# Staff paper

Agenda reference: 1C

**IFRS Foundation Trustees meeting—Due Process Oversight Committee**

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| Date | **June 2024** |
| Project | **Post-implementation Review of IFRS 9—Impairment** |
| Topic | **Summary of feedback and the IASB's responses** |
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## Introduction

1. **The purpose of this paper is to report on the due process undertaken in the Post-implementation Review of IFRS 9—Impairment (PIR of IFRS 9—Impairment) and to seek the DPOC's confirmation that it has been completed satisfactorily.**

2. At its May 2024 meeting, the IASB decided that sufficient work had been completed to conclude the PIR of IFRS 9—Impairment and requested the staff prepare the Project Summary and Feedback Statement (the Report).

3. The Due Process Handbook requires the IASB to report to the DPOC when it has completed a post-implementation review and provide the DPOC with a draft of the Report. A draft of the Report has been circulated to the DPOC (but not as a public paper, given that it is still draft). The IASB expects to finalise the Report in July 2024, if the DPOC is satisfied that the IASB has completed the PIR of IFRS 9—Impairment satisfactorily.

4. **Does the DPOC agree, based on the materials provided, that the IASB has completed the PIR of IFRS 9—Impairment satisfactorily and that the Report can be finalised and published?**

## Background

5. The Due Process Handbook states that a post-implementation review has two phases:

   (a) First phase—the IASB identifies matters to be examined, drawing on discussions with the IFRS Interpretations Committee, the IASB's advisory groups and other interested parties. The IASB consults publicly on the matters identified in the form of a request for information.

   (b) 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. On the basis of that information, the IASB presents its findings and sets out the steps it plans to take, if any, as a result of the review.

6. 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 post-implementation reviews

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

8. The objective of a post-implementation review is 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.

9. A post-implementation review includes consideration of how contentious matters that the IASB considered during development of the new requirements, and how market developments since those new requirements were issued, are being addressed in practice.

10. A post-implementation review concludes with a determination of whether:

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

(b) there are specific questions about application of the new requirements. If there are specific application questions, the IASB may still conclude that the new requirements are working as intended. However, those specific application questions would be addressed if they meet the criteria for whether the IASB would take further action (see paragraphs 33–35 of this paper).

11. A post-implementation review 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.

12. However, post-implementation reviews can identify improvements that can be made to a new requirement, to the standard-setting process or the structure of IFRS Accounting Standards.

## The IASB's objectives when issuing IFRS 9—Impairment

13. IFRS 9 *Financial Instruments* was issued in 2014 and became effective for annual periods beginning on or after 1 January 2018.

14. The IASB developed IFRS 9 with the overall objective of improving the requirements for financial reporting of financial instruments to enhance the relevance and understandability of information about financial instruments for users of financial statements. IFRS 9 was issued in three discrete stages reflecting the key areas of the requirements: classification and measurement, impairment and hedge accounting.

15. As noted in the Basis for Conclusions on IFRS 9, the IASB's main objective in developing the impairment requirements was to provide users of financial statements with more useful information about expected credit losses on an entity's credit exposures to facilitate users' assessment of the amount, timing and uncertainty of

future cash flows. In the IASB's view, to achieve this objective, the expected credit loss model had to:

(a) address the delayed recognition of credit losses under the incurred loss model in IAS 39 *Financial Instruments: Recognition and Measurement*; and

(b) reduce the complexity arising from applying multiple impairment models for financial instruments.

16. The expected credit loss model in IFRS 9, complemented by the related disclosures in IFRS 7 *Financial Instruments: Disclosures*, resulted in the following key differences compared to the requirements in 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) more timely recognition of expected credit losses because they are recognised throughout the life of a financial instrument and the amount of expected credit losses recognised is updated at each reporting date to reflect changes in credit risk. This requirement removed the threshold for recognising credit losses only after such losses were incurred;

(c) the impairment model is forward-looking, broadening the information required to be considered. The measurement of expected credit losses is based on reasonable and supportable information about past events, including historical credit loss information for similar financial instruments, current conditions and forecasts of future economic conditions; and

(d) improved disclosures about 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.

## How the PIR of IFRS 9—Impairment was conducted

17. In July 2022 the IASB began the first phase of the PIR of IFRS 9—Impairment and the IASB discussed the plan for the first phase of the project at its July 2022 meeting.

