21 September 2023
Agenda Paper 4

UKEB
UK Endorsement Board

Final Comment Letter: Post-implementation Review of IFRS 9 – Impairment

Executive Summary

Project Type	Influencing
Project Scope	Moderate

Purpose of the paper

The purpose of this paper is to obtain:

a) Board approval for the issue of a Final Comment Letter (FCL) on the International Accounting Standards Board (IASB)'s Post-implementation Review (PIR) of IFRS 9 - Impairment;

b) Board approval for the publication of the Feedback Statement (FS); and

c) Board feedback on the draft Due Process Compliance Statement (DPCS).

Summary of the Issue

The IASB is undertaking a PIR of IFRS 9 *Financial Instruments* in three parts: classification and measurement, impairment and hedge accounting. The PIR assesses whether the new requirements are working as intended and whether stakeholders have specific questions about applying the new criteria that require a response from the IASB. Depending on responses, the IASB will consider what, if any, further action is required.

The UKEB's Draft Comment Letter (DCL) was published for UK stakeholder comment on 8 August 2023, including early recommendations on areas of concern highlighted by UK stakeholders. This consultation closed on 8 September 2023.

Additional outreach since publication of the DCL has highlighted a number of additional issues which are summarised in this paper.

Decisions for the Board

Subject to any amendments arising at this meeting, does the Board approve:

a) The FCL for issue to the IASB and publication on the UKEB website?

b) The FS for publication on the UKEB website?

In addition, the Board is asked whether it has any comments on the draft DPCS for the project.

Recommendation
The Secretariat recommends that, subject to any amendments agreed at this meeting, the Board approves the FCL and FS for issue and publication.

Appendices	
Appendix A	(Draft) Final Comment Letter
Appendix B	(Draft) Feedback Statement
Appendix C	Draft Due Process Compliance Statement

Background

1. In July 2014, the IASB issued IFRS 9 *Financial Instruments*. The Standard was effective for annual periods commencing on or after 1 January 2018. Insurers could defer the effective date until 1 January 2023 to align with the implementation of IFRS 17 *Insurance Contracts* if certain conditions were met.

2. IFRS 9 replaced IAS 39 *Financial Instruments: Recognition and Measurement*. It introduced changes to the IAS 39 accounting requirements in three main areas: classification and measurement, impairment (introduction of Expected Credit Loss model) and hedge accounting. Accordingly, the IASB is undertaking its PIR of IFRS 9 in three parts. This part of the review focuses on the impairment requirements of IFRS 9, together with the related disclosure requirements in IFRS 7 *Financial Instruments: Disclosures* (together "IFRS9 – Impairment").

3. The IASB issued its Request for Information (RfI) on 30 May 2023. The comment period ends on 27 September 2023.

4. Education sessions on IFRS 9 - Impairment were provided to the Board during its private meetings in July and September 2022. The Secretariat conducted desk-based research, discussed the IASB's proposals with the Financial Instruments Working Group (FIWG) in March 2023, and conducted other outreach activities as described in the Project Initiation Plan, to inform the Draft Comment Letter (DCL).

5. The DCL was approved at the August 2023 UKEB meeting and published on the UKEB website on 8 August 2023, with a comment deadline of 8 September 2023. The DCL noted the standard generally worked as intended, and provided feedback and recommendations on a number of areas of concern raised by UK stakeholders, which could potentially be resolved or improved by standard setting activity. UKEB news alerts and LinkedIn posts were used to raise awareness of the publication of the DCL.

Further outreach and feedback on the DCL

6. Following publication of the DCL the Secretariat conducted further outreach activities to inform the FCL. This involved public consultation on the DCL, discussions with regulators, and feedback from the FIWG September 2023 meeting. Two written responses to the DCL were received and have been uploaded to the UKEB website. This number was not unexpected given the large number of in person meetings held to seek feedback on this project.

7. A summary of the feedback received during the consultation period and resulting changes to the comment letter can be seen at Annex 1 to this document. To assist

board member review significant changes (excluding formatting and edits for clarity/brevity) have been highlighted in grey in the draft FCL.

Final Comment Letter (FCL)

8. The draft FCL is attached for consideration and, subject to amendments agreed by the Board, approval for issue to the IASB and publication on the UKEB website.

Feedback Statement (FS)

9. The draft FS is attached for consideration and, subject to amendments agreed by the Board, approval for publication on the UKEB website.

Due Process Compliance Statement (DPCS)

10. The draft DPCS is attached for consideration. A final version will be brought back to the October 2023 meeting for noting once the final project steps are complete.

