Australian Government

Australian Accounting Standards Board

Staff Paper

Project:	**Post-implementation review IFRS 9 - Classification and Measurement**	**Meeting:**	M185
Topic:	**Staff analysis of the feedback received on ITC 47**	**Agenda Item:**	15.1.0
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			(Paper provided to the sub-committee on 13 January 2022)
Contact(s):	Fridrich Housa fhousa@aasb.gov.au Anne Bean abean@aasb.gov.au	**Project Priority:**	Medium
		Decision-Making:	N/A (submission completed)
		Project Status:	Comment letter drafting

Note to the Board

This paper contains staff analysis and recommendations to the Board sub-committee that staff provided to the sub-committee on 13 January 2022 to support their decision in relation to the finalisation of the submission to the IASB on its Request for Information on Post-implementation Review of IFRS 9 *Financial Instruments* —Classification and Measurement.

The submission was finalised out of session by the nominated AASB sub-committee and lodged to the IASB on 28 January 2022.

Therefore, this agenda paper 15.1 is **only for** the Board members' **reference and noting and no decisions are required.**

The objective of this paper

1 At its November 2021 meeting, the Board agreed to submit to the IASB on its Request for Information on Post-implementation Review of IFRS 9 *Financial Instruments* —Classification and Measurement (the PIR) subject to the feedback received from the stakeholders. The Board agreed that a subcommittee would approve the submission out of session.

2 The objective of this staff paper is to summarise the feedback received to support the subcommittee's **decision** on the AASB response to each of the nine specific questions for comment posed in the PIR and matters for inclusion in the cover letter.

Background

3 In September 2021, the International Accounting Standards Board (IASB) published a Request for Information on its Post-implementation Review of the classification and measurement requirements of IFRS 9 *Financial Instruments*. The due date for comments is 28 January 2022.

4 In October 2021, the AASB issued an Invitation to Comment (ITC 47) that included the IASB Request for Information on IFRS 9 PIR. The ITC 47 comment period closed on 31 December 2021.

Attachments

5 The following documents are included for reference purposes:

(a) Comment letter from ShineWing Accountants & Advisors, 5 November 2021.

(b) Comment letter from Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC), 24 December 2021.

(c) Emailed comments from CPA Australia and Chartered Accountants Australia and New Zealand (CA ANZ) staff, 16 December 2021.

(d) Financial Instruments Project Advisory Panel meeting minutes, 14 December 2021 (agenda item 15.1.1 in supplementary folder).

(e) Draft comment letter to the IASB (the final AASB submission to the IASB: *Post-implementation Review IFRS 9 Financial Instruments Classification and Measurement*).

Outreach activities

6 The Board received three written submissions on ITC 47 listed in paragraph 5 above. In addition, staff conducted the following outreach activities to gather views from stakeholders:

(a) 23 February 2021 – AASB Financial Instruments Project Advisory Panel (FIPAP) outreach – two FIPAP members provided feedback to AASB staff on the first phase (identifying matters to be examined) of the PIR.

(b) 4 March 2021 - AASB User Advisory Committee (UAC) meeting – members provided feedback to AASB staff on the first phase (identifying matters to be examined) of the PIR.

(c) 4 November 2021 – AASB User Advisory Committee (UAC) meeting. Four UAC members provided feedback to AASB staff on the PIR.

(d) 15 November 2021 – AASB staff attended a joint meeting arranged by CAANZ and CPA Australia to obtain the views of their members. Five practitioners provided feedback on the PIR.

(e) 22 November 2021 – AASB staff attended a meeting organised by the New Zealand External Reporting Board (XRB). Nine XRB staff and practitioners from a technical background provided feedback on the PIR.

(f) 1 December 2021 – AASB Academic Advisory Panel meeting (AAP meeting). Several AAP members provided feedback to AASB staff on the PIR.

(g) 14 December 2021 – AASB FIPAP meeting. Seven FIPAP members provided feedback to AASB staff on the PIR.

Staff have also considered the feedback summarised in the NZASB staff paper noted by NZASB at its December meeting in a non-public session.

Summary of the feedback received from stakeholders, staff analysis and recommendations

7 There are nine sections in the PIR, each with explanatory material and corresponding numbered questions. Staff have considered all feedback received in providing their recommendations to the Board.

Question 1—Classification and measurement
Do the classification and measurement requirements in IFRS 9: **(a) enable an entity to align the measurement of financial assets with the cash flow characteristics of the assets and how the entity expects to manage them? Why or why not?** **(b) result in an entity providing useful information to the users of the financial statements about the amount, timing, and uncertainty of future cash flows? Why or why not?** Please provide information about the effects of the classification and measurement changes introduced by IFRS 9, including the ongoing costs and benefits in preparing, auditing, enforcing, or using information about financial instruments. This question aims to help the Board understand respondents' overall views and experiences relating to the IFRS 9 classification and measurement requirements.

Summary of stakeholder feedback and staff analysis

8 Most stakeholders that provided comments during the outreach, including users, noted that the classification and measurement requirements of IFRS 9 provide more useful information than was provided under IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39). They agreed that the requirements generally do enable an entity to align the measurement of financial assets with the cash flow characteristics of the assets and how the entity expects to manage them, which results in the provision of useful information to the users of the financial statements about the amount, timing, and uncertainty of future cash flows.

9 Preparers and auditors generally agree that IFRS 9 is an improvement over IAS 39 but commented that the amount of detail in the standard, the sometimes unnecessarily complexity, and the degree of judgement required may result in a diversity of application.

10 Stakeholders have identified several areas where there is potential scope for further improvements to IFRS 9 through additional standard-setting, application guidance or illustrative examples. These are set out in Questions 2 – 9.

11 Overall stakeholder feedback in this staff paper is in line with the preliminary feedback noted in the IASB RFI and the areas where the further guidance is required is largely in line with the preliminary feedback received during the first phase of the PIR and several areas were the subject of submissions to the IFRS Interpretation Committee (IFRS IC). Staff further note that some stakeholders confirmed that classification and measurement requirements introduced in IFRS 9 had little effect on their accounting for financial instruments. The requests for further guidance arise from the significant level of judgement required in some cases of IFRS 9 requirements application.

