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EFRAG's Letter to the European Commission Regarding Endorsement of the Amendments to the Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7)

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9 October 2024

Dear Mr John Berrigan

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

Based on the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards, EFRAG is pleased to provide its opinion on the Amendments to the Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7) ('the Amendments'), which were issued by the IASB on 30 May 2024. An Exposure Draft of the Amendments was issued on 21 March 2023. EFRAG provided its comment letter on that Exposure Draft on 19 July 2023.

The objective of the Amendments is to address the concerns that stakeholders raised in the context of the Post-implementation Review of IFRS 9 *Classification and Measurement* ('PIR') and a request to the IFRS Interpretations Committee ('IFRS IC'). The Amendments mainly respond to a request from stakeholders to clarify some aspects of the application guidance for assessing the contractual cash flow characteristics of financial assets and accounting for the settlement of financial liabilities through electronic payment systems.

The Amendments shall be applied retrospectively for annual periods beginning on or after 1 January 2026, with earlier application permitted. If entities apply the Amendments earlier, they shall either apply all the amendments at the same time and disclose that fact or apply only the amendments to the Application Guidance to Section 4.1 of IFRS 9 (Classification of financial assets) together with related disclosure requirements for that earlier period and disclose that fact. A description is included in Appendix 1 to this letter.

In order to provide our endorsement advice as you have requested, we have first assessed whether the Amendments would meet the technical criteria for endorsement, in other words, whether the Amendments would provide relevant, reliable, comparable and understandable information required to support economic decisions, and the assessment of stewardship lead to prudent accounting and are not contrary to the true and fair view principle. We have then assessed whether the Amendments would be conducive to the European public good. We provide our conclusions below.

Please note that EFRAG's assessment does not include consequential amendments to IFRS 19 *Subsidiaries without Public Accountability: Disclosures*.

Do the Amendments meet the IAS Regulation technical endorsement criteria?

Based on the assessment performed, EFRAG has concluded that the Amendments meet the qualitative characteristics of relevance, reliability, comparability and understandability required to support economic decisions and the assessment of stewardship and raise no issues regarding prudent accounting. EFRAG has also assessed that the Amendments do not create any distortion in their interaction with other IFRS Standards and that all necessary disclosures are required. Therefore, EFRAG has concluded that the Amendments are not contrary to the true and fair view principle. EFRAG's reasoning is explained in Appendix 2 to this letter.

Are the Amendments conducive to the European public good?

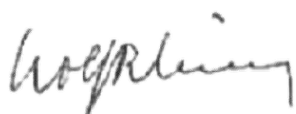
EFRAG has assessed that the Amendments would improve financial reporting and would reach an acceptable cost-benefit trade-off. EFRAG has not identified that the Amendments could have any significant adverse effect on the European economy, including financial stability and economic growth. Accordingly, EFRAG assesses that endorsing the Amendments is conducive to the European public good. EFRAG's reasoning is explained in Appendix 3 to this letter.

Our advice to the European Commission

As explained above, we have concluded that the Amendments meet the qualitative characteristics of relevance, reliability, comparability and understandability required to support economic decisions and the assessment of stewardship, raise no issues regarding prudent accounting, and that they are not contrary to the true and fair view principle. We have also concluded that the Amendments are conducive to the European public good. Therefore, we recommend the Amendments for endorsement without further delay.

On behalf of EFRAG, I would be happy to discuss our advice with you, other officials of the European Commission or the Accounting Regulatory Committee as you may wish.

Yours sincerely,



Wolf Klinz,
Chair of the EFRAG FRB

Appendix 1: Understanding the changes brought about by the Amendments

Background of the Amendments

1 The Amendments respond to feedback from the 2022 Post-implementation Review of the classification and measurement requirements in IFRS 9 *Financial Instruments,* related requirements in IFRS 7 *Financial Instruments: Disclosures* ('PIR') and a request to the IFRS Interpretations Committee ('IFRS IC').

2 In particular, the Amendments address:

(a) settling financial liabilities using an electronic payment system; and

(b) assessing contractual cash flow characteristics of financial assets, including those with environmental, social and governance ('ESG')-linked and similar features.

3 The disclosure requirements relating to investments in equity instruments designated at fair value through other comprehensive income ('FVOCI') were amended, and disclosure requirements for financial instruments with contingent features that do not relate directly to basic lending risks and costs were added.

The issues and how they have been addressed

Settling financial liabilities using an electronic payment system

4 These amendments result from an IFRS IC submission in September 2021 questioning the application of IFRS 9 in relation to the recognition of cash received by an entity via electronic transfer as settlement of a financial asset.

