28 March 2025
Agenda Paper 5

UKEB
UK Endorsement Board

Amendments to IFRS 9 and IFRS 7—Amendments to the Classification and Measurement of Financial Instruments Adoption Package

Executive Summary

Project Stage							
IASB	Research / Pipeline	Discussion paper	Redeliberation	Exposure Draft	Redeliberation	Final standard	Post Implementation Review
UKEB	Research / Influencing	Research / Influencing	Monitoring	Influencing	Monitoring	Endorsement	Influencing

Project Scope	Moderate

Purpose of the paper

This paper requests the Board's approval of the individual documents included as part of the 'adoption package' for the project to assess *Amendments to IFRS 9 and IFRS 7—Amendments to the Classification and Measurement of Financial Instruments* (the Amendments) for adoption.

The documents included in the adoption package are:

- the [draft] Final Endorsement Criteria Assessment (ECA);
- the [draft] Feedback Statement;
- the [draft] Due Process Compliance Statement;
- the [draft[Adoption Statements for the Amendments; and
- the [draft] text of the UK-adopted international accounting standards (*Amendments to IFRS 9 and IFRS 7—Amendments to the Classification and Measurement of Financial Instruments*).

This paper also asks board members to provide a tentative vote on the adoption of the Amendments.

Summary of the Issue

In September 2024, the UKEB published a DECA that tentatively concluded that the Amendments meet the adoption criteria set out in legislation. Seven formal responses to the DECA consultation were received. A summary of the feedback received, along with recommended changes to the ECA wording, was discussed by the Board in

February 2025. The [draft] ECA presented in this pack reflects the actions agreed at the February meeting.

The amendments to IFRS 19 *Subsidiaries without Public Accountability: Disclosures*, included in the Amendments, will be considered for adoption at a future date as part of the UKEB's assessment work for the adoption of IFRS 19 as a whole. Accordingly, the amendments to IFRS 19 have not been considered as part of this adoption assessment.

A tentative vote on the adoption of the Amendments will be held at this meeting. Voting forms for the formal written vote will be sent to Board members in April 2025. The result of that formal vote, when completed, will be updated on the UKEB website, in line with the Board's terms of reference.

Decisions for the Board

1. Subject to any changes identified at this meeting, does the Board approve the documents forming the Adoption package?

2. Does the Board tentatively approve the adoption of the Amendments to IFRS 9 and IFRS 7 for use in the UK?

Recommendation

The Secretariat recommends the Board:

1. approves the relevant documents in the adoption package; and
2. tentatively approves the adoption of the Amendments to IFRS 9 and IFRS 7 for use in the UK.

Appendices

Appendix A	[Draft] Final Endorsement Criteria Assessment
Appendix B	[Draft] Feedback Statement
Appendix C	[Draft] Due Process Compliance Statement
Appendix D	[Draft] Adoption Statements for the Amendments to IFRS 9 and IFRS 7.
Appendix E	Annex to the Adoption Statement: Text of the UK-adopted international accounting standard *Amendments to IFRS 9 and IFRS 7—Amendments to the Classification and Measurement of Financial Instruments*.

Amendments to IFRS 9 and IFRS 7 – Amendments to the Classification and Measurement of Financial Instruments (Amendments)

The Amendments are a response to feedback received by the IASB in relation to:

- The potential effect on financial liabilities of a Tentative Agenda Decision made by the IFRS Interpretations Committee regarding the treatment of cash received by electronic transfer as settlement for a financial asset.
- Certain matters arising from the Post-implementation Review of IFRS 9 – Classification and Measurement (the PIR).

Proposed amendments to address the feedback 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). Prior to issuing the final Amendments in May 2024, the IASB made changes to certain proposals in response to feedback received during the ED consultation.

The UKEB actively influenced the development of the Amendments by responding to the PIR in January 2022, and responding to the consultation on the ED in July 2023.

A summary of key amendments is presented below.

IFRS 9 recognition and derecognition

- 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.
- Provides a new alternative to the use of settlement date for the derecognition of financial liabilities if certain criteria are satisfied.

IFRS 9 classification of financial assets

- 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.
- Provides improved guidance for the classification of assets with non-recourse features and contractually linked instruments.

IFRS 7 disclosure

- Requires additional disclosure of gains or losses on the fair value of investments in equity instruments that have been designated at fair value through other comprehensive income.
- Requires qualitative and quantitative disclosures for financial assets and liabilities with contingent features.

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Endorsement of the Amendments

UKEB endorsement project

1. At its June 2024 meeting, the UKEB approved a Project Initiation Plan for the endorsement project on *Amendments to IFRS 9 and IFRS 7—Amendments to the Classification and Measurement of Financial Instruments* (the Amendments).

2. At its September 2024 meeting, the UKEB approved the Draft Endorsement Criteria Assessment (DECA) for the Amendments for stakeholder consultation. The DECA sets out the UKEB's provisional assessment of whether the Amendments meet the UK's statutory requirements for adoption. The DECA was published on 26 September 2024 and was open for comment until 10 January 2025.

3. At its February 2025 meeting the UKEB discussed the feedback received during the DECA consultation.

Scope of the adoption assessment

4. The Amendments make related amendments to the mandatory[1] parts of IFRS 7 *Financial Instruments: Disclosures* and IFRS 9 *Financial Instruments* and to Application Guidance that is an integral part of IFRS 9. These changes to the mandatory parts of the Standards form part of the UKEB's adoption assessment.

5. The Amendments also include an amendment to IFRS 19 *Subsidiaries without Public Accountability: Disclosures,* which will be considered for adoption at a future date as part of the UKEB's assessment work for the adoption of IFRS 19 as a whole. Accordingly, the amendments to IFRS 19 have not been considered as part of this adoption. If IFRS 19 is endorsed for use in the UK, the effective date will be set out in the relevant adoption statement.

6. The Amendments also include amendments to the Implementation Guidance for IFRS 7 and the Bases for Conclusions that accompany IFRS 7 and IFRS 9 but do not form part of them. These have not been included as part of the UKEB's assessment as UK-adopted international accounting standards comprise only the mandatory sections of standards.

[1] The introduction to the IASB's yearly bound volumes differentiates between mandatory and non-mandatory sections of the standards. Mandatory pronouncements relate to IFRS Standards, IAS Standards, Interpretations and Mandatory Application Guidance. These are UK-adopted international accounting standards. Non-mandatory guidance includes Bases for Conclusion, Dissenting Opinions, Implementation Guidance and Illustrative Examples, together with the IFRS Practice Statements. These are not adopted by the UKEB as they are not international accounting standards, as defined in SI 2019/685.

Project closure

7. In accordance with the UKEB's Due Process Handbook paragraph 6.30, the project closure process for endorsement projects comprises the following steps:

   a) preparation of an 'adoption package' for the Amendments; and

   b) voting on the adoption of the amended standard.

Adoption package

8. The Secretariat has completed the work on the assessment of the Amendments. The Board is therefore asked whether it has any comments on the documents which, in accordance with paragraph 6.31 of the Due Process Handbook, form the adoption package for the Amendments:

   a) the Final ECA (Appendix A);

   b) the Feedback Statement (Appendix B);

   c) the draft Due Process Compliance Statement (Appendix C);

   d) the Adoption Statements for the Amendments (Appendix D); and

   e) the Annex to the Adoption Statement: the text of the UK-adopted international accounting standards (Appendix E).

Decision for the Board
1. Subject to any changes identified at this meeting, does the Board approve the documents identified in paragraph 9 above?

Voting on the adoption of the Amendments

9. Decisions on the adoption of a standard or amendments are made at public Board meetings and follow the requirements of paragraphs 5.2-5.5 of the UKEB's Terms of Reference (ToR).

10. In line with the ToR and paragraphs 6.42-6.44 of the Due Process Handbook, at this meeting Board members are asked to provide a tentative vote on the adoption of the Amendments based on the information included in the adoption package.

11. The written forms for the formal vote will be sent to Board members in April 2025. The result of that formal vote, when completed, will be updated on the UKEB website in line with the Board's ToR.

Decision for the Board
2. Does the Board tentatively approve the adoption of the Amendments to IFRS 9 and IFRS 7 for use in the UK?

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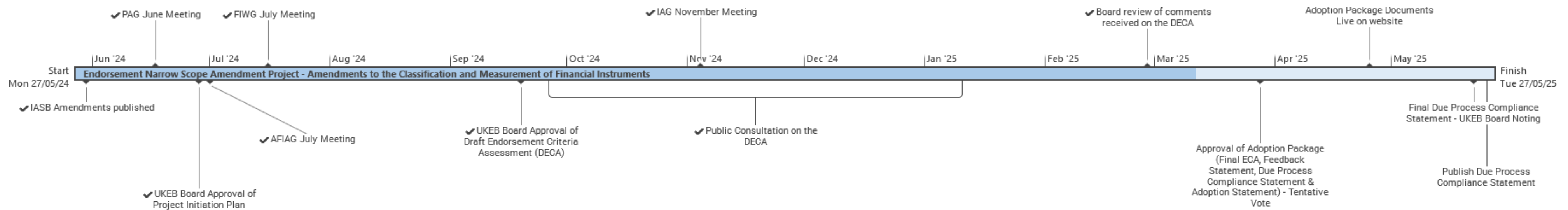
Amendments to the Classification and Measurement of Financial Instruments (effective date 1 January 2026*) – Endorsement timeline



* 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.

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Endorsement Criteria Assessment

Amendments to IFRS 9 and IFRS 7 — Amendments to the Classification and Measurement of Financial Instruments

March 2025

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Introduction

Purpose

1. The purpose of this Endorsement Criteria Assessment (ECA) is to determine whether the *Amendments to IFRS 9 and IFRS 7—Amendments to the Classification and Measurement of Financial Instruments* (the Amendments) issued by the International Accounting Standards Board (IASB) in May 2024 meet the UK's statutory requirements for adoption as set out in Regulation 7 of Statutory Instrument 2019/685[1] (SI 2019/685).

2. The Amendments have an effective date of 1 January 2026 with earlier application permitted.

3. The UKEB actively influenced the development of the Amendments. This included submitting a Final Comment Letter on 19 July 2023[2] in response to the IASB's Exposure Draft *Amendments to the Classification and Measurement of Financial Instruments—Proposed amendments to IFRS 9 and IFRS 7*[3].

Background to the Amendments

4. Section 2 in this ECA provides a brief description of the Amendments.

Scope of the adoption assessment

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5. The Amendments make changes to the mandatory parts of IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures*. These changes to the mandatory parts of the standards form part of the UKEB's adoption assessment.

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1 The International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019 No. 685 (SI 2019/685).