Staff recommendation on the AASB response to IASB

12 Staff **recommend** the AASB should agree that IFRS 9 does in most cases:

(a) enable an entity to align the measurement of financial assets with the cash flow characteristics of the assets and how the entity expects to manage them,

(b) result in an entity providing useful information to the users of the financial statements about the amount, timing, and uncertainty of future cash flows,

(c) except to the identified areas where further clarification or guidance is requested, as discussed in Questions 2-8

13 Questions 2-8 seek information on specific areas of the classification and measurement requirements of IFRS 9. For information purposes, Figures 1 and 2 below summarise these requirements.

Figure 1 IFRS 9 approach for classifying and measuring financial assets after initial recognition at fair value

Loans and receivables	**Measurement**
Basic principal and interest loans and receivables where the objective of the entity's business model for realising these assets is either:	
• Collecting contractual cash flows; or	Amortised cost*
• Both collecting contractual cash flows and selling the assets	FVOCI*
All other loans and receivables, e.g., where the business model is active trading or where the cash flows do not represent solely payment of principal and interest (SPPI)	FVPL
Mandatorily redeemable preference shares and 'puttable' financial instruments (e.g., investments in unit trusts)	FVPL
Freestanding derivative financial assets (e.g., purchased options, forwards, and swaps with a positive fair value at the balance sheet date)	FVPL
Investments in equity instruments Option to irrevocably elect at initial recognition to recognise gains and losses on qualifying equity instruments through OCI with no recycling through profit and loss permitted. Dividend income is recognised in profit and loss.	FVOCI
All other equity instruments	FVPL
* Option to irrevocably designate FVPL at initial recognition if an asset qualifies for FVOCI or amortised cost, and it will avoid an accounting mismatch, i.e., there is no true fair value option for assets in IFRS 9.	

Figure 2 IFRS 9 approach for classifying and measuring financial liabilities after initial recognition at fair value

Loans and payables	
Default measurement approach	Amortised cost*
Freestanding derivative financial liabilities (e.g., purchased options, forwards, and swaps with a negative fair value at the balance sheet date)	FVPL
Other liabilities (e.g., financial guarantee contracts, some loan commitments and contingent consideration in a business combination)	Various (see IFRS 9 section 4 if in scope)

* Option to irrevocably designate FVPL if a liability qualifies for amortised cost, and it will avoid an accounting mismatch or if a group of financial liabilities or financial assets and liabilities are managed, and performance is evaluated on a fair value basis.

Question 2—Business model for managing financial assets

(a) Is the business model assessment working as the Board intended? Why or why not?

Please explain whether requiring entities to classify and measure financial assets based on the business model assessment achieves the Board's objective of entities providing users of financial statements with useful information about how an entity manages its financial assets to generate cash flows.

(b) Can the business model assessment be applied consistently? Why or why not?

Please explain whether the distinction between the different business models in IFRS 9 is clear and whether the application guidance on the evidence an entity considers in determining the business model is sufficient. If diversity in practice exists, please explain how pervasive the diversity is and its effect on entities' financial statements.

(c) Are there any unexpected effects arising from the business model assessment? How significant are these effects?

Please explain the costs and benefits of the business model assessment, considering any financial reporting or operational effects for preparers of financial statements, users of financial statements, auditors or regulators.

In responding to (a)–(c), please include information about **reclassification** of financial assets (see Spotlight 2).

Summary of stakeholder feedback and staff analysis

14 Most of the stakeholders that provided comments during the outreach, including users, said the business model requirements work well most of the time and provide useful information about the amount, timing and uncertainty of future cash flows. However, several stakeholders noted that sometimes making the assessment seems unnecessarily complex, or the degree of judgement required may result in a diversity of application.

15 One of the most frequently raised requests by stakeholders was for guidance around what number or percentage value of historical sales would be sufficiently 'infrequent' or 'insignificant in value' for a portfolio or asset to still qualify for the 'held-to-collect' business model. **Staff note** that in the mandatory guidance, IFRS 9 states that any historical sales made need to be assessed within the context of the reasons for those sales and the conditions that existed at that time as compared to current conditions and, and the existence of a sale and their quantum or frequency is not the sole determinant of the business model in isolation (paragraphs B4.1.2C and B4.4.1B). Staff do not think adding further 'bright lines' would be helpful. However, additional examples such as illustrating whether the size or frequency of sales is compared to the size of the portfolio (e.g., instead of total assets) and whether they should be considered within the reporting period or life of the portfolio may decrease the complexity of the business model assessment for some preparers.

16 Several stakeholders observed that although it is very rare to see changes to the business model, some stakeholders requested further guidance and examples illustrating potential cases of the business model and related assessment (for example, the reasons and thought processes, and the type of objective evidence that is required) as well as some additional guidance how to reclassify the affected assets. **Staff note** that paragraph B4.4.1 states that "such changes are determined by the entity's senior management as a result of external or internal changes and must be significant to the entity's operations and demonstrable to external parties". Accounting for the change is prospective and is set out in section 5.6 of IFRS 9.

17 Stakeholders requested guidance that specifies a timeframe over which the business model should be assessed for assets that have been newly purchased or originated and that have entirely new terms and conditions and purposes than those that were held in the past to ensure the assets are classified appropriately in the case where the business model is not clear at the asset's origination. To avoid such an outcome, a stakeholder suggested entities be permitted to apply FVPL at origination with subsequent changes treated as a reclassification. **Staff note** that in most cases an entity should be able to delay initial recognition until they have determined the business model; however, staff agree there is no specific guidance on this issue. A stakeholder offered the following examples illustrating the matter:

- If a bank is intermediating a transaction between a buyer and seller of a bond and the buyer fails to perform, the bank can be left with the bond. In such a scenario, the financial asset was not originated in any business model, however, the bank would need to determine a business model in which it proposed to hold the financial asset at the point of origination.
- If a bank provides a customer with funds upfront but the final amount the bank will lend is not known until a later time (such as after the syndication period ends), any increase over the initial funding amount can be required to be measured at FVPL notwithstanding that the Bank's business model for that asset from the end of the primary syndication period is 'held-to-collect'. This adds both operational complexity (two aspects of the same customer exposure classified and measured differently) and results in a financial statement presentation that is not aligned with the Bank's actual business model for managing the exposure.

18 A stakeholder asked for guidance on applying the requirement that an entity's business model be assessed at a higher level of aggregation than an individual financial instrument. For example, where a new financial asset originated that is of very high value and does not fit the existing business model, the financial statements could be materially misstated if the new financial asset is kept within the existing classification. **Staff note** that if a new asset were sufficiently material, it would seem logical to create a new business model for that asset. However, staff agree that there is no specific guidance on this issue in IFRS 9 (paragraph B4.1.2).