Questions for the Board
1. Subject to any amendments agreed at this meeting, does the Board approve: • The FCL for issue to the IASB and publication on the UKEB website? • The FS for publication on the UKEB website? 2. Does the board have any comments on the draft DPCS for the project?

Next steps

11. The FCL will be submitted to the IASB on 27 September. The FCL together with the FS will be published on the UKEB website. The DPCS will be updated to reflect the final project steps and presented to the October meeting for noting.

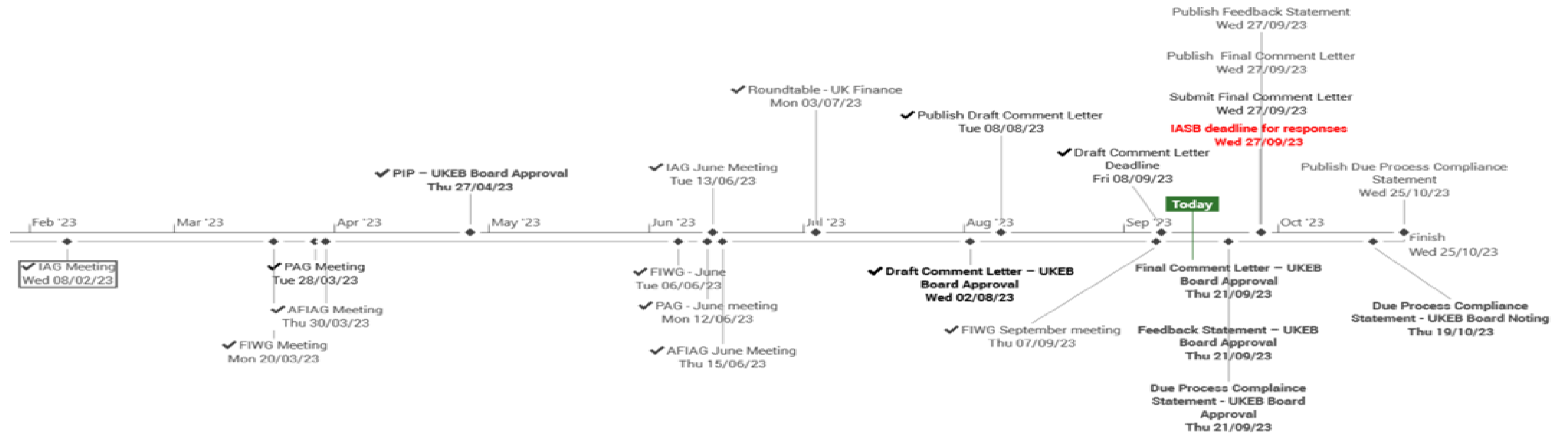
UKEB
UK Endorsement Board

IFRS 9: Classification & Measurement Exposure Draft Timeline

	Milestone - Brief description	**Status**
Influencing		
July 2022 September 2022	**Board:** Education sessions.	Completed
February – March 2023	Outreach with UKEB advisory/working groups.	Completed
April 2023	**Board:** Approves the Project Initiation Plan (PIP).	Completed
May 2023	IASB publishes Request for Information.	Completed
May – September 2023	Further outreach as described in the PIP.	Completed
August 2023	**Board:** Approves Draft Comment Letter (DCL)for publication.	Completed.
8 August 2023	DCL published, comment period 30 days.	Completed
September 2023	**Board:** Considers Final Comment Letter (FCL), Feedback Statement(FS), draft Due Process Compliance Statement (DPCS).	This meeting
October 2023	**Board:**. Approves final Due Process Compliance Statement.	To be completed.

UK Endorsement Board

Timeline



Annex 1 Feedback received during the consultation period.

Feedback reflected in the comment letter

The table below presents a summary of key feedback received during the consultation period for the UKEB's DCL and the proposed changes made to the comment letter in response to the feedback..