18. To inform the first phase of the project and to gather evidence on application of impairment requirements in IFRS 9, the IASB reviewed academic research and other literature, benchmark analysis published by various stakeholders and Agenda Decisions issued by the IFRS Interpretations Committee.

19. The IASB also considered matters that were contentious during the development of the IFRS 9 impairment requirements (as described in the Basis for Conclusions on IFRS 9, the Effects analysis and the Basis for Conclusions on IFRS 7). Those matters included:

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

    (b) the principle-based assessment of significant increases in credit risk since initial recognition. This included the approaches for determining whether a significant increase in credit risk occurred (for example, collective versus individual assessment, absolute versus relative assessment of changes in credit risk);

    (c) the recognition of expected credit losses for unrecognised financial instruments such as loan commitments and financial guarantee contracts; and

    (d) objective-based disclosure requirements. Considering the differences in how entities approach credit risk management, the IASB decided to include objective-based disclosure requirements about credit risk in IFRS 7 to allow entities to decide how much detail to disclose and how much emphasis to place on different aspects of the disclosure requirements.

20. In addition, the IASB members and staff held 30 outreach meetings with a wide range of stakeholders (see Appendix B). The purpose of this outreach was to provide the

IASB with sufficient information to identify the matters for which it would seek further feedback through a request for information.

21. These outreach activities included consulting the IASB's consultative bodies at their public meetings (Capital Markets Advisory Committee, Global Preparers Forum, Accounting Standards Advisory Forum and Islamic Finance Consultative Group), as well as gathering detailed input through meetings with small groups of stakeholders that have a particular interest in impairment requirements of IFRS 9 (such as analysts of financial entities, industry groups for financial and non-financial entities, regulators, auditors and academics).

22. As discussed in the IASB's February 2023 meeting, the information collected during these activities suggested that stakeholders found that applying the forward-looking expected credit loss model results in more timely recognition of credit losses than applying IAS 39, addressing the problem of delayed recognition of credit losses. Stakeholders said that the impairment requirements generally work well in practice, including in periods of increased economic uncertainty. For example, stakeholders told the IASB that the application of the requirements during the covid-19 pandemic demonstrated that the core objectives or principles in IFRS 9 relating impairment are appropriate.

23. However, stakeholders identified areas of diversity in application of the requirements, including disclosure requirements in IFRS 7 for credit risk, and identified application challenges relating to specific requirements.

24. In April 2023 the IASB approved the publication of the *Request for Information: Post-implementation Review of IFRS 9—Impairment* (the RFI). Based on the evidence gathered in the first phase, the IASB decided to focus questions in the RFI on particular matters relating to the impairment requirements in IFRS 9 and credit risk disclosure requirements in IFRS 7. The RFI was published on 30 May 2023, with comments due on 27 September 2023 (a 120-day comment period).

25. The second phase of the PIR started after the publication of the RFI and the IASB continued its consultation with stakeholders during the comment period, participating in 18 events with preparers, users of financial statements, prudential and securities regulators, auditors, national standard-setters and academics.

26. The IASB received 79 comment letters on the RFI. Although the IASB received only one comment letter from users of financial statements, IASB members and staff participated in seven outreach events with groups of investors and financial analysts (see Appendix B).

27. In November 2023 the IASB discussed the summary of feedback received on the RFI. The IASB noted that overall, the PIR feedback was positive. Almost all respondents to the RFI said that the requirements work as intended with no fatal flaws. Feedback in response to the RFI largely provided the same views and identified the same issues as the feedback the IASB had received previously through its extensive consultation with stakeholders (as described in paragraphs 22–23 of this paper). However, the comment letters provided further details on the application of the requirements, such as real-life examples and common practices.

28. Feedback on specific areas of the requirements was considered by the IASB between February 2024 and May 2024 to decide what, if any, action to take in response (see paragraphs 36–51 of this paper).

29. At its meeting in February 2024, the IASB also discussed an update to the academic literature review. This literature review included nine papers, in addition to the literature considered during the first phase of the project.

30. Furthermore, to supplement the feedback from stakeholders on the application of credit risk disclosure requirements in IFRS 7 and inform its response to the feedback, at its meeting in May 2024 the IASB also considered an academic research report prepared by external academics and staff analysis of current practice examining how entities disclose credit risk information applying IFRS 7.

31. At its May 2024 meeting, the IASB decided that sufficient work has been completed to conclude the project and requested the staff to prepare the Report. Subject to approval from the DPOC, the IASB expects to publish the Report in July 2024.