19 In 2016, the IFRS Interpretations Committee discussed a request to clarify how a reporting entity applies the business model assessment in its consolidated financial statements when a subsidiary is classified as held for sale applying IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.* The matter was not formally resolved by the Committee. A stakeholder suggested the IASB should confirm that a reporting entity performs the assessments required by IFRS 9 from a group perspective in its consolidated financial statements rather than the subsidiary's perspective. This is because the intention and/or decision to sell a subsidiary does not represent a change in business model because the subsidiary's activities following a decision to sell remain the same. **Staff support** that the

clarification of the IASB preferred approach to be applied in these cases should be incorporated in IFRS 9.

20 A stakeholder observed that situations exist when the extent of judgement required leads to differences of opinion with a regulator. For example, when a business purchases a portfolio of troubled debt, although it will collect contractual cash flows, it manages the group of assets as a portfolio on a FVPL basis. In this case, a regulator might view the portfolio as 'held-to-collect'. **Staff note** that how the business manages the assets, evaluates their performance, and intends to realise the assets determine the business model, which is a question of fact and the application of judgment (section B4). Staff also note that FVPL measurement category is available for 'held-to-collect' assets if it eliminates an accounting mismatch.

21 Several stakeholders commented on the operational complexity that can arise when different business model assessments are made at an entity and group level. A stakeholder offered the following example:

- One Group entity (Entity A) may originate assets with the intention of subsequently selling/transferring a portion of those assets to another Group entity (Entity B) to facilitate the efficient use of capital across the group. Assuming the sale/transfer achieves derecognition for Entity A, the business model assessment for Entity A introduces complexity because:

  At a single loan level, Entity A will not know at origination if the loan is planned to be held-to-collect or planned to be transferred to Entity B.

  At a portfolio level, Entity A will know at origination that a portion of a given portfolio is planned to be transferred to Entity B (but not which exposures within the portfolio).

  If it was concluded the sales to Entity B are integral to Entity A's business model, this would lead to a situation where Entity A must measure the whole portfolio at FVOCI. Noting that the group's business model remains 'held-to-collect' as the asset never leaves the group, this adds operational complexity (two different measurement bases for the same loans) and results in a FVOCI presentation for the loans retained by Entity A notwithstanding that they remain always 'held-to-collect.'

Staff note that paragraph B4.1.2 indicates the business model is set either at reporting entity level or lower e.g., business unit. Staff agree there is little guidance about applying the business model requirements for a consolidated group and suggest further examples would be useful, particularly regarding the level at which the business model is determined for a group and the effect on the business model assessment of intragroup transfers that are not sales (e.g., where transfers are for liquidity purposes with no profit motive) as well as for the scenarios where the transfer to the third parties does not result in the derecognition, e.g. financial assets sold under factoring agreements where factor obtains legal ownership of the factored receivables, however, because of the credit guarantee originating entity continues to recognise the trade receivables in its statement of financial position.

<u>Staff recommendation on the AASB response to IASB</u>

22 Staff recommend the Board submission should **agree** that requiring entities to classify and measure financial assets based on the business model assessment provides users of financial

statements with useful information about how an entity manages its financial assets to generate cash flows.

Staff recommend the Board submission should **agree** that the business model assessment can in most cases be applied consistently. However, staff recommend requesting the IASB to consider the need for further standard-setting, guidance, or additional illustrative examples in the following areas:

(a) Stakeholders requested additional guidance regarding the number or extent of sales that can be made in a held-to-collect portfolio. Staff suggest the IASB consider adding additional examples such as demonstrating whether the size or frequency of sales should be compared to the size of the portfolio (instead of total assets) and whether they should be considered within the reporting period or over the life of the portfolio might be useful.

(b) IFRS 9, paragraph B4.1.2 notes that an entity's business model does not depend on management's intentions for an individual financial instrument and that classification should be determined at a higher level of aggregation. Staff agree that a requested clarification about whether an entity would be permitted to create a new classification for an individual financial instrument if it were (for example) highly material would be useful for some preparers.

(c) In 2016, the IFRS IC discussed a request to clarify how a reporting entity applies the business model assessment in its consolidated financial statements when a subsidiary is classified as held for sale applying IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.* Staff agree with a stakeholder request that the IASB should confirm whether in its consolidated financial statements, a reporting entity performs the assessments required by IFRS 9 from a group perspective rather than the subsidiary's perspective or otherwise.

(d) Stakeholders observed the operational complexity that results from applying the business model assessment first at entity level and again at group level. Staff note that IFRS 9, paragraph B4.1.2 indicates the business model is set either at reporting entity level or lower e.g., business unit level, and agree this can lead to unintuitive results in some cases. Staff think further examples would be useful, particularly regarding the level at which the business model is or can be determined for a group, and the effect on the business model assessment of intragroup transfers that are not sales (e.g., where transfers are for liquidity purposes with no profit motive) or for other transactions with third parties where the financial assets are not derecognised (e.g., factoring of trade receivables).

(e) In instances where an asset is originated unintentionally (e.g., the unsold portion of a syndicated loan), staff agree with the stakeholders' request for additional guidance or illustration of practical application of the business model determination on initial recognition (i.e., sections 4.1 and B4.1 of IFRS 9) for cases when it is not practicable to determine business model immediately upon initial recognition.

Question 3—Contractual cash flow characteristics
(a) Is the cash flow characteristics assessment working as the Board intended? Why or why not? Please explain whether requiring entities to classify and measure a financial asset considering the asset's cash flow characteristics achieves the Board's objective of entities providing users of financial statements with useful information about the amount, timing, and uncertainty of future cash flows. If, in your view, useful information could be provided about a financial asset with cash flows that are not SPPI applying IFRS 9 (that is, an asset that is required to be measured at fair value through profit or loss applying IFRS 9) by applying a different measurement approach (that is, using amortised cost or fair value through OCI) please explain: (i) why the asset is required to be measured at fair value through profit or loss (that is, why, applying IFRS 9, the entity concludes that the asset has cash flows that are not SPPI). (ii) which measurement approach you think could provide useful information about the asset and why, including an explanation of how that approach would apply. For example, please explain how you would apply the amortised cost measurement requirements to the asset (in particular, if cash flows are subject to variability other than credit risk). (See Section 7 for more questions about applying the effective interest method.) **(b) Can the cash flow characteristics assessment be applied consistently? Why or why not?** Please explain whether the requirements are clear and comprehensive enough to enable the assessment to be applied in a consistent manner to all financial assets within the scope of IFRS 9 (including financial assets with new product features such as sustainability-linked features). If diversity in practice exists, please explain how pervasive the diversity is and its effect on entities' financial statements. **(c) Are there any unexpected effects arising from the cash flow characteristics assessment? How significant are these effects?** Please explain the costs and benefits of the contractual cash flow assessment, considering any financial reporting effects or operational effects for preparers of financial statements, users of financial statements, auditors or regulators. In responding to (a)–(c), please include information about **financial instruments with sustainability-linked features** (see Spotlight 3.1) and **contractually linked instruments** (see Spotlight 3.2).