2 UKEB Final Comment Letter – Amendments to the Classification and Measurement of Financial Instruments.

3 Exposure Draft: Amendments to the Classification and Measurement of Financial Instruments.

6. UK-adopted international accounting standards comprise only the mandatory[4] sections of standards[5]. The amendments to the Implementation Guidance of IFRS 7, and to the Bases for Conclusions of IFRS 9 and IFRS 7 are not adopted by the Board and are not considered in this ECA.

7. The Amendments include an amendment to IFRS 19 *Subsidiaries without Public Accountability: Disclosures* which will be considered for adoption at a future date as part of the UKEB's assessment work for the adoption of IFRS 19 as a whole. Accordingly, the amendments to IFRS 19 have not been considered as part of this adoption.

8. If IFRS 19 is endorsed for use in the UK the effective date will be set out in the relevant adoption statement.

Structure of the assessment

9. The UKEB's analysis is presented in the following sections:

   a) **Section 1:** describes UK statutory requirements for adoption of new or amended international accounting standards; and

   b) **Section 2:** discusses how the Amendments meet the criteria in Section 1.

Do the Amendments lead to a significant change in accounting practice?

10. A standard adopted by the UKEB under Regulation 6 of SI 2019/685 that it considers is likely to lead to a 'significant change in accounting practice', is subject to the requirements in paragraph 3 of Regulation 11 of SI 2019/685 that the UKEB:

> "(a) carry out a review of the impact of the adoption of the standard; and
>
> (b) publish a report setting out the conclusions of the review no later than 5 years after the date on which the standard takes effect (being the first day of the first financial year in respect of which it must be used)".

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[4] The introduction to the IASB's yearly bound volumes differentiates between mandatory and non-mandatory sections of the standards. Mandatory pronouncements relate to IFRS Standards, IAS Standards, Interpretations and Mandatory Application Guidance. These are UK-adopted international accounting standards. Non-mandatory guidance includes Bases for Conclusion, Dissenting Opinions, Implementation Guidance and Illustrative Examples, together with the IFRS Practice Statements. These are not adopted by the UKEB as they are not international accounting standards, as defined in SI 2019/685.

[5] The term 'standard' is used to refer to amendments to international accounting standards, in line with the definition of 'international accounting standards' in SI 2019/685, which includes 'subsequent amendments to international accounting standards'.

11. **Section 2** of the ECA discusses whether the Amendments lead to a significant change in accounting practice and concludes that they do not.

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Section 1: UK statutory requirements for adoption

UK statutory requirements

1.1 Paragraph 1 of Regulation 7 of SI 2019/685 requires that an international accounting standard only be adopted if:

> “(a) the standard is not contrary to either of the following principles—
>
> i. an undertaking’s accounts must give a true and fair view of the undertaking’s assets, liabilities, financial position and profit or loss;
>
> ii. consolidated accounts must give a true and fair view of the assets, liabilities, financial position and profit or loss of the undertakings included in the accounts taken as a whole, so far as concerns members of the undertaking;
>
> (b) the use of the standard is likely to be conducive to the long term public good in the United Kingdom; and
>
> (c) the standard meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.”

1.2 This ECA assesses the criteria above in the following order:

a) Whether the Amendments meet the criteria of relevance, reliability, understandability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management (Regulation 7(1)(c)).

b) Whether the Amendments are not contrary to the principle that an entity’s accounts must give a true and fair view (Regulation 7(1)(a)).

c) Whether use of the Amendments is likely to be conducive to the long term public good in the UK (Regulation 7(1)(b)). Regulation 7(2) of SI 2019/685 includes specific areas to consider for this assessment. They are:

i. whether the Amendments are likely to improve the quality of financial reporting;

ii. the costs and benefits that are likely to result from the use of the Amendments; and

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iii. whether the Amendments are likely to have an adverse effect on the economy of the UK, including on economic growth.

Relevance, Reliability, Understandability and Comparability[6]

1.3 Information is **relevant** if it is capable of making a difference in the decision-making of users[7] or in their assessment of the stewardship of management. The information may aid predictions of the future, confirm or change evaluations of the past, or both.

1.4 Financial information is **reliable** if, within the bounds of materiality, it:

a) can be depended on by users to represent faithfully what it either purports to represent or could reasonably be expected to represent;

b) is complete; and

c) is free from material error and bias.

1.5 Financial information should be readily **understandable** by users with a reasonable knowledge of business and economic activities and accounting, and a willingness to study the information with reasonable diligence.

1.6 Information is **comparable** if it enables users to identify and understand similarities in, and differences among, items. Information about an entity should be comparable with similar information about other entities and with similar information about the same entity for another period.

1.7 In conducting the overall assessment against the technical accounting criteria, the UKEB is required to adopt an absolute, rather than a relative, approach. This means that this assessment is an absolute one against the criteria (do the Amendments provide information that is understandable, relevant, reliable and comparable?) rather than a relative one (do the Amendments provide information that is more understandable, relevant, reliable and comparable than current, or any other, accounting?). When an assessment of any individual aspect or requirement of the Amendments uses comparative language (e.g. 'enhances comparability'), this does not mean that the objective is to reflect a real comparison in relative terms. Instead, the objective is to explain that any individual aspect or requirement of the Amendments has the potential to 'enhance' one or more of the qualitative characteristics. Consideration of whether the Amendments are likely to improve

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6 These descriptions are based on the qualitative characteristics of financial statements in the *Framework for the Preparation and Presentation of Financial Statements* adopted by the IASB in April 2001. These qualitative characteristics became part of the criteria for endorsement and adoption of IFRS in the EU's IAS Regulation (1606/2002), and, subsequently, in SI 2019/685.

7 In the *Framework for the Preparation and Presentation of Financial Statements* adopted by the IASB, the users of financial reports include present and potential investors, employees, lenders, suppliers and other trade creditors, customers, governments and their agencies and the public. While the UK has not adopted this *Framework*, in this document 'users' is taken to have a similar meaning.

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the quality of financial reporting is separate from this assessment and is included within the UK long term public good assessment in Section 2.

True and fair view assessment

1.8 As noted above, the first adoption criterion set out in Regulation 7(1) of SI 2019/685 requires that an international accounting standard can be adopted only if:

> "[….] the standard is not contrary to either of the following principles—
>
> an undertaking's accounts must give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss;
>
> consolidated accounts must give a true and fair view of the assets, liabilities, financial position and profit or loss of the undertakings included in the accounts taken as a whole, so far as concerns members of the undertaking; [….]"

1.9 For the sake of brevity, the UKEB refers to the assessment against this endorsement criterion as 'the true and fair view assessment' and to the principles set out in Regulation 7(1)(a) as the 'true and fair principle'. However, these abbreviated expressions do not imply that the assessment has considered anything other than the full terms of the endorsement criterion set out above.

1.10 The duty of the UKEB under Regulation 7(1)(a) is to determine generically, before a standard is applied to a set of accounts, whether that standard is 'not contrary' to the true and fair principle. In other words, it is an ex-ante assessment. The UKEB has therefore considered whether the Amendments contain any requirement that would prevent accounts prepared using the Amendments from giving a true and fair view.

1.11 The approach is to determine whether the Amendments are not contrary to the true and fair principle in respect of any of the specific items identified in Regulation 7(1)(a) (namely, the assets, liabilities, financial position and profit or loss) in the context of the preparation of the accounts as a whole. A holistic approach has been taken to this assessment, considering the impact of the Amendments taken as a whole, including their interaction with other UK-adopted international accounting standards.

1.12 For the purposes of the assessment, the UKEB considers the requirement in paragraph 15 of IAS 1 *Presentation of Financial Statements* for financial statements to 'present fairly the financial position, financial performance and cash flows of an entity' to be equivalent to the Companies Act 2006 requirement for accounts to give a true and fair view.

1.13 This assessment is separate from the duty of directors under section 393(1) of the Companies Act 2006, which requires directors to be satisfied that a specific set of accounts gives a true and fair view of an undertaking's or group's assets, liabilities, financial position and profit or loss.

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Adoption decision

1.14 **Section 2** of this ECA discusses how the Amendments meet the statutory endorsement criteria set out in this **Section 1**.

1.15 On the basis of these assessments the UKEB concludes that the Amendments meet the statutory endorsement criteria. The UKEB is therefore of the view that it will adopt the Amendments to IFRS 9 and to IFRS 7 for use in the UK.

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2. Section 2: Description and assessment of the Amendments

Title and issue date of final amendments

2.1 *Amendments to IFRS 9 and IFRS 7—Amendments to the Classification and Measurement of Financial Instruments*, issued on 30 May 2024.

Origin

2.2 The Amendments were a response to feedback received by the IASB in relation to:

a) The potential effect on financial liabilities of a Tentative Agenda Decision made by the IFRS Interpretations Committee regarding the treatment of cash received by electronic transfer as settlement for a financial asset.

b) Certain matters arising from the Post implementation Review of IFRS 9 – Classification and Measurement (PIR) including:

i. Application of the requirements for assessing contractual cash flow characteristics to financial assets with environmental, social and governance (ESG) linked features.

ii. Clarification of the application of the contractual cash flow assessment to contractually linked instruments.

iii. Disclosure of fair value changes for equity instruments presented at fair value in other comprehensive income.

2.3 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 stakeholder feedback prior to issuing the final Amendments.

Effective date and transition

2.4 The Amendments are effective for annual reporting periods commencing on or after 1 January 2026. Early application is permitted. It is also permitted to apply early only the Amendments to the requirements for the classification of financial assets (and associated disclosures) without applying the other Amendments to the standards.

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2.5 The Amendments to IFRS 9 are to be applied retrospectively. However, entities are not required to restate prior periods to reflect the application of the Amendments.

Consequential amendments

2.6 The Amendments do not give rise to consequential amendments to other standards.

Assessment of the UK statutory requirements for adoption

Technical accounting criteria assessment

2.7 For clarity of analysis, the technical accounting criteria assessment of the Amendments will be considered in three sections as follows:

a) IFRS 9 - Recognition and derecognition.

b) IFRS 9 - Classification of financial assets.

c) IFRS 7 - Disclosures.

2.8 For the purposes of this analysis the terms relevance, reliability, understandability and comparability are as described in paragraphs 1.3 - 1.6 of this document.

A. Amendments to IFRS 9 – Recognition and derecognition	
What has changed?	The new paragraph B3.1.2A provides clarification of the date of initial recognition or derecognition of financial assets and financial liabilities. **Financial assets** The recognition and derecognition criteria for financial assets in paragraph B3.1.2A are consistent with the existing requirements of IFRS 9 paragraphs 3.1.1and 3.2.3. Including these concepts in the Application Guidance provides additional context and clarity to that guidance. However, as this change reflects the concepts already present in paragraphs 3.1.1 and 3.2.3 ~~The new paragraph therefore introduces no change for financial assets, so~~ this aspect of the Amendments is not considered further in the following analysis.