5 The IFRS IC concluded that an entity, in applying paragraphs 3.2.3(a) and 3.1.1 of IFRS 9, is required:

(a) to derecognise a trade receivable on the date on which its contractual rights to the cash flows from the trade receivable expire; and

(b) to recognise the cash (or other financial asset) received as settlement of that trade receivable on the same date.

6 Respondents to the IFRS IC tentative agenda decision did not disagree with its technical analysis and conclusions. However, they expressed concerns about the disruption of long-standing practices, costs of applying the agenda decision and possible adverse consequences in relation to other fact patterns, in particular the derecognition of trade payables. As a result of the above concerns, the tentative agenda decision was not finalised and the IASB decided to address them by amending IFRS 9.

7 The Amendments permit an entity to elect to derecognise before the settlement date a financial liability that will be settled in cash using an electronic payment system when certain criteria are met.

Assessing contractual cash flow characteristics of financial assets (Section 4.1 of IFRS 9)

8 The Amendments address the challenges reported by PIR respondents in assessing the contractual cash flows of financial assets with features linked to the achievement of ESG targets as well as the contractual cash flow characteristics of financial assets with non-

recourse features and contractually linked instruments. PIR respondents considered that amortised cost provides useful information to users of financial statements about the amount, timing and uncertainty of future cash flows on some financial assets with ESG-linked features and noted that a solution was expeditiously needed.

Financial instruments with ESG-linked features

9 The Amendments do not provide an exception to the requirements in IFRS 9 for financial instruments with ESG-linked features but explain how to apply the requirements in the Application Guidance to Section 4.1 of IFRS 9 to all financial assets, including those with ESG-linked features, by amending the requirements relating to:

(a) the elements of interest that are consistent with a basic lending arrangement; and

(b) contractual terms that change the timing or amount of contractual cash flows.

Financial assets with non-recourse features

10 The Amendments clarify a description of a financial asset with non-recourse features and the purpose of the 'look through' assessment.

Contractually linked instruments ('CLIs')

11 The Amendments enhance the description of the characteristics of CLIs, explain that a transaction that uses CLIs must also have non-recourse features and the paragraphs of IFRS 9 that should be applied to assess CLIs. The Amendments also explain in which situations the financial instruments that are not within the scope of the classification requirements of IFRS 9, such as some lease receivables, can be included in the underlying pool of financial instruments.

Disclosure requirements in IFRS 7

Investments in equity instruments designated at FVOCI

12 To respond to concerns from PIR respondents that prohibition of recycling of equity investments designated at FVOCI could mean that financial statements might not faithfully represent the financial performance of such investments upon disposal, and to provide users of financial statements with useful, transparent and more comprehensive information, the Amendments require entities to disclose additional information about the amounts accumulated in other comprehensive income and, in particular, about fair value gains or losses on disposal of such investments.

Contractual terms that could affect the amount of contractual cash flows

13 The Amendments require an entity to disclose qualitative and quantitative information about contractual terms that could change the amount of contractual cash flows based on the occurrence (or non-occurrence) of a contingent event that does not relate directly to changes in basic lending risks and costs (such as the time value of money or credit risk). The disclosure should be provided by class of financial assets measured at amortised cost or FVOCI and by class of financial liabilities measured at amortised cost.

14 They respond to the users' statement that it is important to their analysis and assessment of an entity's future cash flows to understand the effect of such contractual terms.

What has changed?

Settling financial liabilities using an electronic payment system (Sections 3.1 and 3.3 of IFRS 9)

15 Paragraph B3.1.2A is added to IFRS 9 to clarify the date of initial recognition or derecognition of financial assets and financial liabilities with reference to the relevant paragraphs in IFRS 9.

16 Paragraph B3.3.8 is added to IFRS 9 to describe the criteria for derecognising a financial liability before the settlement date.

17 Paragraph B3.3.9 is added to IFRS 9 to elaborate on the meaning of the criterion in paragraph B3.3.8 of the insignificant settlement risk associated with the electronic payment system.

18 Finally, paragraph B3.3.10 of IFRS 9 is added to explain that election to apply paragraph B3.3.8 of IFRS 9 shall apply to all settlements made through the same electronic payment system.

Assessing contractual cash flow characteristics of financial assets (Section 4.1 of IFRS 9)

Financial instruments with ESG-linked features

19 Paragraph B4.1.8A of IFRS 9 is added to describe how an entity is required to assess interest for the purposes of applying paragraph B4.1.7A of IFRS 9 and to clarify the term 'basic lending arrangement'. This paragraph also explains when contractual cash flows are inconsistent with a basic lending arrangement.

