

Project Initiation Plan: *Amendments to IFRS 9 and IFRS 7—Amendments to the Classification and Measurement of Financial Instruments*

Executive Summary

Project Type	Endorsement
Project Scope	Moderate
Purpose of the paper	
This paper sets out the plan to assess whether to adopt for use in the UK the narrow-scope amendments <i>Amendments to IFRS 9 and IFRS 7: Amendments to the Classification and Measurement of Financial Instruments</i> (Amendments) issued by the International Accounting Standards Board (IASB) in May 2024.	
Summary of the Issue	
<p>The Amendments have an effective date of annual reporting periods commencing on or after 1 January 2026. Early adoption is permitted. Further, an entity may elect to early adopt only the Amendments to the requirements for the classification of financial assets without early adopting the other Amendments.</p> <p>The UKEB's statutory functions mean that it must assess the Amendments against the statutory adoption criteria before their formal adoption for use in the UK. The Board's process aims to ensure the assessment is completed ahead of the effective date of 1 January 2026, to provide clarity to stakeholders.</p>	
Decisions for the Board	
Subject to any changes identified at this meeting, does the Board approve the Project Initiation Plan for the project to assess the Amendments for adoption for use in the UK?	
Recommendation	
We recommend the board approves the Project Initiation Plan.	
Appendices	
Appendix A Draft Project Initiation Plan	

Appendix A: Draft Project Initiation Plan – Amendments to the Classification and Measurement of Financial Instruments

Purpose

- A1. This paper sets out the project plan to assess whether to adopt for use in the UK the narrow-scope *Amendments to IFRS 9 and IFRS 7: Amendments to the Classification and Measurement of Financial Instruments*¹ (Amendments) issued by the IASB in May 2024. The Amendments contain further guidance and requirements for the IFRS 9 *Financial Instruments* requirements for recognition and derecognition, and for classification and measurement. This includes classification guidance for instruments containing contingent features, such as ESG-linked instruments. The Amendments also contain changes to disclosure requirements in IFRS 7 *Financial Instruments: Disclosures*.

Background

- A2. The Amendments are a response to feedback received during the [Post implementation Review of IFRS 9 – Classification and Measurement \(PIR\)](#). In this review the IASB identified two matters requiring action as soon as possible.
- a) Accounting for the settlement of a financial asset or financial liability using an electronic payment system. This matter originated from a request to the IFRS Interpretations Committee (the Committee). Respondents commenting on the Committee's tentative agenda decision were concerned about the potential outcomes of finalising the agenda decision, especially in the context of the settlement of financial liabilities.
 - b) Applying the requirements for assessing contractual cash flow characteristics to financial assets with features linked to environmental, social and governance (ESG) metrics. PIR participants said that, because the global market for these financial assets is growing rapidly, clarification is required to avoid diversity in practice becoming established.

¹ UKEB members can view the Amendments here: [GVT_Amendments to Classification and Measurement of Financial Instruments.docx](#)

- A3. Proposed amendments to address these matters were provided in the [Exposure Draft Amendments to the Classification and Measurement of Financial Instruments - Proposed amendments to IFRS 9 and IFRS 7: \(the ED\)](#). The IASB made changes to the ED proposals in response to feedback prior to issuing the final Amendments. The main changes are described in Annex A to this document.
- A4. The UKEB actively influenced the development of the Amendments by responding² to the Post-implementation Review IFRS 9 – Classification and Measurement in January 2022, and responding³ to the consultation on the ED in July 2023.

Description of the Amendments

- A5. A summary of the Amendments and their expected effects is presented in the table below.

