UKEB FEEDBACK STATEMENT

IASB Exposure Draft
Amendments to the Classification and Measurement of Financial Instruments – Proposed amendments to IFRS 9 and IFRS 7

July 2023

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 its comment 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 public consultation on its Draft Comment Letter on the IASB's Exposure Draft *Amendments to the Classification and Measurement of Financial Instruments – Proposed amendments to IFRS 9 and IFRS 7* and explains how the UKEB's Final Comment Letter addressed those views.

The IASB's Exposure Draft

In March 2023 the IASB issued Exposure Draft (ED) IASB/ED/2023/2 *Amendments to the Classification and Measurement of Financial Instruments – Proposed amendments to IFRS 9 and IFRS 7*.

The ED is the part of the IASB's response to feedback received as part of its IFRS 9 *Post-implementation Review (PIR) of IFRS 9 – Classification and Measurement* project.

The IASB's Exposure Draft

The IASB's ED proposes amendments to IFRS 9. These amendments concern:

a) Derecognition of a financial liability settled through electronic transfer – to clarify that an entity is required to apply settlement date accounting when derecognising a financial asset or financial liability; and to permit an entity to deem a financial liability that is settled using an electronic payment system to be discharged before settlement date if specified criteria are met.

b) Classification of financial assets - to clarify the application guidance for assessing the contractual cash flow characteristics of financial assets, including:

i. financial assets with contractual terms that could change the timing or amount of contractual cash flows, for example, those with ESG-linked features;

ii. financial assets with non-recourse features; and

iii. financial assets that are contractually linked instruments.

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The IASB's Exposure Draft

The ED also proposes amendments or additions to the disclosure requirements in IFRS 7 for:

a) investments in equity instruments designated at fair value through other comprehensive income; and

b) financial instruments with contractual terms that could change the timing or amount of contractual cash flows on the occurrence (or non-occurrence) of a contingent event.

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Outreach Approach

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

Due to the project timeline, some outreach activities were performed at the outset of the project and these stakeholder views were reflected in the UKEB Draft Comment Letter.

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

As the IASB's ED related to targeted amendments to the Standards the Board took a proportionate and focused approach to outreach on the IASB proposals and the UKEB's Draft Comment Letter.

Outreach activities included:

- meetings with users, preparers, accounting firms and regulators, including discussions with the UKEB Financial Instruments Working Group;
- roundtable events with preparers;
- publication of an educational video on the UKEB website; and
- public consultation on the UKEB's Draft Comment Letter.

One written response to the UKEB's Invitation to Comment on its Draft Comment Letter was received. This is in addition to the stakeholder outreach statistics shown in the table.

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

Stakeholder type	Stakeholders	Organisations represented
Preparers	34	24
Auditors & Accounting firms	15	8
Regulator/ Standard setter	3	3
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.

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1. Derecognition of a financial liability settled through electronic transfer

IASB proposal	UKEB draft position	Stakeholders' responses to DCL	UKEB final position
• Clarifies that settlement date accounting should be applied when recognising or derecognising a financial asset or a financial liability. • Proposes an option that, when specified criteria are met, an entity would be permitted to derecognise a financial liability that is settled with cash using an electronic payment system before the settlement date.	Expressed concern about the practicalities of the accounting option. Recommended instead that such liabilities are derecognised at the time the instruction for the payment is made. Recommended streamlining the proposals related to settlement risk at B3.3.8 and B3.3.9.	• Agreed with the practical difficulties and provided examples of such challenges. • Confirmed the UKEB's understanding of commonly used payment systems in their businesses. • Expressed concerns regarding the risk of inconsistent derecognition practices developing. • Questioned whether the IASB should take a more holistic view of the settlement date accounting and recognition/derecognition issue, rather than an isolated approach for electronic payments. This matter is not urgent and a longer-term project allowing further time to consider all issues may avoid potential unintended consequences. • Some thought the settlement risk language at B3.3.8 and B3.3.9 should be retained as drafted by the IASB.	Expands on the draft position to add the following main points: • Stakeholders consulted expressed no interest in using the proposed accounting option as currently drafted. • Strengthens wording regarding the practical difficulties of the option based on stakeholder feedback, and provides examples. • Acknowledges the risk of inconsistent derecognition practices arising from the proposals. Does not include the draft recommendation to streamline the language regarding settlement risk at B3.3.8 and B3.3.9.