Summary of stakeholder feedback and staff analysis

23 In most cases, stakeholders said that requiring entities to classify and measure a financial asset according to the asset's cash flow characteristics provides users of financial statements with useful information about the amount, timing, and uncertainty of future cash flows.

24 While applying the cash flow characteristic requirements works well most of the time, there are times when the SPPI assessment seems unnecessarily complex, or the degree of judgement required may result in a diversity of application. Preparers and auditors found the level of

detail that must be considered in evaluating the terms and conditions of some instruments can be significant with some counterintuitive outcomes.

25 Most stakeholders considered that financial instruments with contractual cash flows linked to ESG targets specific to the borrower would ideally represent a 'basic lending arrangement' and as such, amortised cost would provide the most useful information. However, several stakeholders noted that under current IFRS 9 requirements, they might fail to meet the SPPI criterion. Stakeholders mentioned that in some cases, the *de minimis* provisions are used to pass the SPPI test where judgement applied may arise in the diversity in practice. Stakeholders also noted that the changes in interest rates due to entity-specific ESG targets might not represent consideration for credit risk or other basic lending risks in many cases. One stakeholder observed that if loans with such ESG targets are socially desirable, an inability to measure them at amortised cost may harm their take-up. **Staff agree** that given the increasing prevalence of ESG features in lending arrangements, staff think it is important for the IASB to consider this matter, including the potential need to provide additional guidance or examples of application of SPPI criterion for these arrangements.

26 Several stakeholders commented that guidance on contractually linked instruments (CLIs) is not sufficiently clear and does not always give the intuitive outcome. One stakeholder noted that in respect of CLIs, further guidance and illustrative examples would be useful when referring to multiple tranches as it may not be clear if (for example) an SPV has issued a single note with the excess spread retained by the SPV, whether the latter would constitute a tranche and further, whether two tranches would be considered as multiple tranches. **Staff note** that 'multiple' (in common usage) means more than one. However, staff agree that clarification of the term 'tranche', and that a tranche does not need to exist in the form of a note or a security, would enhance the application of the standard.

27 Several stakeholders noted instances of significant judgement and use of the de minimis provisions (paragraph B4.1.18) to achieve a financial asset meeting the SPPI requirements for intercompany loans.

(a) The most common example offered was with respect to intercompany loans with non-market features, such as non-market interest rates or flexible repayment terms. **Staff note** the SPPI test requires entities to determine whether the asset's contractual cash flows are solely payments of principal and interest on the *principal amount* outstanding. Paragraph 4.1.3 defines the principal amount as the fair value of the financial asset at initial recognition. Therefore, to the extent that interest cash flows are 'off-market', this will be reflected in determining the initial fair value of the financial instrument in accordance with paragraphs B5.1.1 and B5.1.2A. In related feedback, staff were advised the application guidance in paragraphs B5.1.1 and B5.1.2A and their interaction is unclear and potentially being misapplied for intercompany loans.

(b) Further, an interest-free or below-market rate loan often contains a prepayment feature that is exercisable at par and any prepayment features need to be analysed for compliance with the SPPI criterion. In relation to that, a stakeholder commented that a lack of clarity around what constitutes 'reasonable' compensation for early termination or extension of a contract' could, if significant, potentially distort the principle underlying SPPI without further guidance.

28 Several stakeholders noted that the non-recourse guidance may result in diversity in practice regarding accounting policy choices applied and the distinction between 'credit risk' and 'asset risk'. One stakeholder provided the following example:

- If Entity A makes a non or limited recourse loan to Entity B which is an SPV (and not consolidated by Entity A) that owns physical assets that are leased to an end customer, the ability of Entity A to be repaid will depend on the extent to which it is exposed to the residual value risk of the underlying physical assets owned by Entity B. In considering the SPPI requirements and applying the non-recourse guidance, the distinction between credit risk and asset risk may be assessed based on the level of over-collateralisation. In those circumstances, the question becomes at what point the value of the loan to the expected fair value of the physical assets results in the "asset risk" exposure being significant enough to cause the failure of the SPPI test. This question is likely to be answered differently by different entities.

Staff note that paragraph B4.1.17 stipulates an asset does not satisfy SPPI criterion if the terms of the agreement give rise to any other cash flows or limit the cash flows in a manner inconsistent with payments representing principal and interest. Staff agree that additional guidance would be useful in assessing whether:

(a) the financial asset is intended to provide the holder with a return based on the performance of specific assets or another variable that does not represent exposure to and compensation for a basic lending arrangement and therefore fails the SPPI criterion; or

(b) the borrower's obligation to pay cash represents specified amounts of principal and interest but the obligation in default is limited in a way that is in substance consistent with the exposure to credit risk of a basic lending arrangement.

29 A stakeholder said the definition of SPPI may be considered too narrow and not reflecting how businesses collects cash flows from a portfolio of loan assets. For example, assessment of the various fees charged on an individual asset basis may differ when assessed on portfolio basis, however, some may view certain types of the fees as being outside the SPPI test even though considered as part of basic lending arrangement.

30 Several stakeholders mentioned PPP and PBE loans with special features. For example, one stakeholder mentioned prepayment features and contingencies based on non-financial criteria (e.g., the volume of traffic using a toll road). **Staff confirm** that such loans are not usually solely payments of principal and interest on the principal amount outstanding. Therefore, unless the special features are de minimis, guidance suggests that FVPL is the most appropriate valuation method (IFRS 9, paragraph B.1.4.16).