32. Appendix A of this paper sets out the due process steps followed in this project. Appendix B of this paper sets out the distribution of respondents to the RFI and outreach participants by stakeholder type and by geographical region.

## Reminder of the approach for assessing feedback in a post-implementation review

33. The IASB considers whether to take any action on matters identified in post-implementation reviews if there is evidence that:

    (a) there are fundamental questions (ie ‘fatal flaws’) about the clarity and suitability of the core objectives or principles in the new requirements; or

    (b) the benefits to users of financial statements of the information arising from applying the new requirements are significantly lower than expected (for example, there is significant diversity in application); or

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

34. If the IASB decides to take any action on a particular matter, the prioritisation of a matter as high, medium or low depends on the extent to which evidence gathered during the post-implementation review indicates that:

    (a) the matter has substantial consequences;

    (b) the matter is pervasive;

    (c) the matter arises from a financial reporting issue that can be addressed by the IASB or the Interpretations Committee; and

(d) the benefits of any action would be expected to outweigh the costs. To determine this, the IASB would consider the extent of disruption and operational costs from change and the importance of the matter to users of financial statements.

35. The prioritisation of matters as high, medium or low determines when the matter is addressed. See the IASB's process for post-implementation reviews for further details.

## Findings from the PIR of IFRS 9—Impairment

36. After analysing the evidence gathered in the PIR of IFRS 9—Impairment, the IASB concluded that the impairment requirements in IFRS 9 are working as intended. In particular, the IASB concluded that:

(a) there are no fundamental questions (ie 'fatal flaws') about the clarity or suitability of the core objectives or principles in the requirements;

(b) in general, the requirements can be applied consistently. However, further clarification and application guidance is needed in some areas to support greater consistency in application;

(c) the benefits to users of financial statements from the information arising by applying the impairment requirements in IFRS 9 are not significantly lower than expected. However, targeted improvements to credit risk disclosures are needed to further enhance the usefulness of information to users; and

(d) the costs of applying the impairment requirements and auditing and enforcing their application are not greater than expected.

37. Applying the approach outlined in paragraphs 33–35 of this paper to the matters raised in the PIR of IFRS 9—Impairment, the IASB decided:

(a) to classify as medium priority the matters identified by stakeholders relating to credit risk disclosures. The IASB will add a project to its research pipeline to make targeted improvements to specific disclosure requirements in IFRS 7 (paragraphs 40–44 of this paper); and

(b) to classify as low priority the matters relating to financial guarantee contracts and to consider these matters during the next agenda consultation (paragraphs 45–48 of this paper).

38. The IASB decided to take no additional action on the matters raised by stakeholders relating to the interaction of the impairment requirements with other requirements in IFRS 9—namely, the requirements for modification, derecognition and write-off of financial assets. The IASB had already decided in July 2022 that it will consider these matters as part of its research pipeline project Amortised Cost Measurement (paragraphs 49–51 of this paper).

39. The IASB decided to take no further action on other matters identified in the PIR of IFRS 9—Impairment.

### *Credit risk disclosures*

40. At its meeting in May 2024, the IASB discussed feedback on the application of the credit risk disclosure requirements in IFRS 7. Most stakeholders said that there are no fatal flaws with the credit risk disclosure objectives in IFRS 7 and that the combination of disclosure objectives and specific requirements is the right approach for a general purpose—rather than industry specific—Standard such as IFRS 7.

41. However, most stakeholders (including users of financial statements) reported some diversity in how much information entities disclose about credit risk and the format in which the information is provided. Most feedback related to specific disclosure requirements such as information about sensitivity analysis, post-model adjustments or management overlays, significant increases in credit risk and forward-looking information.

42. Stakeholders further explained that the quantity, quality, and level of disaggregation of information disclosed by different entities for these areas vary in practice. These differences are reducing comparability between similar entities and as a result, reduce the usefulness of information to users of financial statements.

43. To achieve greater consistency in the information disclosed by entities, stakeholders suggested the IASB support the disclosure objectives by adding or amending the specific disclosure requirements, accompanied by application guidance or illustrative examples.

44. In response to the feedback, the IASB decided to classify these matters as medium priority and add a project to its research pipeline to make targeted improvements to the disclosure requirements in IFRS 7 about credit risk.

