

UKEB FEEDBACK STATEMENT

IASB Post-implementation Review (PIR)

IFRS 9 *Financial Instruments*: Classification and Measurement

January 2022

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 (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 Foundation's due process. The views expressed by the UKEB in this letter are separate from, and will not necessarily affect the conclusions in, any endorsement and adoption assessment on new or amended International Accounting Standards undertaken by the UKEB.

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Purpose of this feedback statement

This feedback statement presents the views of UK stakeholders received during the UKEB's outreach activities on the IASB's Post-implementation Review (PIR) of IFRS 9 *Financial Instruments: Classification and Measurement* and explains how the UKEB's comment letter addressed those views.



The IASB's Post-implementation Review

The IASB has commenced its PIR of IFRS 9 *Financial Instruments*, focusing initially on the classification and measurement requirements.

The PIR assesses whether the standard is meeting its objectives, can be applied consistently, provides useful information to users, and that 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.

IASB's Request for Information identified nine areas of the classification and measurement requirements on which IASB were seeking feedback. The UKEB response was responsive to UK stakeholder feedback and focused only on those areas where UK stakeholders expressed particular concerns.



Outreach approach

The UKEB's outreach activities took place between October 2021 and January 2022.

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

The outreach activities with UK stakeholders revealed that the IFRS 9 classification and measurement requirements generally work as intended, except for a small number of concerns. Stakeholders requested UKEB focus its response on the most serious of these topics (the "primary topics") so as not to distract from these critical messages.

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

Outreach activities included:

- Hosting a series of roundtables events with stakeholder groups which included preparers, auditors/accounting firms.
- Meetings with users, accounting firms and regulators;
- An online survey; and
- Public consultation on the UKEB's draft comment letter;

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

In total 31 stakeholders representing 23 organisations, and one professional body/committee engaged in outreach activities as follows.

Stakeholder type	Stakeholders	Organisations represented
Preparers	15	12
Auditors & Accounting Firms	12	7
Regulators	3	3
Users	1	1
Professional bodies / committees*	1 professional body/ committee	

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

I. Primary topics of concern to UK stakeholders

Contractual cashflow characteristics of financial assets.

Initial stakeholder views	UKEB draft position	Further stakeholder views	UKEB final position
<p>Concern was expressed that IFRS 9 does not adequately cater for financial instruments with ESG features* (FIEF). There is risk that basic lending products with such features may be required to be accounted for at fair value rather than amortised cost, resulting in decision useful information being lost. UK stakeholders thought this should be treated as an urgent issue.</p>	<p>Observes that the IFRS 9 classification and measurement requirements generally work as intended.</p> <p>Explains the concerns regarding the treatment of FIEF and makes a number of recommendations including increased guidance and examples.</p> <p>Recommends that IASB resolve this issue as a matter of urgency, outside the PIR process.</p>	<p>Further stakeholder feedback was consistent with the initial feedback received.</p>	<p>Consistent with the draft position, and highlighted the need to focus on a principles-based approach.</p>
<p>Stakeholders also noted that the boundary between contractually linked instruments and non-recourse finance was unclear, and this was leading to diversity in practice.</p>	<p>Explains the concerns regarding contractually linked instruments and makes a number of recommendations to improve clarity and reduce the current diversity in practice.</p>		

* These are sustainability-linked features including the Environmental, Social or Governance practices of the entity.

2. Primary topics of concern to UK stakeholders

Amortised cost and the effective interest method

Initial stakeholder views	UKEB draft position	Further stakeholder views	UKEB final position
Stakeholders noted that it was not always clear how uncertain cashflows should best be reflected in the EIR calculation, and specifically in which circumstances paragraphs B5.4.5 or B5.4.6 should be applied.	<p>Explains the concerns regarding the use of paragraphs B5.4.5 or B5.4.6 and recommends IASB provide further guidance on a number of key terms along with further examples.</p> <p>Notes that as FIEF become more prevalent and the potential change in cash flows due to ESG features becomes greater, this issue will become more significant. Recommends this issue should be addressed alongside those relating to FIEF and with the same urgency.</p>	Further stakeholder feedback was consistent with the initial feedback received.	As draft position.

3. Primary topics of concern to UK stakeholders: Other matters

Initial stakeholder views	UKEB draft position	Further stakeholder views	UKEB final position
<p>Stakeholders also highlighted the recent IFRS Interpretations Committee (IFRIC) tentative agenda decision (TAD) <i>Cash Received via Electronic Transfer as Settlement for a Financial Asset</i>. Given the practical concerns and wide ranging implications of the TAD some stakeholders would prefer this matter be considered as part of the IFRS 9 PIR.</p>	<p>Highlights the wide ranging practical difficulties which may result from the TAD, recommends it is instead considered as part of the IFRS 9 PIR, and recommends that a similar approach be taken to the issue as to that already used for “regular way transactions” at IFRS 9 3.2.3(a), which would likely avoid many of the concerns identified with the TAD.</p>	<p>Further stakeholder feedback agreed with the difficulties noted in the UKEB draft position and the need for this topic to be considered as part of the IFRS 9 PIR, but emphasised IASB should undertake further research before concluding on the best solution.</p>	<p>Highlights the wide ranging practical difficulties which may result from the TAD and recommends it is instead considered as part of the IFRS 9 PIR.</p> <p>Recommends that IASB considers whether there is evidence of diversity in practice for which the benefits of standard setting is needed, and if so recommends performing further research to assess potential solutions. This could include consideration of whether use of a practical expedient, such as that used for “regular way transactions” might address the concerns with the TAD without creating unintended consequences.</p>

Disclaimer

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

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

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

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