FEEDBACK STATEMENT

IASB Post-implementation Review (PIR)
IFRS 9 *Financial Instruments* Impairment

September 2023

UKEB
UK Endorsement Board

The UK Endorsement Board (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.

The comment letter to which this feedback statement relates forms part of those influencing activities and is intended to contribute to the IFRS 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.

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Purpose of this feedback statement

This feedback statement presents the views of UK stakeholders received during the UKEB's outreach activities on the IASB's Post-implementation Review (PIR) of IFRS 9 *Financial Instruments* Impairment project and explains how the UKEB's Final Comment Letter addressed those views.

Outreach approach

The UKEB's outreach activities took place between February and September 2023 and were conducted to assist the UKEB in developing its Comment Letter.

The outreach approach was underpinned by the UKEB's guiding principles of thought leadership, transparency, independence and accountability.

Due to the project timeline, most of our outreach activities were performed in the early stages of the project and these stakeholder views were reflected in the UKEB draft comment letter.

Outreach activities included:

- meetings with preparers, users, accounting firms and regulators, including discussions with the UKEB Financial Instruments Working Group;
- a roundtable event with preparers; and
- public consultation on the UKEB's draft comment letter.

Two written responses to the UKEB's Invitation to Comment on its Draft Comment Letter were received. This is in addition to the stakeholder outreach statistics shown in the table.

All comments and views were considered in reaching the UKEB final views on the questions raised.

Stakeholder type	Stakeholders	Organisations represented
Preparers	28	21
Auditors & Accounting firms	14	8
Regulators/ Standard setters	2	2
Users	7	7
Academics	1	1
Professional bodies / committees*	6	5

*The professional bodies/committees have multiple members, often representing a variety of stakeholder types.

The IASB's Post-implementation Review

The IASB has spilt its Post-implementation Review of IFRS 9 into three parts. This part of the review focuses on the impairment requirements of IFRS 9, together with the related disclosure requirements in IFRS 7 *Financial Instruments: Disclosures*.

The PIR assesses whether the standard is meeting its objectives, can be applied consistently, provides useful information to users, and implementation costs are as expected. The IASB's possible actions following the PIR are to:

a. produce educational materials;

b. conduct follow-up research work for possible standard setting; or

c. take no action

The IASB's Request for Information (RfI) identified ten areas of the impairment requirements on which it was seeking feedback. The UKEB comment letter was responsive to UK stakeholder feedback and focused only on those areas where UK stakeholders expressed particular concerns.

1. IFRS 9's overall approach to impairment

Initial stakeholder views	UKEB draft position	Further stakeholder views	UKEB final position
Stakeholders noted that the Standard was generally working as intended and did not contain any "fatal flaws". The IFRS 9 requirements resulted in more timely recognition of expected credit losses than the previous standard IAS 39.	Noted the Standard worked as intended, did not contain "fatal flaws" and resulted in the more timely recognition of expected credit losses.	Consistent with initial views.	Consistent with draft position.
Some stakeholders questioned whether the IFRS 9 expected credit loss methodology provided useful information for certain intra-group lending, and whether the cost of producing such information was proportionate with the usefulness of the resulting information. They suggested in some instances the use of the IAS 36 impairment requirements may provide more useful information.	Observed a number of challenges associated with calculating expected credit loss on some intra-group lending. Recommended the IASB consider, and provide guidance on, the nature and characteristics of intra-group loans where IFRS 9 provides useful expected credit loss information and those where IAS 36 may provide more useful impairment information.	Views were mixed: while some stakeholders thought the IASB was unlikely to make changes in this area, others agreed with the UKEB recommendation.	Consistent with draft position.