A. Amendments to IFRS 9 – Recognition and derecognition

Financial liabilities

Recognition

Paragraph B3.1.2A states that the entity shall recognise a financial liability on the date on which the entity becomes party to the contractual provisions of the instrument. This is consistent with the existing requirement at IFRS 9 paragraph 3.1.1. Including these concepts in the Application Guidance provides additional context and clarity to that guidance. However, as this change reflects the concepts already present in paragraph 3.1.1 ~~The new paragraph therefore introduces no change in respect of the recognition of financial liabilities, so~~ this aspect of the Amendments is not considered further in the following analysis.

Derecognition

Paragraph B3.1.2A provides clarification that the point of derecognition for financial liabilities is the settlement date. It explains that the settlement date is the date on which the liability "is extinguished because the obligation specified in the contract is discharged or cancelled or expires", or in some other way qualifies for derecognition. This explanation is consistent with the existing requirement in IFRS 9 paragraphs 3.3.1 and 3.3.2, therefore the introduction of the term settlement date acts as a clarification of existing requirements, rather than creating new requirements.

The new paragraphs B3.3.8 – B3.3.10 describe a new alternative to the use of settlement date for the derecognition of financial liabilities settled in cash using an electronic payment system. In such cases the liability may be deemed to be discharged, and hence derecognised, if it meets certain criteria including:

- the entity issued a payment instruction which resulted in the entity having no practical ability to withdraw, stop or cancel the payment;
- the entity has no practical ability to access the cash to be used for payment; and
- the settlement risk of the payment system is insignificant.

If the alternative is used, it shall be applied to all payments made using that payment system.

A. Amendments to IFRS 9 – Recognition and derecognition	
Technical criteria assessment	
Relevance and reliability	The clarification that settlement date should be used for the derecognition of financial liabilities is relevant to decisions made by users, as it provides information to allow users to understand the outstanding liabilities and the cash position of the entity. Derecognising the liability only when it is extinguished creates reliable information as it reflects the underlying economics of the transaction. The new alternative permits derecognition of liabilities at a different time to the settlement date, for payments made using an electronic payment system that meet certain criteria. This is a practical expedient that acknowledges that electronic payments are typically quicker and have different characteristics than traditional payment methods. For example, when using a payment system with low settlement risk, once the payment instruction is sent and the funds can longer be accessed nor the payment cancelled, the liability can in effect be viewed as discharged. The qualifying criteria in paragraph 3.3.8 act to ensure that derecognition does not take place while the payment is still uncertain. This therefore also results in relevant information that allows users to understand the outstanding liabilities and cash position of the entity.
Understandability	Continuing to recognise a financial liability until such time as it is extinguished by being paid, cancelled or it expires aligns with when a user would expect a liability to be extinguished. Hence the clarification that this criterion be used for derecognition helps ensure the presentation of information that is understandable for users. The criteria for the application of the alternative to settlement date helps clarify the timing of derecognition for liabilities settled using electronic cash payments.
Comparability	The clarification highlights that derecognition should take place at settlement date. This clarity will reduce diversity in practice, resulting in greater consistency in financial reporting, and improve its comparability. However, the Amendments have also introduced an alternative method, with a different point of derecognition when using electronic cash payments which meet certain criteria. This means certain entities could derecognise the liability at different times, depending on whether or not the alternative method is used. Practices could

A. Amendments to IFRS 9 – Recognition and derecognition	
	also vary within entities, if some payment systems used qualify for the alternative method while others do not. The introduction of the alternative might create a risk to consistency, and therefore comparability. However: a. The qualifying criteria to use the alternative create clear and consistent limitations as to the circumstances in which the alternative can be used. This means that if a payment system fails to meet the criteria for one entity, it should fail for all entities, mitigating risks of inconsistency. b. As these requirements affect the accounts only for transactions which take place a few days prior to reporting period end, any inconsistency arising from use of the alternative may, in many cases, be immaterial. c. The alternative applies only to financial liabilities. A liability settled via electronic payment may be derecognised prior to the cash being received and accounted for by the payee. However, within organisations, application of a consistent policy will allow for comparability over time. d. This difference in timing between financial assets and financial liabilities may impact intra-group transactions. However, such groups typically have access to the necessary information on when the cash was both paid and received, to ensure the individual entity and group accounts accurately reflect the underlying transaction and that practical challenges on consolidation can be overcome. **Transition requirements** The restatement of comparative information is not required by the Amendments. This can potentially impair comparability in the transition year, as the historic transactions may be recorded on a different basis to the current year transactions, disrupting trend analysis on that entity. However, given the transactions potentially affected by the Amendments are those balances paid shortly before reporting period end and expected to settle within a few days of the initial application date, this is likely to have only a minor effect on the presentation of the statement of cash flows in the first reporting period following application of the amendments. Further, comparative information will be provided from the second year of implementation.

B. Amendments to IFRS 9 - Classification of financial assets.	
What has changed?	In summary, the Amendments: • Add paragraph B4.1.8A to clarify that the assessment of the elements of interest focuses on what an entity is being compensated for, rather than how much compensation it receives. However, it notes the amount of compensation may indicate the entity is being compensated for something other than a basic lending risk or cost, and provides examples of instruments inconsistent with basic lending. • Amend paragraph B4.1.10 to specify that cash flows related to the contingent event must move in the same direction as the change in the basic lending risk or cost. When analysing contractual cash flows, all cash flows that could arise before or after the contingent event should be considered, irrespective of the probability of the change in contractual cash flows occurring. • Add paragraph B4.1.10A to acknowledge that some contingent features give rise to cash flows that are consistent with basic lending arrangements both before and after the contingent event. However, if the contingent event itself does not relate directly to a change in basic lending risks or costs, then a further requirement must be met. In such cases, entities must determine if, in all contractually possible scenarios, the cash flows are not significantly different to the cash flows on an otherwise identical financial instrument without a contingent feature. This analysis may be qualitative or quantitative depending on the circumstances. • Add paragraphs B4.1.16A and amend paragraphs B4.1.16 and B4.1.17 to more clearly define non-recourse features. This includes clarifying that the effect of other arrangements, such as subordinated debt or equity instruments issued by the debtor, should be considered in the assessment. • Add paragraph B4.1.20A and amend paragraphs B4.1.20 and B4.1.21 to more clearly define contractually linked instruments. The Amendments also clarify that the contractually linked requirements may not need to be applied to contractually linked transactions involving only a structured entity, its sponsoring entity and a creditor, subject to meeting certain criteria. • Amend paragraph B4.1.23 to clarify that, for contractually linked instruments, instruments in the underlying pool can include financial instruments not within the scope of the classification requirements, if they have payments equivalent to solely payment of principal and interest (for example certain leases).

B. Amendments to IFRS 9 - Classification of financial assets.	
Technical criteria assessment	
Relevance and reliability	The ability to appropriately classify instruments as measured at amortised cost or fair value is relevant as the resulting classification provides users with: information about the underlying nature of the transaction, the measurement approach used, and the specific disclosures most relevant to that type of instrument. In the case of the amortised cost classification this includes information on net interest income and expected credit losses, which are relevant to allowing users to assess the performance of the underlying asset portfolio. The improved clarity provided by the Amendments is expected to reduce the risk of misclassification, resulting in more reliable information.
Understandability	As noted above, the ability to classify basic lending instruments as measured at amortised cost results in the disclosure of information that enables users to understand the performance of the instrument. Further, the new disclosures created by the Amendments provide additional information about the nature of those instruments, which is expected to further improve understandability (this is discussed in Section C below).
Comparability	The clarification of the concepts of basic lending, solely payments of principal and interest, and other matters pertaining to classification provide a clearer path to assess whether financial instruments with contingent features should be classified as measured at amortised cost or at fair value. Where instruments have similar characteristics, this clarity facilitates consistency in classification, and therefore results in greater comparability. **Transition requirements** Retrospective application of the Amendments, as required by the transition requirements, generally enhances comparability as it enables users to compare entities' financial position across financial reporting periods and across reporting entities. The restatement of comparative information is not required by the Amendments. This can potentially impair comparability in the transition year, as the historic data may be classified on a different

B. Amendments to IFRS 9 - Classification of financial assets.	
	basis to the current year data and disrupt trend analysis on that entity. However, this is only relevant to the extent that classification under the existing requirements would be different to that achieved under the Amendments. We understand that the Amendments are not expected to lead to widespread reclassifications of existing instruments. Further, the Amendments require entities to disclose information about the measurement of the financial assets immediately before and after the Amendments are applied. Accordingly, we expect the transition requirements to have a largely neutral effect on comparability.

C. Amendments to IFRS 7: Disclosure.	
What has changed?	**Investments in equity instruments designated at fair value through other comprehensive income** The Amendments require additional disclosure of fair value information for equity investments designated at fair value through other comprehensive income (FVOCI). This includes showing separately the fair value gain or loss on instruments derecognised during the period, and those retained at period end. Transfers of cumulative gain or loss are also required to be disclosed for instruments derecognised during the reporting period. **Instruments with contingent features** The Amendments require additional disclosure to assist users understand the effect of contractual terms that could change the amount of contractual cash flows, based on the occurrence (or non-occurrence) of a contingent event which is not related to basic lending risks or costs. The disclosures apply to financial assets and financial liabilities measured at amortised cost, and for financial assets meased at fair value through other comprehensive income. The additional disclosures include information on the nature of the contingent event, the amount of financial assets or liabilities subject to contingent events, and quantitative information on possible changes to cash flows that could arise as a result of the contingent event.