20 Paragraph B4.1.10 of IFRS 9 is amended and paragraph B4.1.10A of IFRS 9 is added to describe the interrelated principles for assessing the contractual cash flows over the life of a financial asset, in particular that:

(a) all possible changes in contractual cash flows are considered irrespective of the probability of a contingent event occurring; and

(b) if the nature of a contingent event does not relate directly to changes in basic lending risks and costs, an entity shall further assess the effect of the contingent feature on the contractual cash flows.

21 The examples to paragraphs B4.1.13 and B4.1.14 of IFRS 9 are added to illustrate these principles.

Financial assets with non-recourse features

22 Paragraph B4.1.16A of IFRS 9 is added to clarify the meaning of the term 'non-recourse' used in paragraph B4.1.16 of IFRS 9.

23 Paragraph B4.1.17 of IFRS 9 is added to explain the purpose of the 'look through' assessment required for financial assets with non-recourse features to enable an entity to understand the link between the underlying assets and the contractual cash flows of the financial asset being classified.

Contractually linked instruments ('CLI')

24 Paragraph B4.1.20 is amended to clarify the description of the characteristics of CLIs that distinguish them from other transactions. A description of a 'waterfall' structure to explain how concentrations of credit risk are created is also added.

25 Paragraph B4.1.20A is added to include a description of transactions that are not CLIs and the paragraphs of IFRS 9 that should be applied by the holders of such debt instruments.

26 Paragraph B4.1.23 is amended to clarify that financial instruments which are not within the scope of the classification requirements of IFRS 9, such as some lease receivables, can be included in the underlying pool of financial instruments for the purpose of paragraph B4.1.23 of IFRS 9 if those instruments have contractual cash flows equivalent to solely payments of principal and interest on the principal amount outstanding ('SPPI'). The examples to illustrate that not all lease receivables meet the condition in paragraph B4.1.23 of IFRS 9 are also provided.

Disclosure requirements in IFRS 7

Investments in equity instruments designated at FVOCI

27 Paragraph 11A of IFRS 7 is amended and paragraph 11A(f) of IFRS 7 is added to require the disclosure per each class of investment of fair value gains or losses presented in other comprehensive income during the reporting period. Paragraph 11A(f) also requires disaggregating fair value gains or losses between those related to investments derecognised during the reporting period and those related to investments held at the end of the reporting period.

Contractual terms that could affect the amount of contractual cash flows

28 Paragraphs 20B-20D of IFRS 7 are added to require disclosure per each class of financial asset measured at amortised cost or FVOCI and per class of financial liabilities measured at amortised cost:

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

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

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

When do the Amendments become effective?

29 The amendments to IFRS 9 become effective for annual reporting periods beginning on or after 1 January 2026. Earlier application is permitted.

30 If an entity elects to apply the Amendments for an earlier period, it shall either:

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

(b) apply only the amendments to the Application Guidance of Section 4.1 of IFRS 9 (Classification of financial assets) together with related disclosure requirements for that earlier period and disclose that fact.

31 An entity is not required to restate prior periods to reflect the application of the Amendments.

32 An entity shall apply the amendments to IFRS 7 when it applies the amendments to IFRS 9 in accordance with paragraphs 7.1.12–7.1.13 of IFRS 9.

33 If an entity elects to apply only the amendments to the Application Guidance to Section 4.1 of IFRS 9 (Classification of financial assets) for an earlier period in accordance with paragraph 7.1.13(b) of IFRS 9, the entity shall also apply paragraphs 20B, 20C and 20D of this Standard at the same time.

34 In either case, the entity need not provide the disclosures required by the Amendments for any period presented before the date of its initial application of the Amendments.

Appendix 2: EFRAG's technical assessment of the Amendments against the endorsement criteria

Does the accounting that results from the application of the Amendments meet the technical criteria for endorsement in the European Union?

1 EFRAG has considered whether the Amendments meet the technical requirements of the European Parliament and of the Council on the application of international accounting standards, as set out in Regulation (EC) No 1606/2002 (The IAS Regulation); in other words, that the Amendments:

(a) are not contrary to the principle set out in Article 4(3) of Council Directive 2013/34/EU (The Accounting Directive); and

(b) meet the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

2 Article 4(3) of the Accounting Directive provides that:

'The annual financial statements shall give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss. Where the application of this Directive would not be sufficient to give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss, such additional information as is necessary to comply with that requirement shall be given in the notes to the financial statements'.

3 The IAS Regulation further clarifies that *'to adopt an international accounting standard for application in the Community, it is necessary firstly that it meets the basic requirement of the aforementioned Council Directives, that is to say, that its application results in a true and fair view of the financial position and performance of an enterprise – this principle being considered in the light of the said Council Directives without implying a strict conformity with each and every provision of this Directive'* (Recital 9 of the IAS Regulation).