1. IFRS 9’s overall approach to impairment (continued)

Initial stakeholder views	UKEB draft position	Further stakeholder views	UKEB final position
Not applicable	Not applicable	Views were mixed. Some stakeholders thought the requirements of the Standard tended to overstate losses and therefore created excessive procyclicality. Other stakeholders strongly believed the requirements were not procyclical, or there was no evidence of procyclicality, and tools such as post-model adjustments can be used to moderate model outputs if necessary.	This is a complex debate and there is no single, commonly accepted definition of ‘procyclicality’ so it has different meanings to different stakeholders. We are not aware of strong evidence of procyclicality arising from the IFRS 9 impairment requirements. This topic was therefore not included in the comment letter.
Not applicable	Not applicable	Some stakeholders thought the IFRS 9 approach was highly complex, particularly the use of multiple scenarios. They believe most value is derived from the base-case scenario.	This topic was not included in the comment letter. The Standard permits the use of qualitative as well as quantitative factors, and has a simplified approach and a low credit risk exemption that can be applied in qualifying cases. The complexity of model is an operational choice, which can be simplified where the business model does not require complex calculations.

2. Significant increase in credit risk

Initial stakeholder views	UKEB draft position	Further stakeholder views	UKEB final position
Stakeholders noted that further guidance on the use of qualitative factors in assessing a significant increase in credit risk (SICR) would be useful. It was noted that it would be helpful to incorporate some of the SICR guidance issued during the pandemic into the Standard.	Noted that certain guidance on assessing SICR provided during the pandemic was helpful in identifying when a SICR had occurred and the IASB should consider incorporating this into application guidance. Recommended the IASB produce educational materials to aid understanding of the use of qualitative factors.	Stakeholders emphasised that further guidance was necessary regarding what was meant by a “significant increase” in credit risk (SICR).	In addition to the draft position, suggested further application guidance and examples be provided to assist in understanding when a “significant increase” in credit risk had occurred.
Some stakeholders explained that, following a SICR, they applied the effective interest rate (EIR) to the loan balance immediately, as this was easier for their systems than waiting until commencement of the next reporting period.	Requested that following a SICR it be permitted that the EIR be applied to the loan “no later than” the beginning of the subsequent reporting period.	Consistent with initial views, but noted this issue was a poor fit with the SICR section of the document.	Consistent with draft position but moved to the “Question 10 – Other Matters” section.

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4. Measurement

Initial stakeholder views	UKEB draft position	Further stakeholder views	UKEB final position
Stakeholders noted that certain measurement requirements were unclear or difficult to apply in practice and would benefit from further explanation.	Recommended that certain paragraphs found in the guidance produced by the IFRS Transition Resource Group regarding the use of forward-looking scenarios be incorporated in application guidance in the Standard. Recommended providing further guidance in the Standard on the application of the exemption criteria for loan commitments. Recommended providing further guidance in the Standard on assessing whether a credit enhancement is “integral to the contract”.	Stakeholders noted that, subsequent to implementation, various groups in the UK have undertaken a range of work to assist with application of the Standard, and the resulting material may be useful to the IASB in creating future educational materials. Stakeholders provided feedback that further guidance on the treatment of financial guarantees (beyond the “integral to the contract” issue) would be welcomed.	Broadly consistent with draft position. Wording added to draw attention to the work undertaken in the UK, and that further guidance on the treatment of financial guarantees would be welcomed.

3. Significant increase in credit risk (continued)

Initial stakeholder views	UKEB draft position	Further stakeholder views	UKEB final position
Not applicable	Not applicable	The Standard requires the use of both absolute and relative measures to determine whether a SICR has occurred. Some stakeholders thought that relative measures may not reflect an entity's credit risk management practices, and there should be greater flexibility regarding their use. Many stakeholders told us a "light touch" approach to changes to SICR requirements is desirable, as they are concerned about unintended consequences to an established process.	This topic was not included in the comment letter. The UKEB's request to provide further guidance on what is a "significant increase" in credit risk may provide assistance with this issue while balancing the risk of unintended consequences
Not applicable	Not applicable	Some stakeholders thought the SICR approach was best suited for loan portfolios, and that less complex methodologies could be applied to other asset types. Other stakeholders strongly believed the same approach should apply to all asset classes, subject to existing reliefs such as the low credit risk exemption and the simplified approach.	This topic was not included in the comment letter. Certain reliefs already exist and different requirements for different asset classes would introduce further complexity to an already complex standard.