31 A stakeholder found the interpretation of the Instrument E example in paragraph B4.1.13 confusing, where the standard distinguishes contractual terms versus the overarching impact of legislation. In this example, the existence of bail-in legislation does not affect SPPI. However, if a bail-in is referred to in the contract (e.g., as is required in Australia by prudential regulators for certain Additional Tier 1 securities), the question arises whether such reference impacts assessment of the SPPI criterion. The stakeholder also notes that most loan agreements include a clause indicating it must be interpreted in accordance with the laws of the particular jurisdiction, which effectively incorporates by reference the impact of those laws. Some noted that such reference should not impact the SPPI assessment if it merely acknowledges the

existence of such legislation and does not create additional rights or obligations. **Staff agree** that further clarification of the interaction between contractual and non-contractual bail-in powers and non-viability requirements beyond the current example of Instrument E in paragraph B4.1.13 would be useful.

Staff recommendation on the AASB response to IASB

32 Staff recommend the Board submission should **agree** that requiring entities to classify and measure a financial asset considering the asset's cash flow characteristics provides users of financial statements with useful information about the amount, timing, and uncertainty of future cash flows.

Staff think the Board submission should **agree** that in most cases the cash flow characteristics assessment can be applied consistently however, request the IASB to consider the need for further standard-setting, guidance, or examples in the following areas where:

(a) Given the increasing prevalence of ESG features in lending arrangements, staff think it is important for the IASB to consider this matter, including additional guidance on when such loans should be considered 'basic lending arrangements' and how to apply SPPI requirements. Also, how to apply amortised cost if the terms and conditions of such a loan introduce cash flow volatility. Staff do not think loans with external ESG targets such as changes in an index or equity price (i.e., embedded derivatives) should be measured at amortised cost.

(b) Stakeholders found the guidance for contractually linked instruments (CLIs) is difficult to understand and apply and requested clarification. Further, a stakeholder asked whether more than one tranche would qualify as 'multiple' and if a tranche needs to exist in the form of a note or security.

(c) Stakeholders asked for clarification on the application of the SPPI requirements to intercompany loans with non-market interest rates or flexible repayment terms (including prepayment features) and the accounting for their initial recognition in accordance with either paragraph B5.1.1 or B5.1.2A (particularly B5.1.2A(b)). Also, additional guidance is requested for what constitutes 'reasonable compensation for early termination or extension of a contract' as this term is not defined.

(d) Stakeholders asked for examples demonstrating the practical distinction between 'credit risk' versus 'asset risk' for non-recourse loans.

(e) Stakeholders asked for clarification of the interaction between contractual and non-contractual bail-in powers and non-viability requirements beyond the current example of Instrument E in paragraph B4.1.13, particularly the contract merely acknowledges the existence of such legislation and does not create additional rights or obligations.

Question 4—Equity instruments and other comprehensive income
(a) Is the option to present fair value changes on investments in equity instruments in OCI working as the Board intended? Why or why not? Please explain whether the information about investments in equity instruments prepared applying IFRS 9 is useful to users of financial statements (considering both (i) equity instruments measured at fair value through profit and loss; and (ii) equity instruments to which the OCI presentation option has been applied). For equity instruments to which the OCI presentation option has been applied, please explain whether information about those investments is useful considering the types of investments for which the Board intended the option to apply, the prohibition from recycling gains and losses on disposal and the disclosures required by IFRS 7. **(b) For what equity instruments do entities elect to present fair value changes in OCI?** Please explain the characteristics of these equity instruments, an entity's reason for choosing to use the option for those instruments, and what proportion of the entity's equity investment portfolio comprises those instruments. **(c) Are there any unexpected effects arising from the option to present fair value changes on investments in equity instruments in OCI? How significant are these effects?** Please explain whether the requirements introduced by IFRS 9 had any effects on entities' investment decisions. If yes, why, how and to what extent? Please provide any available evidence supporting your response which will enable the Board to understand the context and significance of the effects. In responding to (a)–(c), please include information about **recycling of gains and losses** (see Spotlight 4).

Summary of stakeholder feedback and staff analysis

33 In general, stakeholders who provided comments during the outreach could not identify a clear principle underlying the FVOCI designation for equity instruments, for example, the conceptual reason for no recycling of fair value gains while dividends are included in profit and loss. Such distinction is then further exacerbated by the requirement in paragraph B5.7.1 of IFRS 9 that a dividend is not recognised in profit or loss if it clearly represents a recovery of a part of the cost of the investment, without specifying how 'cost' is determined. Stakeholders noted that this distinction may lead to structuring transactions to get the desired outcome. Some stakeholders (preparers and auditors) said they would prefer recycling but did not want impairment testing reintroduced as this would introduce complexities encountered under IAS 39. They noted that if such a requirement would be reintroduced, then they would prefer to keep the status quo.

34 One user that provided a comment during outreach did not support recycling as it may lead to earnings management. Another user representative would prefer this classification option to be removed However, the user noted that based on his experience, the option is used for high-paying dividend investments in which profit or loss is not significantly distorted for their analysis.

35 Stakeholders agreed that the FVOCI election is usually made for investments when entities do not think that the fair value movements in the profit and loss would provide useful information

to the users of the financial statements. Types of equity instruments they have seen in this classification include:

(a) A stakeholder observed he had seen the designation used by NFPs that think that recognising gains or losses they make on investments in profit or loss would provide more useful information to potential grantors.

(b) Some Australian government equity investments (including some investments in private funds and corporations and all investments in public corporations held at the general government sector level (GGS level) are measured at FVOCI. These investments are generally held on an ongoing basis for policy reasons rather than for trading and investment returns.

36 Some stakeholders questioned the inability to revisit the FVOCI election, even in rare circumstances. If, for example, after origination and making the irrevocable FVOCI election, an investment manager's performance fee remuneration component that varies with the fair value of the investment is introduced. In this scenario, as the investment increases in value, the performance fee remuneration expense would be reported in profit or loss while the fair value gain would be reported in other comprehensive income.

37 Several stakeholders discussed puttable instruments accounted for as equity as per IAS 32 (paragraphs 16A-16B) and suggested clarification of their treatment be made within the IFRS 9 mandatory guidance. One stakeholder said some people thought investments in unit trusts should qualify for the FVOCI designation. On the same issue, a stakeholder suggested clarification within IFRS 9 that financial liabilities that meet the exception to be presented as equity for the issuer in accordance with the requirements of IAS 32:16A-D are not eligible for designation as equity instruments at FVTOCI. This is in accordance with the view of the IFRS IC in the September 2017.

