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Exposure Draft Amendments to the Classification and Measurement of Financial Instruments **Proposed amendments to IFRS 9 and IFRS 7**
Question 1—Derecognition of a financial liability settled through electronic transfer Paragraph B3.3.8 of the draft amendments to IFRS 9 proposes that, when specified criteria are met, an entity would be permitted to derecognise a financial liability that is settled using an electronic payment system although cash has yet to be delivered by the entity. Paragraphs BC5–BC38 of the Basis for Conclusions explain the IASB's rationale for this proposal. Do you agree with this proposal? If you disagree, please explain what aspect of the proposal you disagree with. What would you suggest instead and why?

Response

Agreeing to proposal. However, there could be a need to defer in a case the time between initiating a payment instruction and the cash being delivered is longer .

As given para BC 34 , the IASB proposes that settlement risk is insignificant when the characteristics of an electronic payment system are such that completion of the payment instruction follows a standard administrative process, and that the time between initiating a payment instruction and the cash being delivered is short. The longer the completion time for a specific payment system, the higher the risk that the payment may not be completed due to default of the debtor.

Therefore in cases where time of processing and actual delivery in cash/by transfer other assets is short and access to such fund is restricted to the payer , financial liability can be considered settled and derecognised .

In other circumstances, derecognition of financial liability should not be done.

Question 2—Classification of financial assets—contractual terms that are consistent with a basic lending arrangement

Paragraphs B4.1.8A and B4.1.10A of the draft amendments to IFRS 9 propose how an entity would be required to assess:

(a) interest for the purposes of applying paragraph B4.1.7A;
(b) and (b) contractual terms that change the timing or amount of contractual cash flows for the purposes of applying paragraph B4.1.10.

The draft amendments to paragraphs B4.1.13 and B4.1.14 of IFRS 9 propose additional examples of financial assets that have, or do not have, contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.
Paragraphs BC39–BC72 of the Basis for Conclusions explain the IASB's rationale for these proposals.
Do you agree with these proposals? Why or why not? If you disagree, please explain what aspect of the proposals you disagree with. What would you suggest instead and why?

Response

Agree

An entity may have to consider the different elements of interest separately. The assessment of interest focuses on what an entity is being compensated for, rather than how much compensation an entity receives. Contractual cash flows are inconsistent with a basic lending arrangement if they include compensation for risks or market factors that are not typically considered to be basic lending risks or costs ,even if such contractual terms are common in the market in which the entity operates. Furthermore, a change in contractual cash flows is inconsistent with a basic lending.

In the IASB's view, the contractual cash flow characteristics assessment in IFRS 9 is as relevant to financial assets.

In a basic lending arrangement, a lender lends a principal amount to a borrower for a specified term (which may be contractually shortened or extended) in exchange for the contractual right to receive payments of principal and interest representing compensation for risks and costs associated with holding the financial asset.

Question 3—Classification of financial assets—financial assets with non-recourse features

The draft amendments to paragraph B4.1.16 of IFRS 9 and the proposed addition of paragraph B4.1.16A enhance the description of the term 'non-recourse'.

Paragraph B4.1.17A of the draft amendments to IFRS 9 provides examples of the factors that an entity may need to consider when assessing the contractual cash flow characteristics of financial assets with non-recourse features. Paragraphs BC73–BC79 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree, please explain what aspect of the proposals you disagree with. What would you suggest instead and why?

Response

Agreeing with the proposal. This brings more clarity on the realisability akin with cash flow generation of assets. However, at the same, a specific time frame for repayments could not be fixed as the repayments in cases of advances with Non-Recourse features , the repayment is based on the generation of cash flows over the use of the specific underlying assets. Here there is no risk/obligation on the part of the borrower . Even though it brings clarity , the repayment and generation of cash flow from the specified asset is based on the use of the asset and the cash generation. The key point that is not considered is the useful life of the specified asset, i.e. the period of active use of the asset and generation of cashflow in servicing the debt as is given in para BC78.

Hence it is also required to set the repayment period maximum to the active useful life of the asset and in a case whether cash generation during the life of the asset is not enough to service the advance in full, the balance outstanding to be collateralised or any shortfall in cash flows generated by the underlying assets is expected to be absorbed by subordinated debt or equity instruments issued by the debtor other repayment option to be fixed . Failing this there would be an increase of risk for the lender. Otherwise In such situations, the financial asset does not have non-recourse features because the creditor has recourse to the debtor to secure its contractual right to the cash flows from the financial asset as is given in Para BC77.