The amendments	Expected effects
IFRS 9: Recognition and derecognition	
<p>Clarifies the requirements for the recognition and derecognition of financial assets and liabilities. In particular, notes that financial liabilities are derecognised on the settlement date, which is the date on which the liability is extinguished.</p> <p>Also provides a new alternative to the use of settlement date if certain criteria are satisfied.</p>	<p>This is expected to improve consistency of application, as the clarifications improve shared understanding of when recognition or derecognition should take place.</p>
IFRS 9: Classification of financial assets	
<p>Adds further guidance to clarify how financial instruments with contingent features (such as ESG-linked features) should be assessed when considering the “basic lending” and “solely payments of principal and interest” requirements of IFRS 9. Also provides improved guidance for the classification of assets with non-recourse features and contractually linked instruments.</p>	<p>The increased guidance is expected to improve the consistency of classification. In particular, this responds to the needs of preparers and users of financial statements who had told the IASB that such guidance was urgently required to ensure consistent application of the classification requirements to the emerging ESG-linked product set.</p>

² [Final Comment Letter – Post-implementation Review of IFRS 9 – Classification and Measurement](#)
³ [Final Comment Letter – Amendments to the Classification and Measurement of Financial Instruments.](#)

The amendments	Expected effects
IFRS 7: Disclosure	
Requires additional disclosure of gains or losses in the fair value of investments in equity instruments that have been designated at fair value through other comprehensive income.	This information is expected to provide users with greater insight of fair value changes for investments derecognised in the reporting period, and those still held at period end.
Requires qualitative and quantitative disclosures for financial assets and liabilities with contingent features.	This information is expected to assist users understand the effect of contractual terms that could change the amount of contractual cashflows based on the occurrence (or non- occurrence) of a contingent event.

Project plan

A6. The Secretariat recommend the project plan shown below. The factors considered in arriving at this project plan are described in paragraphs A7- A18. A timeline for they key project milestones is presented at paragraph A22:

Proposed activity	Due Process Handbook ref
Creation of a Project Initiation Plan (this document)	Handbook 6.12-6.16
Desk based research, including: <ul style="list-style-type: none"> a) The IASB’s work on the Amendments (mainly staff papers) and the Basis for Conclusions. b) Comment letters on the ED from UK stakeholders. c) Previous work done by the UKEB (early desk-based research, comment letters in response to the UKEB ED Draft Comment Letter). 	Handbook 6.17
In-house research on the long-term public good.	Handbook 6.24

Proposed activity	Due Process Handbook ref
<ul style="list-style-type: none"> a) Qualitative assessment of anticipated costs and benefits based on the requirements. b) Engagement with UKEB advisory and working groups (PAG, AFIAG, FIWG) to validate the qualitative assessment. c) Possible 1-2-1 engagement with a selected small number of stakeholders to further discuss any outstanding issues. 	
<p>Publication of a Draft Endorsement Criteria Assessment (DECA) for public consultation.</p> <ul style="list-style-type: none"> a) Announcement of publication of the DECA for consultation through the usual channels. b) The DECA will be issued for comment for 90 days. 	<p>Handbook 6.23-6.27</p> <p>Handbook 6.28</p>
<p>Stakeholder outreach pre-DECA publication.</p> <ul style="list-style-type: none"> a) Consultation with the UKEB’s Accounting Firms & Institutes Advisory Group (AFIAG), Preparer Advisory Group (PAG), and Financial Instruments Working Group (FIWG); and b) Discussions with any stakeholders who contact us to request this. 	<p>Handbook 6.18-6.22</p>
<p>Stakeholder outreach post-DECA publication</p> <ul style="list-style-type: none"> a) Consultation with the Investor Advisory Group (IAG). Follow up consultation with other advisory/ working groups as necessary. b) Discussions with any stakeholders who contact us to request this. 	
<p>Creation of an adoption package including the Final ECA, Adoption Statement, Feedback Statement, Due Process Compliance Statement.</p> <p>Publication of required documents on the UKEB website.</p>	<p>Handbook 6.30-6.48</p>

A7. The following factors have been considered in developing a proportionate project plan.

The Amendments are narrow in scope

- A8. The IASB has made clear that the Amendments are primarily providing clarification to a limited number of existing requirements.

The Amendments have been subject to public consultation

- A9. The Amendments were issued for public comment in the 2023 ED consultation. The UKEB considered the proposals and issued a comment letter⁴ to the IASB. The IASB was responsive to feedback received on the ED and made a number of changes in the final Amendments. A summary of changes is set out at Annex A.