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2. Contractual terms that are consistent with a basic lending arrangement

IASB proposal	UKEB draft position	Stakeholders' responses to DCL	UKEB final position
• Amends how an entity would be required to assess the classification of financial assets, particularly those with contractual terms that change the timing or amount of contractual cash flows. • Provides additional examples of financial assets that have, or do not have, contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.	Welcomed the timely action to address the needs of instruments with ESG-linked features but expressed concern that: • The guidance regarding "basic lending" is not sufficiently clear. • The requirements for the new "direction and magnitude" test are not sufficiently clear. • The new "specific to the debtor" criteria creates challenges for contracts with both ESG-linked features and other types of contingent events. A number of wording changes to assist with clarity were suggested. Notes that while a pragmatic approach has been taken to this response, the IASB may need to establish a more robust framework in due course.	Emphasised that further clarity on the classification requirements is essential. Emphasised the need for enhanced examples to assist with clarity and application of the proposals. Provided further information and examples illustrating the practical and interpretation challenges arising from the new proposed requirements. Provided a range of suggestions to address these issues.	Builds upon the draft position to strengthen the language and provided further examples. The final letter: • Requests further detailed guidance on how ESG-linked features comply with the concepts of basic lending proposed in the ED. • Requests clarity on the "direction and magnitude" requirement, providing examples of practical challenges in applying this proposal. • Requests that further examples are provided, that more explicit analysis is shown, and that more complex scenarios are included in the examples. • Recommends that ESG-targets set for other entities within the same corporate group be permitted under the "specific to the debtor" requirement. • Provides examples of unintended consequences of the "specific to the debtor" requirements for other financial instruments.

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3. Financial assets with non-recourse features

IASB proposal	UKEB draft position	Stakeholders’ responses to DCL	UKEB final position
• Enhances the description of the term ‘non-recourse’. • Provides examples of the factors that an entity may need to consider when assessing the contractual cash flow characteristics of financial assets with non-recourse features.	Supported the IASB’s proposal. Highlighted to the IASB that the new definition appears narrower than existing practice, to allow the IASB to clarify if this was not its intention.	Broadly supported the draft position.	Consistent with the draft position.

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4. Contractually linked instruments

IASB proposal	UKEB draft position	Stakeholders' responses to DCL	UKEB final position
• Clarifies the description of transactions containing multiple contractually linked instruments. • Clarifies that the reference to instruments in the underlying pool can include financial instruments that are not within the scope of the classification requirements of IFRS 9, such as lease receivables.	Supported the IASB's proposed clarification on bilateral secured lending arrangements. Expressed concerns about: • Potential confusion that both the non-recourse and contractually linked instrument contractual cashflow tests may apply to contractually linked instruments, as one is now defined as a subset of the other. • The unintended consequence of implying that lease receivables would always meet the proposed cashflow characteristics test, and recommended modified wording to address this.	Broadly agreed with the UKEB position, subject to minor changes to the recommended wording on lease residuals.	Consistent with the draft position, but updates the recommended wording on lease residuals to reflect stakeholder feedback.

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5. Disclosures—investments in equity instruments designated at fair value through other comprehensive income

IASB proposal	UKEB draft position	Stakeholders' responses to DCL	UKEB final position
For investments in equity instruments for which subsequent changes in fair value are presented in other comprehensive income: • Requires disclosure of an aggregate fair value of equity instruments rather than the fair value of each instrument at the end of the reporting period. • Requires disclosure of the changes in fair value presented in other comprehensive income during the period.	Supported the IASB's proposal.	Supported this position.	Consistent with the draft position.

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6. Disclosures—contractual terms that could change the timing or amount of contractual cash flows

IASB proposal	UKEB draft position	Stakeholders' responses to DCL	UKEB final position
• Requires disclosure of contractual terms that could change the timing or amount of contractual cash flows on the occurrence (or non-occurrence) of a contingent event, separately for each class of financial assets measured at amortised cost or fair value through other comprehensive income and each class of financial liability measured at amortised cost.	Recommended the IASB provides disclosure objectives to assist stakeholders apply judgement to the disclosure requirements. Expressed concern about the broad nature of the proposals, the volume of which may obscure more relevant information. Disclosures on the range of changes to contractual cashflows by class of financial asset may be time consuming to prepare but not useful for investors' decision-making. Other requirements duplicate disclosures required elsewhere in this or other Standards. Recommended that the IASB reconsiders the scope of these disclosures.	Agreed and shared concerns about the broad scope of the proposals.	Consistent with the draft position.

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7. Transition

IASB proposal	UKEB draft position	Stakeholders' responses to DCL	UKEB final position
• Requires retrospective application, but no requirement to restate comparative information. • Requires disclosure of information about financial assets that changed measurement category as a result of applying these amendments.	Generally supported the IASB's proposal. Recommended that early adoption be permitted for the amendments relevant to the classification of financial instruments with ESG-linked features.	Agreed. Confirmed that ESG-related proposals are urgent and should proceed irrespective of the timing of the other proposals.	Suggests ESG-related amendments either have the option for early adoption, or are decoupled from the rest of the proposals and have an earlier effective date.

Disclaimer

This feedback statement has been produced in order to set out the UKEB’s response to stakeholder comments received on the IASB's Exposure Draft *Amendments to the Classification and Measurement of Financial Instruments - Proposed Amendments to IFRS 9 and IFRS 7* 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.

UK Endorsement Board

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