UKEB
UK Endorsement Board

Dr Andreas Barckow
Chairman

International Accounting Standards Board
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26 September 2023

Dear Dr Barckow

Post-implementation Review of IFRS 9 *Financial Instruments* – Impairment

1. The UK Endorsement Board (the UKEB) is responsible for endorsement and adoption of IFRS for use in the UK and therefore is the UK's National Standard Setter for IFRS. The UKEB also leads the UK's engagement with the IFRS Foundation on the development of new standards, amendments and interpretations. This letter is intended to contribute to the Foundation's due process. The views expressed by the UKEB in this letter are separate from, and will not necessarily affect the conclusions in, any endorsement and adoption assessment on new or amended International Accounting Standards undertaken by the UKEB.

2. There are currently approximately 1,500 entities with equity listed on the London Stock Exchange that prepare their financial statements in accordance with IFRS.[1] In addition, UK law allows unlisted companies the option to use IFRS and approximately 14,000 such companies currently take up this option.[2]

3. We welcome the opportunity to provide comment on the IASB's *Request for Information – Post-implementation Review: IFRS 9 – Impairment* (RFI). To develop our response our work has included in-house research, consultation with the UKEB advisory groups, and feedback received during stakeholder roundtables and interviews. Stakeholders consulted included users of financial statements, preparers of financial statements, accounting firms and institutes, and regulators.

1 UKEB calculation based on LSEG and Eikon data, May 2023. This calculation includes companies listed on the Main market as well as on the Alternative Investment Market (AIM).

2 UKEB estimate based on FAME, Companies Watch and other proprietary data.

4. Our stakeholder outreach has highlighted that the IFRS 9 Impairment requirements generally work as intended, and ensure more timely recognition of expected credit losses than the previous requirements under IAS 39 *Financial Instruments: Recognition and Measurement*. Whilst our response to the RFI focuses on areas of significant concern for UK stakeholders that may be addressed by standard setting or similar activities, no 'fatal flaws' were identified during our work.

5. Stakeholder feedback clearly identified that further guidance would be helpful in some areas of the Standard. In this letter we have identified where additional application guidance in the Standard would be helpful due to the complexity of some of the requirements and their application to a range of very different types of entities. In some other cases the issues we raise, such as providing further clarity for smaller entities on proportionate application (see paragraph A34 of Appendix A), would be best addressed via IASB-led education initiatives, in an effort to drive enhanced international comparability.

6. Our principal comments are set out in the following paragraphs. Our answers to the RFI's specific questions are included in the Appendix to this letter.

Detailed comments

Significant increase in credit risk ('SICR') and measuring expected credit losses (ECL)

7. Stakeholders have consistently told us that the standard does not provide sufficient information on what the IASB means by a "significant increase" in credit risk. This has led to diversity in practice. Further application guidance and examples would be helpful to improve consistency of application in this area. This matter is further discussed in paragraphs A7–A9 of Appendix A.

8. We recommend that the IASB includes further guidance in the Standard to clarify the process for assessing a significant increase in credit risk (SICR) and measuring expected credit losses (ECL), by bringing together guidance issued in relation to Covid-19[3], and certain paragraphs of the IFRS Transition Resource Group for Impairment of Financial Instruments (ITG) non-authoritative guidance on forward-looking scenarios. This guidance was issued subsequent to the Standard being finalised, was deemed helpful by stakeholders, and is likely to remain relevant when assessing whether a significant increase in credit risk has occurred. Including this as application guidance in the Standard will elevate the authority of the guidance and make it more accessible to those using the Standard. This recommendation is discussed further in paragraphs A8 and A13 of Appendix A.

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[3] IASB, IFRS 9 and Covid-19 – Accounting for expected credit losses, 27 March 2020

Modification and derecognition

9. Modification and derecognition events, such as those following the renegotiation of a contract, can have a significant impact on the ECL calculation. The Standard does not contain specific requirements for the derecognition of financial assets following a contractual modification, although it acknowledges at paragraph B5.5.25 that in "some circumstances" such modifications can lead to derecognition of the asset. When an asset is derecognised, the new contract is often recognised for the purposes of calculating ECL as a "Stage 1" asset requiring a 12-month expected-loss calculation. When the asset is not derecognised, it often retains its existing "stage" which may be "Stage 2" or "Stage 3", requiring the recognition of lifetime expected losses. As the Standard is unclear regarding such interaction of the modification, derecognition and impairment requirements, it gives rise to issues which cause diversity in practice. While we acknowledge it will always be necessary to apply judgement to such situations, further application guidance should be provided in the Standard on the interaction of ECL with the modification and derecognition requirements for financial assets. These issues are further discussed in paragraphs A21-A25 of Appendix A.