38 Paragraph 5.7.5 notes that the FVOCI designation cannot be made for equity instruments that are 'held for trading'. The definition of held for trading (IFRS 9, Appendix A) notes that a financial asset or liability is held for trading "if is acquired or incurred principally for the purpose of selling or repurchasing it in the near term." A stakeholder questioned the use of 'near term' and questioned whether it may lead to inconsistent application of the FVOCI designation without further application guidance. The standard also uses the term 'short term' in a similar form.

39 One stakeholder commented that the option to designate equity instruments at FVOCI is not entirely consistently applied because many entities may still measure their unlisted equity instruments at cost as a proxy for fair value (as permitted by paragraph B5.2.3). They said reasons commonly cited are a lack of sufficient and reliable information and the possible wide range of fair value estimates and significant level of judgement is required to assess the factors listed in paragraph. B5.2.4.

Staff recommendation on the AASB response to IASB

40 Staff recommend the Board submission should **agree** that the option to present fair value changes on investments in equity instruments in OCI does provide useful information, however, because of the lack of a principle-based approach and lack of clarity within the standard regarding the approach to the puttable instruments classification, staff think the Board should support further IASB work to provide further clarification either via standard

setting work or additional guidance on the presentation of fair value changes on investments in equity instruments in other comprehensive income (OCI) and the issue of OCI and recycling more broadly. While OCI seems relevant to understanding an entity's financial performance, this is not well understood at present.

Question 5—Financial liabilities and own credit
(a) Are the requirements for presenting the effects of own credit in OCI working as the Board intended? Why or why not? Please explain whether the requirements, including the related disclosure requirements, achieved the Board's objective, in particular, whether the requirements capture the appropriate population of financial liabilities. **(b) Are there any other matters relating to financial liabilities that you think the Board should consider as part of this post-implementation review (apart from modifications, which are discussed in Section 6)?** Please explain the matter and why it relates to the assessments the Board makes in a post-implementation review.

Summary of stakeholder feedback and staff analysis

41 One stakeholder (a regulator) commented that the separate presentation of own credit on the liabilities designated at FVTPL in OCI is useful. However, some stakeholders also observed that measuring the fair value changes due to own credit, including the similar debit valuation adjustment (DVA) on derivative instruments, is evolving, with differing approaches to measuring and isolating such changes and inputs into the measurement techniques.

42 Regarding question 5(b), the stakeholder feedback on the broad topic of derecognition, modifications, and continuing involvement (which apply to both assets and liabilities) is discussed in Question 6 and Question 9.

Staff recommendation on the AASB response to IASB

43 Staff recommend the Board submission should **agree** that the requirements for presenting the effects of own credit in OCI are working as intended.

Question 6—Modifications to contractual cash flows
(a) Are the requirements for modifications to contractual cash flows working as the Board intended? Why or why not? Please explain what changes you consider to be modifications of a financial asset for the purpose of applying paragraph 5.4.3 of IFRS 9 and as a modification of a financial liability for the purpose of applying paragraph 3.3.2 of IFRS 9. Does the application of those paragraphs, and the disclosure requirements related to modifications, result in useful information for users of financial statements? **(b) Can the requirements for modifications to contractual cash flows be applied consistently? Why or why not?** Please explain whether the requirements enable entities to assess in a consistent manner whether a financial asset or a financial liability is modified and whether a modification results in derecognition. Have the requirements been applied differently to financial assets and financial liabilities? If diversity in practice exists, please explain how pervasive the diversity is and its effects on entities' financial statements.

Summary of stakeholder feedback and staff analysis

44 Regarding modifications, some stakeholders felt very strongly that the modification requirements are problematic both from the perspective of interpretation of the standard's requirements and their practical application. They said there should be a separate IASB project on modifications of financial assets and liabilities to address diversity in practice and operational issues. **Staff support** this view.

45 The most frequent was the request by stakeholders for more guidance on operationalising the distinction between substantial and non-substantial modifications for financial assets (and to a lesser extent, liabilities). Although IFRS 9 notes a 10% change in the present value of a financial liability as a substantial modification (paragraph B3.3.6), such guidance does not exist for financial assets, and further, there is no qualitative guidance for either liabilities or assets.

46 Stakeholders noted this has led entities to develop their own accounting policies for what constitutes a substantial modification for financial assets. Although some entities apply the 10% rule for liabilities on the asset side, there is likely significant diversity in practice and outcomes, including differences in qualitative characteristics applied. For example, if a bank issued a 5-year loan and, in their accounting policy, defined an extension of less than a year as non-substantial and repeatedly extended the loan by less than a year, this may effectively lead to a significantly modified loan over the time without derecognition.

47 A stakeholder commented that IFRS 9 causes heightened relevance of the distinction between substantial and non-substantial modification of financial assets relative to IAS 39 due to the impact on expected credit loss (ECL) calculations. Because loan systems and front-line staff are typically not equipped to apply complex accounting policies on modifications, the objective may often be to minimise the practical impact of modifications.

48 A stakeholder noted that applying the accounting requirements for non-substantial modifications can lead to economically misaligned results because of the requirement to discount the modified asset at the original effective interest rate.

- For example, when a 'blend and extend' arrangement on commercial terms is considered a non-substantial modification. That is, when a fixed rate loan is extended prior to maturity with the extension period priced at market, but the contractual interest rate is amended so that an economically neutral "blended" rate applies from the date of the modification to the new extended maturity, IFRS 9, 5.4.3 will require the new cash flows to be discounted at the original effective interest rate resulting in the recognition of a gain/(loss) at the date of the modification which would unwind over the new extended term. This gain/(loss) is unlikely to provide useful information to financial statement users as it suggests the bank has made or lost money when it has simply dealt at market.

49 Several stakeholders pointed to systems difficulties, such as modifications showing as new assets in their system and an inability for banking customers to keep their original account number if a loan is extended. In addition, the operational complexity is more significant when there are large numbers of modifications.

50 A stakeholder observed that Interest Rate Benchmark Reform has highlighted there is very little guidance to determine whether modifications to derivatives lead to derecognition. This issue arises because determining what is substantially different, often using the 10% test, is more challenging when derivatives have both an inflow and outflow and are not discounted for measurement purposes using the original EIR (which the 10% test requires).