### *Financial guarantee contracts*

45. At its meeting in April 2024, the IASB discussed application questions raised by stakeholders relating financial guarantee contracts. Those questions were:

    (a) how to assess if a financial guarantee contract held qualifies for inclusion in the measurement of expected credit losses for the related financial instrument;

    (b) if a financial guarantee held does not qualify for inclusion in the measurement of expected credit losses, how to separately account for it applying IFRS Accounting Standards; and

    (c) how to account for a financial guarantee contract issued by an entity, including how to calculate expected credit losses, if premiums are received over time.

46. The IASB noted that some of these questions also relate to requirements of other IFRS Accounting Standards (for example, requirements in IFRS 17 *Insurance Contracts* or in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*). The feedback received did not suggest that there are substantial operational or financial reporting consequences. However, some feedback indicated that these questions arise frequently in practice and particularly, in times of economic crisis whereby the effect from financial guarantee contracts is more prominent.

47. In response to feedback, considering the prioritisation criteria, the IASB decided to classify as low priority the matters about financial guarantee contracts and consider these matters as part of the next agenda consultation.

48. Considering the matters as part of the agenda consultation would help obtain a more holistic view about applying the requirements in different IFRS Accounting Standards to financial guarantee contracts. Accordingly, it would provide the IASB with better information to assess whether actions are needed to effectively respond to such feedback.

### *Application of the impairment requirements in IFRS 9 with other requirements*

49. At its meeting in April 2024, the IASB discussed the matters relating to the interaction between the impairment requirements with other requirements in IFRS 9. The main matters were:

    (a) how to apply the impairment requirements in IFRS 9 with the requirements for modifications, derecognition (including forgiveness of contractual cash flows) and write-off of financial assets;

    (b) how to interpret the definition of credit losses in particular circumstances; and

    (c) how to account for write-offs, including recoveries from amounts previously written off.

50. As mentioned in paragraph 38 of this paper, as a result of findings from the post-implementation review of IFRS 9—Classification and Measurement, the IASB decided in July 2022 to add to its research pipeline the Amortised Cost Measurement project to consider potential clarifications to the requirements and related application guidance in IFRS 9 for the modification, derecognition and write-off of financial assets.

51. At the time, the IASB acknowledged that there is an interaction between impairment requirements and these other requirements in IFRS 9. Therefore, the IASB concluded that this project will also consider the related findings from the PIR of IFRS 9—Impairment.

## Appendix A—Confirmation of Due Process Steps

| Step | Nature | IASB | DPOC |
|---|---|---|---|
| Determining the timeline for the post-implementation review | Required | In July 2022, the IASB discussed the objectives, activities and timeline for the first phase of the PIR of IFRS 9—Impairment. | The DPOC was informed in October 2022 that the work on the first phase of the PIR of IFRS 9—Impairment had commenced. |
| Determining the scope, including identifying the important or contentious issues that arose during development of the Standard | Required | In the first phase, 30 meetings were held with stakeholders including preparers, auditors, users of financial statements, national standard-setters and regulators. This included meetings with the IASB's consultative bodies.<br><br>The history of the development of the impairment requirements in IFRS 9 together with matters subsequently brought to the attention of the IASB and the IFRS Interpretations Committee were analysed to identify the important and contentious issues.<br><br>The IASB also performed an academic literature review to understand empirical evidence on implementation and application of the impairment requirements in IFRS 9.<br><br>The IASB considered the analysis of feedback from its first phase outreach and identified matters it considered warranted further examination at its February 2023 meeting (see Agenda Paper 27A, Agenda Paper 27B and Agenda Paper 27C for the IASB's February 2023 meeting). | The DPOC was reminded of activities being undertaken in the first phase of the Post-implementation Review at its March 2023 meeting. |

| Step | Nature | IASB | DPOC |
|---|---|---|---|
| After the initial assessment, one of two routes may be taken:<br>(a) a request for information published to invite public comment, with appropriate response period; or<br>(b) after its initial assessment, the IASB may decide that it would be premature to undertake a review at the time. | Required | At its April 2023 meeting, the IASB approved the publication of the RFI and set a 120-day comment period. | The DPOC was informed in June 2023 that the RFI was published with a comment period of 120 days. |
| The IASB considers whether it is necessary to supplement the responses to the request for information with other evidence, such as an analysis of financial information, a review of academic or other related research on the implementation of the Standard being reviewed, or consultations with relevant parties. | Optional | During the second phase of the PIR of IFRS 9—Impairment the IASB conducted extensive and focused consultation with stakeholders, including its consultative bodies.<br>At its February 2024 meeting, the IASB discussed an update to the academic literature review conducted in the first phase of the Post-implementation Review, including nine additional academic research papers.<br>At its May 2024 meeting, the IASB discussed an academic research report prepared by a team of external academics and staff analysis of current practice about the application of credit risk disclosure requirements in IFRS 7. | Not applicable |
| Project teams analyse and summarise comment letters for the IASB's consideration. The IASB posts all comment letters in relation | Required | The IASB discussed a summary of the feedback received on the RFI at its November 2023 meeting.<br>All comment letters and summaries of the feedback were posted on the project page on the IFRS Foundation's website. | The DPOC was informed, at its October 2023 meeting, that the staff were analysing feedback from comment letters and |

