

Request for Comment on IASB Request for Information on Post-implementation Review of IFRS 9 *Financial Instruments* – Impairment

Comments to the AASB by 18 August 2023



Australian Government

**Australian Accounting
Standards Board**

How to Comment on this AASB Invitation to Comment

Constituents are strongly encouraged to respond to the AASB and the IASB. The AASB is seeking comment by 18 August 2023. This will enable the AASB to consider Australian constituents' comments in the process of formulating its own comments to the IASB, which are due by 27 September 2023.

Formal Submissions

Submissions should be lodged online via the “Current Projects – Open for Comment” page of the AASB website as a PDF document and, if possible, a Word document (for internal use only).

Other Feedback

Other feedback is welcomed and may be provided via the following methods:

E-mail: standard@asb.gov.au
Phone: (03) 9617 7600

All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chair of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

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AASB REQUEST FOR COMMENTS

The Australian Accounting Standards Board's (AASB's) policy is to incorporate International Financial Reporting Standards (IFRSs) into Australian Accounting Standards applicable to for-profit and not-for-profit entities in the private sector or the public sector. Accordingly, the AASB is inviting comments on any of the questions listed in the Request for Information section of the attached International Accounting Standards Board (IASB) Request for Information document.

Australian Accounting Standard AASB 9 *Financial Instruments* incorporates IFRS 9 *Financial Instruments*. Respondents to the AASB can address the IASB's questions with reference to AASB 9.



IFRS[®]

Accounting

May 2023

Request for Information

IFRS[®] Accounting Standard

Post-implementation Review IFRS 9 *Financial Instruments* Impairment

Comments to be received by 27 September 2023

Request for Information

Post-implementation Review of IFRS 9 *Financial Instruments* Impairment

Comments to be received by 27 September 2023

Request for Information *Post-implementation Review of IFRS 9 Financial Instruments—Impairment* is published by the International Accounting Standards Board (IASB) for comment only. Comments need to be received by 27 September 2023 and should be submitted by email to commentletters@ifrs.org or online at <https://www.ifrs.org/projects/open-for-comment/>.

All comments will be on the public record and posted on our website at www.ifrs.org unless the respondent requests confidentiality. Such requests will not normally be granted unless supported by a good reason, for example, commercial confidence. Please see our website for details on this policy and on how we use your personal data.

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Introduction

The International Accounting Standards Board (IASB) is undertaking a post-implementation review of IFRS 9 *Financial Instruments*.

IFRS 9 replaced IAS 39 *Financial Instruments: Recognition and Measurement*. Improvements to the accounting for financial instruments introduced by IFRS 9 compared to IAS 39 include:

a **classification and measurement approach** for financial assets that reflects the entity's business model and the asset's cash flow characteristics

a forward-looking **expected credit loss model** that results in more timely recognition of loan losses

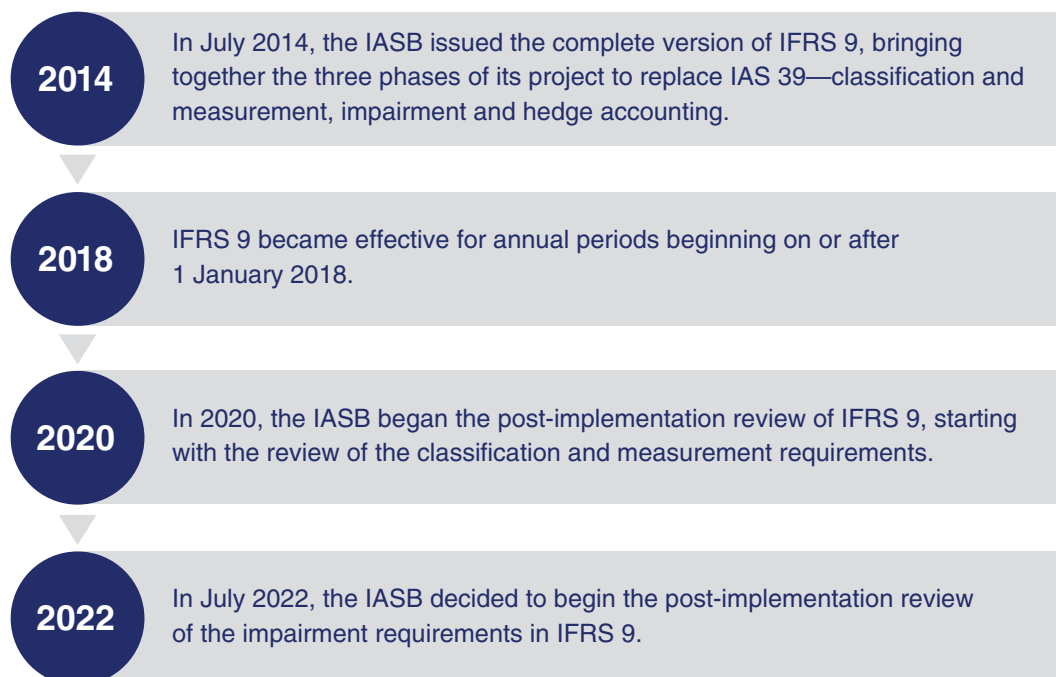
a **hedge accounting model** with a better link between the economics of risk management and its accounting treatment

The IASB started the post-implementation review of IFRS 9 by looking at the classification and measurement requirements.

The IASB is now reviewing the impairment requirements in IFRS 9.

During 2023, the IASB will consider the timing for the review of the hedge accounting requirements.

Timeline



What is a post-implementation review?

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 those the IASB intended when it developed the requirements.