Topic	Summary Stakeholder feedback / proposed change	Change to letter (paragraph)
Significant additions to comment letter		
Significant increase in credit risk (SICR)	To request that the IASB do more to clarify what is meant by "significant increase" in credit risk, to reduce diversity in practice.	7, A7
Post-model adjustments	To expand the DCL comments on post-model adjustments to acknowledge that consideration should be given to their impact on both the expected credit loss, and, if the adjustment reflects a change in credit risk, any related change in staging of the assets (for example moving from Stage 1 to Stage 2 if post-model adjustments suggest there has been a SICR). To introduce the UK term "judgemental adjustment" for consideration by the IASB. The definition of this term may be useful for the IASB to consider when describing post-model adjustments.	13, A16, A33 A15
Other additions /amendments to comment letter		
Measurement	To draw the IASB's attention to work carried out in the UK to assist with application of the Standard. This builds on the earlier work of the ITG and incorporates lessons learned. These	A14

Topic	Summary Stakeholder feedback / proposed change	Change to letter (paragraph)
	materials may be useful to a wider audience or to assist the IASB in preparing guidance or educational materials.	
Financial Guarantees	Minor wording changes to reflect feedback that further guidance would be welcomed on this topic generally, in addition to the “integral to the terms” issue discussed.	A19
ECL/Write-offs	Modifications point expanded to note that providing clarity on the interaction of ECL with modifications, write-offs etc would also be helpful in reducing diversity in practice in accounting for gains or losses on disposal of Stage 2 assets.	A23
Other - format	The point regarding the application of the effective interest rate following a significant increase in credit risk was considered a poor fit in the SICR section and has instead been moved to Question 10 – Other Matters.	From A11 to A35
Other - format	The section on modification and derecognition in the cover letter has been streamlined to present more material in Appendix A and less in the cover letter. We believe this change results in a more balanced and proportionate cover letter.	8

UK Endorsement Board

Feedback not reflected in the comment letter

The table below presents the most significant feedback received during the consultation period for the UKEB's DCL that did not result in changes to the comment letter.

Topic	Feedback	Rationale for no change
Overall approach	Some stakeholders thought the requirements of the Standard create excessive procyclicality.	Other stakeholders strongly believed the requirements were not procyclical, or there was no evidence of procyclicality. Tools such as post-model adjustments can be used to mitigate procyclicality if necessary.
Overall approach	Some stakeholders thought the IFRS 9 approach was highly complex, particularly the use of multiple scenarios (they believed most value was derived from the base-case scenario).	The complexity of model is an operational choice of the entity, and can be simplified if their business model does not require complex calculations. The Standard permits the use of qualitative factors as well as quantitative factors. A simplified approach and a low credit risk exemption are already available in the Standard for those who qualify.
Overall approach	Some stakeholders thought the IASB was unlikely to make changes related to intra-group lending, while others agreed with the UKEB recommendation.	On balance, given some stakeholders supported the recommendation this point was retained in the letter.
SICR	The Standard requires the use of both absolute and relative measures to determine whether a SICR has occurred. Some stakeholders thought that relative measures may not reflect an entity's credit risk management practices, and there should be greater flexibility regarding their use.	Many stakeholders told us a "light touch" approach to changes to SICR requirements is desirable, as they are concerned about unintended consequences to an established process. The most important requirement is a better understanding of what the IASB intend by "significant increase" (reflected in the UKEB comment letter at paragraphs 7, A7).

Topic	Feedback	Rationale for no change
SICR	Some stakeholders thought the SICR approach was best suited for loan portfolios, and that less complex methodologies could be applied to other asset types.	Other stakeholders strongly believed the same approach should apply to all asset classes, subject to existing reliefs such as the low credit risk exemption and the simplified approach.
Disclosure	Some stakeholders suggested the Standard include more mandatory disclosures such as roll forward tables of ECL balances or sensitivity tests of key judgements in the base case economic scenario. Mixed views were received from those who commented on the proposal to disclose ECL by industry sector. One preparer disagreed and one accounting firm agreed.	In the UK such items are already included by some banks, and could be addressed by the DECL taskforce or other industry initiatives. By including them in the Standard they would also apply to non financial-services entities where they may be disproportionate. Given mixed feedback retained the disclosure proposal, which had been raised by investors who stated it would be helpful for their analysis.

UKEB
UK Endorsement Board

Dr Andreas Barckow
Chairman
International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London
E14 4HD
XX September 2023

DRAFT

Dear Dr Barckow

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

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

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

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

4. Our stakeholder outreach has highlighted that the IFRS 9 Impairment requirements generally work as intended, and ensure more timely recognition of expected credit losses than the previous requirements under IAS 39 *Financial Instruments: Recognition and Measurement*. Whilst our response to the RFI

---

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

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

focuses on areas of significant concern for UK stakeholders that may be addressed by standard setting or similar activities, no 'fatal flaws' were identified during our work.

5. Stakeholder feedback clearly identified that further guidance is required in some areas of the Standard. This is due to the complexity of some of the requirements and the application of these to a range of very different types of entities. In some cases the issues we raise could be addressed via further IASB led education initiatives, which would drive international comparability and provide further clarity for smaller entities on proportionate application.

