# 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 derecognize 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?

**Comments:**

**SIRC of ICAI welcomes the IASB's decision to address stakeholder concerns through a standard-setting process. A standard-setting process would allow for proper discussion and to establish the appropriate transition requirements. SIRC of ICAI further welcomes the proposed accounting alternative to derecognize a financial liability settled using an electronic payment system before the cash is delivered by the entity, i.e., before the settlement date. Without this option, the clarification that settlement date accounting is required may be disruptive and costly for those using other derecognition approaches. However, it is to be kept in mind that any option granted is sufficiently cost-effective to enable its application.**

**For a financial liability settled in full, or in part, using an electronic payment system, an entity is permitted to make an accounting policy election to de-recognize the liability before settlement date, if certain conditions are met. It is to be noted that Entities are likely to use multiple electronic payment systems depending on their business needs and may have more than one banking relationship. The accounting should aim to provide a simple and practical method of managing and recording transactions that have only a short duration. Electronic payments have a short settlement period and a cancellation window which is even shorter. Cancellations are also subject to financial penalty. For many electronic payments the most appropriate criterion is one that allows derecognition of the liability settled by electronic payment system at the point the instruction for the payment is made. SIRC of ICAI is of the view that such an approach will be readily understood by users and will avoid disruption and improve consistency amongst preparers.**

**Entities that adjust their balance sheet at the reporting period end for cash that is in-transit, should prepare to cease this practice. Whilst the clarification that will drive this change is still only proposed in an ED, there is a very low likelihood of it not becoming an IFRS requirement, so entities should plan accordingly.**

**Entities should review the electronic payment systems they use to understand whether they would apply the proposed accounting policy election and identify when in the payment process the conditions for derecognition would be met. This may require significant work, especially for entities that operate in multiple jurisdictions and with significant cross-border payments.**

**The terms "settlement date" and "settlement date accounting" are not currently used in IFRS 9 other than with a reference to a regular way purchase or sale of a financial asset. In applying these concepts to transactions that are neither "regular way transactions" nor transactions related to financial assets could be challenging. To be able to derecognize a financial liability before the settlement date, it must be virtually certain that the payment transaction will be executed. This requires that the entity has initiated the payment instruction, but the timing of derecognition of the financial liability and the cash used to settle it may come later. The first two criteria of an entity having "no ability to withdraw, stop or cancel the payment instruction" and "no practical ability to access the cash to be used for settlement as a result of the payment instruction" address it from the entity's perspective. The settlement risk associated with an electronic payment system should be evaluated on a continuous basis to cater for the situations when the payment system cannot be trusted.**

**The proposals in the ED would create the need to record short-term accounting entries for the brief period between the payment instruction and the point at which cancellation is no longer possible. This is operationally complex and would provide little benefit to users of accounts. Our proposed solution avoids the need to decide whether cash moving through the settlement system represents cash-in-transit or a receivable, eliminating another potential source of diversity in practice.**

| Question 2—Classification of financial assets—contractual terms that are consistent with a basic lending arrangement.<br>Paragraphs B4.1.8A and B4.1.10A of the draft amendments to IFRS 9 propose how an entity would be required to assess:<br>(a) interest for the purposes of applying paragraph B4.1.7A; and<br>(b) contractual terms that change the timing or amount of contractual cash flows for the purposes of applying paragraph B4.1.10.<br>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.<br>Paragraphs BC39–BC72 of the Basis for Conclusions explain the IASB's rationale for these proposals.<br>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? |
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**Comments:**

**SIRC of ICAI welcome the proposal as one in which the requirements of IFRS 9 that could be improved. However, as the effect of the proposals is very broad, entities should assess whether there are any unintended consequences for the classification of financial assets other than those with ESG-linked features. We believe that in the absence of clear guidance inconsistent accounting practices would develop.**

**SIRC of ICAI supports the generic approach chosen by the IASB not to provide a specific exception from the requirements on contractual cash flow characteristics in IFRS 9 for financial assets with ESG-linked features. Such an approach is principle based and would provide more flexibility in the future if new instruments with similar types of features were developed.**