The IASB concludes a post-implementation review by determining:

- (a) whether, overall, the new requirements are working as intended. Respondents asking fundamental questions about the clarity and suitability of the core objectives or principles in the new requirements would suggest that the requirements are not working as intended.
- (b) whether stakeholders have specific questions about applying the new requirements that require a response. If stakeholders have specific application questions, the IASB may still conclude that the new requirements are working as intended. However, the IASB will respond to those application questions if they meet the criteria necessary for the IASB to take further action (see page 6).

The IASB takes action, subject to prioritisation criteria, if there is **evidence** that:

<p>there are fundamental questions (fatal flaws) about the clarity and suitability of the core objectives or principles in the new requirements</p>	<p>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)</p>	<p>the costs of applying the new requirements and auditing and enforcing their application are significantly greater than expected</p>
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A post-implementation review is not a standard-setting project and does not automatically lead to standard-setting, nor is it intended to lead to the resolution of every application question. However, a post-implementation review can identify improvements that can be made to a new requirement, to the standard-setting process or to the structure of an IFRS Accounting Standard.

How does the IASB prioritise matters in a post-implementation review?

The IASB prioritises matters identified in a post-implementation review based on the extent to which evidence gathered during the review shows:

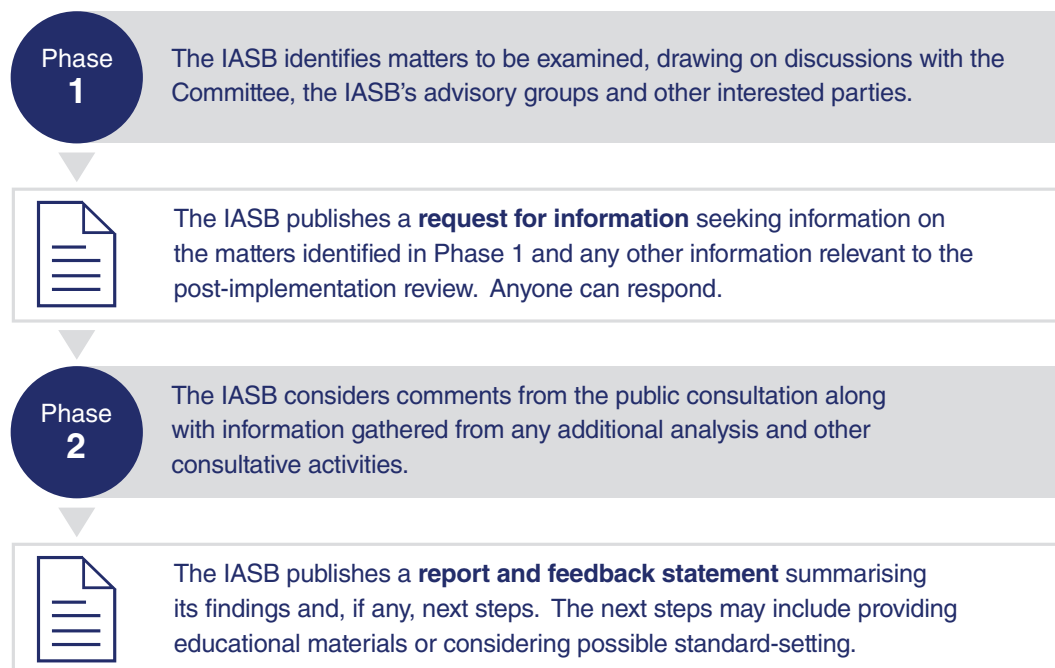
- (a) the matter has substantial consequences.
- (b) the matter is pervasive.
- (c) the matter arises from a financial reporting issue that can be addressed by the IASB or the IFRS Interpretations Committee (Committee).
- (d) the benefits of any action would be expected to outweigh the costs. To do this analysis, the IASB would consider the extent of the potential disruption and operational costs from change and the importance of the matter to users of financial statements.

Depending on this IASB assessment:

- (a) high-priority matters will be addressed as soon as possible. This category is expected to be used rarely.
- (b) medium-priority matters will be added to the IASB's research pipeline or the Committee's pipeline. The IASB will try to make pipeline projects active before the next agenda consultation.
- (c) low-priority matters will be considered in the next agenda consultation and explored if the IASB decides to take action in its deliberations on the feedback on that agenda consultation.
- (d) no-action matters will not be explored by the IASB.¹

¹ The IASB's description of the post-implementation review process is available on our [website](#).

What is involved in a post-implementation review?



What sections of IFRS 9 is the IASB reviewing?

The IASB will review IFRS 9 in its entirety, including the related requirements in IFRS 7 *Financial Instruments: Disclosures*. In 2022, the IASB completed its review of the classification and measurement requirements, concluding that these requirements are working as intended.²

In this Request for Information, the IASB is seeking feedback on the impairment requirements (Section 5.5 of IFRS 9).

The IASB will seek feedback separately on the hedge accounting requirements (Chapter 6 of IFRS 9).

Each of the post-implementation reviews includes the related transition requirements in IFRS 9 and the related disclosure requirements in IFRS 7.

² The IASB concluded that, in general, the requirements can be applied consistently but clarification is needed in some areas to improve the understandability of the requirements. The IASB started a project to clarify the classification and measurement requirements of IFRS 9 in response to the feedback and also added a project on amortised cost measurement to its research pipeline.

Figure 1—Overview of the impairment requirements in IFRS 9

This illustration provides an overview of the general approach to recognising expected credit losses for financial instruments.

