IFRS® Accounting

Staff paper

Agenda Reference: 5

Islamic Finance Consultative Group meeting

Date	**1–2 November 2022**
Project	**Post-implementation Review (PIR) of IFRS 9**
Topic	**Classification and Measurement & Impairment**
Contacts	**Jaco Jordan** (jjordaan@ifrs.org) **Iliriana Feka** (ifeka@ifrs.org) **Eun Young Park** (epark@ifrs.org)

Agenda

Objective and process of the Post-implementation Review (PIR)

PIR of IFRS 9—Classification and Measurement

PIR of IFRS 9—Impairment

Accounting

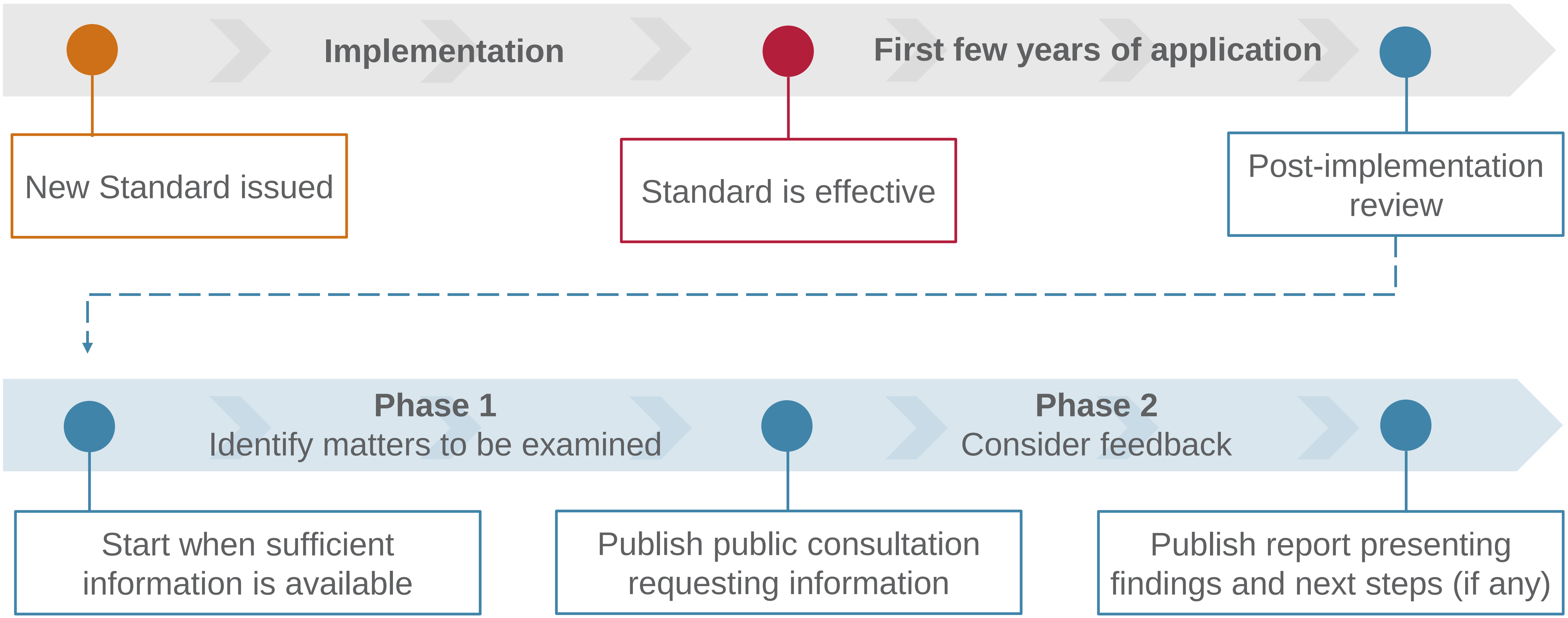
PIR objective and process

IFRS Accounting

PIR—what is the objective?

OBJECTIVE	To **assess** whether the effects of applying the new requirements on users of financial statements, preparers, auditors and regulators are as intended when the IASB developed those new requirements
Overall, are the requirements 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
Are there specific application questions?	**Specific application questions** would not necessarily prevent the IASB from concluding that the new requirements are operating as intended but may nonetheless need to be addressed, if they meet the criteria for whether the IASB would take further action

PIR—what is the process?



PIR—how does the IASB respond to findings?