**SIRC of ICAI welcomes the clarification that the elements of interest specified in IFRS 9 is not an exhaustive list of elements that are consistent with a basic lending arrangement. This would allow to consider some ESG risks as being a part of these elements. SIRC of ICAI agrees that not all financial assets with ESG-linked features may have contractual cash flows consistent with the basic lending arrangement. In this context, we appreciate the clarifications provided in paragraph B4.1.8A of the ED when contractual cash flows are considered to be inconsistent with such an arrangement, except for the "magnitude" requirement. However, we see a contradiction between a requirement of not focusing on "how much" in the beginning of paragraph B4.1.8A of the ED and the requirement to assess the "magnitude" of changes in basic lending risks and costs at the end of the same paragraph. Further, the need for clarification that to meet SPPI requirements, the change in contractual cash flows should be aligned with the direction and magnitude of the change in basic lending risks or costs. The word "magnitude" creates uncertainty, and that this requirement is already covered by the concept of leverage in paragraph B4.1.15 of IFRS 9. Further detailed guidance should be provided that explains how the ESG linked feature represents basic lending risk or cost. It is not currently clear how ESG-linked features comply with the concepts of basic lending risks and costs. Additional guidance should also be provided for assessing the changes to cashflows described at B4.1.10A, particularly the requirement that the contingent event must be "specific to the debtor" to be consistent with basic lending. It is suggested that the analysis column be revised to show an assessment of each fact pattern against the proposed criteria. It would also be helpful to include some examples where the answer is less obvious to better illustrate the application of the criteria.**

**SIRC of ICAI welcomes the IASB clarifying that for the purposes of the SPPI assessment, all variability in contractual cash flows over the life of an instrument should be taken into account, and not only those relating to one of the elements of interest mentioned in paragraph B4.1.7A of IFRS 9. In some circumstances, loans that currently meet SPPI requirements include clauses specific to the creditor that are related to "non-financial variable" such as, for example, cost driven by capital requirements. Therefore, we are concerned about potential unintended consequences of this requirement on some of the loans with clauses specific to the creditor.**

**Further, sometimes, the meeting of an ESG target could be linked to the performance of an entity's asset. In this case it is unclear how this requirement would interact with the requirement that the contingent event should be specific to the debtor.**

**"Contingent event" is not defined in IFRS Accounting Standards and considers that providing a definition and/or examples would be useful.**

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?

**Comments**:

**SIRC of ICAI agree with the proposal. However, we question the reference to "equity instruments" in paragraph B4.1.17A (b) of the ED. Equity instruments do not create a shortfall and thus do not have the ability to absorb any shortfall in cash flows generated by the underlying assets. Therefore, it is suggested that IASB may delete this reference. We agree with the IASB's consideration that clarifying both non-recourse and CLIs requirements at the same time as the general SPPI requirements would maximize the benefits of the proposed amendments. However, IASB may prioritize the publication of the proposed clarifications on the general SPPI requirements before the other IFRS 7 and IFRS 9 amendments.**

Question 4—Classification of financial assets—contractually linked instruments.
The draft amendments to paragraphs B4.1.20–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?

**Comments:**

**SIRC of ICAI welcome the IASB's efforts to clarify the distinction between non-recourse finance and contractually linked instruments. The proposals now make it clear that contractually linked instruments are considered a subset of non-recourse finance for IFRS reporting purposes.**

**The ED proposes new disclosures to allow users to better understand the effects of terms that could change the timing or amount of contractual cash flows. They apply to financial**

**instruments with ESG-linked features discussed above, and to all other financial assets at amortized cost, or FVTOCI and financial liabilities at amortized cost, with contingent features**

**SIRC of ICAI also agrees with the IASB's conclusion that the disproportionate allocation of "losses" between the holders of different tranches is a factor that distinguishes CLIs from financial assets with non-recourse features. Typically, financial assets that have only non-recourse features participate in the performance of the underlying assets proportionately and there is no concentration of credit or cash flows risk. However, it is suggested that IASB may change the wording "disproportionate allocation of losses" to "disproportionate allocation of cash flows". Further, it may be clarified that the requirements for non-recourse financial assets would not apply to CLIs.**