51 It was noted that in practice, modifications are generally limited to changes in contractual terms resulting from bi-lateral agreement to change the terms and conditions of the contractual arrangement. In practice, changes to the underlying calculation of indexes used as the basis of the contractual terms, as was highlighted in the IASB deliberations on accounting for Interest Rate Benchmark Reform, are not generally considered contract modifications rather as market-based rate of interest and so are accounted for on a prospective basis. If such changes were accounted for as modifications and affected profit in accordance with paragraph B5.4.6, one stakeholder noted that this would represent a change in current practice in many cases. **Staff support** the view that in some cases it may be unclear whether modifications relate to the market-based changes in the scope of B5.4.5 or those revisions in the scope of B5.4.6 and further clarification by the IASB would be useful including consideration of the impact on current practice and any potential transition requirements if needed. Staff further note that paragraph 5.4.3 of IFRS 9 refers to the modification or renegotiation *of the contractual cash flows* of a financial asset, while paragraph 3.3.2 of IFRS 9 refers to the *modification of the terms* of a financial liability.

52 **To summarise the current requirements in IFRS 9, staff note** that paragraph 3.3.2 requires derecognition of a financial liability when there is a 'substantial modification' to the terms. In the mandatory guidance, modification is substantial if the present value of the modified liability is different by more than 10% from the present value of the remaining original liability (paragraph B3.3.6). Accordingly, a modification does not result in derecognition if the change in present value is less than 10%.

Paragraph 3.2.3 says an entity should derecognise a financial asset when its rights to receive cash flows expire or it transfers the asset. If the asset is not transferred, i.e., to a third party, the question is then whether the modification has caused the right to receive cash flows to expire. However, IFRS 9 provides no guidance on what does or does not constitute an expiry when a loan is modified and how does this interact if, for example the 10% test for the liabilities would be applied in analogy.

Paragraph 5.4.3 explains how to account for a modification for assets held at amortised cost and refers to the modification or renegotiation of contractual cash flows that do not result in derecognition. In this case, an entity recalculates the gross carrying amount of the financial asset, discounting at the original effective interest rate, and recognising a modification gain or loss immediately in profit.

Where a standard is silent on a matter, IAS 8, paragraph 11 requires entities to develop an accounting policy by referencing similar issues and guidance in other accounting standards. Therefore, adapting the 10% derecognition requirements for liabilities for use with assets seems appropriate, but does not provide guidance on qualitative factors. This is broadly consistent with a September 2012 decision of the Interpretations Committee.

Staff recommendation on the AASB response to IASB

53 Staff recommend for the Board submission to support further standard-setting or additional guidance in respect of the treatment of the modifications to contractual cash flows of financial assets to improve consistency of application (see also Question 7 and 9 as these are related issues).

Question 7—Amortised cost and the effective interest method
(a) Is the effective interest method working as the Board intended? Why or why not? Please explain whether applying the requirements results in useful information for users of financial statements about the amount, timing and uncertainty of future cash flows of the financial instruments that are measured applying the effective interest method. **(b) Can the effective interest method be applied consistently? Why or why not?** Please explain the types of changes in contractual cash flows for which entities apply paragraph B5.4.5 of IFRS 9 or paragraph B5.4.6 of IFRS 9 (the 'catch-up adjustment') and whether there is diversity in practice in determining when those paragraphs apply. Please also explain the line item in profit or loss in which the catch-up adjustments are presented and how significant these adjustments typically are. If diversity in practice exists, please explain how pervasive the diversity is and its effect on entities' financial statements. In responding to questions (a)–(b), please include information about **interest rates subject to conditions and estimating future cash flows** (see Spotlight 7).

Summary of stakeholder feedback and staff analysis

54 In straightforward cases, stakeholders said that amortised cost and the effective interest rate method are easy to apply and provide users with useful information.

55 However, several stakeholders observed that when there is a change in contractual cashflows the decision to apply paragraph B5.4.5 (the prospective adjustment) versus paragraph B5.4.6 (the catch-up adjustment) is one of the most challenging and interpretative areas of financial instruments accounting. One stakeholder added that there is significant operational complexity in the practical application, and they often apply a materiality assessment to avoid it. **Staff note** that paragraph B5.4.5 applies to variable loans where a change in interest rate

does not affect the principal amount, while paragraph B5.4.6 applies to changes in estimates of payments or receipts that are *not* modifications in accordance with paragraph 5.4.3 (i.e., not those modifications of financial assets that do not result in the derecognition) as discussed in paragraph 56 above. Staff think the issue of derecognition, modifications (Question 6), and catch-up adjustments are related matters.

56 A stakeholder commented that it could be challenging to assess whether certain types of fees are an integral part of the effective interest rate or not. **Staff note** that paragraphs B5.4.2 and B5.4.3 list the types of fees that are and are not 'integral' to the effective interest rate.

57 A stakeholder noted that initial recognition of financial assets held at amortised cost at their fair value results in a duplication of the expected credit loss allowance (ECLA). This issue is referenced in the IFRS 9 Basis for Conclusions paragraph BC5.198. **Staff acknowledge** there are known issues with the recognition of 12-month expected credit losses but these are beyond the scope of this PIR.

Staff recommendation on the AASB response to IASB

58 Staff recommend that the Board submission agree that amortised cost and the effective interest rate method provide useful information to users and agree that in simple cases, the effective interest method can be applied consistently.

However, staff support further standard-setting or additional guidance regarding the treatment of modifications, movements in market rates of interest, and other changes in estimates (catch-up adjustments). Questions 6 and 9 discuss related issues.

Question 8—Transition
(a) Did the transition requirements work as the Board intended? Why or why not? 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 also explain whether, and for what requirements, the Board could have provided additional transition reliefs without significantly reducing the usefulness of information for users of financial statements. **(b) Were there any unexpected effects of, or challenges with, applying the transition requirements? Why or why not?** Please explain any unexpected effects or challenges preparers of financial statements faced applying the classification and measurement requirements retrospectively. How were those challenges overcome?

Summary of stakeholder feedback and staff analysis

59 Some stakeholders said the transition requirements were straightforward, while others said understanding and implementing the transition requirements required considerable effort. They suggested that in future, the IASB avoid phased approaches to accounting standard development, give more thought to complex transition requirements, and reconsider the issue

of principle-based disclosures versus specific disclosures to improve comparability. Stakeholders raised the following issues:

(a) A great deal of complexity was introduced through the multiple application dates combined with the interaction of IFRS 9 with other standards.

(b) There was substantial diversity in the level of disclosure and detail provided, especially by banks (e.g., ECL modelling and forecasting), likely due to the emphasis on principle-based disclosure requirements.