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

Detailed comments

Significant increase in credit risk ('SICR')

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

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

Modification and derecognition

9. Modification and derecognition events, such as those following the renegotiation of a contract, can have a significant impact on the expected credit loss (ECL) calculation. The Standard does not contain specific requirements for the derecognition of financial assets following a contractual modification, although it acknowledges at paragraph B5.5.25 that in "some circumstances" such modifications can lead to derecognition of the asset. When an asset is

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

DRAFT

derecognised, the new contract is often recognised for the purposes of calculating ECL as a "Stage 1" asset requiring a 12-month expected-loss calculation. When the asset is not derecognised, it often retains its existing "stage" which may be "Stage 2" or "Stage 3", requiring the recognition of lifetime expected losses. As the Standard is unclear regarding such interaction of the modification, derecognition and impairment requirements, it gives rise to issues which cause diversity in practice. While we acknowledge it will always be necessary to apply judgement to such situations, further application guidance should be provided in the Standard on the interaction of ECL with the modification and derecognition requirements for financial assets. These issues are further discussed in paragraphs A21-A25 of Appendix A.

10. We note the scope of the IASB pipeline project *Amortised Cost Measurement*[4] includes the topic of "modifications". We assume this project will therefore assess the interaction of the modification/derecognition requirements with ECL, including the issues raised in this letter. If not, we urge the IASB to include these matters within the scope of that project. We also recommend the IASB commence this pipeline project as soon as possible.

Intra-group lending

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

12. We believe this issue requires further consideration. Intra-group lending encompasses a wide variety of loans, from routine receivables balances which are settled frequently, to long term loans with non-commercial terms that for impairment purposes may be closer in nature to an investment in a subsidiary. We recommend the IASB consider, and provide guidance on, the nature and characteristics of intra-group lending where the IFRS 9 ECL can provide useful information, and the nature and characteristics of intra-group loans where IAS 36 *Impairment of Assets* may provide more useful impairment information. Continuing to apply only IFRS 9 across this diverse population of loans risks the

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

DRAFT

ongoing costs associated with calculating, reporting and auditing the expected credit loss being disproportionate to the usefulness of the information provided.

Disclosure

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

IFRS 17 *Insurance Contracts*

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

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

Yours sincerely

Pauline Wallace
Chair
UK Endorsement Board

DRAFT

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

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

DRAFT

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

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

A3. We believe this issue requires further consideration. Intra-group lending encompasses a wide variety of loans, from routine receivables balances which are settled frequently, to long term loans with non-commercial conditions that for impairment purposes may be considered as closer in nature to an investment in subsidiary. We recommend the IASB consider, and provide guidance on, the nature and characteristics of intra-group lending where the IFRS 9 ECL can provide useful information, and the nature and characteristics of intra-group loans where IAS 36 *Impairment of Assets* may provide more useful impairment information. Continuing to apply only IFRS 9 across this diverse population of loans risks the ongoing costs associated with calculating, reporting and auditing the expected credit loss being disproportionate to the usefulness of the information provided.

Question 2—The general approach to recognising expected credit losses
(a) **Are there fundamental questions (fatal flaws) about the general approach? If yes, what are those fundamental questions?** Please explain whether requiring entities to recognise at least 12-month expected credit losses throughout the life of the instrument and lifetime expected credit losses if there has been a significant increase in credit risk achieves the IASB's objective of entities providing useful information about changes in credit risk and resulting economic losses. If not, please explain what you think are the fundamental questions (fatal flaws) about the clarity and suitability of the core objectives or principles of the general approach. (b) **Are the costs of applying the general approach and auditing and enforcing its application significantly greater than expected? Are the benefits to users significantly lower than expected?** If, in your view, the ongoing costs of applying the general approach to particular financial instruments are significantly greater than expected or the benefits of the resulting information to users of financial statements are significantly lower than expected, please explain your cost–benefit assessment for those instruments.

Fatal flaws

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

DRAFT

Cost-benefit analysis

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

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

Fatal flaws

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

Consistent application of assessment of SICR

A7. The assessment of SICR will never be applied entirely consistently across all financial institutions, as different organisations manage risk differently, and place different weight on the risk indicators they use. Having acknowledged that, stakeholders have consistently told us that the standard does not provide

DRAFT

sufficient information on what the IASB means by a "significant increase", and that this has led to diversity of practice. Further application guidance and examples are required in this area.