C. Amendments to IFRS 7: Disclosure.	
Technical criteria assessment	
Relevance and reliability	**Investments in equity instruments designated at fair value through other comprehensive income** The additional disclosures for investments in equity instruments designated at FVOCI (the investments) required by the Amendments are relevant to users of accounts as the increased transparency will enhance their ability to understand the fair value of such investments, and in particular distinguish between the fair value gain or loss from investments disposed of during the period and those that are retained at the end of the reporting period. This information is relevant to users of accounts as it provides additional information to assist users consider entities' current and future investment performance. **Instruments with contingent features** The increased transparency arising from the Amendments will enhance users' ability to assess the impact on the entity's cash flows should a contingent event occur. Further, the disclosure of information on the nature of such contingent features, and the quantum of such instruments held, may assist users of accounts in assessing whether such variability aligns to their investment (or other) objectives, and risk appetite.
Understandability	**Investments in equity instruments designated at fair value through other comprehensive income** The additional disclosures required by the Amendments will permit users of accounts to understand which of the fair value gains and losses reported relate to investments disposed of during the period, and the amount of gains or losses that relate to investments retained by the entity at the end of the reporting period. **Instruments with contingent features** The Amendments will increase transparency and enable users of accounts to understand whether an entity has exposure to instruments with contingent features, and any potential resulting impact on contractual cash flows. This will increase user understanding of the types of instruments held by an entity and of the potential future impact on cash flows arising from such instruments. As the Amendments allow entities to determine an appropriate level of aggregation, and to assess whether further information is

C. Amendments to IFRS 7: Disclosure.	
	necessary to allow users to evaluate the quantitative information presented, information can be presented in a way most helpful to provide users of accounts an understanding of that specific organisation. Discretion as to the level of aggregation can help entities avoid unnecessarily voluminous information that may obscure more useful information for users.
Comparability	**Investments in equity instruments designated at fair value through other comprehensive income** The Amendments provide users of accounts with greater granularity of the profits or losses reported for the investments. This provides the opportunity for more detailed comparisons to be made between entities, or within an entity over time. **Instruments with contingent features** The Amendments enhance comparability by requiring entities with assets or liabilities with contingent features to provide information on the quantum of such instruments, and the potential financial impact from changes arising due to these contractual terms. This will allow users of accounts to compare the potential impact of such contractual terms across multiple entities, and from one reporting period to another. Without this new disclosure it is difficult for such comparisons to be made. **Transition requirements** Retrospective application of the Amendments' transition requirements is expected to aid consistency and comparability as the new disclosures apply to all relevant financial instruments held by the organisation, not just those acquired or originated subsequent to the implementation date of the Amendments. The restatement of comparative information is not required by the Amendments. This can potentially impair comparability in the transition year, as the new disclosures will not be presented for historic information. However, this will not disrupt existing trend analysis as this is the first time the information has been published, and comparative information will be provided from the second year of implementation.

Technical accounting criteria assessment conclusion

2.9 Overall, the UKEB concludes that the Amendments meet the criteria of relevance, reliability, understandability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management, as required by Regulation 7(1)(c) of SI 2019/685.

True and fair view assessment

2.10 As discussed above, overall the Amendments meet the technical accounting criteria of relevance, reliability, understandability, and comparability of financial information. Reliability includes the notion of faithful representation of the economic substance of transactions and events. The technical accounting criteria assessment underpins the overall true and fair view assessment.

2.11 The assessment has not identified any requirement of the Amendments, either alone or in conjunction with international accounting standards adopted for use in the UK, that would prevent individual or group accounts prepared using the Amendments from giving a true and fair view of the undertaking's or group's assets, liabilities, financial position and profit or loss. The UKEB is satisfied, therefore, that the circumstances in which the application of the Amendments would result in accounts which did not give a true and fair view would be extremely rare.

2.12 Overall, the UKEB concludes that the Amendments are not contrary to the true and fair view principle set out in Regulation 7(1)(a) of SI 2019/685.

UK long term public good assessment

UK long term public good	
Description of entities that will be impacted	There are currently approximately 1,400 entities with equity listed on the London Stock Exchange (LSEG) that prepare their financial statements in accordance with UK-adopted international accounting standards.[8] In addition, UK law allows unlisted companies the option to use UK-adopted international accounting standards and approximately 14,000 such companies currently take up this option.[9] The different elements of the Amendments are each likely to affect different instruments and transactions, thus not impacting all companies in the same way.

8 UKEB calculation based on LSEG and Eikon data, December 2024. This calculation includes companies listed on the Main market as well as on the Alternative Investment Market (AIM). Companies that function as investment vehicles (funds and trusts, REITS) are included in the count.

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

UK long term public good	
	Recognition and derecognition The clarification in the new paragraph B3.1.2A of IFRS 9 and the provision of a new alternative to the use of settlement date for the derecognition of certain financial liabilities (new paragraphs B3.3.8-B3.3.10 in IFRS 9) will be relevant to all companies that apply UK-adopted International Accounting Standards. **Classification of financial instruments** The Amendments in paragraphs B4.1.8A, B4.1.10, B4.1.10A of IFRS 9 mainly affect companies that offer financial instruments with contingent features, such as sustainability-linked loans (SLLs). A SLL is a loan whereby an economic outcome is linked to the sustainability performance of the borrower. For example, if the borrower meets certain ESG targets tailored for that company, the interest payable on the loan will reduce. There is evidence that, among loans with contingent features, SLLs in particular are increasingly prevalent globally.[10] A review of the literature and stakeholder engagement revealed no estimates of the value of this market in the UK; however, the prevalence of SLLs seems to be growing, as noted in a letter published by the Financial Conduct Authority.[11] Research on UK companies' annual reports suggested that they are widely using SLLs. However, the disclosures often put together various types of ESG finance products (such as green lending – funding tied to specific projects – and ESG-linked bonds) making it often impossible to isolate the prevalence of SLLs.[12] It was therefore not possible to estimate the prevalence or value of these specific contracts in the UK. However, UKEB research and stakeholder engagement suggest that the value of SLLs on UK banks' balance sheets is in the range of tens of GBP billions. The other amendments to IFRS 9 relating to classification of financial instruments mainly affect companies with financial

10 The Principles for Responsible Investment, a UN-backed network of investors, suggest that the market was worth USD 322 billion as of 2021, up from just USD 6 billion in 2016. See https://www.unpri.org/pri-blog/sustainability-linked-loans-a-strong-esg-commitment-or-a-vehicle-for-greenwashing/10243.article

11 See https://www.fca.org.uk/publication/correspondence/sll-letter-june-2023.pdf

12 For example, in their 2023 annual report, HSBC noted that "On-balance sheet sustainable lending transactions increased by 7% compared with 2022" (page 49, TCFD disclosures). However, they reported a figure that puts together sustainable lending and ESG-bonds underwriting, making it impossible to isolate the prevalence of SLLs.

UK long term public good	
	instruments with non-recourse features or contractually linked instruments. In-house research and stakeholder engagement revealed that no known UK estimates of the number or value of such instruments exist, or the number of entities holding them. It was therefore not possible to estimate the prevalence or value of these contracts in the UK.[13] However, we note that the Amendments are unlikely to affect a wide range of entities in the UK. As the changes affect only the entities holding the assets, the impact of the changes will largely be focused on the banking and financial services sector. Organisations in this sector are typically sophisticated organisations, well equipped to cope with accounting change. **Disclosure** The amendments to IFRS 7 will affect: a. Entities with equity instruments designated at fair value through other comprehensive income. Stakeholder engagement and an analysis of financial statements[14] suggested that these instruments are not very prevalent in the UK. b. Entities with financial assets and financial liabilities measured at amortised cost, or financial assets meased at fair value through other comprehensive income, that have contingent features, the prevalence of which is discussed above.
Do the amendments improve financial reporting?	The Amendments provide further clarity and guidance on accounting for the recognition and derecognition of financial instruments, and for accounting for the classification and measurement of financial assets, particularly those with contingent features. This is expected to improve financial reporting by driving greater consistency of application. Additionally, further disclosure requirements, particularly for financial instruments with contingent features, will assist users of financial accounts in understanding the characteristics and potential effect on the financial accounts of these instruments.

13 A keyword search on annual reports performed on the Sentieo platform returned scant and non-conclusive evidence on the prevalence of these instruments among UK entities.

14 The 2023 annual reports of Barclays, Lloyds Bank, Santander, Natwest and HSBC were analysed. Of those, only two had equity instruments designated at fair value through other comprehensive income, recording a total fair value loss of less than £150m. The UKEB considers this amount to be relatively low compared with these companies' operations or assets.

UK long term public good	
	As discussed above in the technical accounting criteria assessment, overall the Amendments are expected to meet the criteria of relevance, reliability, understandability and comparability. Consequently, it is expected that the Amendments will improve financial reporting.
Costs for preparers and users	Given that the amendments are narrow in scope, the UKEB conducted a proportionate level of stakeholder engagement, primarily through its advisory and working groups, and consultation on the draft assessment to estimate the costs likely to be incurred by preparers and users of financial statements. The assessment is qualitative in nature.[15] **Preparers' costs** **Recognition and derecognition** The costs associated with the clarification of the date of initial recognition or derecognition of financial instruments are likely to vary depending on an entity's existing practices and how the clarification is implemented. Stakeholder feedback suggested that entities will need to undertake an exercise to assess existing practices against the clarification but that this was unlikely to result in major systems changes or other significant costs. Depending on the findings of this review, changes to reporting may be required. This may include system changes such as how/when payment system information feeds to the ledger. Depending on the nature and extent of the findings, evidence from stakeholder engagement suggested that this may have a low to medium cost impact, but not constitute a material cost on its own. Entities may also choose to apply the alternative in B3.3.8 if certain criteria are met. Entities wishing to use the new alternative to settlement date would be required to conduct an analysis of the contractual terms of various payment systems to determine if/at what point they meet the necessary criteria. This piece of analysis may lead to low to medium costs based on associated changes to accounting systems, though stakeholders indicated that implementation costs would not be material. Stakeholders

15 Throughout the section the term "material" is used in the financial reporting meaning of the term, i.e., to indicate items that are reasonably likely to impact investors' decision-making.

UK long term public good	
	suggested that this analysis may be undertaken centrally, for example by industry working groups, which would mitigate the cost to any individual entity and drive consistency of practice. To the extent costs are incurred in relation to the Amendments, these are expected to be one off costs around the time of implementation, rather than ongoing costs. **Classification of financial instruments** The amendments are not expected to lead to material additional cost for preparers in relation to either instruments with contingent features or instruments with non-recourse features/contractually linked instruments. **Disclosure** a) **Investments in equity instruments designated at fair value through other comprehensive income** – Such investments are not prevalent in the UK. Accordingly, the additional disclosure requirements for such instruments are not expected to give rise to material change or costs in the UK. b) **Financial instruments with contingent features -** Feedback suggested that entities already hold the necessary data to complete the disclosure, but it may not currently reside within the finance function. This may necessitate an exercise to identify and source the data, involving human resources and potential system changes. This is expected to have low to medium cost implications, with costs scaling depending on the degree of IT systems work chosen. Costs would be primarily incurred at the time of implementation. Material ongoing costs would not be expected post-implementation. **Users' costs** No costs were identified for users of financial statements other than minor familiarisation costs.
Benefits for preparers and users	Given that the amendments are narrow in scope, the UKEB conducted a proportionate level of stakeholder engagement, primarily through its advisory and working groups, and consultation on the draft assessment, to estimate the benefits likely to be reaped by preparers and users of financial statements. The assessment is qualitative in nature. **Recognition and derecognition**

UK long term public good	
	The Amendments clarify the requirements for derecognition. It is expected that some entities already use the approach outlined, while others may need to make changes to align to the Amendments. The clarification is a benefit to users as it is likely to reduce diversity in practice. Additionally, the clarification is a benefit to preparers as: • it reduces uncertainty, therefore helping reduce the risk of incorrect application of the requirements; and • the new alternative may allow preparers to reduce their long term effort and cost (if the requirements for use of the alternative are met), while not damaging the interests of users. The improved clarity is therefore expected to improve relevance, reliability and comparability, largely for the direct benefit of users of accounts. **Classification of financial instruments** The Amendments provide clearer requirements and additional guidance. This reduces the risk of inappropriate classification for preparers, and reduces the risk of diversity in practice for the benefit of users. The Amendments may also remove a barrier to achieving amortised cost accounting for instruments with contingent features, in instances where amortised cost accounting was considered by stakeholders to be the appropriate classification. This benefits users as they will then receive the decision-useful information relevant to basic lending, which would not be provided if the instruments were classified as measured at fair value. This may also benefit preparers, as, in the absence of a liquid reference market, it is often more complex and hence expensive to determine the fair value of an instrument. **Disclosure**

UK long term public good	
	By adding additional disclosures, the Amendments enhance the transparency and decision-usefulness of reporting for the direct benefits of users of accounts.
Whether the amendments are likely to have an adverse effect on the UK economy	The Amendments primarily clarify existing accounting requirements and introduce targeted new disclosures. They are therefore not expected to have any significant wider economic effects beyond the direct impacts on users and preparers discussed above. In terms of potential indirect wider economic benefits we note the Financial Conduct Authority (FCA) recently called for greater transparency on SLLs.[16] The Amendments add disclosure requirements for instruments with contingent features, thus enhancing the transparency of financial statements. The additional disclosure is consistent with the FCA's call for greater transparency and is anticipated to have a neutral to minor positive economic effect. As a result, overall the UKEB considers that the Amendments are not likely to have an adverse effect on the UK economy, including on economic growth.