Increase in credit risk since initial recognition		
Stage 1 'Performing'	Stage 2 'Underperforming'	Stage 3 'Non-performing'/ 'Credit-impaired'
Impairment		
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses
Interest revenue		
Effective interest on gross carrying amount	Effective interest on gross carrying amount	Effective interest on amortised cost

Invitation to Comment

Summary of questions

This Request for Information sets out questions in 10 sections:

- (a) **Section 1** seeks general information on the effect the application of the impairment requirements in IFRS 9 has had on preparers of financial statements, users of financial statements, auditors and regulators;
- (b) **Sections 2–8** seek information on specific areas of the impairment requirements in IFRS 9, including information on the application of these requirements alongside other requirements in IFRS 9 or in other IFRS Accounting Standards;
- (c) **Section 9** seeks information on application of the disclosure requirements in IFRS 7 for credit risk; and
- (d) **Section 10** seeks other information relevant to the post-implementation review of the impairment requirements.

Responses will inform the IASB's assessments in this post-implementation review (see the 'What is a post-implementation review?' section on page 5).

Guidance for responding to questions

Respondents need not answer all questions. Comments are most helpful if they:

- (a) answer the questions as stated;
- (b) state the paragraph(s) of IFRS 9 or IFRS 7 to which they relate;
- (c) identify the cause of the described issue;
- (d) describe fact patterns relevant to the questions and explain:
 - (i) how the IFRS 9 or IFRS 7 requirements are applied;
 - (ii) the effects of applying the requirements (for example, the quantitative effect on an entity's financial statements or an operational effect); and
 - (iii) how pervasive the fact pattern is; and
- (e) are supported by evidence.

Preparers of financial statements, please respond to questions considering your entity's accounting treatment. Auditors, regulators and users of financial statements, please respond to questions considering financial statements you audit, regulate or use.

Deadline

The IASB will consider all written comments received by 27 September 2023.

How to comment

Please submit your comments:

Online <https://www.ifrs.org/projects/open-for-comment/>

By email commentletters@ifrs.org

Your comments will be on the public record and posted on our website unless you request confidentiality and we grant your request. We do not normally grant such requests unless they are supported by a good reason, for example, commercial confidence. Please see our website for details on this policy and on how we use your personal data. If you would like to request confidentiality, please contact us at commentletters@ifrs.org before submitting your letter.

Request for Information

1. Impairment

Background

During the global financial crisis, the delayed recognition of credit losses on loans and other financial instruments was identified as a weakness in accounting standards. Specifically, concerns were raised about the timeliness of recognising credit losses because the ‘incurred loss’ models, such as the model in IAS 39, delayed the recognition of credit losses until there was evidence of a credit loss event. The complexity of having multiple impairment models for financial instruments was also identified as a major concern.

Consistent with recommendations from the Financial Crisis Advisory Group, the IASB developed a forward-looking impairment model that reflects expected credit losses—the ‘expected credit loss’ model. The expected credit loss model is a principle-based model, designed to require entities to recognise credit losses on a more timely basis than required in IAS 39. The model eliminates the threshold for recognising credit losses so that it is no longer necessary for a credit event to have occurred before credit losses are recognised. Accordingly, expected and updated credit losses are recognised throughout the life of financial instruments, and the same impairment model is applied to all financial instruments within the scope of IFRS 9 that are subject to impairment accounting.

The IASB’s main objective in developing the expected credit loss model was to provide users of financial statements with more useful information about an entity’s expected credit losses on its financial assets and on its commitments to extend credit to facilitate users’ assessment of the amount, timing and uncertainty of future cash flows.

When it issued IFRS 9, the IASB expected that the impairment requirements would introduce significant and ongoing improvements to the reporting on financial instruments by providing more transparent and timely information about expected credit losses. The IASB also assessed that preparers would incur most of their costs when preparing to move to the new impairment model. In particular, entities would have to invest in substantial system changes. Ongoing costs would be mitigated because of the simplifications and practical expedients introduced to reduce the operational burden of the expected credit loss model in IFRS 9. The IASB also expected that the significant improvements introduced by the model would outweigh those costs.

Spotlight 1—What we have heard so far

Information collected since IFRS 9 became effective suggests that stakeholders have found that using 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.

Initial feedback from stakeholders suggests the impairment requirements are generally working 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 are appropriate.

Stakeholders generally welcome the changes introduced by the impairment requirements. For many stakeholders the effect of those changes has been significant due to the broader range of data required, particularly forward-looking information. Users of financial statements said the incorporation of forward-looking information results in more useful information about expected credit losses, including information with predictive value about the amount, timing and uncertainty of future cash flows.

However, stakeholders observe diversity in application of the impairment requirements, including disclosure requirements in IFRS 7 for credit risk, and identified application matters for specific requirements.

Question 1—Impairment

Do the impairment requirements in IFRS 9 result in:

- (a) more timely recognition of credit losses compared to IAS 39 and address the complexity caused by having multiple impairment models for financial instruments? Why or why not?**
- (b) an entity providing useful information to users of financial statements about the effect of credit risk on the amount, timing and uncertainty of future cash flows? Why or why not?**

Please provide information about the effects of the changes to the impairment requirements introduced by IFRS 9, including the ongoing costs and benefits of preparing, auditing, enforcing or using information about financial instruments.

This question aims to help the IASB understand respondents' overall views and experiences relating to the IFRS 9 impairment requirements. Sections 2–9 seek more detailed information on specific requirements.

2. The general approach to recognising expected credit losses

Background

During the development of IFRS 9, users of financial statements told the IASB that they support an impairment model that distinguishes between the effect of initial estimates of expected credit losses and subsequent changes in those loss expectations. In their view, that distinction would provide useful information about changes in credit risk and the resulting economic losses.