10. We note the scope of the IASB pipeline project *Amortised Cost Measurement* [4] includes the topic of "modifications". We assume this project will therefore assess the interaction of the modification/derecognition requirements with ECL, including the issues raised in this letter. If not, we urge the IASB to include these matters within the scope of that project. As noted in our letter of 19 July 2023 in response to the IASB's ED *Amendments to the Classification and Measurement of Financial Instruments*, this project will be critical and we consider it should be addressed as a matter of urgency.

Intra-group lending

11. Some stakeholders were not convinced that the Standard provides useful information about impairment on intra-group lending. Reliable loss data for such loans is not readily available, and often the question of loss will depend more on whether the parent or other group companies will step in to address any borrower liquidity issues. The ability of other group companies to do so may vary depending on the circumstances at the time such support is required, and may therefore be different from the intention at the time of reporting. Some stakeholders therefore question whether the expected credit loss calculated for intra-group loans is always useful, and whether any usefulness is proportionate to the effort required to calculate the ECL using IFRS 9 methodologies.

12. We believe this issue requires further consideration. Intra-group lending encompasses a wide variety of loans, from routine receivables balances which are

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4 https://www.ifrs.org/projects/pipeline-projects/

settled frequently, to long term loans with non-commercial terms that for impairment purposes may be considered as closer in nature to an investment in a subsidiary. We recommend the IASB consider whether an alternative approach might be more appropriate in cases where the nature and characteristics of intra-group lending mean the costs of determining the IFRS 9 ECL is disproportionate to the usefulness of the information provided.

Disclosure

13. IFRS 7 *Financial Instruments: Disclosures* does not currently make clear that the disclosure requirements of the Standard also apply to post-model adjustments. Further, some stakeholders have observed that post-model adjustments to the ECL calculation that relate to the probability of default do not always give rise to corresponding adjustments to the Stage 1/2/3 categorisation of the underlying loans. In some cases, this may limit the usefulness of the disclosure for purposes such as calculating impairment coverage ratios. Educational material or illustrative examples could be used to bring greater awareness of the need for disclosure of post-model adjustments and their impact on stage categorisation of the underlying loans, where relevant. This, and other recommendations on disclosure, are discussed further in paragraphs A32 – A34 of Appendix A.

IFRS 17 *Insurance Contracts*

14. Finally, we note that it is too early to fully assess the interaction of IFRS 9 and IFRS 17 *Insurance Contracts*, as many UK insurers are currently implementing IFRS 9 for the first time this year. We recommend that the interaction between IFRS 9 and IFRS 17 be included in the PIR of IFRS 17.

15. If you have any questions about this response, please contact the project team at UKEndorsementBoard@endorsement-board.uk.

Yours sincerely

Pauline Wallace
Chair
UK Endorsement Board

Appendix A: Questions on Request for Information: *Post-Implementation Review of IFRS 9 - Impairment*

Question 1—Impairment
Do the impairment requirements in IFRS 9 result in: **(a) more timely recognition of credit losses compared to IAS 39 and address the complexity caused by having multiple impairment models for financial instruments? Why or why not?** **(b) an entity providing useful information to users of financial statements about the effect of credit risk on the amount, timing and uncertainty of future cash flows? Why or why not?** Please provide information about the effects of the changes to the impairment requirements introduced by IFRS 9, including the ongoing costs and benefits of preparing, auditing, enforcing or using information about financial instruments. This question aims to help the IASB understand respondents' overall views and experiences relating to the IFRS 9 impairment requirements. Sections 2–9 seek more detailed information on specific requirements.

A1. UK stakeholders agreed that overall, IFRS 9 results in more timely recognition of credit losses than its predecessor standard. They also agreed that it results in entities with lending as a primary business activity providing useful information to users about the effect of credit risk on the amount, timing and uncertainty of future cash flows.