The significance of the Amendments

Prevalence in the UK/Size

- A10. The amendments related to the recognition and derecognition of financial assets and liabilities will affect many entities using IFRS Accounting Standards. The other amendments are expected to primarily affect financial services companies.

Complexity

- A11. The requirement to use settlement date for derecognition is not technically complex, but may pose operational challenges for some organisations. The other amendments are complex, however are expected to affect primarily financial services companies offering complex products such as those containing contingent features (such as ESG-linked instruments). Entities which offer such products are usually sophisticated organisations, capable of dealing with complex accounting and change.

Expected timeline/urgency

- A12. The effective date of the Amendments is annual reporting periods beginning on or after 1 January 2026. Early adoption is permitted. Further, entities may choose to early adopt only the Amendments to the requirements for the classification of financial assets (and associated disclosures) without applying the other Amendments to the standard.

Findings to date from desk-based research/ preliminary activities

- A13. Outreach in April 2024 with the FIWG identified no significant concerns with the expected Amendments, or the effective date, that would lead to an issue likely to impact the ability of the UKEB to adopt the Amendments. As this outreach took

⁴ [Comment Letter 19 July 2023](#)

place prior to publication of the final amendments we plan to seek further feedback from the July 2024 FIWG meeting.

- A14. Outreach in June 2024 with the PAG did not identify any significant concerns with the Amendments, or the effective date, that would lead to an issue likely to impact the ability of the UKEB to adopt the Amendments. The PAG did note this feedback was dependent on their auditors and regulators interpreting the Amendments in a manner consistent with the PAG members.
- A15. Review of IASB materials indicates some controversy regarding the effective date of 1 January 2026. This date was only supported by eight of 14 IASB members. One IASB member, from a preparer background, dissented from issuing the Amendments, as he thought the effective date provided insufficient implementation time in relation to the date of initial recognition or derecognition of financial assets or liabilities.
- A16. The IASB received ten comment letters on the exposure draft consultation directly from UK stakeholders⁵. Six expressed concern with the time/complexity of the analysis required to implement the derecognition of financial liabilities proposals⁶. One fundamentally disagreed with that proposal. The effective date was not known at the time this feedback was provided.
- A17. In late April 2024 the Secretariat was contacted by an industry representative group expressing concern that the effective date did not provide sufficient time to analyse and implement the changes in relation to the recognition and derecognition of financial assets and liabilities. They preferred an effective date of January 2028, although they accepted that January 2027 could be a pragmatic compromise.

Expected interest/ controversy

- A18. We are not aware of any political or wider concerns in relation to this project.

Resources allocated

- A19. To undertake the activities described in this project plan a project team has been assigned consisting of 0.5 of the Project Director – FI Lead, along with appropriate support from a Project Manager and from the UKEB economics team. The required resources are allowed for in the UKEB Regulatory Strategy.

⁵ Entities providing a UK address or UK equity listing. Excludes the international accounting firms and the letter from the UKEB.

⁶ It was not always clear if these concerns related to the settlement date amendment, the new alternative to using settlement date, or both.

Setting up an ad-hoc advisory group is not necessary

A20. The Financial Instruments Working Group, along with the AFIAG, IAG and PAG have the necessary skills and knowledge to support this project. An ad-hoc advisory group is not necessary.