4. Measurement (continued)

Initial stakeholder views	UKEB draft position	Further stakeholder views	UKEB final position
Stakeholders noted it would be helpful for the Standard to contain a definition of post-model adjustments, to both acknowledge the use of such adjustments and to provide a common language for disclosure.	Recommended the IASB include a definition of post-model adjustments in the Standard.	Stakeholders further observed that post model adjustments related to probability of default are reflected in expected credit losses, but not necessarily in the Stage 1/2/3 classification of the underlying assets. This can limit the usefulness of the information, for example potentially affecting the calculation of impairment coverage ratios. Attention was drawn to the UK term "judgemental adjustment" as a useful way to think about what should be captured when considering such adjustments.	Updated to recommend IFRS 7 clarifies that the disclosure requirements of the Standards also apply to post-model adjustments. Educational material or illustrative examples could be used to raise awareness of the need for disclosures of post-model adjustments and their impact on asset staging, where relevant. Introduced the term "judgemental adjustment" used by the UK 'Taskforce on Disclosures about Expected Credit Losses' for IASB consideration when describing post-model adjustments.

5. Interaction with other requirements

Initial stakeholder views	UKEB draft position	Further stakeholder views	UKEB final position
Stakeholders noted that the interaction of the expected credit losses requirements with the requirements for derecognition of financial assets following a contractual modification were unclear and leading to significant diversity in practice.	Recommended further application guidance be provided as to how certain elements are assessed to determine if a contractual modification results in derecognition, including which items are treated as impairments, write-offs or modification losses. Recommended educational material to clarify when, following a derecognition event, an asset would be considered to be originated credit impaired. Noted this may already be in the scope of the IASB pipeline project *Amortised Cost Measurement*, as this scope includes "modifications". If not, this should be added to the scope.	Stakeholders noted that clarity in this area may also assist with the treatment of gains or losses on disposals of assets, especially Stage 2 assets.	Broadly consistent with the draft position. Wording updated to reference treatment of gains/losses on disposal of Stage 2 assets.

6. Disclosure

Initial stakeholder views	UKEB draft position	Further stakeholder views	UKEB final position
Investors noted that further information on expected credit losses (ECL) by sector would be useful to users of financial statements.	Recommended the IASB considers adding a disclosure requirement by sector for basic ECL data.	Some stakeholders disagreed with this position, while others agreed with the recommendation.	Retained request from investors to include disclosure of ECL by sector.
Some stakeholders found the amount of disclosure disproportionate to the nature of their business and questioned the relevance of some disclosures.	Recommended the IASB produces educational materials to better illustrate how the proportionality measures in IFRS 7 paragraph 35D can be applied to practical scenarios for preparers using the simplified approach.	Consistent with initial views	Consistent with the draft position.
Stakeholders thought IFRS 7 should be updated to make clear that the disclosure requirements of the Standard also apply to post-model adjustments.	Recommended IFRS 7 be updated to make clear the disclosure requirements of the Standard also apply to post-model adjustments.	Further feedback noted this should also apply to the disclosure of any changes to Stage 1/2/3 asset classifications arising from post-model adjustments.	Recommendation expanded to also refer to changes to Stage 1/2/3 asset classifications.

6. Disclosure (continued)

Initial stakeholder views	UKEB draft position	Further stakeholder views	UKEB final position
Not applicable.	Not applicable.	Some stakeholders suggested the Standard include more mandatory disclosures such as roll forward tables of ECL balances or sensitivity tests of key judgements in the base case economic scenario.	This topic was not included in the comment letter. In the UK such items are already included by some banks and could be addressed by industry initiatives such as the UK's Taskforce on Disclosures about Expected Credit Losses. By including them in the Standard they would also apply to non-financial services entities where they may be disproportionate.

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Disclaimer

This feedback statement has been produced in order to set out the UKEB's response to stakeholder comments received on the UKEB's project responding to the IASB's Request for Information Post-implementation Review: IFRS 9 *Financial Instruments* Impairment and should not be relied upon for any other purpose.

The views expressed in this feedback statement are those of the UK Endorsement Board at the point of publication.

Any sentiment or opinion expressed within this feedback statement will not necessarily bind the conclusions, decisions, endorsement or adoption of any new or amended IFRS by the UKEB.

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