A2. Some stakeholders were not convinced that the Standard provides useful information about impairment on intra-group lending. Reliable loss data for such loans is not readily available, and often the question of loss will depend more on whether the parent or other group companies will step in to address any borrower liquidity issues. The ability of other group companies to do so may vary depending on the circumstances at the time such support is required, and may therefore be different from the intention at the time of reporting. Some stakeholders therefore question whether impairments attached to intra-group loans are useful, and whether any usefulness is proportionate to the effort required to calculate the expected credit loss (ECL) using IFRS 9 methodologies.

A3. We believe this issue requires further consideration. Intra-group lending encompasses a wide variety of loans, from routine receivables balances which are settled frequently, to long term loans with non-commercial terms that for impairment purposes may be considered as closer in nature to an investment in subsidiary. We recommend the IASB consider whether an alternative approach might be more appropriate in cases where the nature and characteristics of intra-group lending mean the costs of determining the IFRS 9 ECL is disproportionate to the usefulness of the information provided.

Question 2—The general approach to recognising expected credit losses

(a) **Are there fundamental questions (fatal flaws) about the general approach? If yes, what are those fundamental questions?** Please explain whether requiring entities to recognise at least 12-month expected credit losses throughout the life of the instrument and lifetime expected credit losses if there has been a significant increase in credit risk achieves the IASB's objective of entities providing useful information about changes in credit risk and resulting economic losses. If not, please explain what you think are the fundamental questions (fatal flaws) about the clarity and suitability of the core objectives or principles of the general approach.

(b) **Are the costs of applying the general approach and auditing and enforcing its application significantly greater than expected? Are the benefits to users significantly lower than expected?** If, in your view, the ongoing costs of applying the general approach to particular financial instruments are significantly greater than expected or the benefits of the resulting information to users of financial statements are significantly lower than expected, please explain your cost–benefit assessment for those instruments.

Fatal flaws

A4. Stakeholders considered that there were no fatal flaws in the general approach to recognising expected credit losses.

Cost-benefit analysis

A5. As noted in paragraph A3, the ongoing costs associated with calculating the expected credit loss on some intra-group lending appears disproportionate to the usefulness of the resulting information.

Question 3— Determining significant increases in credit risk
(a) **Are there fundamental questions (fatal flaws) about the assessment of significant increases in credit risk?** If yes, what are those fundamental questions? Please explain whether the principle-based approach of assessing significant increases in credit risk achieves the IASB's objective of recognising lifetime expected credit losses on all financial instruments for which there has been a significant increase in credit risk since initial recognition. If not, please explain what you think are the fundamental questions (fatal flaws) about the clarity and suitability of the core objectives or principles of the assessment of significant increases in credit risk. (b) **Can the assessment of significant increases in credit risk be applied consistently? Why or why not?** Please explain whether the requirements provide an adequate basis for entities to apply the assessment consistently to all financial instruments within the scope of impairment requirements in IFRS 9. If diversity in application exists for particular financial instruments or fact patterns, please explain and provide supporting evidence about how pervasive that diversity is and explain what causes it. Please also explain how the diversity affects entities' financial statements and the usefulness of the resulting information to users of financial statements. If you have identified diversity in application of the assessment, please provide your suggestions for resolving that diversity. In responding to (a) and (b), please include information about applying judgement in determining significant increases in credit risk (see Spotlight 3).

Fatal flaws

A6. Stakeholders agreed that there were no fundamental flaws regarding the assessment of significant increases in credit risk (SICR).

Consistent application of assessment of SICR

A7. The assessment of SICR will never be applied entirely consistently across all financial institutions, as different organisations manage risk differently, and place different weight on the risk indicators they use. Having acknowledged that, stakeholders have consistently told us that the standard does not provide sufficient information on what the IASB means by a "significant increase", and that this has led to diversity of practice. Further application guidance and examples would be helpful in promoting consistent application.

A8. Additional guidance[5] on assessing SICR produced by the IASB during the pandemic was helpful in identifying whether a SICR had occurred. This remains a standalone document and therefore may be overlooked in future by those seeking guidance on the application of SICR. We recommend the principles in such guidance (including a) that IFRS 9 ECL requirements should not be applied mechanistically and b) that, if the effect of a significant macroeconomic event cannot be reflected in models, post-model overlays or adjustments will need to be considered) are incorporated into application guidance within IFRS 9.