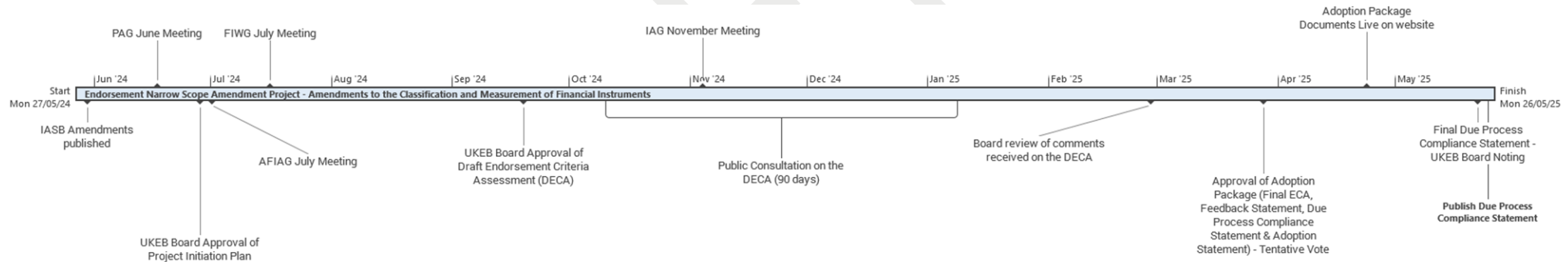
Project timeline

Endorsement and adoption stage

- A21. The plan proposes a final endorsement decision in April 2025. This allows for flexibility in the timetable and sufficient time for stakeholder feedback. It will ensure a decision on whether to adopt the Amendments in sufficient time for preparers with June interim reporting, in the event they wish to early adopt the Amendments.
- A22. The proposed high-level project timeline is shown below. This provides a best estimate based on information known at this time. If necessary, a revised PIP will be presented to the Board to reflect any material changes as the project progresses.

Date	Milestones
28 June 2024	Draft Project Initiation Plan for Board approval.
19 September 2024	DECA for Board approval.
Estimated DECA consultation period (90 days): early October 2024 – early January 2025	
27 February 2025	Board review of feedback received on the DECA.
28 March 2025	Consideration of the Adoption Package. Board members provide a tentative vote.
April 2025	Voting form sent to Board members. Publication of voting outcome and Adoption Package on the UKEB website.
22 May 2025	Due Process Compliance Statement for noting.

Amendments to IFRS 9 Classification and Measurement of Financial Instruments (effective date 1 January 2026*) – Proposed timeline



* Early adoption is permitted. In addition, an entity may elect to early adopt only the amendments to the requirements for the classification of financial assets (Section 4.1 of the standard) without applying the other amendments to the standard.

Annex A Summary of key changes post exposure draft

The below table summarises key changes to the amendments subsequent to publication of the exposure draft (ED). This summary has been prepared based on IASB’s final amendments issued 30 May 2024.

Proposals in the ED	Stakeholder feedback	Final amendments
Date of initial recognition or derecognition		
<p>Clarifies that settlement date accounting will apply to the derecognition of financial liabilities. (B3.1.2A)</p> <p><i>When recognising or derecognising a financial asset or financial liability, an entity shall apply settlement date accounting (see paragraph B3.1.6) unless paragraph B3.1.3 applies or an entity elects to apply paragraph B3.3.8.</i></p>	<p>Stakeholders were concerned the wording referencing “settlement date accounting” may have unintended consequences leading to further diversity in practice developing. They recommended the IASB clarify the requirement.</p>	<p>Now refers to “settlement date” rather than “settlement date accounting”. Also has an expanded description of when financial assets and liabilities are recognised/ derecognised.</p> <p><i>Unless paragraph 3.1.2 applies, an entity shall recognise a financial asset or financial liability on the date on which the entity becomes party to the contractual provisions of the instrument (see paragraph 3.1.1). A financial asset is derecognised on the date on which the contractual rights to the cash flows expire or the asset is transferred (see paragraph 3.2.3). Unless an entity elects to apply paragraph B3.3.8, a financial liability is derecognised on the settlement date, which is the date on which the liability is extinguished because the</i></p>

