UKEB
UK Endorsement Board

Draft Endorsement Criteria Assessment

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

Draft for comment

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Introduction

Purpose

1. The purpose of this Draft Endorsement Criteria Assessment (DECA) 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 DECA provides a brief description of the Amendments.

Scope of the adoption assessment

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 standard form part of the UKEB's adoption assessment.

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

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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.

4 Mandatory pronouncements are IFRS Standards, IAS Standards, Interpretations and mandatory application guidance. Non-mandatory guidance includes basis for conclusions, dissenting opinions, implementation guidance and illustrative examples, together with the IFRS practice statements. This categorisation is set out in the introduction to the IASB yearly bound volumes.

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

8. If IFRS 19, as amended (including the amendments to IFRS 19 within the *Amendments to IFRS 9 and IFRS 7 – Amendments to the Classification and Measurement of Financial Instruments*), is endorsed for use in the UK the effective date for those disclosures 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)".

11. **Section 2** of the DECA discusses whether the Amendments lead to a significant change in accounting practice.

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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[5] 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 DECA 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

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5 The term "standard" includes standards (International Accounting Standards (IAS), International Financial Reporting Standards (IFRS)), amendments to those standards and related Interpretations (Standing Interpretations Committee / International Financial Reporting Interpretations Committee interpretations) issued or adopted by the IASB. This DECA relates to amendments to those standards.

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financial reporting;

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

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'),

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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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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 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 IAS 1 *Presentation of Financial Statements* for financial statements to 'present fairly the financial position, financial performance and cash flows of an entity'[8] to be

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8 Paragraph 15 of IAS 1 *Presentation of Financial Statements*.

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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.

[Draft] Adoption decision

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

1.15 On the basis of these assessments, and subject to any stakeholder feedback, the UKEB [tentatively] concludes that the Amendments meet the statutory endorsement criteria. The UKEB is therefore of the view that it will adopt the Amendments 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 are 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 standard.

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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. The new paragraph therefore introduces no change for financial assets, so this aspect of the Amendments is not considered further in the following analysis.

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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. 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; • there is 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.
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

A. Amendments to IFRS 9 – Recognition and derecognition	
	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 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. Amendments to IFRS 9 – Recognition and derecognition	
	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 only applies 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 contractually linked transactions involving only a structured entity, its sponsoring entity and a creditor may not need to apply the contractually linked requirements 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 cashflows, 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 cashflows 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 disclosure 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 or not an entity has exposure to instruments with contingent features, and any potential resulting impact on contractual cashflows. This will increase user understanding of the types of instruments held by an entity and of the potential future impact on cashflows arising from such instruments.

C. Amendments to IFRS 7: Disclosure.	
	As the Amendments allow entities to determine an appropriate level of aggregation, and to assess whether further information is 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.[9] 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.[10]

9 UKEB calculation based on LSEG and Eikon data, July 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.

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

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UK long term public good	
	The different elements of the Amendments are each likely to affect different instruments and transactions, thus not impacting all companies in the same way. **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.[11] 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.[12] 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.[13] It was therefore not possible to estimate the prevalence or value of these specific contracts in the UK. However, UKEB research

11 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

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

13 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	
	and stakeholder engagement suggest that the value of SLLs on UK banks' balance sheet 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 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.[14] 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[15] 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

14 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.

15 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 deemed this amount to be relatively low as compared to these companies' operations or assets.

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	of financial accounts in understanding the characteristics and potential effect on the financial accounts of these instruments. As discussed above in the technical accounting criteria assessment, overall the Amendments are expected to meet the relevance, reliability, comparability and understandability of financial information. 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.[16] **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

[16] Throughout the section the term "material" is used in the financial reporting meaning of the term, i.e., to indicate that all items that are reasonably likely to impact investors' decision-making must be recorded or reported in detail in a business's financial statements.

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	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 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.

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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** 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.

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	Disclosure 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 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.[17] 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.

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 or not the Amendments are likely to lead to a 'significant change in accounting practice' and therefore meet the criteria for a post-implementation review.

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

Draft

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

2.16 As a result, and subject to any stakeholder feedback, the UKEB [tentatively] 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 for comment

Appendix A: Glossary

Term	Description
The Amendments	*Amendments to IFRS 9 and IFRS 7 – Amendments to the Classification and Measurement of Financial Instruments*
DECA	Draft Endorsement Criteria Assessment
ECA	Endorsement Criteria Assessment
ED	Exposure Draft
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)
SI	Statutory Instrument
SLL	Sustainability Linked Lending/Loan
UKEB	UK Endorsement Board

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