EFRAG consultation on the DCL on the IASB's ED Amendments to the Classification and Measurement of Financial Instruments

High-level position paper – Executive summary

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The European Savings and Retail Banking Group (ESBG) submitted its response to the consultation launched by EFRAG on its Draft Comment Letter (DCL) on the IASB's Exposure Draft (ED) on Amendments to the Classification and Measurement of Financial Instruments (Proposed amendments to IFRS 9 and IFRS 7). The proposed amendments are a direct response to the feedback gathered from a post-implementation review of the classification and measurement requirements in IFRS 9 and include clarifications on the classification of financial assets with environmental, social and corporate governance (ESG) and similar features as well as on the Settlement of liabilities through electronic payment systems, among others. Additionally, the ED suggests introducing revisions and additions to the disclosure requirements stated in IFRS 7.

Classification of financial assets – contractual terms that are consistent with a basic lending arrangement

ESBG encourages the IASB to prioritise the publication of the proposed clarifications on the general Solely Payments of Principal and Interest (SPPI) requirements before the other amendments, allowing entities to apply them as early as possible. Some of our members face a high risk that, without the solution, loans with ESG features exceeding the de-minimis threshold are interpreted by auditors as non-SPPI compliant and would need to measure them at fair value.

Disclosures – contractual terms that could change the timing or amount of contractual cash flows

ESBG expresses concerns at the potential scope of the disclosures on contractual terms that could change the timing or amount of contractual cash flows on the occurrence (or non-occurrence) of a contingent event. ESBG notes that application users have not expressed the need for having additional disclosures for such features. Banks have set up IFRS 9 classification processes with focus on high quality and these are regularly reviewed so they can reflect changes in the market. Collection of quantitative data is not part of these processes and would involve high implementation but also ongoing costs. It would not add up to the quality of the assessment process. As a result, we consider that the costs for producing these disclosures are not reasonable considering limited value of the information.

Derecognition of a financial liability settled through electronic transfer

ESBG highlights that the recognition and derecognition requirements in IFRS 9 work as intended, however we agree with the IASB approach to introduce an option for accounting for derecognition of financial liabilities settled using electronic payment system, before settlement date, only when specified criteria are met, and in particular if from that moment entities no longer have the ability to access that cash. It is important to highlight that this approach is an option for preparers, and this will allow entities to assess whether the cost/benefit balance of applying this modification is reasonable.

Classification of financial assets – financial assets with non-recourse features

ESBG supports the clarifications provided to help preparers to distinguish between an exposure to the specified asset's/pool of financial instruments' performance risk and exposure to the debtor's credit risk. That would help to assess the SPPI test to non-recourse financial assets. We believe the IASB has responded to concerns raised during the PIR, including more clarity on the "look through" approach required in paragraph for non-recourse financial assets and in particular for contractually linked instruments.

Disclosures – investments in equity instruments designated at fair value through other comprehensive income

ESBG considers that realised gains and losses from investments are better presented in profit and loss, whereas unrealized fair value movements are better presented in OCI until they are realized. However, considering latest decisions of the IASB not to address the recycling issue for FVOCI instruments, we believe that at least with the proposed amendments, disclosures related to changes in fair value during the period and amounts recognized in OCI will help users of financial statements to evaluate the performance of equity investments at FVOCI upon disposal and to disaggregate changes in fair value related to investments derecognized at the end of the reporting period and changes in FV related to investments held.

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