

Financial Reporting Department

FRD/ICAI/01/2024

23 October 2024

To

The Secretary, Accounting Standards Board,
The Institute of Chartered Accountants of India,
ICAI Bhawan, Post Box No. 7100,
Indraprastha Marg,
New Delhi – 110 002

Sub: Response to Exposure Draft - Amendments to the Classification and Measurement of Financial Instruments**1. Derecognition of financial liability settled through electronic transfer**

Paragraph B3.3.8 of the draft amendments to Ind AS 109 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.

Response: We agree with the proposal that allows derecognition of a financial liability settled using an electronic payment system earlier than the date that cash has been delivered by the entity if specified criteria is met. However, we have a few observations which are listed below:

- As the other party will not be able to derecognise asset in their books, this will become a reconciliation item in balance confirmation process.
- More clarity and definition of electronic payment system is required.
- More clarity on if the conditions are met post balance sheet date can be considered.
- Permits different treatment for difference electronic payment systems. Consistency in accounting policy may be reviewed.

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 Ind AS 109 propose how an entity would be required to assess:

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

The draft amendments to paragraphs B4.1.13 and B4.1.14 of Ind AS 109 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.

Response: We agree with the proposed amendments to include cashflows that are contingent on the occurrence / non-occurrence of an event that is specific to the debtor achieving specified target in the scope of a basic lending agreement for assessment of SPPI. We suggest including a few more examples to address wide range of ESG linked products.

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

The draft amendments to paragraph B4.1.16 of Ind AS 109 and the proposed addition of paragraph B4.1.16A enhance the description of the term 'non-recourse'.

Response: We agree to the proposed description of non-recourse features.

4. Classification of financial assets—contractually linked instruments

Response: We agree with the proposal which clarifies that the underlying pool can include financial instruments that are not within the scope of the classification requirements but that have contractual cash flows that are equivalent to solely payments of principal and interest on the principal amount outstanding

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 of Ind AS 107 to require disclosure for each class of investment
- (b) paragraph 11A(c) of Ind AS 107 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
- (c) paragraph 11A(f) of Ind AS 107 to require an entity to disclose fair value gain or loss presented in other comprehensive income during the period, showing separately the fair value gain or loss related to investments derecognised during the reporting period and the fair value gain or loss related to investments held at the end of the reporting period.
- (d) paragraph 11B(d) requires an entity to disclose any transfers of the cumulative gain or loss within equity during the reporting period related to the investments derecognised during that reporting period.

Response: We support the proposals related to the disclosure of investments in equity instruments designated at fair value through other comprehensive income and do not have any comments.

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

Paragraph 20B of the draft amendments to Ind AS 107 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).

Following details are to be disclosed:

- (a) a qualitative description of the nature of the contingent event;

(b) quantitative information about the possible changes to contractual cash flows that could result from those contractual terms (for example, the range of possible changes); and
(c) the gross carrying amount of financial assets and the amortised cost of financial liabilities subject to those contractual terms.

Response: We support the proposed disclosures for contingent events specific to a debtor. However, the scope appears to be very broad, hence resulting number of additional disclosures being provided by preparer of financial statement.

Please contact at fr@federalbank.co.in if you wish to discuss any of the contents of this letter.

Yours Sincerely,



Venkatraman Venkateswaran
Chief Financial Officer
The Federal Bank Limited