A8. Additional guidance[5] on assessing SICR produced by the IASB during the pandemic was helpful in identifying whether a SICR had occurred. This remains a standalone document and therefore may be overlooked in future by those seeking guidance on the application of SICR. We recommend the relevant parts of that text are incorporated into application guidance within IFRS 9. We would be happy to assist IASB staff in drafting or testing such guidance.

A9. IFRS 9 allows the use of qualitative factors in assessing SICR, and qualitative factors are permitted to be used exclusively in some situations to recognise a loss allowance at an amount equal to lifetime expected credit losses (B5.5.18). Despite this, during outreach sessions stakeholders continue to debate the use of qualitative factors, both to complement the use of quantitative factors and the extent and circumstances when they could be used in place of quantitative factors. .Further educational materials could be useful in bridging any gap in understanding on the use of qualitative factors.

Question 4–Measuring expected credit losses
(a) Are there fundamental questions (fatal flaws) about requirements for measuring expected credit losses? If yes, what are those fundamental questions? Please explain whether the requirements for measuring expected credit losses achieve the IASB's objective of providing users of financial statements with useful information about the amount, timing and uncertainty of an entity's future cash flows. If not, please explain what you think are the fundamental questions (fatal flaws) about the clarity and suitability of the core objectives or principles of the measurement requirements. **(b) Can the measurement requirements be applied consistently? Why or why not?** Please explain whether the requirements provide an adequate basis for entities to measure expected credit losses consistently for all financial instruments within the scope of impairment requirements in IFRS 9. If diversity in application exists for particular financial instruments or fact patterns, please explain and provide supporting evidence about how pervasive that diversity is and explain what causes it. Please also explain how the diversity affects entities' financial statements and the usefulness of the resulting information to users of financial statements. If you have

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

DRAFT

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

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

Fatal flaws

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

Consistent measurement

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

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

Forward-looking scenarios

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

DRAFT

---

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

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

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

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

Other measurement guidance

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

Post-model adjustments

A15. Post-model adjustments are largely an operational issue, reflecting that models and data are imperfect and therefore adjustments are necessary to mitigate this. Some stakeholders noted it would be useful if the Standard explicitly acknowledged such adjustments, as this would facilitate the IASB's discussion of these items (including as proposed at A16 below), and provide a common language when describing such adjustments in the financial statements. In the UK the Taskforce on Disclosures about Expected Credit Losses[8] has defined the

DRAFT

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

term "judgemental adjustments[9]" to describe such items. The elements of this definition may be helpful for the IASB to consider when describing post-model adjustments.

A16. Some stakeholders have observed that post-model adjustments to the ECL calculation that relate to the probability of default do not always give rise to corresponding adjustments to the Stage 1/2/3 categorisation of the underlying loans. This can potentially impact the usefulness of the underlying information, for example by affecting the measurement of impairment coverage ratios[10]. We recommend the IASB produce educational material to raise awareness of this issue.

Other exposures

Loan commitments

A17. Stakeholders saw loan commitments as a difficult area of IFRS 9 to apply in practice. Challenges included assessing the behavioural life of revolving credit facilities for both retail and wholesale banking.

A18. Stakeholders indicated that there is diversity in the interpretation of the criteria for application of the exception in paragraph 5.5.20[11] and therefore would welcome clarification. For example:

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

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

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

DRAFT

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

10 The impact of this for a sample of banks is discussed at Overlays and in-model adjustments: identifying best practices for capturing novel risks, blog post by Elizabeth McCaul, member of the Supervisory Board of the European Central Bank and Stefan Walter, Director General of Horizontal Line Supervision European Central Bank, 26 May 2023.

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

Financial guarantee contracts

A19. Stakeholders noted a lack of consistency in the treatment of financial guarantees, and generally thought more guidance on financial guarantees would be helpful. IFRS 9 does not currently define the characteristics of credit enhancements that are *"integral to the contractual terms"* (B5.5.55). As only guarantees integral to the loan, and not recognised separately, should be included when measuring ECL, further clarification in this regard would be helpful in reducing diversity in practice. Factors the IASB could consider in producing guidance on whether a credit enhancement is integral to the contract include:

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

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

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

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

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

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

Question 5–Simplified approach for trade receivables, contract assets and lease receivables

(a) Are there fundamental questions (fatal flaws) about the simplified approach? If yes, what are those fundamental questions?