The expected credit loss model makes this distinction on the basis of increases in credit risk since initial recognition by requiring entities to recognise:

- (a) a loss allowance at an amount equal to at least 12-month expected credit losses throughout the life of the instrument; and
- (b) lifetime expected credit losses if there has been a significant increase in credit risk since initial recognition.

In the IASB's view, recognising lifetime expected credit losses after a significant increase in credit risk better reflects economic losses in the financial statements. When credit is first extended, the initial creditworthiness of the borrower and initial expectations of credit losses are considered in determining pricing and other conditions of the financial instrument. The IASB noted that a true economic loss arises when expected credit losses exceed initial expectations (that is, when the lender is not receiving compensation for the level of credit risk to which it is now exposed).

Question 2—The general approach to recognising expected credit losses

- (a) **Are there fundamental questions (fatal flaws) about the general approach? If yes, what are those fundamental questions?**

Please explain whether requiring entities to recognise at least 12-month expected credit losses throughout the life of the instrument and lifetime expected credit losses if there has been a significant increase in credit risk achieves the IASB's objective of entities providing useful information about changes in credit risk and resulting economic losses. If not, please explain what you think are the fundamental questions (fatal flaws) about the clarity and suitability of the core objectives or principles of the general approach.

continued ...

Question 2—The general approach to recognising expected credit losses

- (b) Are the costs of applying the general approach and auditing and enforcing its application significantly greater than expected? Are the benefits to users significantly lower than expected?**

If, in your view, the ongoing costs of applying the general approach to particular financial instruments are significantly greater than expected or the benefits of the resulting information to users of financial statements are significantly lower than expected, please explain your cost-benefit assessment for those instruments.

3. Determining significant increases in credit risk

Background

The objective of impairment requirements in IFRS 9 is for entities to recognise lifetime expected credit losses on all financial instruments for which there has been a significant increase in credit risk since initial recognition.

IFRS 9 uses a principle-based approach to assessing significant increases in credit risk instead of prescriptive rules that might create ‘bright lines’; it does not prescribe a specific or mechanistic approach to assess changes in credit risk. The IASB was of the view that the most appropriate approach to apply would vary depending on the entity’s sophistication, the characteristics of a financial instrument and the availability of data. Credit analysis is a multifactor and holistic analysis, and when making that analysis the availability of data differs between entities.

Regardless of the approach an entity chooses, the entity is required to consider the change in the risk of default occurring since initial recognition, over the expected life of the financial instrument. Therefore, the assessment of significant increases in credit risk is a relative, not an absolute, assessment of credit risk at the reporting date.

The IASB noted that, in order to meet the objective of recognising lifetime expected credit losses for significant increases in credit risk since initial recognition, it might be necessary for an entity to perform the assessment of significant increases in credit risk on a collective basis by considering information that indicates significant increases in credit risk on, for example, a group or subgroup of financial instruments. The collective assessment would ensure that an entity could meet the objective even if evidence of such significant increases in credit risk at the individual instrument level was not yet available. To recognise a loss allowance on a collective basis, an entity can group financial instruments on the basis of shared credit risk characteristics.

IFRS 9 allows an entity a rebuttable presumption that the credit risk on a financial instrument has increased significantly, and that lifetime expected credit losses be recognised, when a financial asset is more than 30 days past due. This rebuttable presumption is not an absolute indicator of when an entity recognises lifetime expected credit losses, but serves as a backstop for significant increases in credit risk. The IASB noted that, ideally, an entity would identify significant increases in credit risk before financial assets become past due.

The IASB did not specifically define ‘default’ in IFRS 9 but included a rebuttable presumption that default does not occur later than 90 days past due, unless an entity has reasonable and supportable information to support a more lagging default criterion. The IASB emphasised that an entity considers qualitative indicators of default when appropriate (for example, for financial instruments that include covenants that can lead to events of default) and clarified that an entity applies a default definition that is consistent with its credit risk management practices for the relevant financial instruments, consistently from one period to another. The IASB noted that an entity might have multiple definitions of default, for example, for various types of products.

IFRS 7 requires an entity to disclose information that enables users of financial statements to understand and evaluate how the entity has determined whether the credit risk of a financial instrument has increased significantly since initial recognition. See Section 9 of this document for a discussion on credit risk disclosures.

Spotlight 3—Applying judgement in determining significant increases in credit risk

Stakeholders have told the IASB that they observe a lack of consistency in:

- what entities deem to be a significant increase in credit risk;
- the use of collective versus individual assessment for changes in credit risk; and
- how entities define ‘default’.

Stakeholders think principle-based requirements in this area remain fundamental and the ability to exercise judgement is necessary because entities’ circumstances differ and might change over time. However, stakeholders suggested the IASB provide more application guidance on what is considered a significant increase in credit risk for particular fact patterns, to ensure requirements are applied consistently.

In considering the feedback from stakeholders, the IASB emphasised that ‘applied consistently’ does not mean ‘applied identically’, particularly for relative assessments such as changes in credit risk. The fact that entities use varying approaches when making their assessments does not necessarily indicate that the requirements are being applied inconsistently. An indication of inconsistent application would be similar entities reaching different conclusions on the same set of facts and circumstances, in the same context.

The IASB would like to understand from stakeholders:

- the fact patterns in which entities are required to apply significant judgement or in which requirements are unclear when determining whether there is a significant increase in credit risk; and
- their views, supported by evidence, on the cause of any diversity in the application of the requirements—for example, whether that diversity is because of differences in entities’ credit risk management practices or because of requirements in IFRS 9 not providing an adequate basis to determine the appropriate accounting.

