and costs and fees incurred as part of the modification. These respondents are generally of the opinion that IFRS 9 requires fees and costs *incurred by the lender* to be deducted from the recalculated gross carrying amount ***after*** the modification but that there is a lack of clarity on how to treat fees *charged* to the borrower as part of the modification.

27. Respondents are of the view that one interpretation would be to include fees charged in the modification gain or loss as they are part of the modified contractual cash flows negotiated with the borrower. An alternative reading of the requirements would result in the fees charged to the borrower to (also) adjust the carrying amount of the loan after calculating the modification gain or loss, similar to fees incurred.

28. Respondents who apply an approach of expiry or cancellation to the rights of contractual cash flows raised a further issue with respect to the calculation of any gain or loss on partial derecognition. They state that it is unclear how to determine the amount or portion of the carrying amount that is derecognised, for example whether to apply a relative fair value approach or a proportionate derecognition approach.

Relevant IFRS 9 requirements

29. The derecognition and modification requirements for financial assets and financial liabilities that have been carried forward from IAS 39 largely unchanged. The following paragraph only summarises the requirements of IFRS 9 which are directly relevant to the application questions raised during the feedback of the PIR of IFRS 9.

Financial liabilities

30. The derecognition requirements for financial liabilities are set out in paragraphs 3.3.1–3.3.5 and paragraphs B3.3.1–B3.3.7 of IFRS 9. Paragraph 3.3.1 of IFRS 9 states that an entity should derecognise a financial liability (or part of it) when and only when it is extinguished–ie when the obligation specified in the contract is discharged or cancelled or expires.

31. In addition, paragraph 3.3.2 of IFRS 9 gives specific requirements in respect of modifications and exchanges of financial liabilities with the same lender, which is expanded on in paragraph B3.3.6 of IFRS 9 to include the quantitative '10 per cent

test'. Paragraph B3.3.6 of IFRS 9 was amended and paragraph B3.3.6A of IFRS 9 was added in May 2020 as part of the Annual Improvements process to clarify which fees and cost to include in the calculation of this test.[3]

32. Paragraph B5.4.6 of IFRS 9 applies to the recognition of a modification gain or loss on a financial liability and requires the amortised cost of a financial liability to be adjusted to reflect the revised contractual cash flows, discounted at the original EIR. Any resulting gain or loss is recognised in profit or loss.

Financial assets

33. The derecognition requirements for financial assets are set out in paragraphs 3.2.1-3.2.23 of IFRS 9. The derecognition requirements for financial assets are summarised in the decision tree in paragraph B3.2.1 of IFRS 9.

34. Paragraph 3.2.3 of IFRS 9 focusses on an assessment of contractual cash flows and states that an entity shall derecognise a financial asset when, and only when:

    (a) the contractual rights to the cash flows from the financial asset expire, or

    (b) it transfers the financial asset as set out in paragraphs 3.2.4 and 3.2.5 and the transfer qualifies for derecognition in accordance with paragraph 3.2.6.

35. Paragraph 5.4.4 of IFRS 9 states that an entity shall directly reduce the gross carrying amount of a financial asset when the entity has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. It further states that a write-off constitutes a derecognition event (see paragraph B3.2.16(r)).

36. For financial assets there is no specific guidance in IFRS 9 similar to the requirements for financial liabilities in paragraph 3.3.2 and B3.3.6 of IFRS 9 with regards to when a modification leads to derecognition.

37. However, paragraph 5.4.3 of IFRS 9 applies to modifications of financial assets that do not result in derecognition and requires a modification gain or loss to be calculated and recognised similar to financial liabilities.

38. In addition, paragraph B5.5.25 of IFRS 9 states that in circumstances where the modification of a financial asset results in the derecognition of the existing financial

[3] See also Agenda Paper 11 for the May 2016 IFRS Committee meeting.

asset and the subsequent recognition of the modified financial asset, the modified asset is considered a 'new' financial asset for the purposes of IFRS 9.

Staff analysis of feedback and preliminary views

39. The staff note that all of the feedback on modifications of financial assets and financial liabilities relate to application questions that have not only arisen in practice since IFRS 9 was issued but have a longer history. Over the years several requests for clarification and/or additional guidance on modifications have been submitted to the IFRS Interpretations Committee and/or the IASB, most notably the following:

    (a) September 2012 – on the question about Greek Government Bonds, the Committee concluded that, by analogy to the guidance on financial liabilities, a substantial change to the terms of the bonds would result in derecognition;

    (b) November 2015 – the Committee received a request for more generic guidance on modifications but decided not to pursue the matter as the Committee was of the view that the nature of the matter was very broad and that it would not be able to resolve it in efficient manner; and

    (c) May 2016 – the Committee received a request to clarify which fees and costs should be included when performing the '10 per cent test' and concluded that only fees paid or received between the lender and borrower (or on their behalf) should be included.

What constitutes a modification of contractual cash flows?

40. Staff is of the view that IFRS 9 did not introduce new requirements pertaining to the modification of financial instruments. The modification requirements were carried across from IAS 39 largely unchanged.

