CAANZ and CPA staff submission (via email) on ITC 47 Request for Comment on IASB Request for Information on Post-implementation Review of IFRS 9 *Financial Instruments* – Classification and Measurement

Subject: Feedback on IASB Request for Information - Post implementation review of IFRS 9 Financial Instruments - classification and measurement

Hi Nikole and Helena,

CPA Australia and Chartered Accountants Australia and New Zealand (CA ANZ) intend to develop a joint submission to the IASB on the above Request for Information (RFI). Please find below some high-level comments on the RFI based on our initial review of the consultation and outreach to date. Please note that these are preliminary CA ANZ and CPA Australia staff views as we have not yet completed our detailed review of the proposals and outreach activities and therefore some of the comments below may be subject to change in our final submission to the IASB. We hope the AASB finds them useful in its considerations. For the avoidance of doubt, we give permission for this feedback to appear in public board papers.

- Overall, our stakeholders have indicated that the classification and measurement requirements of IFRS 9 are providing useful information as intended.

- We are of the view that:
    - the business model for managing financial assets,
    - the contractual cash flow characteristics assessment, and
    - modifications to contractual cash flows

  have operated as intended for most entities.

- However, whilst the principles that underpin the classification and measurement requirements appear to be sound, there is a significant amount of assessment and estimation required in applying these principles. Feedback from our outreach activities indicates that there is scope for further improvements to IFRS 9 through additional application guidance that supports the consistent application of the principles-based requirements. Our following comments elaborate on this.

- Preparers have indicated that the application guidance (paragraphs B4.1.3, B4.1.3A and B4.1.3B) for the business model which holds financial assets to collect contractual cash flows needs more guidance. For example, the factors and occurrence frequency that would cause a change in the business model.

- Some preparers consider IFRS 9 requires more research and deliberation than its predecessor standard IAS 39 *Financial Instruments: Recognition and Measurement*. For example, when applying the contractual cash flow characteristics assessment guidance (paragraphs B4.1.7, B4.1.7A and B4.1.7B), it remains unclear how to identify components of interest earned and whether they include other considerations unrelated to basic lending risks.

- Since the issue of IFRS 9, there are additional financial instruments that are characterised by entity or sector-specific terms and conditions which are not definitively "solely payments of principal and interest", for example:

    - Interest-free loans to related parties for liquidity management purposes,
    - Variable rate loans based on environmental, social and governance (ESG) targets achieved by the borrowers, and
    - Islamic banks' financial assets which include profit-sharing components.

  We urge for more principles-based guidance to clarify what constitutes 'principal' and 'interest' for the assessment.

- For subsequent stages of the IFRS 9 post-implementation review (PIR), we recommend that the IASB revisits measurement including impairment and expected credit losses (ECL), which are not within the scope of this PIR. We do not believe that measurement can be reviewed for this PIR without considering the impact of impairment and ECL. Disclosures relating to financial instruments also play a crucial role, therefore IFRS 7 *Financial Instruments: Disclosures* should also be revisited in due course.

- In addition, we also recommend the IASB undertake a PIR in relation to the recognition requirements. Recent market developments have brought about the proliferation of crypto-based assets and liabilities. The IASB did not consider these emerging crypto-based economic activities during the development of IFRS 9 but we understand that some jurisdictions have already started accounting for some crypto-currencies in accordance with the standard.

- We also support further standard setting work on the presentation of fair value changes on investments in equity instruments in other comprehensive income (OCI). Investor groups and regulators have advised that the OCI is relevant to understanding an entity's financial performance. At present, this is not well understood and therefore the information included in OCI, including movements arising from financial instruments, is not given a great deal of focus.

If you have further questions, please contact us.

Kind regards

Ram

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Policy & Advocacy | CPA Australia