Proposals in the ED	Stakeholder feedback	Final amendments
		<p><i>obligation specified in the contract is discharged or cancelled or expires (see paragraph 3.3.1) or the liability otherwise qualifies for derecognition (see paragraph 3.3.2).</i></p>
<p>Derecognition of liabilities settled using an electronic payment system.</p>		
<p>The ED proposed that entities are only permitted to deem a financial liability to be discharged before the settlement date if four conditions are met. One of these is that the entity has no ability to withdraw, stop or cancel the payment instruction. (B3.3.8(a))</p>	<p>Stakeholders, including the UKEB, considered that this proposal is unlikely to be practical as the requirements set the bar too high.</p> <p>Stakeholders, including the UKEB, suggested an alternative to the requirements (for example derecognition when the payment instruction is issued), or softening the wording around ‘no ability’.</p>	<p>Wording softened by using the term “practical ability” for the test at B3.3.8(a) to make it consistent with the test at B3.3.8(b).</p> <p>‘Practical’ inserted before ‘ability’ at B3.3.8(a), i.e. “<i>The entity has no practical ability to withdraw, stop or cancel the payment instruction.</i>”</p>
<p>Classification of financial assets - general</p>		
<p>The ED proposed that a change in contractual terms is inconsistent with a basic lending arrangement “<i>if it is not aligned with the direction and magnitude of the</i></p>	<p>Stakeholders, including the UKEB, considered that additional guidance was required on determining the ‘<i>direction and magnitude</i>’ of changes in contractual cash flows, or the</p>	<p>Reference to “magnitude” removed.</p> <p>Substantial rewording to the amendment such that it now clarifies that the amount of compensation received may be an indication that the entity is being compensated for more</p>

Proposals in the ED	Stakeholder feedback	Final amendments
<p><i>change in basic lending risks or costs</i>". (B4.1.8A)</p>	<p>requirement should be removed. The "magnitude" requirement was seen as particularly problematic.</p>	<p>than basic lending risks or costs (B4.1.8A). The change in direction of the contractual cash flows (following a contingent event) should be consistent with the change in basic lending risk or cost (B4.1.10).</p>
<p>Clarified guidance on when a contractual term that changes the timing or amount of contractual cash flows are consistent with a basic lending arrangement (B4.1.10A):</p> <ul style="list-style-type: none"> • considering all circumstances, irrespective of the probability of the contingent event occurring; • the occurrence of the contingent event is specific to the debtor ;and • the resulting contractual cash flows represent neither an investment in the debtor nor an exposure to the performance of specified assets. 	<p>Stakeholders, including the UKEB, were concerned that the scope of the paragraph, in particular the requirement for a contingent event to be "<i>specific to the debtor</i>", excluded ESG-linked targets set at a consolidated level or in relation to a group entity other than the legal debtor and whether it excluded, for example, scope 3 emissions, sector-wide emissions, a target relative to a benchmark or ratios of expenses or revenues.</p>	<p>Reference to "specific to the debtor" is removed.</p> <p>The guidance at B4.1.10A is reworded to clarify that even if the contingent feature is not directly related to changes in basic lending risks and costs, the cash flows can nonetheless be SPPI if:</p> <ul style="list-style-type: none"> • the cash flows before and after any contingent events are SPPI; and • in all contractually possible scenarios, the contractual cash flows are not significantly different from the cash flows on an otherwise identical financial asset without a contingent feature. <p>Guidance has been clarified as to the quantitative and qualitative analysis necessary to support the assessment.</p>

Proposals in the ED	Stakeholder feedback	Final amendments
<p>Additional examples were provided, applying the requirements to financial assets with ESG-features.</p>	<p>The examples were criticised for not showing sufficient analysis of the requirements.</p>	<p>The examples were updated to reflect the changes. The analysis of the requirements is now clearer than in the ED.</p>
<p>Financial assets with non-recourse features</p>		
<p>The ED suggested that the assessment of whether a financial asset has non-recourse features should be made <i>“throughout the life of the financial asset and in the case of default”</i>. (B4.1.16A)</p>	<p>Stakeholders, including the UKEB, considered that this text increased the requirement such that the both the contractual right to receive cash flows over the life of the asset, and in the case of default must be satisfied. Previously only one of those tests was required to be met.</p>	<p>Removed <i>“both over the life of the financial asset and in the case of default”</i>.</p>
<p>When entities assess (‘look through to’) the underlying assets, the legal and capital structure of the debtor, including extent to which cash flows from underlying assets are expected to exceed the contractual cash flows on the financial asset may need to be considered (B4.1.17A)</p>	<p>Stakeholders requested further clarity.</p>	<p>The proposed requirement at B4.1.17A has been merged with the preceding paragraph B4.1.17 to more concisely explain the purpose of the “look through” assessment, and the requirement for entities to consider the effect of other contractual arrangements such as subordinated debt or equity instruments issued by the debtor.</p>