A9. IFRS 9 allows the use of qualitative factors in assessing SICR, and qualitative factors are permitted to be used exclusively in some situations to recognise a loss allowance at an amount equal to lifetime expected credit losses (B5.5.18). However, there is some confusion about the extent and circumstances where these can be used, either to complement or substitute for quantitative factors. Further educational materials could be useful in bridging any gap in understanding on the use of qualitative factors.

Question 4–Measuring expected credit losses

(a) Are there fundamental questions (fatal flaws) about requirements for measuring expected credit losses? If yes, what are those fundamental questions?

Please explain whether the requirements for measuring expected credit losses achieve the IASB's objective of providing users of financial statements with useful information about the amount, timing and uncertainty of an entity's future cash flows. If not, please explain what you think are the fundamental questions (fatal flaws) about the clarity and suitability of the core objectives or principles of the measurement requirements.

(b) Can the measurement requirements be applied consistently? Why or why not?

Please explain whether the requirements provide an adequate basis for entities to measure expected credit losses consistently for all financial instruments within the scope of impairment requirements in IFRS 9.

If diversity in application exists for particular financial instruments or fact patterns, please explain and provide supporting evidence about how pervasive that diversity is and explain what causes it.

Please also explain how the diversity affects entities' financial statements and the usefulness of the resulting information to users of financial statements. If you have

5 IASB, IFRS 9 and Covid-19 – Accounting for expected credit losses, 27 March 2020;

identified diversity in application of the requirements, please provide your suggestions for resolving that diversity.

In responding to (a) and (b), please include information about forward-looking scenarios (see Spotlight 4.1), post-model adjustments or management overlays (see Spotlight 4.2) and off-balance-sheet exposures (see Spotlight 4.3), as relevant.

Fatal flaws

A10. Stakeholders considered that there were no fatal flaws in the requirements for measuring expected credit losses.

Consistent measurement

A11. Many of the issues arising from the measurement of expected credit losses are operational in nature, rather than issues arising from, or solved by, standard setting. In the UK the banking regulator, the Prudential Regulation Authority (PRA), has facilitated discussions between banks to improve the consistency of measurement[6] and this work is ongoing.

A12. However, we have identified a limited number of issues where further guidance in the Standard would be helpful in promoting consistency of application.

Forward-looking scenarios

A13. IFRS 9 contains relatively little guidance in relation to forward-looking scenarios, despite the use of multiple economic scenarios now being commonplace. We believe it would be helpful to incorporate two elements of the (non-authoritative) guidance produced by the IFRS Transition Resource Group (ITG) into application guidance in the Standard. This guidance was issued subsequent to the standard being finalised, stakeholders found it to be helpful, and it is likely to remain relevant in the future. Including this guidance in the Standard will elevate the authority of the guidance and make it more likely future users of accounting standards will be aware of, and apply, the guidance. This would increase consistency of application. We recommend the following two items of ITG guidance from the December 2015 meeting[7] be considered for inclusion in the Standard:

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6 Prudential Regulation Authority, Thematic Feedback from the 2021/2022 round of written auditor reporting

7 Transition Resource Group for Impairment of Financial Instruments, Meeting Summary, 11 December 2015

a) Paragraph 49: ITG members noted that, in an example where there is a non-linear relationship between the different forward-looking scenarios and their associated credit losses, using a single forward-looking economic scenario would not meet the objective in paragraph 5.5.17(a). Instead, more than one forward-looking scenario would need to be incorporated into the measurement of expected credit losses.

b) Paragraph 53(c): With respect to reasonable and supportable information ………. while entities are not expected to consider every possible scenario, the scenarios considered should reflect a representative sample of possible outcomes, reflecting the intent at BC5.265.

Other measurement guidance

A14. Stakeholders have made us aware that, subsequent to the initial adoption of IFRS 9, work has been carried out by a variety of groups in the UK, including preparers and accounting firms, to consider some of the more challenging aspects of measurement and forward-looking scenarios. This work builds on the earlier work of the ITG, and the experience and lessons learned in the early years of implementation. This work, and the materials arising from it, has in some areas prompted further discussion and resulted in a better understanding of the requirements by stakeholders. For example, this process helped provide further clarity on the objective and design of weightings in the probability-weighted measurement of expected credit losses when determining how best to reflect the measurement objective in non-linear loss distributions. Should the IASB decide to provide further clarity on measurement topics this material may be of interest to provide ideas for educational materials or examples.