41. As part of the IBOR Reform–Phase 2 amendments, the IASB noted in paragraph BC5.297 of the Basis for Conclusions on IFRS 9 that paragraph 5.4.3 of IFRS 9 refers to the modification of *contractual cash flows of a financial asset*, while paragraph 3.3.2 of IFRS 9 refers to the modification of *the terms of an existing financial liability*. The IASB also noted that although these paragraphs use slightly different

wording, both refer to a change in the contractual terms or contractual cash flows that was not specified/anticipated when the parties entered into the contract.

42. Whether a modification is substantial or whether it is accounted for as an adjustment to the EIR as opposed to a modification gain or loss will have consequential effects on other areas such as hedge accounting, SPPI and business model assessments, measurement of expected credit losses and assessment of embedded derivatives. As part of the IBOR Reform project–Phase 2, Agenda Paper 14A from the October 2019 meeting included a flowchart summarising the current requirements in IFRS 9 to assist in understanding the interaction between these areas.

43. Although the IASB at the time noted that clarifying what constitutes a modification might be needed, it decided not include it as part of the IBOR Reform–Phase 2 amendments, but consider it at a later stage.

44. Therefore, in the staff's view, the information obtained as part of the PIR process, along with the previous requests for clarification, confirmed the need for standard-setting to clarify the requirements in IFRS 9 to enable the requirements to be applied in a more consistent manner.

When does a modification lead to derecognition?

45. In the staff's view, IFRS 9 currently distinguishes between modifications that result in derecognition and modifications that do not. The staff note that the accounting outcome between the two groups of modifications is different. This is because paragraph 5.4.3 of IFRS 9 specifically refers to renegotiations or modifications that did not result in derecognition. Similarly, paragraph 3.3.2 of IFRS 9 refers to a substantial modification that is accounted for as an extinguishment of the original liability (or part thereof).

46. As the IASB acknowledged during the IBOR Reform–Phase 2 project, IFRS 9 sets out separate requirements for derecognition of financial assets and financial liabilities.[4] The difference in requirements could therefore also have an impact on which modifications lead to derecognition of financial liabilities compared to financial assets.

[4] See paragraph BC5.302 of IFRS.

Financial liabilities

47. In the staff's view, paragraph B3.3.6 of IFRS 9 is clear that if the difference in the amortised cost of a financial liability is more than 10 per cent, the modification is substantial. However, we are not of the view that it requires the 10 per cent test to be applied exclusively to assess if a modification of a financial liability is substantial or an exchange of debt instruments between a borrower and a lender occurs on substantially different terms. This is because there might be fact patters where the use of qualitative factors would be more appropriate or it is clear that an exchange or modification of an existing liability is substantial without extensive quantitative analysis (using the 10 per cent test).

48. In May 2020 the IASB issued *Annual Improvements to IFRS Standards 2018–2020*, which included amendments to IFRS 9 to clarify that only fees paid or received between the borrower and lender should be included in the 10 per cent test. The staff considers the amendment to be sufficient to ensure consistent application of the requirements of the 10 per cent test, which can supplement an assessment of whether a modification of a financial liability is substantial or not.

Financial assets

49. Analysing the guidance contained in paragraph 3.2.3 of IFRS 9 in September 2012 – on the question about the Greek Government Bonds, the Interpretations Committee concluded, that in assessing whether a modification of contractual cash flows leads to derecognition, an entity could:

    (a) apply the guidance in paragraph 3.2.3 (a) of IFRS 9, or

    (b) develop an analogy to the notion of a substantial change in the terms of a financial liability in paragraph 3.3.2 of IFRS 9.[5]

50. The Interpretations Committee at the time noted that derecognition of a financial asset based on paragraph 3.2.3 (a) of IFRS 9 or the analogy to financial liabilities regarding

[5] At its September 2012 meeting, the Committee noted that, in the absence of an explicit discussion of when a modification of a financial asset results in derecognition, entities could develop an analogy to the notion of a substantial change of the terms of a financial liability.

substantial changes to the terms are two different approaches in their own rights based on different rationales and circumstances.[6]

51. As noted in paragraph 45 of this paper, IFRS 9 distinguishes between modifications that result in derecognition and those that don't. Therefore, **not all** modifications will result in the expiry of the rights to the cash flows and derecognition of a financial asset.

52. The staff believe that the rationale as outlined in paragraph 3.2.3 (a) of IFRS 9 refers to a notion of expiry to the rights (or cancellation) of the contractual cash flows, which in effect is a legal concept of releasing the borrower from its obligation (for example through repayment of the loan or explicit release as part of a debt forgiveness).

53. Hence, it is necessary to assess whether a change in the contractual terms represents either the expiry of the rights to all (or part of) the cash flows of the original instrument or changes to continuing contractual features of the original instrument, which might represent overall a substantial change.

54. This issue is related to the question of what is a modification and the staff has acknowledged that the interaction of (or the boundary between) modification and expiry of rights to cash flows could be clarified. We are of the view that standard-setting might be needed in this regard.

Does the reason for modifying financial assets matter?