Draft

UK long term public good assessment conclusion

2.13 Having considered all relevant aspects, including the trade-off between the costs and benefits of implementing the Amendments, the UKEB concludes that the use of the Amendments is likely to be conducive to the long term public good in the UK as required by Regulation 7(1)(b) of SI 2019/685.

Do the Amendments lead to a significant change in accounting practice?

2.14 The UKEB is required to assess whether the Amendments are likely to lead to a 'significant change in accounting practice' and therefore meet the criteria for a post-implementation review.

2.15 The Amendments do not fundamentally change the requirements of IFRS 9 or IFRS 7 or introduce new principles. They primarily clarify existing accounting

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16 See https://www.fca.org.uk/news/news-stories/fca-outlines-concerns-about-sustainability-linked-loans-market

requirements. The Amendments also introduce additional disclosure requirements for certain types of financial instruments.

2.16 As a result the UKEB concludes that the Amendments are not likely to lead to a significant change in accounting practice and do not meet the criteria for a post-implementation review under Regulation 11 in SI 2019/685.

Draft

Appendix A: Glossary

Term	Description
The Amendments	*Amendments to IFRS 9 and IFRS 7—Amendments to the Classification and Measurement of Financial Instruments*
ECA	Endorsement Criteria Assessment
ED	Exposure Draft *Amendments to the Classification and Measurement of Financial Instruments—Proposed Amendments to IFRS 9 and IFRS 7.*
EU	European Union
FCA	Financial Conduct Authority
FCL	Final Comment Letter
FVOCI	Fair Value through Other Comprehensive Income
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standard(s)
IFRS 9	IFRS 9 *Financial Instruments*
IFRS 7	IFRS 7 *Financial Instruments: Disclosures*
SI	Statutory Instrument
SLL	Sustainability Linked Lending/Loan
UKEB	UK Endorsement Board

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Feedback Statement

Amendments to IFRS 9 and IFRS 7 – Amendments to the Classification and Measurement of Financial Instruments

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Endorsement Criteria Assessment (ECA)

March 2025

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UK Endorsement Board

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Purpose of this Feedback Statement

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UK Endorsement Board

This Feedback Statement presents the views of UK stakeholders received during the UK Endorsement Board (UKEB)'s consultation on the Draft Endorsement Criteria Assessment (DECA) of *Amendments to IFRS 9 and IFRS 7- Amendments to the Classification and Measurement of Financial Instruments.* Where relevant it explains how the UKEB has addressed those views in the final Endorsement Criteria Assessment (ECA).

The UKEB is the UK's National Standard Setter for IFRS Accounting Standards, responsible for the endorsement and adoption of IFRS Accounting Standards for use in the UK. The UKEB also leads the UK's engagement with the IFRS Foundation on the development of new international accounting standards, amendments and interpretations.

Disclaimer

This Feedback Statement has been produced to set out the UK Endorsement Board's response to stakeholder comments received on the UKEB's DECA on the IASB's *Amendments to IFRS 9 and IFRS 7 - Amendments to the Classification and Measurement of Financial Instruments* 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 Accounting Standards by the UKEB.

Description of the Amendments

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Amendments to the Amendments to IFRS 9 and IFRS 7 - Classification and Measurement of Financial Instruments (the Amendments) were issued by the IASB in May 2024. A summary of the Amendments is presented below.

The Amendments	Key changes
IFRS 9 *Financial Instruments* Recognition and derecognition	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. Also provides a new alternative to the use of settlement date for financial liabilities if certain criteria are satisfied.
IFRS 9 *Financial Instruments* Classification	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.
IFRS 7 *Financial Instruments: Disclosures*	Requires additional disclosure of gains or losses on the fair value of investments in equity instruments that have been designated at fair value through other comprehensive income. Requires qualitative and quantitative disclosures for financial assets and liabilities with contingent features.

The Amendments are effective for annual reporting periods beginning on or after 1 January 2026, with earlier application permitted. It is also permitted to apply early only the Amendments to the requirements for the classification of financial assets (and associated disclosures) without applying the other Amendments to the standard.

The Amendments to IFRS 9 are to be applied retrospectively. However, entities are not required to restate prior periods to reflect the application of the Amendments.

UKEB consultation on the DECA

- Prior to publishing the DECA, discussions were held with regulators and certain UKEB advisory and working groups. Their feedback was incorporated in the DECA.
- Outreach activities following publication of the DECA included:
  - Discussion with the UKEB Investor Advisory Group.
  - Discussions with a regulatory body and an accounting firm.
  - Public consultation on the DECA.
- The DECA was published for consultation for 107 days, between 26 September 2024 and 10 January 2025.
- During the consultation period, the UKEB promoted awareness of the DECA and encouraged stakeholders to respond through News Alerts, LinkedIn posts and the UKEB website.
- In addition to the feedback received during stakeholder discussions, seven formal consultation responses from stakeholders were received.
- These responses were published on the UKEB website.
- All stakeholder comments and views were considered in reaching the UKEB's final assessment of the Amendments.

Stakeholder consultation – post publication of the DECA	
Stakeholder type	Number of stakeholders
UKEB Investor Advisory Group	*
Accounting firms	5
Regulators	1
Professional body	1
Membership body	1

*The UKEB Investor Advisory Group at the time of consultation comprised seven investors from a range of organisations. Further information about that group can be accessed here.

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UKEB and stakeholder views

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UKEB tentative assessment	Stakeholder views*	UKEB final assessment
Technical Accounting Criteria Assessment		
The draft ECA tentatively concluded that the Amendments met the technical criteria assessment, as required by Regulation 7(1) of SI 2019/685.	Six written responses addressed the Technical Accounting Criteria. All six agreed with the UKEB's tentative conclusion. One verbal response recommended that the assessment describing the changes to the recognition and derecognition of financial assets, and the recognition of financial liabilities, should reference the improved clarity provided by the Amendments.	The assessment now observes that the Amendments to the Application Guidance in these areas provide additional context and clarity to the guidance.
True and fair view assessment		
The draft ECA tentatively concluded that the Amendments were not contrary to the true and fair view principle set out in Regulation 7(1) of SI 2019/685.	Six written responses addressed the true and fair view assessment. All six agreed with the UKEB's tentative conclusion.	No changes.

* Respondents were considered to have agreed with the assessment where they had noted this in the relevant Invitation to Comment question, or where they had stated that they support the adoption of the Amendments in the UK.

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UKEB and stakeholder views

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UKEB Tentative Assessment	Stakeholder views*	UKEB final assessment
UK long term public good		
The draft ECA tentatively concluded that the use of the Amendments was likely to be conducive to the long term public good in the UK as required by Regulation 7(1) of SI 2019/685.	Seven written responses addressed the UK long term public good. Six responses agreed with the UKEB's tentative conclusion. One response highlighted the wider environment. It recommended both the Amendments and the principles of the underlying IFRS 9 standard be reviewed in the context of current events, including the Government announcement on the role of regulators with respect to economic growth. It also noted that the impact of the Financial Conduct Authority (FCA)'s proposed Public Offers and Admission to Trading Regulations (POATR) requirements should be considered.	No changes. No changes are made to this section as suggested by the respondent. While the UKEB is a standard-setter, and not a regulator, in accordance with Regulation 7(1) of SI 2019/685 the draft ECA had included assessment of the impact of the Amendments on the long term public good in the UK, including consideration of the effect on economic growth as required by Regulation 7(2) of SI 2019/685. Further analysis was conducted to assess the interaction of the Amendments with the FCA's proposed POATR requirements, however no material overlap or interaction between these requirements was identified.

* Respondents were considered to have agreed with the assessment where they had noted this in the relevant Invitation to Comment question, or where they had stated that they support the adoption of the Amendments in the UK.

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Appendix C: DRAFT Due Process Compliance Statement: Amendments to IFRS 9 and IFRS 7 —Amendments to the Classification and Measurement of Financial Instruments

Title of the Amendments	Issue dates
Amendments to IFRS 9 and IFRS 7—Amendments to the Classification and Measurement of Financial Instruments (the Amendments).	• Exposure Draft ED 2023/2 issued: 21 March 2023 (the ED) • Final Amendments issued: 30 May 2024 Effective for annual reporting periods beginning on or after 1 January 2026. Earlier application is permitted.

Project preparation

Step	Mandatory / optional[1]	Metrics or evidence	UKEB Secretariat comments
Added to the UKEB technical work plan [Due Process Handbook (Handbook) 4.30]	Mandatory	Project is included in the UKEB published technical work plan	**Complete:** the Amendments were included in the UKEB published technical work plan dated 28 June 2024.

[1] In accordance with the Due Process Handbook.

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Step	Mandatory / optional[1]	Metrics or evidence	UKEB Secretariat comments
Project Initiation Plan (PIP) [Handbook 6.12 to 6.16, A1 to A2 and A12 to A14]	Mandatory	PIP, including an outreach plan for stakeholders, communication approach, resource allocation and an assessment of whether to set up an ad hoc advisory group, approved at a UKEB Board public meeting.	**Complete:** The PIP included the purpose, background, proposed outreach activities, milestones and timelines for the project. The resource allocated was 0.5 of a Project Director, along with appropriate support from a Project Manager and from the UKEB Economics team. Taking a proportionate approach, an ad hoc advisory group was not considered necessary. The PIP was approved at the 28 June 2024 Board meeting and published on the UKEB webpage.
	Mandatory	Assessment of whether PIP required updating	**Complete:** The Secretariat monitored this throughout the project, the nature and scope of which remained as proposed in the original PIP.
Education sessions [Handbook 4.10]	Optional	Board provided with Education sessions	**Complete:** The Board was provided with an education session at its 28 June 2024 meeting (private session).