Does applying the simplified approach achieve the IASB's objective of reducing the costs and complexities of applying IFRS 9 impairment requirements to trade receivables, contract assets and lease receivables? If not, please explain what you think are the fundamental questions (fatal flaws) about the clarity and suitability of the core objectives or principles of the simplified approach.

(b) Are the costs of applying the simplified approach and auditing and enforcing its application significantly greater than expected? Are the benefits to users significantly lower than expected?

DRAFT

If, in your view, the ongoing costs of applying the simplified approach are significantly greater than expected, or the benefits of the resulting information to users of financial statements are significantly lower than expected, please explain your cost–benefit assessment.

A20. Disclosure requirements for the simplified approach are discussed at paragraph A34.

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

Purchased or originated credit-impaired financial assets

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

DRAFT

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

Application of the ECL requirements alongside other requirements

Modifications and derecognition

A21. The Standard does not contain specific requirements for the derecognition of financial assets following a contractual modification, although it acknowledges at paragraph B5.5.25 that in "some circumstances" such modifications can lead to derecognition of the asset. Modifications are specifically addressed for financial liabilities at paragraph 3.2.2. When contracts are renegotiated or modified, the accounting to reflect this can have a significant impact on the calculation of expected credit loss (ECL). Stakeholders tell us that, following a contractual modification to an asset, they consider IFRS 9 often requires an assessment as to whether the change to contractual cashflows is "substantial". If yes, such "substantial" changes result in derecognition of the asset, but non-substantial changes do not. When assets are derecognised the new contract is often recognised for the purposes of calculating ECL as a "Stage 1" asset requiring a 12-month expected-loss calculation. When the asset is not derecognised it often retains its existing "stage" which may be "Stage 2" or "Stage 3", requiring the recognition of lifetime expected losses. Clear understanding, and accurate execution, of any derecognition test is necessary to understand the type of ECL calculation required. This is particularly important if

DRAFT

the driver for the contractual modification is some form of financial distress. However, the Standard is unclear regarding such interaction of the modification, derecognition and impairment requirements giving rise to issues which are causing diversity in practice. While we acknowledge it will always be necessary to apply judgement to such situations further application guidance is needed.

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

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

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

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

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

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

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

DRAFT

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

A26. We note the scope of the IASB pipeline project *Amortised Cost Measurement*[12] includes the topic of "modifications". We assume this project will therefore assess the interaction of the modification/derecognition requirements with ECL, including the issues raised above. If not, we urge the IASB to include these matters within the scope of this project. We also recommend the IASB commence this pipeline project as soon as possible.

Application alongside other standards

IFRS 17 Insurance Contracts

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

DRAFT

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

Sustainability standards

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

Question 8–Transition
Were the costs of applying the transition requirements and auditing and enforcing their application significantly greater than expected? Were the benefits to users significantly lower than expected? Please explain whether the combination of the relief from restating comparative information and the requirement for transition disclosures achieved an appropriate balance between reducing costs for preparers of financial statements and providing useful information to users of financial statements. Please explain any unexpected effects or challenges preparers of financial statements faced applying the impairment requirements retrospectively. How were those challenges overcome?

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

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

DRAFT

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

DRAFT

Fatal flaws

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

UKEB
UK Endorsement Board

Analysis by sector

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

Post-model adjustments

A33. We recommend IFRS 7 be updated to make clear the disclosure requirements of the Standard also apply to post-model adjustments. Some stakeholders have observed that post-model adjustments to the ECL calculation that relate to the probability of default do not always give rise to corresponding adjustments to the Stage 1/2/3 categorisation of the underlying loans. This may limit the usefulness of the disclosure for purposes such as calculating impairment coverage ratios. It should be made clear that post-model adjustments should be reflected in all relevant aspects of disclosure. Educational material or illustrative examples should be used to bring greater awareness to the need to consider the impact on asset staging where relevant.

Disclosure requirements and the simplified approach

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

DRAFT

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

Application of the effective interest rate following a SICR

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

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

DRAFT

UKEB

UK Endorsement Board

FEEDBACK STATEMENT

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

September 2023

UKEB
UK Endorsement Board

The UK Endorsement Board (UKEB) is responsible for endorsement and adoption of IFRS for use in the UK and therefore is the UK's National Standard Setter for IFRS. The UKEB also leads the UK's engagement with the IFRS Foundation on the development of new standards, amendments and interpretations.

The comment letter to which this feedback statement relates forms part of those influencing activities and is intended to contribute to the IFRS Foundation's due process. The views expressed by the UKEB in this letter are separate from, and will not necessarily affect the conclusions in, any endorsement and adoption assessment on new or amended international accounting standards undertaken by the UKEB.