Question 3—Determining significant increases in credit risk

- (a) Are there fundamental questions (fatal flaws) about the assessment of significant increases in credit risk? If yes, what are those fundamental questions?**

Please explain whether the principle-based approach of assessing significant increases in credit risk achieves the IASB's objective of recognising lifetime expected credit losses on all financial instruments for which there has been a significant increase in credit risk since initial recognition.

If not, please explain what you think are the fundamental questions (fatal flaws) about the clarity and suitability of the core objectives or principles of the assessment of significant increases in credit risk.

- (b) Can the assessment of significant increases in credit risk be applied consistently? Why or why not?**

Please explain whether the requirements provide an adequate basis for entities to apply the assessment consistently to all financial instruments within the scope of impairment requirements in IFRS 9.

If diversity in application exists for particular financial instruments or fact patterns, please explain and provide supporting evidence about how pervasive that diversity is and explain what causes it. Please also explain how the diversity affects entities' financial statements and the usefulness of the resulting information to users of financial statements.

If you have identified diversity in application of the assessment, please provide your suggestions for resolving that diversity.

In responding to (a) and (b), please include information about **applying judgement** in determining significant increases in credit risk (see Spotlight 3).

4. Measuring expected credit losses

Background

IFRS 9 requires the measurement of expected credit losses to reflect:

- (a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- (b) the time value of money; and
- (c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

IFRS 9 sets out principles for the measurement of expected credit losses, allowing an entity to determine the most appropriate techniques to satisfy those principles. Thus, IFRS 9 does not prescribe particular techniques, nor does it require information to necessarily flow through a statistical model or credit-rating process to be deemed reasonable and supportable for use in measuring expected credit losses. The IASB was concerned that listing acceptable methods might rule out other appropriate methods for measuring expected credit losses or be interpreted as providing unconditional acceptance of a particular method.

Regardless of the techniques used for measuring expected credit losses, IFRS 9 requires that an entity adjusts its measurement approach in various circumstances to reflect reasonable and supportable information—that is, historical, current and forward-looking information, available without undue cost or effort.

For the purpose of measuring expected credit losses, IFRS 9 requires the estimate of expected cash shortfalls to include the cash flows expected from collateral and other credit enhancements held that are part of the contractual terms and are not recognised separately by an entity.

IFRS 9 does not provide requirements about the accounting for collateral and other credit enhancements held that are not part of the contractual terms of a financial instrument.

Spotlight 4.1—Forward-looking scenarios

When measuring expected credit losses, an entity is not required to identify every possible scenario. However, it reflects the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if that possibility is very low.

IFRS 9 requires the estimate of expected credit losses to reflect an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. The IASB noted that, in practice, this evaluation might not need to be a complex analysis. In some cases, relatively simple modelling might be sufficient, without the need for a large number of detailed simulations of scenarios. In other cases, the identification of scenarios that specify the amount and timing of the cash flows for particular outcomes and the estimated probability of those outcomes will be needed.

Stakeholders told the IASB that they observe diversity in the number of scenarios entities identify, the variables considered, and the weightings attached to particular scenarios. Some stakeholders said diversity in application arises because the requirements are objective-based and not prescriptive. Others said a principle-based approach is critical, but the diversity arises because it is unclear what entities need to achieve with the multiple scenarios (for example, whether scenario analysis is required to be comprehensive enough to capture non-linearity between economic variables).

The IASB would like to understand from stakeholders the cause of the diversity in application in this area. The IASB would also like to understand whether adopting a principle-based, instead of prescriptive, approach to measuring expected credit losses helps reduce complexity and mitigate operational challenges for stakeholders by allowing an entity to use techniques that work best in its specific circumstances.

Stakeholders also told the IASB that based on the current application guidance in IFRS 9, it is unclear how entities should reflect forward-looking information about particular risks, such as climate risk, into the measurement of expected credit losses.

Spotlight 4.2—Post-model adjustments or management overlays

Stakeholders have told the IASB that the increased economic uncertainty in recent years, particularly economic conditions for which historical information is not necessarily representative of the future economic outlook, have given rise to an increase in the use of post-model adjustments or management overlays.³

Some stakeholders, such as users of financial statements and regulators, have expressed concerns about the increased use of these adjustments or overlays, because they involve subjective management assessments and might not be subject to the same governance processes as statistical models are (for example, model validation frameworks). The size and nature of such adjustments and the reasons for their use vary significantly from entity to entity, reducing comparability of expected credit losses between entities.

IFRS 7 requires entities to provide information that allows users of financial statements to evaluate the amounts reported in the financial statements arising from expected credit losses, regardless of whether those amounts are determined using statistical models or post-model adjustments or management overlays. IFRS 7 also requires disclosures about inputs, assumptions and techniques applied to measure expected credit losses.

However, stakeholders have told the IASB that many entities do not provide entity-specific information in financial statements that would allow users to understand and evaluate management assessments reflected in the post-model adjustments or management overlays. See Section 9 of this document for a discussion on credit risk disclosures.

In considering the feedback from stakeholders, the IASB noted that IFRS 9 sets out the objectives for the measurement of expected credit losses, allowing entities to decide the most appropriate techniques to satisfy those objectives. Therefore, the IASB would like to understand from stakeholders the circumstances in which the use of post-model adjustments or management overlays significantly reduces the usefulness of information provided to users of financial statements and how that relates to the requirements in IFRS 9 or IFRS 7.

³ The term ‘post-model adjustments or management overlays’ refers to all model overlays, management overlays, model overrides or other adjustments made to model output when existing models do not adequately reflect risks and uncertainties.