Proposals in the ED	Stakeholder feedback	Final amendments
Contractually linked instruments (CLI)		
<p>Clarified that some structured lending arrangements that involve only the lender (senior debt) and a sponsor/borrower (who holds a junior debt instrument in the structure to provide additional credit protection to the lender), are not contractually linked instruments. (B4.1.20A)</p>	<p>Stakeholders expressed concern the ED wording could give rise to structuring opportunities, particularly if the junior debt is sold subsequent to assessment.</p>	<p>Amended to address this risk. Now requires that: <i>"...the entity has no practical ability to sell the junior instrument without the senior debt instrument becoming payable..."</i>.(B4.1.20A)</p>
<p>The proposals make clear that contractually linked instruments are a subset of non-recourse finance for IFRS reporting purposes. (B4.1.20A)</p>	<p>Stakeholders suggested amendments to the proposed wording to ensure it was clear that the CLI requirements are applied <i>instead of</i> the general requirements, not <i>in addition</i> to the general requirements.</p>	<p>Amended to make clear that for contractually linked instruments: <i>"...the holders of a tranche apply paragraphs B4.1.21-B4.1.26 instead of paragraph B4.1.17."</i> (B4.1.20)</p>
<p>Explained that the underlying pool of assets can include lease receivables. (B4.1.23)</p>	<p>Stakeholders expressed concern that the proposed wording implied all leases would meet the cashflow characteristics test, and that the wording should be amended if that was not the IASB's intent.</p>	<p>Amended to clarify that only some lease receivables would meet the criteria. Now provides examples of lease payments that would not meet the criteria, such as those subject to residual risk or indexed to a variable</p>

Proposals in the ED	Stakeholder feedback	Final amendments
		rate that is not a basic lending risk or cost. (B4.1.23)
Amendments to IFRS 7 <i>Financial Instruments: Disclosures</i> - Changes in contractual cashflows		
<p>For contractual terms that could change the timing or amount of contractual cash flows based on the occurrence or non-occurrence of a contingent event that is specific to the debtor entities shall disclose (20B):</p> <ul style="list-style-type: none"> a) a qualitative description of the nature of the contingent event; b) quantitative information about the range of changes to contractual cash flows that could result; and c) the gross carrying amount of financial assets and the amortised cost of financial liabilities subject to those terms. 	<p>Stakeholders expressed concern at the breadth of the proposed disclosures.</p>	<p>This paragraph is now referenced as 20C and has been amended to reduce the scope of the requirements to contractual terms that could change the amount of contractual cash flows based on a contingent event that is not directly related to a change in basic lending risks or costs (for example, the time value of money or credit risk).</p> <p>A new paragraph has been added at 20D to provide an example of a financial instrument that falls within the scope of paragraph 20C.</p>

Proposals in the ED	Stakeholder feedback	Final amendments
Amendments to IFRS 7 <i>Financial Instruments: Disclosures</i> -Equity instruments and OCI		
Introduces disclosure for the change in fair value, showing separately the amount of change related to investments derecognised during the period and those held at the end of the period. (11A)	Stakeholder questioned the clarity of the requirement, including the appropriate level of aggregation.	Amended to include clarification that the disclosure requirements of paragraph 11A shall be provided by class of equity instrument.
n/a	Stakeholders requested an additional disclosure requirement for transfers of the cumulative gain/loss relating to an equity investment disposed of in the period from OCI to retained earnings.	Introduces a disclosure requirement for any transfers of the cumulative gain or loss within equity during the reporting period, relating to equity instruments disposed of in that reporting period. (11B)
Effective date and transition requirements		
Effective date to be determined	-	The effective date is for annual reporting periods beginning on or after 1 January 2026.
Early application permitted. An entity shall disclose the early application and apply all amendments at the same time.	Stakeholders told the IASB that the changes related to ESG-linked financial instruments were required urgently.	Amended to permit entities to early adopt only the Amendments to the requirements for the classification of financial assets (and

Proposals in the ED	Stakeholder feedback	Final amendments
		associated disclosures) without applying the other Amendments to the standard.

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