55. In addition to the issue of what approach to take to assess a modification of financial assets, respondents also questioned if the reason for a modification should be taken into consideration when making such an assessment.

56. In regard to this question, the staff note that the IASB has considered this question as previously discussed and rejected this view.[7] While we continue to agree with this decision (ie not to limit a modification assessment to for example a forbearance scenario), we also believe that an entity has to take into account all the specific facts and circumstances of each case. Typically, the situation of a borrower who is able to

[6] Refer to Agenda Paper 3 for the September 2012 Interpretation Committee Meeting.
[7] Refer to paragraphs BC5.231 to BC5.235 of IFRS 9.

refinance its loan to a market rate for *that particular* loan (for example the borrower, given his credit rating, could choose from more than one offer from different lenders) is different to a borrower who is in financial difficulty and is unable to do so.

57. With respect to substantial changes to the terms of a financial instruments, Agenda Paper 14A for the October 2019 IASB meeting states that determining whether the terms are substantially different from a qualitative perspective will depend on the specific facts and circumstances of each case. This is because modifications can vary significantly across jurisdictions, product types and agreements.

58. In our view, the reason for a modification should be factored into any qualitative assessment of all the facts and circumstances of the specific modification, rather than being determinative.

When to apply the 10 per cent test?

59. Lastly respondents queried how the 10 per cent should be applied for modification of financial assets in the context of the relevant derecognition assessment. The staff is of the view that the application of the 10 per cent test for financial assets is only suitable in limited circumstances because of the interaction of the requirements of modifications of financial assets with the requirements of the expected credit loss model in IFRS 9.

60. If the modification does not lead to derecognition, respondents to the PIR have asked for clarification for financial assets with respect to the interaction between modifications and the application of the effective interest method and the expected credit loss requirements in IFRS 9. Feedback on this interaction is further discussed in the Agenda Paper 3B for this meeting.

Where and how to recognise a modification gain and loss

61. Respondents who were of the opinion that the reason for the modification should impact on the assessment whether the modification is substantial or not also argued that any modification loss on a credit–impaired financial asset should be recognised in the impairment line of the statement of profit and loss and not in any other line item because they believe any other approach would distort an entity’s reporting of credit-related losses.

62. Staff however is of the view that once an entity determined that a modification did not result in derecognition and therefore is accounted for by applying paragraph 5.4.3 of IFRS 9, the requirements of IFRS 9 are clear. The modification gain or loss adjusts the gross carrying amount of the financial assets. Staff recognise that this could lead to a reduction in ECL allowance (as the gross carrying amount might be lower) but we consider this is a faithful representation of the economic effect. This is because an entity should have been already provided for any potential loss through its ECL model before it may decide to restructure such a loan to maximise its recoveries.

63. This is also consistent with a Transition Resource Group for Impairment of Financial Instruments (ITG) discussion in April 2015, where the ITG suggested that it would not be appropriate to present a modification loss as impairment but should presented separately. However, given the close interaction this has with the expected credit loss requirements in IFRS 9, the staff will consider this further as part of the post-implementation review of the ECL requirements.

64. With respect to what and how to include fees in any modification loss, the staff notes that paragraph 5.4.3 of IFRS 9 already requires any costs and (other) fees incurred to adjust the gross carrying amount and are amortised over the remaining term of the financial asset. However, we acknowledge the diversity in practice with regards to whether such an approach leads to the fees being included in the modification gain or loss, or to an adjustment to the EIR of the financial asset.

Is standard setting required?

65. Stakeholders have been raising questions and concerns about how to interpret and apply the modification requirements in IFRS 9, in particular for financial assets, well before the IASB started this PIR. The staff observe that questions on the requirements for financial liabilities exist too but not to the same extent and for much narrower in scope of issues compared to financial assets. Questions about the requirements of modification of financial assets continue to exist in almost every aspect of the application of the requirements.

66. As explained in this paper, the modification requirements have been carried across from IAS 39 largely unchanged and questions about the application of these requirements have been asked long before IFRS 9 was finalised. The staff expect that

issuing educational material or adding illustrative examples could supplement but not replace the need to clarify the scope and the application the requirements. This therefore seems to indicate that standard-setting, rather than other actions from the IASB or Interpretations Committee, would be required to eliminate diversity in practice and support consistent application of the requirements.

67. If the IASB decides to undertake standard-setting in this area, the staff think the IASB could consider (but are not necessarily limited to) the following areas for clarification:

    (a) what constitutes a modification including the interaction of (or the boundary between) modification and expiry the rights of cash flows;

    (b) the sequence or hierarchy of modifications and expiry to the rights of cash flows; and

    (c) treatment of fees and costs as a result of modifying the original contract.

68. We believe it is important that any consideration of potential clarifications, including consideration of the interdependencies with other areas of IFRS 9, most notably the impact on the application of the effective interest method and the impact on the ECL requirements of IFRS 9.

69. In our view, such clarification will help ensure that the relevant requirements are applied consistently and that the resulting classification outcomes will faithfully represent the underlying economics and substance of the financial instruments. The priority of any potential standard setting project is considered in Agenda Paper 3C for this meeting.