**SIRC of ICAI considers that limiting the conclusion to senior debt instrument would unreasonably and potentially include the junior debt instrument, issued in the same arrangement, within the scope of transactions to which the CLIs requirements could apply. Accordingly, it is suggested that the IASB does not limit the conclusion in paragraph B4.1.20A of the ED to the "senior debt instrument", but to refer more generally to the "debt instruments" issued by the structured entity.**

**Obtaining the quantitative and qualitative data needed for the disclosure of financial instruments with contingent features may require significant effort. Given the broad scope of instruments captured by the disclosure, careful consideration is required to balance the need to provide sufficient details to be useful to users of the accounts with the risk of information overload.**

| 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:<br>(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<br>(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.<br>Paragraphs BC94–BC97 of the Basis for Conclusions explain the IASB's rationale for these proposals.<br>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? |
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**Comments:**

**We agree with the proposal to provide additional disclosure on changes in the fair value of equity instruments, including for those investments de-recognized in the reporting period, provides users of financial statements with additional relevant information on this topic.**

**The disclosure requirements will help provide users with transparent and more comprehensive information about the performance of the relevant equity instruments since acquisition, albeit not being the ideal solution. We further note that that the transfer of any cumulative gain or loss relating to the disposal from other comprehensive income to retained earnings is not mandatory. SIRC of ICAI considers that without information on the cumulative gain /loss of instruments disposed of (both in the reporting period and in prior reporting periods) the proposed disclosure would not achieve the objective of better represent depicting the financial performance of equity investments.**

**In addition, SIRC of ICAI recommends the IASB to reconsider the use of non-controlling interest in paragraphs IG11A and IG11B as this might create confusion for interests creating significant influence. Therefore, we suggest that the IASB mention that the equity instruments are in scope of IFRS 9.**

| Question 6—Disclosures—contractual terms that could change the timing or amount of contractual cash flows<br>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 amortized cost or fair value through other comprehensive income and each class of financial liability measured at amortized cost (paragraph 20C).<br>Paragraphs BC98–BC104 of the Basis for Conclusions explain the IASB's rationale for this proposal.<br>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? |
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**Comments**:

**The proposals in paragraphs 20B and 20C of the ED add requirements to disclose the nature of contingent events specific to the debtor, quantitative information about the range of changes that could result from those contractual terms and the carrying number of instruments subject to such terms. However, they do not specify the objective of the proposed new disclosure, nor how users of financial statements are likely to use this information.**

**We inform our concerns that the broad nature of the proposals at paragraphs 20B and 20C may mean that entities are required to disclose potentially irrelevant information that obscures more useful information about variations in contractual cashflows. Additionally, preparers are concerned that the quantitative information on the range of changes to contractual cashflows by class of financial asset may create a very wide range, that proves time consuming to prepare but is not useful for investor decision-making. We also note that such broad requirements increase the risk of boilerplate disclosures, and in this instance**

**also risks duplication of, or inconsistency with, disclosure requirements that already exist elsewhere within IFRS. We recommend that the IASB reconsiders the scope of these disclosures to improve their usefulness for users of financial statements. Duplication of existing requirements should be removed from scope, including those related to credit event contingencies, as disclosures related to breach of covenants and factors relevant to credit impaired loans are already adequately addressed in the expected credit loss requirements of this standard.**

| Question 7—Transition<br>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.<br>Paragraphs BC105–BC107 of the Basis for Conclusions explain the IASB's rationale for these proposals.<br>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? |
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**Comments:**

**We support the proposed transition requirements, including the requirement not to restate comparatives. The date of mandatory initial application is to be determined, but given the work still needed to finalize the amendments and to allow time for implementation, it is unlikely to be earlier than for periods beginning on or after 31 March, 2025.**

**Even though many of the proposals are intended by the IASB as clarifications to existing IFRS, given that they require changes to current standards, they should not be applied until the amendments come into effect. As drafted, the amendments will have to be implemented all at the same time.**

**Therefore, if entities intend to apply certain amendments early, such as those for ESG instruments, they will also have to early adopt all the other amendments.**