| Step | Nature | IASB | DPOC |
|---|---|---|---|
| to the request for information online. | | | outreach, with plans to begin discussions with the IASB at its November 2023 meeting. |
| Follow up action after concluding the post-implementation review. | Required | The IASB discussed what action, if any, it should take at its meetings between February 2024 and May 2024.<br>The IASB's decisions are summarised in paragraphs 36–51 of this paper. | The DPOC was informed about the high-level feedback to the RFI and the IASB's future plans for the Post-implementation Review at its meeting in February 2024. |
| IASB meetings are held in public and papers are publicly available. All decisions are made in a public session. | Required | The PIR of IFRS 9—Impairment was discussed at public IASB meetings held between July 2022 and April 2023 (first phase) and November 2023 and May 2024 (second phase).<br>The project page on the IFRS Foundation's website has been maintained throughout the project. | The DPOC was informed about progress on the project at its meetings in October 2022, March 2023, June 2023, October 2023 and February 2024. |
| The IASB presents its findings in a public report. | Required | The draft report has been circulated to the DPOC. | The DPOC is asked to confirm that the IASB may finalise the Report at this meeting. |
| Recommendations to DPOC about changes to the IASB's procedures (such as how the effects of a Standard should be assessed or additional steps that should be taken in developing a Standard). | Optional | Step performed and no changes to the IASB's procedures were identified. | Not applicable |

# Appendix B—Respondents and participants by stakeholder type and by geographical region

### *Public consultation through a Request for Information*

B1. In May 2023, the IASB published the RFI for public comment. The RFI was open for comment until 27 September 2023. The IASB received 79 comment letters, which are available on the IFRS Foundation's website. [1]

B2. The data in these tables should be considered in conjunction with the stakeholder engagement events to gather feedback during the project (paragraphs B5–B6).

B3. Respondents to the RFI represented various stakeholder groups:

**Table B1—Respondents by stakeholder type**

| Type of respondent | Number of respondents | Percentage of respondents (%) |
|---|---|---|
| Accounting firm | 9 | 12 |
| Preparer | 24 | 30 |
| Regulator | 7 | 9 |
| National standard-setter or accountancy body | 35 | 44 |
| User | 1 | 1 |
| Other | 3 | 4 |
| Total | **79** | **100** |

B4. Respondents to the RFI represented various geographical regions:

**Table B2—Respondents by geographical region**

| Geographical region | Number of respondents | Percentage of respondents (%) |
|---|---|---|
| Africa | 5 | 6 |
| Asia-Oceania | 23 | 29 |
| Europe | 31 | 39 |
| Latin America | 4 | 5 |
| North America | 3 | 4 |
| Global | 13 | 17 |
| Total | **79** | **100** |

[1] Included in this total is one comment letter which was received after the comment period deadline.

### *Stakeholder engagement*

B5. During the PIR of IFRS 9—Impairment, IASB members and technical staff met with a wide range of stakeholders, which included participating in 30 stakeholder-engagement events during the first phase and 18 events during the second phase of the project. Stakeholders consulted included academics, users of financial statements, preparers, prudential and securities regulators, auditors, national standard-setters and the IASB's consultative bodies (Capital Markets Advisory Committee, Global Preparers Forum and Accounting Standards Advisory Forum). Some of the events were facilitated by national standard-setters or professional accountancy bodies.

B6. The events included participants from various stakeholder groups:

**Table B3—Participants by stakeholder type**

| Type of participant | Number of events | Percentage of events (%) |
|---|---|---|
| Academics | 2 | 4 |
| Accounting firms | 6 | 12 |
| Preparers and industry organisations | 13 | 27 |
| Regulators | 3 | 6 |
| National standard-setters | 9 | 19 |
| Users of financial statements | 7 | 15 |
| Mixed groups | 8 | 17 |
| Total | **48** | **100** |