Also as given in para BC76 the creditor would be exposed to the performance risk of the underlying assets— as opposed to basic lending risks, such as credit risk; consequently, the loan might not have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

Question 4—Classification of financial assets—contractually linked instruments

The draft amendments to paragraphs –B4.1.21 of IFRS 9, and the proposed addition of paragraph B4.1.20A, clarify the description of transactions containing multiple contractually linked instruments that are in the scope of paragraphs B4.1.21– B4.1.26 of IFRS 9.

The draft amendments to paragraph B4.1.23 clarify that the reference to instruments in the underlying pool can include financial instruments that are not within the scope of the classification requirements of IFRS 9.

Paragraphs BC80–BC93 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree, please explain what aspect of the proposals you disagree with. What would you suggest instead and why?

Response

Agree - the underlying pool can include financial instruments that are not within the scope of the classification requirements of IFRS 9**.** Para BC92 provides that it was not its intention to limit the scope of eligible financial instruments in the underlying pool to those financial instruments that are entirely in the scope of IFRS 9.

Question 5—Disclosures—investments in equity instruments designated at fair value through other comprehensive income

For investments in equity instruments for which subsequent changes in fair value are presented in other comprehensive income, the Exposure Draft proposes amendments to:

(a) paragraph 11A(c) of IFRS 7 to require disclosure of an aggregate fair value of equity instruments rather than the fair value of each instrument at the end of the reporting period; and

(b) paragraph 11A(f) of IFRS 7 to require an entity to disclose the changes in fair value presented in other comprehensive income during the period.

Paragraphs BC94–BC97 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree, please explain what aspect of the proposals you disagree with. What would you suggest instead and why?

Responses

Agreeing to the proposals , as is given para BC 94 investments in equity instruments for which an entity has elected to present subsequent changes in fair value in other comprehensive income. The IASB concluded that the requirements in IFRS 9 for such investments were generally working as intended and decided not to make any changes to the Standard in relation to them.

As given para BC 97 -The IASB is also proposing to require an entity to disaggregate changes in fair value during the period between investments derecognised during the reporting period and the amount related to investments held at the end of the reporting period. It is given in the IASB's view, this information, together with the presentation and disclosure of amounts recognised in other comprehensive income, as required by paragraph 20(a)(vii) of IFRS 7 (and paragraph 82A(a)(i) of IAS 1 Presentation of Financial Statements), would provide users of financial statements with useful and more comprehensive information about the performance of these equity instruments

Question 6—Disclosures—contractual terms that could change the timing or amount of contractual cash flows

Paragraph 20B of the draft amendments to IFRS 7 proposes disclosure requirements for contractual terms that could change the timing or amount of contractual cash flows on the occurrence (or non-occurrence) of a contingent event. The proposed requirements would apply to each class of financial asset measured at amortised cost or fair value through other comprehensive income and each class of financial liability measured at amortised cost (paragraph 20C).

Paragraphs BC98–BC104 of the Basis for Conclusions explain the IASB's rationale for this proposal.

Do you agree with this proposal? Why or why not? If you disagree, please explain what aspect of the proposal you disagree with. What would you suggest instead and why?

Response

Agree to the disclosure requirements for contractual terms that could change the timing or amount of contractual cash flows on the occurrence (or non-occurrence) of a contingent event.

IFRS 7 requires disclosures that enable users of financial statements to understand the amount, timing and uncertainty of future cash flows. In order to understand the nature and extent of risks arising from an entity's financial instruments to understand the nature and extent of risks arising from an entity's financial instruments. An entity should be required to disclose quantitative information about the range of possible changes in contractual cash flows. The IASB is of the view that this information would be useful in understanding the prevalence of financial instruments with contractual terms that could change the timing or amount of contractual cash flows in relation to the entity's total financial assets and financial liabilities within each class

Question 7—Transition

Paragraphs 7.2.47–7.2.49 of the draft amendments to IFRS 9 would require an entity to apply the amendments retrospectively, but not to restate comparative information. The amendments also propose that an entity be required to disclose information about financial assets that changed measurement category as a result of applying these amendments.

Paragraphs BC105–BC107 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree, please explain what aspect of the proposals you disagree with. What would you suggest instead and why?

Response

Agree- IFRS 9 require an entity to apply the amendments retrospectively, but not to restate comparative information. The amendments also propose that an entity be required to disclose information about financial assets that changed measurement .

An entity be required to disclose information about the measurement of those financial assets immediately before and after the amendments are applied. This is to enable users of financial statements to understand the change in the classification of financial assets and its effect, therefore, on an entity's financial statements.