UKEB
UK Endorsement Board

Contents

	Page
Purpose of this feedback statement	4
The IASB's Post-implementation Review	5
Outreach approach	6
UKEB and stakeholder views	7-15

Purpose of this feedback statement

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

UKEB

The IASB's Post-implementation Review

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

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

a. produce educational materials;

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

c. take no action

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

UKEB

Outreach approach

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

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

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

Outreach activities included:

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

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

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

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

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

1. IFRS 9's overall approach to impairment

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

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

Initial stakeholder views	UKEB draft position	Further stakeholder views	UKEB final position
Not applicable	Not applicable	Some stakeholders thought the requirements of the Standard create excessive procyclicality. Other stakeholders strongly believed the requirements were not procyclical, or there was no evidence of procyclicality, and tools such as post-model adjustments can be used to mitigate procyclicality if necessary.	Having considered and balanced the range of feedback received, and noting the availability of mitigants, this topic was not included in the comment letter.
Not applicable	Not applicable	Some stakeholders thought the IFRS 9 approach was highly complex, particularly the use of multiple scenarios. They believe most value is derived from the base-case scenario.	On balance this topic was not included in the comment letter. The standard permits the use of qualitative as well as quantitative factors, and has a simplified approach and low credit risk exemption that can be applied in qualifying cases. The complexity of model is an operational choice, which can be simplified where the business model does not require complex calculations.

UKEB

2. Significant increase in credit risk

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

UKEB

3. Significant increase in credit risk (continued)

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

4. Measurement

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

UKEB

4. Measurement (continued)

Initial stakeholder views	UKEB draft position	Further stakeholder views	UKEB final position
Stakeholders noted it would be helpful for the Standard to contain a definition of post-model adjustments, to both acknowledge the use of such adjustments and to provide a common language for disclosure.	Recommended the IASB include a definition of post-model adjustments in the Standard.	Stakeholders further observed that post model adjustments related to probability of default are reflected in expected credit losses, but not necessarily in the Stage 1/2/3 classification of the underlying assets. This can limit the usefulness of the information, for example potentially affecting the calculation of impairment coverage ratios. Attention was drawn to the UK term "judgemental adjustment" as a useful way to think about what should be captured when considering such adjustments.	Updated to recommend that the IASB produce educational materials to raise awareness of the need to also reflect relevant post-model adjustments in the Stage 1/2/3 asset classification. Introduced the definition of the UK term "judgemental adjustment" for consideration when describing post-model adjustments.

5. Interaction with other requirements

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

UKEB

6. Disclosure

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

6. Disclosure (continued)

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

Disclaimer

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

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

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

UKEB
UK Endorsement Board

Contact Us

UK Endorsement Board

6th Floor | 10 South Colonnade |
London | E14 4PU

Web: www.endorsement-board.uk

UKEB
UK Endorsement Board

Appendix C: Due Process Compliance Statement: Post-implementation Review of IFRS 9 Impairment

General UKEB requirements: The UKEB adopts international accounting standards for use within the UK, in accordance with SI 2019/685 and applies its own processes before it decides to endorse and adopt a new or amended international accounting standard.

The Request for Information (RfI) for the Post-implementation Review IFRS 9 *Financial Instruments* Impairment was published on 30 May 2023. The IASB comment period ends 27 September 2023.

Influencing process			
Step	**Mandatory / optional**[1]	**Metrics or evidence**	**UKEB Secretariat comments**
Project Preparation			
Technical project added to UKEB technical work plan [Due Process Handbook (DPH) [4.29]	Mandatory	Project is included in the UKEB published technical work plan.	**Complete:** the RfI was included in the UKEB technical work plans as a monitoring project from September 2022, and as an active influencing project from April 2023.

[1] In accordance with the Due Process Handbook.

Influencing process			
Step	**Mandatory / optional**[1]	**Metrics or evidence**	**UKEB Secretariat comments**
		Project preparation (continued)	
Project Initiation Plan (PIP) [DPH 5.4 to 5.8]	Mandatory	PIP draft with project outline (background, scope, project objective) and approach for influencing (key milestones and timing) proportionate to the project	**Complete:** A PIP including purpose (project objective), background, scope, and influencing approach was prepared, taking a proportionate approach to the project.. The PIP was approved at the 27 April 2023 Board meeting.
	Mandatory	Outreach plan for stakeholders and communication approach outlined	**Complete:** this plan was outlined in the PIP. In addition the Secretariat published a project page on the UKEB website.
	Mandatory	Resources allocated	**Complete:** two Project Directors and two Project Managers worked across this project and the *Amendments to the Classification and Measurement of Financial Instruments* project, as described in the PIP.