Spotlight 4.3—Off-balance-sheet exposures***Loan commitments***

Applying IFRS 9, in general, the maximum period over which expected credit losses are measured is the maximum contractual period (including extension options) that the entity is exposed to credit risk and not a longer period. However, during the development of IFRS 9, stakeholders' feedback indicated that the restriction to the contractual period was of particular concern for some types of loan commitments.

In response, the IASB added an exception in IFRS 9 for financial instruments that include both a drawn and an undrawn commitment component (because their expected credit losses are not estimated separately) and for which the entity's contractual ability to demand repayment and cancel the undrawn commitment does not limit the entity's exposure to credit losses to the contractual notice period. For these financial instruments, entities are required to measure expected credit losses over the period during which the financial instrument is exposed to credit risk and expected credit losses would not be mitigated by the entity's credit risk management actions, even if that period extends beyond the maximum contractual period.

Stakeholders told the IASB that, although the exception was welcomed, application questions still arise in some circumstances—for example, some stakeholders reported difficulties in determining the maximum period to consider for measuring expected credit losses on financial instruments such as revolving credit facilities, or difficulties in assessing whether particular financial instruments fall within the scope of the exception.

The IASB would like to understand from stakeholders the types of financial instruments (and their characteristics) that cause significant challenges for entities applying the exception.

Financial guarantee contracts issued

The issuer of a financial guarantee contract to which IFRS 9 is applied initially recognises a financial guarantee contract at fair value, which is likely to be equal to the premium received. These financial guarantee contracts are subsequently measured at the higher of the loss allowance determined in accordance with the impairment requirements in IFRS 9, and the amount initially recognised less the cumulative amount of income recognised in accordance with IFRS 15 *Revenue from Contracts with Customers*.

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Stakeholders said IFRS 9 does not provide application guidance on how requirements for subsequent measurement are applied to financial guarantee contracts for which premiums are received over time, rather than up front on initial recognition. Stakeholders told the IASB that, in the absence of application guidance, entities apply varied approaches to account for these contracts, leading to diversity in presentation in the statement of financial position depending on whether premiums are received up front or over time.

The IASB is asking stakeholders about the fact patterns in which diversity in applying the requirements is observed, the effects of diversity in financial statements and the pervasiveness of those fact patterns.

Question 4—Measuring expected credit losses

- (a) **Are there fundamental questions (fatal flaws) about requirements for measuring expected credit losses? If yes, what are those fundamental questions?**

Please explain whether the requirements for measuring expected credit losses achieve the IASB's objective of providing users of financial statements with useful information about the amount, timing and uncertainty of an entity's future cash flows. If not, please explain what you think are the fundamental questions (fatal flaws) about the clarity and suitability of the core objectives or principles of the measurement requirements.

- (b) **Can the measurement requirements be applied consistently? Why or why not?**

Please explain whether the requirements provide an adequate basis for entities to measure expected credit losses consistently for all financial instruments within the scope of impairment requirements in IFRS 9.

If diversity in application exists for particular financial instruments or fact patterns, please explain and provide supporting evidence about how pervasive that diversity is and explain what causes it. Please also explain how the diversity affects entities' financial statements and the usefulness of the resulting information to users of financial statements.

If you have identified diversity in application of the requirements, please provide your suggestions for resolving that diversity.

In responding to (a) and (b), please include information about **forward-looking scenarios** (see Spotlight 4.1), **post-model adjustments or management overlays** (see Spotlight 4.2) and **off-balance-sheet exposures** (see Spotlight 4.3), as relevant.

5. Simplified approach for trade receivables, contract assets and lease receivables

Background

IFRS 9 reduces the costs and complexities of applying the expected credit loss model for non-financial institutions and other entities through the simplified approach to recognising expected credit losses. The approach applies to trade receivables and contract assets that result from transactions within the scope of IFRS 15, and lease receivables that result from transactions within the scope of IFRS 16 *Leases*. The simplified approach removes the need to calculate 12-month expected credit losses and track the increase in credit risk for these assets.

When applying the simplified approach to recognising expected credit losses, an entity:

- (a) is required to recognise lifetime expected credit losses for trade receivables or contract assets without a significant financing component; and
- (b) has an accounting policy choice to recognise lifetime expected credit losses for trade receivables or contract assets with a significant financing component and lease receivables.

As a practical expedient, IFRS 9 allows entities to calculate expected credit losses on trade receivables using a provision matrix. An entity would adjust historical provision rates, which are an average of historical outcomes, to reflect relevant information about current conditions as well as reasonable and supportable forecasts and their implications for expected credit losses, including the time value of money. The IASB noted that such a technique would be consistent with the measurement objective of expected credit losses as set out in IFRS 9.

Question 5—Simplified approach for trade receivables, contract assets and lease receivables

- (a) Are there fundamental questions (fatal flaws) about the simplified approach? If yes, what are those fundamental questions?**

Does applying the simplified approach achieve the IASB's objective of reducing the costs and complexities of applying IFRS 9 impairment requirements to trade receivables, contract assets and lease receivables?

If not, please explain what you think are the fundamental questions (fatal flaws) about the clarity and suitability of the core objectives or principles of the simplified approach.

- (b) Are the costs of applying the simplified approach and auditing and enforcing its application significantly greater than expected? Are the benefits to users significantly lower than expected?**

If, in your view, the ongoing costs of applying the simplified approach are significantly greater than expected, or the benefits of the resulting information to users of financial statements are significantly lower than expected, please explain your cost-benefit assessment.

6. Purchased or originated credit-impaired financial assets

Background

IFRS 9 includes a specific approach to recognising and measuring expected credit losses and interest revenue for purchased or originated credit-impaired financial assets, which was substantially carried forward from IAS 39. In the IASB's view, this approach more faithfully represents the underlying economic effects of these types of financial assets than the general approach to recognising expected credit losses.