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Desk-based research

Step	Mandatory / optional[1]	Metrics or evidence	UKEB Secretariat comments
Desk-based research [Handbook 6.17 and A3]	Optional	Review of relevant documentation	**Complete:** the Secretariat has reviewed relevant documentation, including: • The IASB's work on the Amendments (including staff papers, the ED, the Amendments); • the Dissenting opinion on effective date of the Amendments; • The Bases for Conclusions for the Amendments; • Comment letters on the ED received by the IASB from UK stakeholders; and • Previous work done by the UKEB on the preceding Post-implementation Review and ED projects.

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Outreach

Step	Mandatory / optional[1]	Metrics or evidence	UKEB Secretariat comments
Consult with a representative range of stakeholders prior to adoption [Handbook 6.18 to 6.22 and A4 to A8]	Mandatory	Evidence of consultation	As described in the PIP, consultation activities were focused on consultation with selected UKEB advisory and working groups, consultation with relevant regulators and public consultation on the Draft Endorsement Criteria Assessment (DECA).
DECA [Handbook 6.23 to 6.29 and A4(d)]	Mandatory	Comment period set for responses to DECA, review and approval of DECA at a UKEB public meeting and published on website for public consultation	**Complete:** The DECA was reviewed and approved at the 19 September 2024 Board meeting. The DECA was published on the UKEB website for consultation on 26 September 2024, for a 107-day consultation period, ending 10 January 2025. Three News Alerts (published on 26 September 2024, 13 December 2024 and 6 January 2025) and three LinkedIn posts (published on 26 September 2024, 11 December 2024, 6 January2025) were issued to solicit stakeholder feedback.
	Mandatory	Public responses to DECA assessed and published on website	**Complete:** The UKEB received seven written responses to the DECA consultation, which were published on the UKEB website. A summary of the feedback received was presented to the 27 February 2025 Board meeting, and minor changes agreed with the Board were made to the draft ECA. Feedback received was summarised in the Feedback Statement.

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Project finalisation and project closure

Step	Mandatory / optional[1]	Metrics or evidence	UKEB Secretariat comments
Final Endorsement Criteria Assessment (ECA) [Handbook 6.32 and 6.40 to 6.48 and A4d]	Mandatory	Final ECA approved by the UKEB in public meeting and published on the website	[**Complete:** The Board approved the ECA at its 28 March 2025 public meeting. The final ECA was published on the UKEB website. A NewsAlert on [date] and a LinkedIn post on [date] were published to alert stakeholders to the endorsement and adoption of the Amendments].
Feedback Statement [Handbook 6.33 to 6.36 and A9 to A11]	Mandatory	Feedback Statement approved by the UKEB in a public meeting and published on the UKEB website	[**Complete:** The Board approved the feedback statement at its 28 March 2025 public meeting. The final Feedback Statement was published on the UKEB website on [date].]
Adoption Statement [Handbook 6.40 to 6.48]	Mandatory	Adoption Statement approved by the UKEB in public meeting and published on the UKEB website	[**Complete:** The Adoption Statements for the Amendments were approved by the Board at its 28 March 2025 public meeting. The final Adoption Statements for the Amendments was published on [date].]

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Step	Mandatory / optional[1]	Metrics or evidence	UKEB Secretariat comments
Voting on adoption of the Amendments [Handbook 6.42 to 6.48]	Mandatory	Tentative vote	**[Complete:** A tentative vote took place at the 28 March 2025 Board meeting, based on the discussion of the Adoption Package, which included the final draft ECA, draft Feedback Statement, draft DPCS, the draft Adoption Statements for the Amendments and the text of the UK-adopted international accounting standard *Amendments to IFRS 9 and IFRS 7—Amendments to the Classification and Measurement of Financial Instruments.* The vote was indicative only.]
	Mandatory	Evidence of written vote (in paper or electronic form)	**[Complete:** The Adoption Statement and voting forms were sent to the Board for voting (accompanied by the text of the Amendments to be adopted) on XX April 2025 (written forms due by XX April 2025). The vote was formalised when the final written voting forms were received.]
	Mandatory	Outcome of the vote within 3 working days of the formal vote published on website	**[Complete:** The announcement of the adoption of the Amendments was published on the UKEB website on XX April 2025.]

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Step	Mandatory / optional[1]	Metrics or evidence	UKEB Secretariat comments
Due Process Compliance Statement (DPCS) [Handbook 6.37 to 6.39 and A12 to A14]	Mandatory	DPCS approved by the UKEB in public meeting and published on the UKEB website	**[Complete:** A draft DPCS was presented for approval to the Board at its 28 March 2025 public meeting. [A final DPCS was tabled for noting at the Board's 22 May 2025 meeting. The final DPCS was published on the UKEB website after the 22 May 2025 Board meeting.]

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Ongoing communications

Step	Mandatory / optional[1]	Metrics or evidence	UKEB Secretariat comments
Public Board meetings [Handbook 4.10]	Mandatory	UKEB public meetings held to discuss technical project	**Complete:** The Board approved: • the PIP at its meeting on 28 June 2024, • the DECA at its meeting on 19 September 2024; and • [the draft Adoption Package at its meeting on 28 March 2025.] A paper summarising feedback received during the DECA consultation period was discussed by the Board at its meeting on 27 February 2025.
Secretariat papers [Handbook 4.20]	Mandatory	Board meeting papers posted and publicly available usually no later than five working days before a Board meeting	**Complete:** The UKEB's meeting papers were published on the UKEB website five working days before the public meetings. Meeting minutes and recordings were made publicly available via the UKEB website.
Project webpage [Handbook 4.25(b)]	Mandatory	Project webpage contains a project description with up-to-date information on the project. Consider optional Subscriber Alerts, News Alerts and Linked in posts to announce the publication of key documents	**Complete:** The project webpage has been updated regularly on a timely basis. Optional News Alerts and LinkedIn posts were issued throughout the project, as appropriate, for the publication of the DECA, [the Final ECA and Feedback Statement] as detailed in the relevant sections above.

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UKEB
UK Endorsement Board

Conclusion
This project complies with the applicable due process steps, as set out in the Handbook (published December 2022).

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UK Endorsement Board

Adoption Statement

Amendments to IFRS 9 and IFRS 7—Amendments to the Classification and Measurement of Financial Instruments

(Amendments to IFRS 9 *Financial Instruments*)

DRAFT

1. The UK Endorsement Board is designated under regulation 2(1) of The International Accounting Standards (Delegation of Functions) (EU Exit) Regulations 2021 No. 609[1] ("the Delegating Regulations") for the purpose of enabling it to exercise functions of the Secretary of State under Chapter 3 of Part 2 of The International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019 No. 685[2] ("the Regulations").

2. *Amendments to IFRS 9 and IFRS 7—Amendments to the Classification and Measurement of Financial Instruments* ("the Amendments") contain related amendments to IFRS 9 and IFRS 7. These related amendments have been assessed by the UK Endorsement Board within a single overarching Endorsement Criteria Assessment. The Amendments also include an amendment to IFRS 19 *Subsidiaries without Public Accountability: Disclosures,* which will be considered for adoption at a future date as part of the UKEB's assessment work for the adoption of IFRS 19, as a whole. Accordingly, the amendments to IFRS 19 have not been considered as part of this adoption. If IFRS 19 is endorsed for use in the UK, the effective date will be set out in the relevant adoption statement.

3. The UK Endorsement Board, in exercise of the powers conferred by regulation 6(1) of the Regulations, adopts the following amendments to international accounting standards published by the International Accounting Standards Board (IASB), for use within the United Kingdom:

   a) *Amendments to IFRS 9 and IFRS 7—Amendments to the Classification and Measurement of Financial Instruments (*Amendments to IFRS 9 *Financial Instruments)* ("the Standard")[3].

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1 Accessible here: The International Accounting Standards (Delegation of Functions) (EU Exit) Regulations 2021

2 Accessible here: The International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019

3 In this Adoption Statement the term "Standard" is used to refer to amendments to international accounting standards, in line with the definition of 'international accounting standards' used in the Regulations, which includes 'subsequent amendments to international accounting standards'.

4. In accordance with regulation 7(1) of the Regulations, the UK Endorsement Board is of the view that:

   a) the Standard[3] is not contrary to either of the following principles—

      i. an undertaking's accounts must give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss;

      ii. consolidated accounts must give a true and fair view of the assets, liabilities, financial position and profit or loss of the undertakings included in the accounts taken as a whole, so far as concerns members of the undertaking;

   b) the use of the Standard is likely to be conducive to the long term public good in the United Kingdom; and

   c) the Standard meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

5. In accordance with regulation 8 of the Regulations, the UK Endorsement Board is of the view that adequate consultation with persons representative of those with an interest in the quality and availability of accounts, including users and preparers of accounts, has been undertaken before the adoption decision.

6. The adopted Standard referred to in paragraph 3:

   a) must be used for financial years beginning on or after 1 January 2026;

   b) may be used for financial years beginning before 1 January 2026. If an entity elects to apply these amendments for an earlier period, it shall either:

      i. apply all the amendments at the same time and disclose that fact; or

      ii. apply only the amendments to the Application Guidance to Section 4.1 of this Standard (Classification of financial assets) for that earlier period and disclose that fact.

7. The text of the Standard is set out in the annex to this statement.

DRAFT

UKEB
UK Endorsement Board

Approval by the UKEB Board

Adoption of *Amendments to IFRS 9 and IFRS 7—Amendments to the Classification and Measurement of Financial Instruments* (Amendments to IFRS 9 *Financial Instruments*)

Amendments to IFRS 9 and IFRS 7—Amendments to the Classification and Measurement of Financial Instruments published by the IASB in May 2024 was approved for adoption by XX members of the UK Endorsement Board.

Pauline Wallace, Chair	
Amir Amel-Zadeh	
Michael Ashley	
Philip Aspin	
Anthony Clifford	
Katherine Coates	
Robin Cohen	
Owen Glaysher	
Edward Knapp	
Paul Lee	
Michael Metcalf	
Peter Reilly	
Michael Wells	

XX XX 2025

UKEB
UK Endorsement Board

Adoption Statement

Amendments to IFRS 9 and IFRS 7—Amendments to the Classification and Measurement of Financial Instruments

(Amendments to IFRS 7 *Financial Instruments: Disclosures*)

DRAFT

1. The UK Endorsement Board is designated under regulation 2(1) of The International Accounting Standards (Delegation of Functions) (EU Exit) Regulations 2021 No. 609[1] ("the Delegating Regulations") for the purpose of enabling it to exercise functions of the Secretary of State under Chapter 3 of Part 2 of The International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019 No. 685[2] ("the Regulations").