Post-model adjustments

A15. Post-model adjustments are largely an operational issue, reflecting that models and data are imperfect and therefore adjustments are necessary to mitigate this. Some stakeholders noted it would be useful if the Standard explicitly acknowledged such adjustments, as this would facilitate the IASB's discussion of these items (including as proposed at A33 below), and provide a common language when describing such adjustments in the financial statements. In the UK the Taskforce on Disclosures about Expected Credit Losses[8] has defined the

8 The UK's Taskforce on Disclosures about Expected Credit Losses (DECL), is a collaboration between regulators, preparers and users of financial statements to consider credit loss disclosures.

term "judgemental adjustments[9]" in relation to such items and the IASB could consider similar terminology.

Other exposures

Loan commitments

A16. Stakeholders saw loan commitments as a difficult area of IFRS 9 to apply in practice. Challenges included assessing the behavioural life of revolving credit facilities for both retail and wholesale banking.

A17. Stakeholders indicated that there is diversity in the interpretation of the criteria for application of the exception in paragraph 5.5.20[10] and therefore would welcome clarification. For example:

a) Can the exception be applied to fully drawn loan commitments?

b) Is B5.5.39(c) "the financial instruments are managed on a collective basis" a requirement or an example only? Is the exception allowed only when credit risk is managed collectively?

Further guidance in the Standard on this area would be welcome.

Financial guarantee contracts

A18. Stakeholders noted a lack of consistency in the treatment of financial guarantees, and generally thought more guidance on financial guarantees would be helpful. IFRS 9 does not currently define the characteristics of credit enhancements that are *"integral to the contractual terms"* (B5.5.55). As only guarantees integral to the loan, and not recognised separately, should be included when measuring ECL, further clarification in this regard would be helpful in reducing diversity in practice. Factors the IASB could consider in producing guidance on whether a credit enhancement is integral to the contract include:

9. As discussed in Recommendation B.8, Recommendations on a comprehensive set of IFRS 9 Expected Credit Loss disclosures, a third report prepared by The Taskforce on Disclosures about Expected Credit Losses, 23 September 2022

10 IFRS 9 5.5.20 "However, some financial instruments include both a loan and an undrawn commitment component and the entity's contractual ability to demand repayment and cancel the undrawn commitment does not limit the entity's exposure to credit losses to the contractual notice period. For such financial instruments, and only those financial instruments, the entity shall measure expected credit losses over the period the entity is exposed to credit risk and expected credit losses would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period."

a) Whether the guarantee or other credit enhancement is entered into at or around the same time as, and in contemplation of, the debt instrument.

b) Whether the guarantee or other credit enhancement is required by laws and regulations that govern the contract of the debt instrument;

c) Whether the exposure and financial guarantee or other credit enhancement are traded as a package in the market.

d) Whether the guarantee or other credit enhancement is given by the parent of the borrower or another company within the borrower's group; and

e) Whether the cost of the guarantee or other credit enhancement meets the definition of a transaction cost of the guaranteed financial asset.

Stakeholders also requested further application guidance on the accounting for financial guarantees which are not integral to a loan, and for guarantees where premiums are received over time.

Question 5–Simplified approach for trade receivables, contract assets and lease receivables
(a) Are there fundamental questions (fatal flaws) about the simplified approach? If yes, what are those fundamental questions? Does applying the simplified approach achieve the IASB's objective of reducing the costs and complexities of applying IFRS 9 impairment requirements to trade receivables, contract assets and lease receivables? If not, please explain what you think are the fundamental questions (fatal flaws) about the clarity and suitability of the core objectives or principles of the simplified approach. **(b) Are the costs of applying the simplified approach and auditing and enforcing its application significantly greater than expected? Are the benefits to users significantly lower than expected?** If, in your view, the ongoing costs of applying the simplified approach are significantly greater than expected, or the benefits of the resulting information to users of financial statements are significantly lower than expected, please explain your cost–benefit assessment.

A19. Disclosure requirements for the simplified approach are discussed at paragraph A34.