During the development of IFRS 9, stakeholders indicated that this approach was conceptually correct and reflective of both the economic effects of those financial assets and management's objective when acquiring or originating such financial assets. At that time, the IASB expected this approach to be operable because it was consistent with the previous accounting treatment required by IAS 39 and would be applied to a subset of financial assets only.

For purchased or originated credit-impaired financial assets, an entity is required to:

- (a) apply the credit-adjusted effective interest rate, calculated by considering the initial expected credit losses in the estimated cash flows, to the amortised cost of those assets from initial recognition;⁴
- (b) recognise the cumulative changes in lifetime expected credit losses since initial recognition as a loss allowance; and
- (c) recognise the amount of the change in lifetime expected credit losses as an impairment gain or loss in the statement of profit or loss.

Question 6—Purchased or originated credit-impaired financial assets

Can the requirements in IFRS 9 for purchased or originated credit-impaired financial assets be applied consistently? Why or why not?

Please explain whether the requirements can be applied consistently to these types of financial assets and lead to accounting outcomes that faithfully reflect the underlying economic substance of these transactions.

If there are specific application questions about these requirements, please describe the fact pattern and:

- (a) explain how the IFRS 9 requirements are applied;
- (b) explain the effects of applying the requirements (for example, the quantitative effect on an entity's financial statements or an operational effect);
- (c) explain how pervasive the fact pattern is; and
- (d) support your feedback with evidence.

⁴ IFRS 9 defines amortised cost as the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and adjusted for any loss allowance.

7. Application of the impairment requirements in IFRS 9 with other requirements

Background

The impairment requirements in IFRS 9 intersect with many other requirements both within IFRS 9 and in other IFRS Accounting Standards. Stakeholders told the IASB that sometimes the requirements are not sufficiently clear when applying the impairment requirements alongside other requirements in IFRS 9 or in other IFRS Accounting Standards, for example:

- (a) **the modification of financial assets**—an entity is required to adjust the gross carrying amount of a financial asset when a modification does not result in derecognition and recognise a modification gain or loss in the statement of profit or loss. The IASB was previously made aware of application questions about the boundaries between the requirements on modification of financial assets and expected credit losses, including questions about the order in which these requirements are applied to a financial asset.
- (b) **the write-off of financial assets**—IFRS 9 requires an entity to directly reduce the gross carrying amount of a financial asset when the entity has no reasonable expectations of recovering that financial asset or a portion thereof. Such a write-off constitutes a derecognition event, thus an entity is required to recognise a write-off loss. However, stakeholders said IFRS 9 does not provide requirements about the presentation of write-off losses, which leads to diversity in how entities present these losses in the statement of profit or loss.
- (c) **the recognition of expected credit losses for trade receivables, contract assets and lease receivables**—an entity is required to apply the impairment requirements in IFRS 9 to assets such as trade receivables and contract assets that arise from transactions in scope of IFRS 15 and lease receivables that arise from transactions in scope of IFRS 16 (see Section 5 of this document). Stakeholders have informed the IASB that there are specific questions about how to apply the impairment requirements to these transactions, including whether:
 - (i) an entity that accepts lower consideration from a customer whose financial position has deteriorated should account for the reduction in consideration as a contract modification applying IFRS 15 or as expected credit losses applying IFRS 9; and
 - (ii) a lessor should exclude the unguaranteed residual value of the asset underlying a finance lease applying IFRS 16 for the purpose of measuring expected credit losses in accordance with IFRS 9.

The IASB would like to understand from stakeholders the application questions that arise because of the intersection between requirements, what requirements or lack thereof cause those questions and the pervasiveness of such questions.

Question 7—Application of the impairment requirements in IFRS 9 with other requirements

Is it clear how to apply the impairment requirements in IFRS 9 with other requirements in IFRS 9 or with the requirements in other IFRS Accounting Standards? If not, why not?

If there are specific questions about how to apply the impairment requirements alongside other requirements, please explain what causes the ambiguity and how that ambiguity affects entities' financial statements and the usefulness of the resulting information to users of financial statements. Please describe the fact pattern and:

- (a) indicate the requirements in IFRS 9 or in other IFRS Accounting Standards to which your comments relate;
- (b) explain the effects of applying the requirements (for example, the quantitative effect on an entity's financial statements or an operational effect);
- (c) explain how pervasive the fact pattern is; and
- (d) support your feedback with evidence.

In responding to this question, please include information about matters described in this section of the document.

8. Transition

Background

Upon initial application of IFRS 9, entities were required to apply the impairment requirements retrospectively, but the IASB provided transition relief to mitigate potential challenges that might have arisen from retrospective application, such as a lack of initial credit risk data and the risk of using hindsight.

When applying some of those transition reliefs relating to the impairment requirements, entities were allowed to:

- (a) apply practical expedients and rebuttable presumptions to determine whether there has been a significant increase in credit risk since initial recognition (for example, the low credit risk simplification in paragraph 5.5.10 of IFRS 9 and the 30 days past due rebuttable presumption in paragraph 5.5.11 of IFRS 9); and
- (b) recognise lifetime expected credit losses at each reporting date until derecognition, if determining whether there had been a significant increase in credit risk since initial recognition would require undue cost or effort.

IFRS 9 did not require the presentation of restated comparative information. Instead, it required entities to disclose the effect on impairment of financial instruments of the transition to IFRS 9 (for example, by providing a reconciliation between the ending impairment allowances in accordance with IAS 39 and the opening loss allowances in accordance with IFRS 9).