2. *Amendments to IFRS 9 and IFRS 7—Amendments to the Classification and Measurement of Financial Instruments* ("the Amendments") contain related amendments to IFRS 9 and IFRS 7. These related amendments have been assessed by the UK Endorsement Board within a single overarching Endorsement Criteria Assessment. The Amendments also include an amendment to IFRS 19 *Subsidiaries without Public Accountability: Disclosures,* which will be considered for adoption at a future date as part of the UKEB's assessment work for the adoption of IFRS 19, as a whole. Accordingly, the amendments to IFRS 19 have not been considered as part of this adoption. If IFRS 19 is endorsed for use in the UK, the effective date will be set out in the relevant adoption statement.

3. The UK Endorsement Board, in exercise of the powers conferred by regulation 6(1) of the Regulations, adopts the following amendments to international accounting standards published by the International Accounting Standards Board (IASB), for use within the United Kingdom:

    a) *Amendments to IFRS 9 and IFRS 7—Amendments to the Classification and Measurement of Financial Instruments (*Amendments to IFRS 7 *Financial Instruments: Disclosures)* ("the Standard")[3].

---

[1] Accessible here: The International Accounting Standards (Delegation of Functions) (EU Exit) Regulations 2021

[2] Accessible here: The International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019

[3] In this Adoption Statement the term "Standard" is used to refer to amendments to international accounting standards, in line with the definition of 'international accounting standards' used in the Regulations, which includes 'subsequent amendments to international accounting standards'.

UKEB
UK Endorsement Board

4. In accordance with regulation 7(1) of the Regulations, the UK Endorsement Board is of the view that:

   a) the Standard[3] is not contrary to either of the following principles—

      i. an undertaking's accounts must give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss;

      ii. consolidated accounts must give a true and fair view of the assets, liabilities, financial position and profit or loss of the undertakings included in the accounts taken as a whole, so far as concerns members of the undertaking;

   b) the use of the Standard is likely to be conducive to the long term public good in the United Kingdom; and

   c) the Standard meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

5. In accordance with regulation 8 of the Regulations, the UK Endorsement Board is of the view that adequate consultation with persons representative of those with an interest in the quality and availability of accounts, including users and preparers of accounts, has been undertaken before the adoption decision.

6. The adopted Standard referred to in paragraph 3:

   a) must be used for financial years beginning on or after 1 January 2026;

   b) may be used for financial years beginning before 1 January 2026. If an entity elects to apply these amendments for an earlier period, it shall either:

      i. apply all the amendments at the same time and disclose that fact; or

      ii. apply only the amendments to the Application Guidance to Section 4.1 of this Standard (Classification of financial assets) for that earlier period and disclose that fact.

7. The text of the Standard is set out in the annex to this statement.

DRAFT

UKEB
UK Endorsement Board

Approval by the UKEB Board

Adoption of *Amendments to IFRS 9 and IFRS 7—Amendments to the Classification and Measurement of Financial Instruments* (Amendments to IFRS 7 *Financial Instruments: Disclosures*)

Amendments to IFRS 9 and IFRS 7–Amendments to the Classification and Measurement of Financial Instruments - published by the IASB in May 2024 was approved for adoption by XX members of the UK Endorsement Board.

Pauline Wallace, Chair	
Amir Amel-Zadeh	
Michael Ashley	
Philip Aspin	
Anthony Clifford	
Katherine Coates	
Robin Cohen	
Owen Glaysher	
Edward Knapp	
Paul Lee	
Michael Metcalf	
Peter Reilly	
Michael Wells	

XX XX 2025

Department for
Business & Trade

UKEB
UK Endorsement Board

UK-Adopted International Accounting Standards

Amendments to IFRS 9 and IFRS 7

Amendments to the Classification and Measurement of Financial Instruments

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Amendments to IFRS 9 *Financial Instruments*

Paragraphs 7.1.12–7.1.13 and 7.2.47–7.2.49 and the heading before paragraph 7.2.47 are added. For ease of reading these paragraphs have not been underlined.

7.1 Effective date

...

7.1.12 *Amendments to the Classification and Measurement of Financial Instruments*, which amended IFRS 9 and IFRS 7, issued in May 2024, added paragraphs 7.2.47–7.2.49, B3.1.2A, B3.3.8–B3.3.10, B4.1.8A, B4.1.10A, B4.1.16A and B4.1.20A. It also amended paragraphs B4.1.10, B4.1.13, B4.1.14, B4.1.16, B4.1.17, B4.1.20, B4.1.21 and B4.1.23. An entity shall apply these amendments for annual reporting periods beginning on or after 1 January 2026. Earlier application is permitted.

7.1.13 If an entity elects to apply these amendments for an earlier period, it shall either:

(a) apply all the amendments at the same time and disclose that fact; or

(b) apply only the amendments to the Application Guidance to Section 4.1 of this Standard (Classification of financial assets) for that earlier period and disclose that fact.

7.2 Transition

...

Transition for *Amendments to the Classification and Measurement of Financial Instruments*

7.2.47 An entity shall apply *Amendments to the Classification and Measurement of Financial Instruments* retrospectively, in accordance with IAS 8, except as specified in paragraphs 7.2.48–7.2.49. For the purposes of the requirements in these paragraphs, the date of initial application is the beginning of the annual reporting period in which the entity first applies the amendments.

7.2.48 An entity is not required to restate prior periods to reflect the application of these amendments. An entity may restate prior periods if, and only if, it is possible to do so without the use of hindsight. If an entity does not restate prior periods, it shall recognise the effect of initially applying these

amendments as an adjustment to the opening balance of financial assets and financial liabilities and the cumulative effect, if any, as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application.

7.2.49 At the date of initial application of the amendments to the Application Guidance to Section 4.1 of this Standard (Classification of financial assets), an entity shall disclose for each class of financial assets that changed measurement category as a result of applying the amendments:

(a) the measurement category and carrying amount determined immediately before the amendments were applied; and

(b) the measurement category and carrying amount determined immediately after the amendments were applied.

Appendix B
Application guidance

Paragraphs B3.1.2A, B3.3.8–B3.3.10, B4.1.8A, B4.1.10A, B4.1.16A and B4.1.20A and the heading before paragraph B3.1.2A are added. Paragraphs B4.1.10, B4.1.13, B4.1.14, B4.1.16, B4.1.17, B4.1.20, B4.1.21 and B4.1.23 are amended. Paragraphs B4.1.7A, B4.1.15 and B4.1.22 are not amended but are included for ease of reference. New text is underlined and deleted text is struck through.

Recognition and derecognition (Chapter 3)

Initial recognition (Section 3.1)

...

Date of initial recognition or derecognition

B3.1.2A 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 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).

...

Derecognition of financial liabilities (Section 3.3)

...

B3.3.8 Despite the requirement in paragraph B3.1.2A to derecognise a financial liability on the settlement date, when settling a financial liability (or part of a financial liability) in cash using an electronic payment system, an entity is permitted to deem the financial liability (or part of it) to be discharged before the settlement date if, and only if, the entity has initiated a payment instruction that resulted in:

(a) the entity having no practical ability to withdraw, stop or cancel the payment instruction;

(b) the entity having no practical ability to access the cash to be used for settlement as a result of the payment instruction; and

(c) the settlement risk associated with the electronic payment system being insignificant.

B3.3.9 For the purpose of applying paragraph B3.3.8(c), settlement risk associated with an electronic payment system is insignificant if its characteristics are such that completion of the payment instruction follows a standard administrative process and the time between the criteria in paragraphs B3.3.8(a) and (b) being met and the cash being delivered to the counterparty is short. However, settlement risk would not be insignificant if completion of the payment instruction were subject to the entity's ability to deliver cash on the settlement date.

B3.3.10 An entity that elects to apply paragraph B3.3.8 to the settlement of a financial liability (or part of a financial liability) using an electronic payment system shall apply that paragraph to all settlements made through the same electronic payment system.

Classification (Chapter 4)

Classification of financial assets (Section 4.1)

...

Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding

...

B4.1.7A Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are consistent with a basic lending arrangement. In a basic lending arrangement, consideration for the time value of money (see paragraphs B4.1.9A–B4.1.9E) and credit risk are typically the most significant elements of interest. However, in such an arrangement, interest can also include consideration for other basic lending risks (for example, liquidity risk) and costs (for example, administrative costs) associated with holding the financial asset for a particular period of time. In addition, interest can include a profit margin that is consistent with a basic lending arrangement. In extreme economic circumstances, interest can be negative if, for example, the holder of a financial asset either explicitly or implicitly pays for the deposit of its money for a particular period of time (and that fee exceeds the consideration that the holder receives for the time value of money, credit risk and other basic lending risks and costs). However, contractual terms that introduce exposure to risks or volatility in the

contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. An originated or a purchased financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

...

B4.1.8A In assessing whether the contractual cash flows of a financial asset are consistent with a basic lending arrangement, an entity may have to consider the different elements of interest separately. The assessment of interest focuses on *what* an entity is being compensated for, rather than *how much* compensation an entity receives. Nonetheless, the amount of compensation an entity receives may indicate that the entity is being compensated for something other than basic lending risks and costs. Contractual cash flows are inconsistent with a basic lending arrangement if they are indexed to a variable that is not a basic lending risk or cost (for example, the value of equity instruments or the price of a commodity) or if they represent a share of the debtor's revenue or profit, even if such contractual terms are common in the market in which the entity operates.

...

Contractual terms that change the timing or amount of contractual cash flows

B4.1.10 If a financial asset contains a contractual term that could change the timing or amount of contractual cash flows (for example, if the asset can be prepaid before maturity or its term can be extended), the entity must determine whether the contractual cash flows that could arise over the life of the instrument due to that contractual term are solely payments of principal and interest on the principal amount outstanding. To make this determination, the entity must assess the contractual cash flows that could arise both before, and after, the change in contractual cash flows, irrespective of the probability of the change in contractual cash flows occurring. The entity may also need to assess the nature of any contingent event (ie the trigger) that would change the timing or amount of the contractual cash flows. While the nature of the contingent event in itself is not a determinative factor in assessing whether the contractual cash flows are solely payments of principal and interest, it may be an indicator. For example, compare a financial instrument with an interest rate that is reset to a higher rate if the debtor misses a particular number of payments to a financial instrument with an interest rate that is reset to a higher rate if a specified equity index reaches a particular level. It is more likely in the former case that the contractual cash flows over the life of the instrument will be solely payments of principal and interest on the principal amount

outstanding because of the relationship between missed payments and an increase in credit risk. In the former case, the nature of the contingent event relates directly to, and the contractual cash flows change in the same direction as, changes in basic lending risks and costs. (See also paragraph B4.1.18.)