Question 6–Purchased or originated credit-impaired financial assets
Can the requirements in IFRS 9 for purchased or originated credit-impaired financial assets be applied consistently? Why or why not? Please explain whether the requirements can be applied consistently to these types of financial assets and lead to accounting outcomes that faithfully reflect the underlying economic substance of these transactions. If there are specific application questions about these requirements, please describe the fact pattern and: (a) explain how the IFRS 9 requirements are applied; (b) explain the effects of applying the requirements (for example, the quantitative effect on an entity's financial statements or an operational effect); (c) explain how pervasive the fact pattern is; and (d) support your feedback with evidence.

Purchased or originated credit-impaired financial assets

A20. Issues associated with originated credit-impaired financial assets following a modification to contractual cash flows are discussed in paragraph A25. We have no other matters to report.

Question 7–Application of the impairment requirements in IFRS 9 with other requirements
Is it clear how to apply the impairment requirements in IFRS 9 with other requirements in IFRS 9 or with the requirements in other IFRS Accounting Standards? If not, why not? If there are specific questions about how to apply the impairment requirements alongside other requirements, please explain what causes the ambiguity and how that ambiguity affects entities' financial statements and the usefulness of the resulting information to users of financial statements. Please describe the fact pattern and: (a) indicate the requirements in IFRS 9 or in other IFRS Accounting Standards to which your comments relate; (b) explain the effects of applying the requirements (for example, the quantitative effect on an entity's financial statements or an operational effect); (c) explain how pervasive the fact pattern is; and (d) support your feedback with evidence. In responding to this question, please include information about matters described in this section of the document.

Application of the ECL requirements alongside other requirements

Modifications and derecognition

A21. The Standard does not contain specific requirements for the derecognition of financial assets following a contractual modification, although it acknowledges at paragraph B5.5.25 that in "some circumstances" such modifications can lead to derecognition of the asset. Modifications are specifically addressed for financial liabilities at paragraph 3.2.2. When contracts are renegotiated or modified, the accounting to reflect this can have a significant impact on the calculation of ECL. Stakeholders tell us that, following a contractual modification to an asset, they consider IFRS 9 often requires an assessment as to whether the change to contractual cash flows is "substantial". If yes, such "substantial" changes result in derecognition of the asset, but non-substantial changes do not. When assets are derecognised the new contract is often recognised for the purposes of calculating ECL as a "Stage 1" asset requiring a 12-month ECL calculation. When the asset is not derecognised it often retains its existing "stage" which may be "Stage 2" or "Stage 3", requiring the recognition of lifetime ECL. Clear understanding, and accurate execution, of any derecognition test is necessary to understand the type of ECL calculation required. This is particularly important if the driver for the contractual modification is some form of financial distress. However, the Standard is unclear regarding such interaction of the modification, derecognition and impairment requirements giving rise to issues which are causing diversity in practice. While we acknowledge it will always be necessary to apply judgement to such situations further application guidance is needed.

A22. It is not clear how the tests for the derecognition of assets in paragraphs 3.2.1 - 3.2.23 of the Standard apply to financial assets following a contractual modification. To improve consistency in practice further guidance should be provided considering circumstances where there has been a “substantial” change in cash flows following the contractual modification. In particular this should address how the expected-loss allowances and write-offs charged to profit and loss in the prior and current periods should be treated for the purposes of calculating the “substantial” change in cash flows, and the order in which these components should be included in the calculation. Examples include:

a) Whether, following a contractual change, certain losses should be treated as impairments, write-offs or as modification losses.

b) Whether write-offs should be taken prior to the calculation of “substantial” changes in cash flows, as this can potentially change the outcome of that calculation.

c) Whether the forgiveness of interest on a loan is a modification or a partial write-off. If this forgiveness of interest were assessed as a “substantial” change the asset could revert to “Stage 1” after derecognition, and, if assessed as a write-off, it stays in “Stage 2”.

To improve consistency of application we suggest that further application guidance be provided in the Standard on the interaction of ECL with the modification and derecognition requirements for financial assets.

A23. Stakeholders tell us similar questions arise upon the disposal of Stage 2 assets, where the treatment of write-offs and the reversal (or use) of ECL will influence in which line item in profit and loss any gain or loss on disposal is recognised. Providing further application guidance on these matters will reduce diversity in practice.