1

Consider whether to take action, based on the extent to which:

the **objective** of the new requirements is not being met;

benefits to users are significantly lower than expected

costs of applications are significantly higher than expected

2

Determine the prioritisation of the findings based on the extent to which :

finding has **substantial consequences**

finding is **pervasive**

finding arises from an issue that **can be addressed** by the IASB or the Interpretations Committee

the benefits of any action would be expected to **outweigh** the costs

3

Determining the timing of taking action

High priority	to be addressed as soon as possible
Medium priority	to be added to the IASB or the IFRIC research pipeline
Low priority	to be considered in the next agenda consultation
No action	require no further action

IFRS 9 *Financial Instruments* and PIRs

IFRS 9 was issued in July 2014 and:

- became effective for annual reporting periods beginning on or after 1 January 2018
- improved and simplified accounting that replaced IAS 39, including addressing the delayed recognition of credit losses and the complexity of multiple impairment models

Classification and measurement	A single logical classification approach driven by contractual cash flow characteristics and how the instrument is managed	PIR started in 2020
Impairment	A much needed and strongly supported forward-looking expected credit loss model	**First stage of PIR starting now**
Hedge accounting	An improved and widely welcomed model that better aligns accounting with risk management	IASB will consider in H2 2022 when to begin this PIR

IFRS Accounting

PIR of IFRS 9—
Classification and Measurement

PIR of IFRS 9—Classification and Measurement

- The IASB is in Phase 2 of the PIR of the classification and measurement requirements of IFRS 9

H2 2020

IASB starts PIR of **classification and measurement**

H1 2021

Phase 1 outreach and information gathering

H2 2021

Publish consultation document (RFI)

H1-H2 2022

Phase 2 identify issues and take action

Summary of feedback on the RFI

Legend: No significant issues | Some issues raised | Fundamental issues raised

1	IFRS 9 classification and measurement overall	No significant issues
2	Business model	No significant issues
3	Contractual cash flow characteristics (CCFC)	Some issues raised
4	Equity instruments and other comprehensive income	Some issues raised
5	Financial liabilities and own credit	No significant issues
6	Modifications to contractual cash flows	Some issues raised
7	Amortised cost and effective interest method	Some issues raised
8	Transition	No significant issues
9	Other matters	No significant issues

Summary of feedback relating to CCFC

Topics	PIR feedback[2]	IASB response[3]
ESG-linked features Interest rate adjusted if borrower achieves pre-determined ESG targets	Not clear how to assess if SPPI[1], leading to diversity in practice	No fundamental changes to principles and no ESG-specific exemption Added **a standard-setting project** to clarify particular aspects of the SPPI requirements **(high priority)**
Contractually linked instruments (CLIs) Concentrations of credit risk created by prioritisation of payments	Questions about scope and application of SPPI requirements to CLIs	

[1] solely payments of principle and interest on the principal amount outstanding

[2] AP3B, AP3C of the April 2022 IASB meeting

[3] AP3 of the May 2022 IASB meeting

PIR of IFRS 9—Impairment

A forward-looking impairment model

Addressing 'too little, too late'

During the financial crisis, many stakeholders, including the G20, highlighted the delayed recognition of credit losses as weakness in the accounting standards at the time

In response, the IASB developed an expected credit losses impairment model that provides useful information to investors about expected credit losses to reflect changes in credit risk

Issues with IAS 39 impairment model	Solutions in IFRS 9
Delayed recognition of credit losses until evidence of a trigger event	Expected and updated credit losses recognised at all times. Eliminates the need for a trigger event
Credit losses reflective of past events and current conditions—future losses not considered	More timely recognition of expected credit losses based on historical, current and forecast information
Multiple impairment models for financial instruments	Same impairment model is applied to all financial instruments that are subject to impairment accounting
Limited relevant information about changes in credit risk	Improved disclosures explaining the basis of expected credit losses and of changes in credit risk