Question 8—Transition

Were the costs of applying the transition requirements and auditing and enforcing their application significantly greater than expected? Were the benefits to users significantly lower than expected?

Please explain whether the combination of the relief from restating comparative information and the requirement for transition disclosures achieved an appropriate balance between reducing costs for preparers of financial statements and providing useful information to users of financial statements.

Please explain any unexpected effects or challenges preparers of financial statements faced applying the impairment requirements retrospectively. How were those challenges overcome?

9. Credit risk disclosures

Background

IFRS 7 provides objective-based disclosure requirements for credit risk and identifies three disclosure objectives to assist users of financial statements to understand:

- (a) an entity's credit risk management practices and how they relate to the recognition and measurement of expected credit losses, including the methods, assumptions and information the entity uses;
- (b) the amounts in the financial statements arising from expected credit losses, including changes in the amount of expected credit losses and the reasons for those changes; and
- (c) an entity's credit risk exposure (that is, the credit risk inherent in an entity's financial assets and commitments to extend credit), including significant credit risk concentrations.

The IASB included objective-based disclosure requirements to allow an entity to decide, in the light of its circumstances, how much detail to disclose, how much emphasis to place on different aspects of the disclosure requirements, how it aggregates information to display the overall picture without combining information with different characteristics, and whether users of financial statements need additional explanations to evaluate the quantitative information disclosed. In the IASB's view, this approach was necessary to strike a balance between overburdening financial statements with excessive detail that might not assist users of financial statements and obscuring important information as a result of too much aggregation.

When developing credit risk disclosure requirements, the IASB acknowledged that because entities view and manage credit risk in different ways, disclosures based on how an entity manages risk are unlikely to be comparable between entities. To overcome these limitations, the IASB decided to require disclosures of credit risk exposures that would be applicable to all entities, to provide a common benchmark for users of financial statements so they can compare risk exposures between entities. Entities with more developed risk management systems would provide more detailed information. Accordingly, IFRS 7 sets out a combination of disclosure objectives and minimum disclosure requirements to provide comparable as well as relevant information.

Spotlight 9—Credit risk disclosures

Stakeholders across the various stakeholder groups told the IASB that there is a lack of consistency in the type and granularity of information disclosed by different entities for credit risk. In particular, users of financial statements said that this lack of consistency significantly impairs comparability between different entities and affects the quality of their credit risk analysis.

Stakeholders told the IASB they generally observe a lack of consistency in the disclosures that entities provide about:

- determining significant increases in credit risk (see Spotlight 3);
- post-model adjustments or management overlays (see Spotlight 4.2);
- reconciliation from the opening balance to the closing balance of expected credit losses; and
- sensitivity analysis.

Stakeholders suggested the IASB add minimum disclosure requirements in these areas, specify the format of some disclosures and add particular illustrative examples in IFRS 7 to achieve greater consistency in the information disclosed, thus enhancing comparability.

Question 9—Credit risk disclosures

- (a) Are there fundamental questions (fatal flaws) about the disclosure requirements in IFRS 7 for credit risk? If yes, what are those fundamental questions?**

Please explain whether the combination of disclosure objectives and minimum disclosure requirements for credit risk achieves an appropriate balance between users of financial statements receiving:

- (i) comparable information—that is, the same requirements apply to all entities so that users receive comparable information about the risks to which entities are exposed; and
- (ii) relevant information—that is, the disclosures provided depend on the extent of an entity’s use of financial instruments and the extent to which it assumes associated risks.

If an appropriate balance is not achieved, please explain what you think are the fundamental questions (fatal flaws) about the clarity and suitability of the core objectives or principles of the disclosure requirements.

- (b) Are the costs of applying these disclosure requirements and auditing and enforcing their application significantly greater than expected? Are the benefits to users significantly lower than expected?**

If, in your view, the ongoing costs of providing specific credit risk disclosures are significantly greater than expected or the benefits of the resulting information to users of financial statements are significantly lower than expected, please explain your cost–benefit assessment for those disclosures. Please provide your suggestions for resolving the matter you have identified.

If, in your view, the IASB should add specific disclosure requirements for credit risk, please describe those requirements and explain how they will provide useful information to users of financial statements.

Please also explain whether entities’ credit risk disclosures are compatible with digital reporting, specifically whether users of financial statements can effectively extract, compare and analyse credit risk information digitally.

10. Other matters

Background

Sections 2–9 focus on matters the IASB has identified as areas of interest to examine further in the post-implementation review of the impairment requirements in IFRS 9.

This section provides stakeholders with an opportunity to share feedback on other matters relevant to the post-implementation review.

Please share any information that would be helpful to the IASB in assessing whether:

there are **fundamental questions** (fatal flaws) about the clarity and suitability of the core objectives or principles in the IFRS 9 impairment requirements

the **benefits to users of financial statements** of the information arising from applying the impairment requirements are significantly lower than expected

the **costs of applying** the impairment requirements and auditing and enforcing their application are significantly greater than expected

As previously noted, in this Request for Information, the IASB is seeking feedback only on the impairment requirements (Section 5.5 of IFRS 9).

Question 10—Other matters

- (a) **Are there any further matters that you think the IASB should examine as part of the post-implementation review of the impairment requirements in IFRS 9? If yes, what are those matters and why should they be examined?**

Please explain why those matters should be considered in the context of this post-implementation review and the pervasiveness of any matter raised. Please provide examples and supporting evidence.

- (b) **Do you have any feedback on the understandability and accessibility of the impairment requirements in IFRS 9 that the IASB could consider in developing its future IFRS Accounting Standards?**



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