A24. In addition to assessing the question of “substantial change”, clarity as to whether such items are treated as impairments, write-offs or modification losses is also relevant to presentation in the Statement of Profit and Loss, and the financial statement disclosures.

A25. When considering significant increase in credit risk (SICR), it is not clear in which circumstances, following a derecognition event, the newly recognised contract would be considered to be originated credit impaired, nor when a modified contract would have less credit risk. Stakeholders tell us that applying IFRS 9 guidance for this area is extremely challenging. For derecognised assets IFRS 9 para B5.5.26 notes that “typically” the new asset would attract a 12-month expected-loss allowance, but in “unusual circumstances” may be recognised as originated credit-impaired and attract a lifetime expected-loss allowance. Paragraph B5.5.27 notes that assets that were not derecognised are not “automatically considered to have lower credit risk” and requires evidence of improved performance such as a pattern of timely payment against the modified contract terms. However, the interaction of these requirements with paragraph 5.5.12, which states that SICR shall be assessed by comparing the risk of default occurring under the original contract terms to the risk of default occurring under the modified contract terms, can be unclear in practice. For example, the modified terms may be demonstrably more affordable for the customer and therefore likely to be lower credit risk than the original (less affordable) loan. We recommend the IASB produce educational material that incorporates examples of how this guidance would be applied in practice. We would be happy to assist IASB staff in testing suitable examples.

A26. We note the scope of the IASB pipeline project *Amortised Cost Measurement*[11] includes the topic of “modifications”. We assume this project will therefore assess the interaction of the modification/derecognition requirements with ECL, including the issues raised above. If not, we urge the IASB to include these matters within the scope of this project. As noted in our letter of 19 July 2023 in response to the IASB’s ED *Amendments to the Classification and Measurement of Financial Instruments*, this project will be critical and we consider it should be addressed as a matter of urgency.

Application alongside other standards

IFRS 17 Insurance Contracts

A27. We note that it is too early to fully assess the interaction of IFRS 9 and IFRS 17 *Insurance Contracts*, as many UK insurers are currently implementing IFRS 9 for the first time this year. We consider it important that the interaction between IFRS 9 and IFRS 17 be included in the PIR of IFRS 17.

11 https://www.ifrs.org/projects/pipeline-projects/

Sustainability standards

A28. The UKEB recommends that the IASB considers the ways in which the IFRS 9 impairment requirements connect with wider sustainability reporting as part of the IASB and ISSB's ongoing work on connectivity. In particular, UK banking preparers have reported increased demands from users to identify the portion of the ECL that relates to climate, an exercise which is not straightforward at this time. We recommend the IASB include this matter in the scope of the *Climate-related and Other Uncertainties in the Financial Statements* project.

Question 8–Transition
Were the costs of applying the transition requirements and auditing and enforcing their application significantly greater than expected? Were the benefits to users significantly lower than expected? 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 explain any unexpected effects or challenges preparers of financial statements faced applying the impairment requirements retrospectively. How were those challenges overcome?

A29. Those most affected by impairment requirements of the Standard, e.g. banks, incurred substantial cost and faced significant implementation challenges upon transition to IFRS 9. Nevertheless, stakeholders agreed that the impairment requirements of IFRS 9 represent an improvement to the previous requirements of IAS 39 *Financial Instruments: Recognition and Measurement* and that they give rise to more timely recognition of credit losses.

A30. Looking forward, some stakeholders have questioned whether the ongoing costs associated with calculating and auditing ECL for some types of intra-group lending is proportionate with the usefulness of the information produced. This matter is discussed further in paragraphs A2, A3 and A5 above.