IFRS Accounting

A solid foundation for the PIR

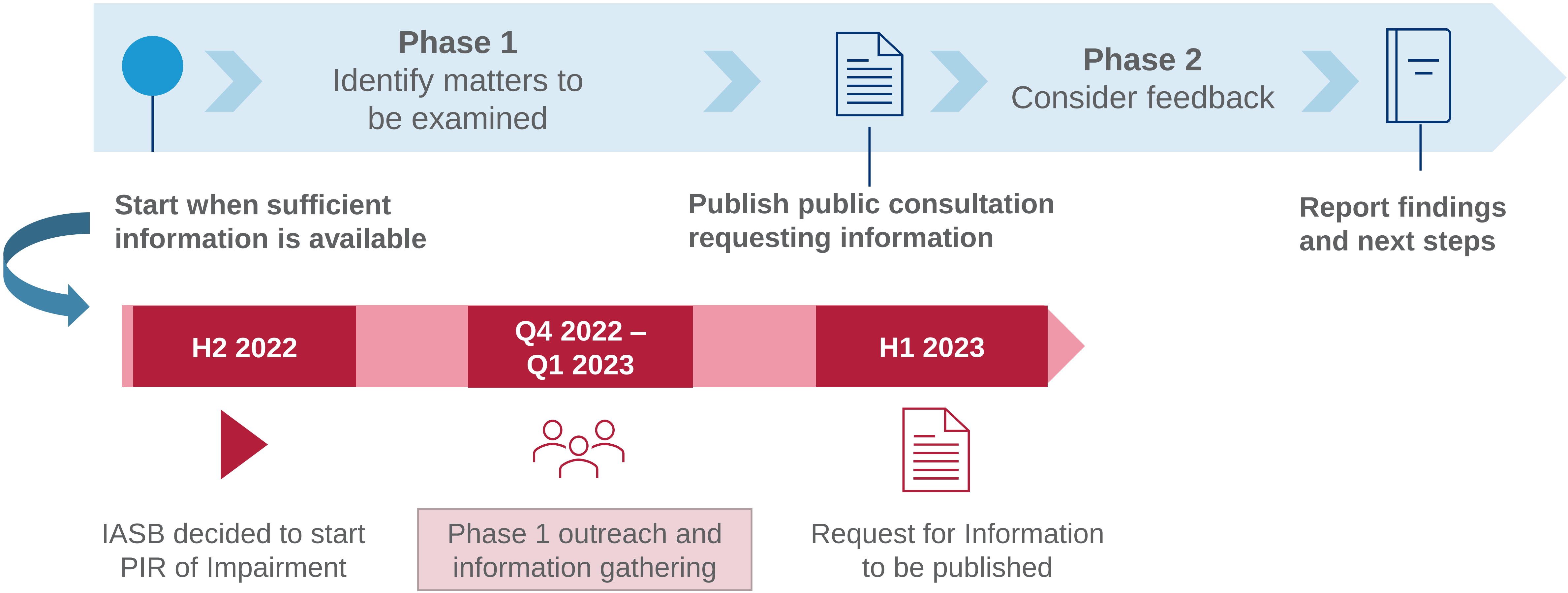
The IASB has put significant efforts into monitoring and supporting the implementation of the impairment requirements in IFRS 9

The information gathered through all our activities since IFRS 9 was issued provides a solid foundation on which to start the PIR

Some examples of activities that directly relate to supporting implementation of the impairment requirements:

Provided supporting materials such as articles and webcasts	Established a Transition Resource Group for Impairment (ITG)	Analysed application questions at the IFRS Interpretations Committee
Provided educational material on applying IFRS 9 in the light of coronavirus uncertainty	**32** Submissions discussed by the ITG A wide variety of topics discussed, including: forward-looking information, loan commitments, revolving credit facilities	Agenda decisions finalised by the Committee include: • Curing of a credit-impaired financial assets • Credit enhancement in the measurement of expected credit losses

PIR—what is the process and where we are?



Questions for stakeholders in Phase 1 of the PIR

A **Are there fundamental questions (ie ‘fatal flaws’) on the clarity and suitability of the core objectives or principles in the impairment requirements?**

B **Are the benefits to users of financial statements from applying the requirements significantly lower than expected?**

C **Are the costs of applying some or all of the requirements and auditing and enforcing their application significantly greater than expected?**

Impairment requirements—topic areas

1. General Approach
2. Determining significant increases in credit risk
3. Measurement of ECLs
4. Credit-impaired on initial recognition
5. Simplified approach for trade and lease receivables
6. Loan commitments and financial guarantees
7. Disclosures
8. Transition

Impairment requirements—detailed information

- Detailed information about the objectives and background to the impairment requirements in IFRS 9 is included in Agenda paper 3 presented at the Accounting Standards Advisory Forum held in September 2022

IFRS Accounting

Questions?

IFRS
Accounting

Connect

ifrs.org

IFRS Foundation

@IFRSFoundation

IFRS Foundation