4 EFRAG's assessment as to whether the Amendments would not be contrary to the true and fair view principle has been performed against the European legal background summarised above.

5 In its assessment, EFRAG has considered the Amendments from the perspective of both usefulness for decision-making and assessing the stewardship of management. EFRAG has concluded that the information resulting from the application of the Amendments is appropriate both for making decisions and assessing the stewardship of management.

6 EFRAG's assessment of whether the Amendments are not contrary to the true and fair view principle set out in Article 4(3) of Council Directive 2013/34/EU is based on the assessment of whether it meets all other technical criteria and whether they lead to prudent accounting. EFRAG's assessment also includes assessing whether the Amendments do not interact negatively with other IFRS Standards and whether all necessary disclosures are required. Detailed assessments are included in this appendix in the following paragraphs:

(a) relevance: paragraphs 7 to 22;

(b) reliability: paragraphs 23 to 32;

(c) comparability: paragraphs 33 to 49;

(d) understandability: paragraphs 50 to 59;

(e) whether overall they lead to prudent accounting: paragraphs 60 to 65; and

(f) whether they would not be contrary to the true and fair view principle: paragraphs 66 to 69.

Relevance

7 Information is relevant when it influences the economic decisions of users by helping them evaluate past, present or future events or by confirming or correcting their past evaluations. Information is also relevant when it assists in evaluating the stewardship of management.

8 EFRAG considered whether the Amendments would result in the provision of relevant information – in other words, information that has predictive value, confirmatory value or both – or whether they would result in the omission of relevant information.

Settling financial liabilities using an electronic payment system

9 The Amendments respond to stakeholders' concerns about accounting for financial liabilities settled through an electronic payment system, which result from IFRS IC submission. They provide an exception from general recognition and derecognition rules for financial assets (paragraphs 3.1.1 and 3.2.3 of IFRS 9) and financial liabilities (paragraphs 3.1.1 and 3.3.1 of IFRS 9) by permitting an entity to deem a financial liability to be discharged before the settlement date if certain criteria are met.

10 The Amendments allow an entity to derecognise a financial liability from its statement of financial position before the settlement date only when it has no practical ability (a) to cancel the payment instruction, (b) to access the cash to be used for settlement and (c) when the settlement risk associated with the electronic payment system is insignificant. They address operational concerns of the entities using electronic payment systems where the execution of a payment transaction takes several days. Although the Amendments provide an exception from general derecognition rules, they have a narrow scope, only affecting entities that use such electronic payment systems, and apply to all settlements made through the same electronic payment system. In addition, the exception in paragraph B3.3.8 is not extended to financial assets or to other payment methods, and the three criteria in paragraph B3.3.8 further limit its application.

11 As a result, EFRAG assesses that the Amendments would not result in the omission of relevant information and, therefore, satisfy the relevance criterion.

Assessing contractual cash flow characteristics of financial assets and related disclosure requirements

12 EFRAG shares the views of stakeholders that amortised cost provides useful and relevant information to users of financial statements about the amount, timing and uncertainty of future cash flows on some financial assets with ESG-linked features.

13 The Amendments explain what elements of interest are consistent with a basic lending arrangement, in which cases contractual cash flows are inconsistent with it and how to

assess the contractual cash flows over the life of a financial asset if the nature of a contingent event does not relate directly to changes in basic lending risks and costs.

14 Applying these amendments will permit entities to classify certain financial instruments with ESG-linked features at amortised cost, which will provide relevant information for these types of instruments to users of financial statements.

15 In addition, the new disclosure required by the Amendments will provide users with qualitative and quantitative information about contractual terms that could change the amount of contractual cash flows based on the occurrence (or non-occurrence) of a contingent event that does not relate directly to changes in basic lending risks and costs. This information is relevant for their analysis and assessment of an entity's future cash flows as it helps to understand the effect of contractual terms that could change the amount of contractual cash flows.

16 Paragraph B4.1.16A of the Amendments enhances the description of the term 'non-recourse', in particular by specifying that a financial asset has non-recourse features if an entity's ultimate right to receive cash flows is contractually limited to the cash flows generated by specified assets. They also clarify the scope of CLI requirements and when the requirements for non-recourse financial assets or CLI should be applied.

17 EFRAG assesses that the Amendments help preparers to apply the related requirements. EFRAG assesses that it will result in more relevant information for users of financial statements.

18 EFRAG's overall assessment is that the Amendments, together with their disclosure requirements, would result in the provision of relevant information and therefore satisfy the relevance criterion.