(c) If an associate's transition timetable differed from the investor's timetable, it wasn't easy to get the required information (e.g., the ECL modelling expected under IFRS 9), and there was little practical guidance.

Staff recommendation on the AASB response to IASB

60 Staff recommend the Board submission should emphasise the need for field testing where transition requirements are expected to be complex. Phased approaches to standard-setting should be avoided where possible.

Question 9—Other matters
(a) Are there any further matters that you think the Board should examine as part of the post-implementation review of the classification and measurement 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 the purpose of the post-implementation review, and the pervasiveness of any matter raised. Please provide examples and supporting evidence when relevant. **(b) Considering the Board's approach to developing IFRS 9 in general, do you have any views on lessons learned that could provide helpful input to the Board's future standard setting projects?**

Summary of stakeholder feedback and staff analysis

61 The most frequently raised issue was that derecognition is difficult, and pass-through and continuing involvement are very difficult. Stakeholders said that with increased risk-sharing transactions, avoiding continuing involvement is much more prevalent, increasing complexity of applying the standard. Some stakeholders requested a separate project on this topic or more substantial guidance and examples. **Staff note** that this topic is related to our recommendation for Questions 6 and 7. We understand there are also issues with derecognition for complex factoring and reverse factoring arrangements, although these were not raised in the outreach on IFRS 9 PIR specifically.

62 Several stakeholders have raised that there is a lack of clarity in the practice of whether reverse mortgages come under IFRS 9 or the insurance standard. Some would prefer IFRS 9 but not if reverse mortgages would be FVPL.

63 A stakeholder noted that for financial liabilities, IFRS 9 does not contain any specific requirements about trade date and settlement date accounting, although it does have requirements for financial assets. They note that the implementation guidance for financial liabilities seems different to the requirement in IFRS 9 for financial assets (as outlined in IFRS9 paragraph IG B.32). Staff note that trade date accounting is only available to a regular-way contracts (delivered within the timeframe generally established by regulations or convention in the market concerned).

Staff also note that IFRS IC considered whether the regular-way exemption applies to short sales of a security. The Committee noted that requiring entities to account for short positions as derivatives might create considerable practical problems for their accounting systems and controls with little, if any, improvement to the quality of the financial information presented. Therefore, a liability arising from a short trading position is not accounted for as a derivative because it represents a transaction in a financial asset for which either trade date or settlement date accounting may be applied in line with the entity's policy choice.

64 Matters affecting federal and state government stakeholders also included:

(a) the measurement of concessional financial guarantees – guarantees where the government chooses to support an entity which may not be in a position to pay fees for a guarantee from a private-sector provider are common at rates substantially lower than in private sector. Stakeholders noted issues about the inability to readily measure fair value, complexity in the fair value calculation with annual fee and incorporation of own credit risk and requested additional guidance in AASB 9. They also noted the inclusion of the treatment into AASB 1049, paragraph 31 would be useful.

Staff note, that if in scope of IFRS 9, an issued financial guarantee contract is usually measured initially at fair value and if a financial guarantee contract is issued in a stand-alone arm's length transaction to an unrelated party, then its fair value at inception is likely to equal the premium received unless there is evidence to the contrary. If there is no up-front payment – i.e., premiums will be paid at a later date – then the fair value of a financial guarantee contract between unrelated parties at inception is likely to be zero under IFRS. Stakeholders appear to have different views about whether the application of AASB 9 should be extended to subsequent measurement, or whether the amendments to AASB 9 should be reversed.

(b) the subsequent measurement of statutory receivables – stakeholders noted that the Australian amendments to IFRS in paragraph Aus2.1.1 apply only to initial measurement but not subsequent measurement resulting into inconsistency. Further, initial measurement under IFRS 9 added considerably to the workload on initial measurement of such receivables.

Staff note that the respective amendment to IFRS (Appendix C of AASB 9) was added via AASB 2016-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities.* The Board held view that the initial fair value measurement requirements of AASB 9 are the most appropriate for the types of receivables under consideration as the economic substance of contractual receivables and receivables arising from statutory requirements is similar at initial recognition.

The Board considered the subsequent measurement requirements of AASB 9 and noted that the impact of such requirements needs further consideration and also decided to monitor the IPSASB's project on Public Sector Financial Instruments.

(c) measurement and classification issues that arise from classification and hedging issues - stakeholders questioned whether the GFS requirements for fair value movements in derivatives (i.e., as other economic flows in operating result) preclude the use of hedge accounting.

Staff recommendation on the AASB response to IASB

65 Staff recommend the Board submission should support further standard-setting work on derecognition principles, modifications, catch-up adjustments and continuing involvement (see also Questions 6 and 7). Staff note that in May 2016, the Interpretations Committee considered and declined to undertake a narrow-scope project on derecognition because of the broad nature of the issue.

Staff recommend the Board to consider Australian public-sector specific feedback summarised in paragraph 64 as part of the upcoming domestic PIRs.

Question for Board members
Q1 Do the subcommittee members agree with the staff analysis and proposed responses to Questions 1-9 of the IASB PIR? If not, how do the subcommittee members want to respond to the questions?

Cover letter and other matters

66 Staff recommend that the cover letter to the AASB submission express an overall view that the classification and measurement requirements of IFRS 9 work as intended in most cases to include the following high-level comments for specific areas for the IASB to consider the need for further work:

(a) Overall, our stakeholders have indicated that the classification and measurement requirements of IFRS 9 are working as intended and provide useful information to users. However, as discussed in detail in the Appendix to this letter, we highlight the following matters.

(b) Concerning loans with sustainability linked features, we think it is important for the IASB to provide additional guidance around when such loans would be 'basic lending arrangements' and how to apply the SPPI test (Question 3).

(c) We support further standard-setting work on presenting fair value changes on investments in equity instruments in other comprehensive income (OCI) and the issue of OCI and recycling more broadly (Question 4).

(d) We recommend further standard-setting work and guidance on the related topics of derecognition, continuing involvement, modifications, movements in market rates of interest, and other changes in estimates (catch-up adjustments) (Questions 6, 7 and 9).

Questions for Board members

Q2 Do the subcommittee members agree with the staff recommendation on the tone of the cover letter? Are there other key points that Board members consider should be made as part of the cover letter?

Q3 Are there any other matters that the subcommittee members want to raise in relation to the PIR?