UKEB
UK Endorsement Board

Influencing Process			
Step	**Mandatory / optional**[1]	**Metrics or evidence**	**UKEB Secretariat comments**
Project preparation (continued)			
Project Initiation Plan (PIP) [DPH 5.4 to 5.8]	Mandatory	Assessment of whether to set up an ad-hoc advisory group	**Complete:** Assessed. An ad-hoc advisory group was not considered necessary as the Financial Instruments Working Group had the relevant knowledge and experience to take this role.
PIP is approved at public meeting [DPH 5.4]	Required	UKEB Board public meeting held to approve PIP	**Complete:** the PIP was approved at the 27 April 2023 Board meeting.
Education sessions [DPH 4.10]	Optional	Board provided with education sessions on the proposals.	**Complete:** Education sessions on IFRS 9 – Impairment were provided at the July 2022 and September 2022 Private Board meetings.
Desk-based research [DPH 5.9]	Optional	Review of relevant documentation	**Complete:** Desk based research was undertaken and key findings reported in the PIP.

UKEB
UK Endorsement Board

Influencing Process			
Step	**Mandatory/ optional**[1]	**Metrics or evidence**	**UKEB Secretariat comments**
		Communications	
Public board meetings [DPH 5.4, 5.14]	Mandatory	UKEB public meetings held to discuss technical project	**Complete:** The Board discussed the Project Initiation Plan (PIP), at the April 2023 meeting and approved the draft comment letter (DCL) for issue at the August 2023 board meeting. ***[Pending***: *The Board discussed and approved the following documents at its 21 September 2023 meeting:* • *Final Comment Letter.* • *Feedback Statement.* • *Draft Due Process Compliance Statement.]*
Secretariat papers	Mandatory	Board meeting papers posted and publicly available on a timely basis.	**Complete:** The UKEB's April, August and September meeting papers were published on the UKEB website one week before the public meetings. Meeting minutes and recordings were made publicly available via the UKEB website. Subscribers were notified via the UKEB News Alerts.

UKEB
UK Endorsement Board

Influencing Process			
Step	**Mandatory / optional**[1]	**Metrics or evidence**	**UKEB Secretariat comments**
Communications (continued)			
Project webpage	Optional	Project webpage contains a project description with up-to-date information on the project.	**Complete**: The project webpage was created and updated regularly with the project status and additional materials.
News Alerts [DPH A4d]	Optional	Evidence that subscriber alerts have occurred	**Complete:** Subscribers were alerted via email 5 days before each Board meeting, with links to the agenda, papers and the option to dial in to observe the discussion. A News Alert was also issued, alerting subscribers to the Draft Comment Letter publication.
Outreach			
Outreach activities [DPH 5.11]	Mandatory	Gather input from investors, preparers and accounting firms and institutes as outlined in the PIP.	**Complete:** More than 50 stakeholders, representing users of financial statements, preparers of financial statements, accounting firms and regulators were consulted during the project. Further detail can be found in the Feedback Statement.

UKEB
UK Endorsement Board

Step	Mandatory / optional[1]	Metrics or evidence	UKEB Secretariat comments
Preparation of Documents for public comment			
DCL published for comment **[DPH 5.13 to 5.17]**	Generally mandatory	DCL published on website.	**Complete:** The Secretariat published the approved DCL on the UKEB website for a 30-day comment period commencing 8 August 2023.
Project finalisation and project closure			
FCL submitted before comment period ends. [DPH 5.18]	Mandatory	FCL submitted before comment period closed and published on UKEB website.	***[Pending:*** *The FCL was approved for issue at the Board meeting on 21 September 2023.* *FCL submitted to the IASB on 27 September 2023.*]
Feedback statement and due process compliance statement for influencing stage of project **[DPH 5.19, 5.23-5.26]**	Mandatory	This document and Feedback Statement published on website.	***[Pending****:* *The Secretariat published the Feedback Statement and Due Process Compliance Statement on the UKEB website on 27 September 2023.]*

UKEB
UK Endorsement Board

Conclusion
This document sets out the main due process activities performed as part of the UKEB's due process to issue its comment letter in response to the IASB's Request for Information. This project complies with the applicable due process steps, as set out in the UKEB Due Process Handbook at the time of writing.