Question 9—Credit risk disclosures
(a) Are there fundamental questions (fatal flaws) about the disclosure requirements in IFRS 7 for credit risk? If yes, what are those fundamental questions? Please explain whether the combination of disclosure objectives and minimum disclosure requirements for credit risk achieves an appropriate balance between users of financial statements receiving: (i) comparable information—that is, the same requirements apply to all entities so that users receive comparable information about the risks to which entities are exposed; and (ii) relevant information—that is, the disclosures provided depend on the extent of an entity's use of financial instruments and the extent to which it assumes associated risks. If an appropriate balance is not achieved, please explain what you think are the fundamental questions (fatal flaws) about the clarity and suitability of the core objectives or principles of the disclosure requirements. **(b) Are the costs of applying these disclosure requirements and auditing and enforcing their application significantly greater than expected? Are the benefits to users significantly lower than expected?** If, in your view, the ongoing costs of providing specific credit risk disclosures are significantly greater than expected or the benefits of the resulting information to users of financial statements are significantly lower than expected, please explain your cost–benefit assessment for those disclosures. Please provide your suggestions for resolving the matter you have identified. If, in your view, the IASB should add specific disclosure requirements for credit risk, please describe those requirements and explain how they will provide useful information to users of financial statements. Please also explain whether entities' credit risk disclosures are compatible with digital reporting, specifically whether users of financial statements can effectively extract, compare and analyse credit risk information digitally.

Fatal flaws

A31. Stakeholders agreed there were no fatal flaws in the disclosure requirements in IFRS 7 for credit risk. Investors consulted during this outreach noted the disclosures by UK banks were of a high standard on a global basis. In part this is due to the work of the UK's Taskforce on Disclosures about Expected Credit Losses, a collaboration between regulators, preparers and users of financial statements to consider credit loss disclosures.

Analysis by sector

A32. The key request from users of financial statements was for information on ECL by sector. This is particularly relevant to investors if, for example, they are forecasting a downturn in a specific sector. We therefore recommend that the IASB considers including a requirement for entities that hold assets across multiple industries to consider disclosure of basic ECL data (such as gross carrying amount, ECL amount and ECL charged to profit and loss) by sector.

Post-model adjustments

A33. We recommend IFRS 7 be updated to make clear the disclosure requirements of the Standard also apply to post-model adjustments. Some stakeholders have observed that post-model adjustments to the ECL calculation that relate to the probability of default do not always give rise to corresponding adjustments to the Stage 1/2/3 categorisation of the underlying loans. In some cases, this may limit the usefulness of the disclosure for purposes, such as calculating impairment coverage ratios. Educational material or illustrative examples could be used to bring greater awareness of the need for disclosures of post-model adjustments and their impact on asset staging, where relevant. For example, as recommended by the UK's Taskforce on Disclosures about Expected Credit Losses, if quantitative disclosure was not practicable, qualitative disclosure could be used in providing information about the impact of post-model adjustments on the stage categorisation of the underlying loans.

Disclosure requirements and the simplified approach

A34. IFRS 7 paragraph 35D gives entities flexibility to consider how much detail to disclose, how much emphasis to place on the different aspects of the disclosure requirements, and the appropriate level of aggregation. Nonetheless, preparers using the simplified approach told us that they found the amount of disclosure disproportionate to the nature of their business. They said some disclosures were not relevant (write off policies and collateral management being frequently mentioned), that while receivables may be a material balance the ECL was not, and that disclosures were too complex for users other than professional analysts to understand. We recommend the IASB produce educational materials to better illustrate to preparers (and their auditors) how the proportionality provided by paragraph 35D can be applied to practical scenarios using the simplified approach.

Question 10–Other matters
(a) **Are there any further matters that you think the IASB should examine as part of the post-implementation review of the impairment 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 this post-implementation review and the pervasiveness of any matter raised. Please provide examples and supporting evidence. (b) **Do you have any feedback on the understandability and accessibility of the impairment requirements in IFRS 9 that the IASB could consider in developing its future IFRS Accounting Standards?**

Application of the effective interest rate following a SICR

A35. At present, when a financial asset that is not purchased or originated credit-impaired subsequently becomes credit-impaired, IFRS 9 paragraph 5.4.1(b) requires entities to apply the effective interest rate (EIR) to the amortised cost balance of the loan in subsequent reporting periods. In practice some stakeholders apply the EIR to the amortised cost balance of the loan immediately after the asset becomes credit-impaired, as this is less operationally complex for their systems, while others do so at the start of the next reporting period. The standard should be updated to make clearer that both approaches are permitted and we recommend this be made explicit in the standard by making the following change.

IASB IFRS 9, markup by UKEB
5.4.1(b) financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the entity shall apply the effective interest rate to the amortised cost of the financial asset ~~in subsequent reporting periods~~ no later than the beginning of the subsequent reporting period.