B4.1.10A In some cases, a contingent feature gives rise to contractual cash flows that are consistent with a basic lending arrangement both before and after the change in contractual cash flows, but the nature of the contingent event itself does not relate directly to changes in basic lending risks and costs. For example, the interest rate on a loan is adjusted by a specified amount if the debtor achieves a contractually specified reduction in carbon emissions. In such a case, when applying paragraph B4.1.10, the financial asset has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding if, and only if, in all contractually possible scenarios, the contractual cash flows would not be significantly different from the contractual cash flows on a financial instrument with identical contractual terms, but without such a contingent feature. In some circumstances, the entity may be able to make that determination by performing a qualitative assessment; but, in other circumstances, it may be necessary to perform a quantitative assessment. If it is clear, with little or no analysis, that the contractual cash flows are not significantly different, an entity need not perform a detailed assessment.

...

B4.1.13 The following examples illustrate contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. This list of examples is not exhaustive.

Instrument	**Analysis**
... **Instrument EA** Instrument EA is a loan with an interest rate that is adjusted every reporting period by a fixed number of basis points if the debtor achieves a contractually specified reduction in carbon emissions	... The contractual cash flows are solely payments of principal and interest on the principal amount outstanding. The entity considers whether the contractual cash flows that could arise both before and after each change in contractual cash flows are solely payments of principal

Instrument	Analysis
during the preceding reporting period. The maximum possible cumulative adjustments would not significantly change the interest rate on the loan.	and interest (see paragraph B4.1.10). If the contingent event of achieving the carbon emissions target occurs, the interest rate is adjusted by a fixed number of basis points, resulting in contractual cash flows that are consistent with a basic lending arrangement. It is only because the nature of the contingent event itself does not relate directly to changes in basic lending risks and costs that the entity cannot conclude – without further assessment – whether the cash flows on the financial asset are solely payments of principal and interest. The entity therefore assesses whether, in all contractually possible scenarios, the contractual cash flows would not be significantly different from the contractual cash flows on a financial instrument with identical contractual terms, but without the contingent feature linked to carbon emissions (see paragraph B4.1.10A). Because any adjustments over the life of the instrument would not result in contractual cash flows that are significantly different, the entity concludes that the loan has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

B4.1.14 The following examples illustrate contractual cash flows that are not solely payments of principal and interest on the principal amount outstanding. This list of examples is not exhaustive.

Instrument	Analysis
... **Instrument I** Instrument I is a loan with an interest rate that is adjusted every reporting period to track the movements in a market-determined carbon price index during the preceding reporting period.	... The contractual cash flows are not solely payments of principal and interest on the principal amount outstanding. The contractual cash flows are indexed to a variable (the carbon price index), which is not a basic lending risk or cost. The contractual cash flows are therefore inconsistent with a basic lending arrangement (see paragraph B4.1.8A).

B4.1.15 In some cases a financial asset may have contractual cash flows that are described as principal and interest but those cash flows do not represent the payment of principal and interest on the principal amount outstanding as described in paragraphs 4.1.2(b), 4.1.2A(b) and 4.1.3 of this Standard.

B4.1.16 This may be the case if the financial asset represents an investment in particular assets or cash flows and hence the contractual cash flows are not solely payments of principal and interest on the principal amount outstanding. For example, if the contractual terms stipulate that the financial asset's cash flows increase as more automobiles use a particular toll road, those contractual cash flows are inconsistent with a basic lending arrangement. As a result, the instrument would not satisfy the condition in paragraphs 4.1.2(b) and 4.1.2A(b). ~~This could be the case when a creditor's claim is limited to specified assets of the debtor or the cash flows from specified assets (for example, a 'non-recourse' financial asset).~~

B4.1.16A The situation described in paragraph B4.1.15 may also arise if a financial asset has 'non-recourse' features. A financial asset has non-recourse features if an entity's ultimate right to receive cash flows is contractually limited to the cash flows generated by specified assets. In other words, the entity is

primarily exposed to the specified assets' performance risk rather than the debtor's credit risk. For example, a creditor's ultimate right to receive cash flows may be contractually limited to the cash flows generated by specified assets of a structured entity.

B4.1.17 However, the fact that a financial asset ~~is~~ has non-recourse features does not in itself necessarily preclude the financial asset from meeting the condition in paragraphs 4.1.2(b) and 4.1.2A(b). In such situations, the creditor is required to assess ('look through to') the link between the particular underlying assets or cash flows and the contractual cash flows of the financial asset being classified to determine whether those ~~the~~ contractual cash flows ~~of the financial asset being classified~~ are payments of principal and interest on the principal amount outstanding. An entity shall also consider how this link is affected by other contractual arrangements, such as subordinated debt or equity instruments issued by the debtor. If the terms of the financial asset give rise to any other cash flows or limit the cash flows in a manner inconsistent with payments representing principal and interest, the financial asset does not meet the condition in paragraphs 4.1.2(b) and 4.1.2A(b). Whether the underlying assets are financial assets or non-financial assets does not in itself affect this assessment.

...

Contractually linked instruments

B4.1.20 In some types of transactions with non-recourse features, an issuer may prioritise payments to the holders of financial assets using multiple contractually linked instruments ~~that create concentrations of credit risk~~ (tranches). Each tranche has a subordination ranking that specifies the order in which any cash flows generated by the issuer from the underlying pool of financial instruments are allocated to the tranche. The prioritisation of payments to the holders of these tranches is established through a waterfall payment structure that creates concentrations of credit risk and results in a disproportionate allocation of cash shortfalls from the underlying pool between the tranches. In such situations, the holders of a tranche have the right to payments of principal and interest on the principal amount outstanding only if the issuer generates sufficient cash flows to satisfy higher-ranking tranches. In these types of transactions, the holders of a tranche apply paragraphs B4.1.21–B4.1.26 instead of paragraph B4.1.17.

B4.1.20A Some transactions that may contain multiple debt instruments and appear to have the characteristics described in paragraph B4.1.20 are, in fact, lending arrangements that are structured to provide enhanced credit protection to a creditor (or group of creditors). For example, a structured entity may be set up to hold the underlying assets that will generate the cash flows to repay the creditor. The structured entity issues senior and junior debt instruments. The

creditor holds the senior debt instrument and the entity sponsoring the structured entity that holds the junior debt instrument has no practical ability to sell the junior instrument without the senior debt instrument becoming payable. The holders of such debt instruments apply paragraphs B4.1.7–B4.1.19 instead of paragraphs B4.1.21–B4.1.26.

B4.1.21 In ~~such~~ transactions that contain contractually linked instruments, as described in paragraph B4.1.20, a tranche has cash flow characteristics that are payments of principal and interest on the principal amount outstanding only if:

(a) ...

B4.1.22 An entity must look through until it can identify the underlying pool of instruments that are creating (instead of passing through) the cash flows. This is the underlying pool of financial instruments.

B4.1.23 The underlying pool must contain one or more instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. For the purposes of this assessment, the underlying pool can include financial instruments that are not within the scope of the classification requirements (see Section 4.1) but that have contractual cash flows that are equivalent to solely payments of principal and interest on the principal amount outstanding—for example, some lease receivables. However, lease receivables that are subject to residual value risk, or that comprise variable lease payments that are indexed to a variable that is not a basic lending risk or cost (for example, a market rental rate), do not have contractual cash flows that are equivalent to solely payments of principal and interest on the principal amount outstanding.

Amendments to IFRS 7 *Financial Instruments: Disclosures*

Paragraphs 20B, 20C, 20D, 44LL and 44MM are added. For ease of reading these paragraphs have not been underlined. Paragraphs 11A and 11B are amended. New text is underlined and deleted text is struck through.

Significance of financial instruments for financial position and performance

...

Statement of financial position

...

Investments in equity instruments designated at fair value through other comprehensive income

11A If an entity has designated investments in equity instruments to be measured at fair value through other comprehensive income, as permitted by paragraph 5.7.5 of IFRS 9, it shall disclose for each class of investment:

(a) ...

(b) ...

(c) the fair value ~~of each such investment~~ at the end of the reporting period.

(d) ...

(e) ...

(f) the fair value gain or loss presented in other comprehensive income during the period, showing separately the fair value gain or loss related to investments derecognised during the reporting period and the fair value gain or loss related to investments held at the end of the reporting period.

11B If an entity derecognised investments in equity instruments measured at fair value through other comprehensive income during the reporting period, it shall disclose:

(a) ...

(b) ...

(c) ...

(d) any transfers of the cumulative gain or loss within equity during the reporting period related to the investments derecognised during that reporting period.

...

Statement of comprehensive income

Items of income, expense, gains or losses

...

20B An entity shall disclose the information required by paragraph 20C by class of financial assets measured at amortised cost or fair value through other comprehensive income and by class of financial liabilities measured at amortised cost. The entity shall consider how much detail to disclose, the appropriate level of aggregation or disaggregation, and whether users of financial statements need additional explanations to evaluate any quantitative information disclosed.

20C To enable users of financial statements to understand the effect of contractual terms that could change the amount of contractual cash flows based on the occurrence (or non-occurrence) of a contingent event that does not relate directly to changes in basic lending risks and costs (such as the time value of money or credit risk), an entity shall disclose:

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

(b) quantitative information about the possible changes to contractual cash flows that could result from those contractual terms (for example, the range of possible changes); and

(c) the gross carrying amount of financial assets and the amortised cost of financial liabilities subject to those contractual terms.

20D For example, an entity shall disclose the information required by paragraph 20C for a class of financial liabilities measured at amortised cost whose contractual cash flows change if the entity achieves a reduction in its carbon emissions.

...

Effective date and transition

...

44LL *Amendments to the Classification and Measurement of Financial Instruments*, issued in May 2024, added paragraphs 20B, 20C and 20D and amended paragraphs 11A and 11B. An entity shall apply these amendments when it applies the amendments to IFRS 9 in accordance with paragraphs 7.1.12–7.1.13 of IFRS 9. If an entity elects to apply only the amendments to the Application Guidance to Section 4.1 of IFRS 9 (Classification of financial assets) for an earlier period in accordance with paragraph 7.1.13(b) of IFRS 9, the entity shall also apply paragraphs 20B, 20C and 20D of this Standard at the same time. In either case, the entity need not provide the disclosures required by the amendments for any period presented before the date of its initial application of the amendments.

44MM In the reporting period in which an entity first applies *Amendments to the Classification and Measurement of Financial Instruments*, the entity is not required to disclose the information that would otherwise be required by paragraph 28(f) of IAS 8.