IFRS Accounting

Staff paper

Agenda reference: 16B

IASB® meeting

Date	**February 2024**
Project	**Amendments to the Classification and Measurement of Financial Instruments**
Topic	**Feedback analysis – Effective date and transition**
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Purpose of this paper

1. This paper addresses feedback received on Question 7 of the Exposure Draft *Amendments to the Classification and Measurement of Financial Instruments* (ED) regarding the transition requirements for the amendments. The paper asks for the IASB's approval of staff recommendations in response to the feedback received as well as for a vote on the effective date for the amendments.

2. This paper is structured as follows:
   (a) summary of staff recommendations and question for the IASB;
   (b) proposals in the ED;
   (c) feedback on proposals; and
   (d) staff analysis and recommendations.

Summary of staff recommendations

3. The staff recommend finalising the transition requirements proposed in the ED and:

(a) setting an effective date of annual reporting periods beginning on or after 1 January 2026; and

(b) permitting entities to elect to early apply the amendments to the solely payments of principal and interest (SPPI) requirements together with the disclosure requirement in IFRS 7 relating to changes in contractual cash flows, without having to early apply the other amendments from the same date.

Question for the IASB
Does the IASB agree with the staff recommendations in paragraph 3?

Proposals in the ED

4. The ED stated that the effective date is to be determined, but that earlier application is permitted. The ED further proposed that if an entity applies these amendments for an earlier period, it shall disclose that fact and apply all the amendments at the same time.

5. The ED proposed that the amendments should be applied retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, except that an entity is not required to restate comparatives. The ED further proposed that in the reporting period that includes the date of initial application of these amendments, an entity shall disclose for each class of financial assets that changed measurement category as a result of applying the amendments:

(a) the previous measurement category and carrying amount determined immediately before the entity applied these amendments; and

(b) the new measurement category and carrying amount determined immediately after the entity applied these amendments.

Feedback on proposals

6. Many respondents recommended allowing entities to initially apply the different parts of the amendments independently, noting that many entities consider the amendments to the requirements for classification of financial assets to be more urgent. Many of these respondents argued that more time would be needed to implement the amendments relating to the derecognition of financial assets and financial liabilities and therefore recommended a later effective date for these amendments.

7. Almost all respondents agreed with the proposal to apply the amendments retrospectively without being required to restate prior periods to reflect the application of the amendments. Respondents noted that the approach is consistent with the transition provisions for the initial implementation of IFRS 9 and that it is unlikely that an entity would be able to restate comparatives without the use of hindsight.

8. A few respondents asked for clarification on how changes to the amount of cash and cash equivalents should be presented in the statement of cash flows upon initial application of the amended derecognition requirements if an entity decides not to restate prior periods.

Staff analysis and recommendations

Effective date and early application

9. Paragraph 6.35 of the Due Process Handbook explains that the effective date of any amendments is set so that (a) jurisdictions have sufficient time to incorporate the new requirements into their legal systems; and (b) those applying IFRS Accounting Standards have sufficient time to prepare for the new requirements.

10. The IASB generally allows at least 12–18 months between the issuance of a new IFRS Accounting Standard or amendment and its effective date. If the IASB agrees

with our recommendations set out in the papers for this meeting, we expect the IASB to issue the amendments in the second quarter of 2024.

11. We therefore recommend an effective date of annual reporting periods beginning on or after 1 January 2026—that is, approximately 18 months after issuance of the amendments.

12. Feedback on the proposals in the ED indicated that entities may need more time to implement the amendments to the recognition and derecognition requirements than changes in the SPPI requirements in IFRS 9 and that some entities may want to apply the latter as soon as possible. The staff recommend responding to this feedback by setting a single effective date for all the amendments, but to allow entities to elect to early apply the amendments to the SPPI requirements in IFRS 9 and the disclosure requirements in IFRS 7 relating to changes in contractual cash flows, without having to early apply the other amendments at the same date.

Transition requirements

13. As almost all respondents agreed with the proposal to apply the amendments retrospectively without being required to restate prior periods.

14. With regards to the comment mentioned in paragraph 8 of this paper regarding the effect of applying the amendments to the derecognition requirements without restating prior periods, the staff believe that adequate guidance was provided in paragraph 7.2.48 of the ED. According to these proposals, if an entity does not restate prior periods, the entity shall recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period in which an entity initially apply these amendments. Therefore, any reconciliation between the opening and closing amount of an item presented or disclosed in that reporting period would show the effect of these amendments, if any, as an adjustment to the opening balance. This includes the reconciliation between the opening and closing amount of cash and cash equivalents in the statement of cash flows.

15. The staff therefore recommend finalising the proposed transition requirements without any substantive changes.