Disclosure requirements for investments in equity instruments designated at FVOCI

19 The feedback from the PIR (in particular, from the insurance industry) informed that the prohibition of recycling of equity investments designated at FVOCI could mean that financial statements might not faithfully represent the financial performance of such investments upon disposal and that the information about 'realised' and 'unrealised' gains and losses from such equity investments is relevant and important for users of the financial statements. This information will help users to understand the financial performance of the equity investments that are disposed of.

20 Therefore, the Amendments introduce additional disclosure requirements about the amounts accumulated in other comprehensive income as well as amounts derecognised during the reporting period.

21 In EFRAG's view this disclosure, even though not replacing the recycling of FVOCI gains and losses to profit or loss when realised, will enable users to receive more detailed information about the gains and losses on equity instruments designated at FVOCI and reconstruct, if needed, what they considered to be realised gains and losses. EFRAG will be monitoring the IFRS 9 and IFRS 17 *Insurance Contracts* implementation by the insurance industry to assess the impact resulting from non-recycling of equity instruments designated at FVOCI.

22 Hence, EFRAG's overall assessment is that the Amendments would result in the provision of relevant information and therefore satisfy the relevance criterion.

Reliability

23 EFRAG also considered the reliability of the information that will be provided by applying the Amendments. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully what it either purports to represent or could reasonably be expected to represent, and it is complete within the bounds of materiality and cost.

24 There are a number of aspects to the notion of reliability: freedom from material error and bias, faithful representation and completeness.

Settling financial liabilities using an electronic payment system

25 The exception in paragraph B3.3.8 can only be applied when the entity has no practical ability to withdraw, stop or cancel the payment instruction and to access the cash to be used for settlement as a result of the payment instruction and in case the settlement risk associated with the electronic payment system is insignificant. Therefore, the statement of financial position will faithfully represent the related financial liability and cash balances.

26 EFRAG's overall assessment is that the Amendments would result in the provision of reliable information and therefore satisfy the reliability criterion.

Assessing contractual cash flow characteristics of financial assets and related disclosure requirements

27 The Amendments require an entity to further assess the effect of the contingent feature on the contractual cash flows if the nature of a contingent event does not relate directly to changes in basic lending risks and costs.

28 The Amendments further require that if, and only if, in all contractually possible scenarios the contractual cash flows would not be significantly different from the contractual cash flows on a financial instrument with identical contractual terms – but without such a contingent feature – the financial instruments can be considered having cash flows that are SPPI and can, therefore, be measured at amortised cost or at FVOCI.

29 The Amendments also clarify in paragraph B4.1.8A that, if the contractual cash flows are indexed to a variable that is not a basic lending risk or cost (for example, the value of equity instruments or the price of a commodity), or if they represent a share of the debtor's revenue or profit, even if such contractual terms are common in the market in which the entity operates they are inconsistent with a basic lending arrangement.

30 EFRAG, therefore, assesses that after meeting the above requirements, the resulting measurement of financial instruments at amortised cost or FVOCI provides reliable information about these financial instruments.

31 EFRAG assesses that the amendments with respect to the non-recourse features and CLI will help reduce diversity in practice, which will result in improved reliability of the information provided in the financial statements.

32 Hence, the Amendments will result in the provision of more reliable information and therefore satisfy the reliability criterion.

Comparability

33 The notion of comparability requires that like items and events are accounted for in a consistent way through time and by different entities and that unlike items and events should be accounted for differently.

34 EFRAG has considered whether the Amendments result in transactions that are:

(a) economically similar being accounted for differently; or

(b) transactions that are economically different being accounted for as if they were similar.

Settling financial liabilities using an electronic payment system

35 The Amendments introduce an exception from general recognition and derecognition rules for financial assets and financial liabilities by permitting derecognition of a financial liability before the settlement date if certain criteria are met. The Amendments also clarify on which date an entity is required to recognise or derecognise financial assets or financial liabilities unless paragraph 3.1.2 of IFRS 9 applies.

36 Although an exception from a general rule usually has a negative impact on comparability, in this particular case it is introduced to provide a practical solution in very specific circumstances and to allow consistent accounting for financial liabilities by entities using different electronic systems, so one could consider that these transactions are economically similar.

37 An entity is required to apply the exception on a system-by-system basis, which could negatively impact comparability if different entities decide to apply the exception differently to the same payment system. In case the exception is applied only to some of the payment systems an entity uses, the comparability of cash/financial liabilities balances within the same entity will also be affected. However, EFRAG considers that the requirements in paragraph B3.3.9 will partially alleviate these concerns and ensure consistent application.

38 EFRAG also notes that, although entities applying this exception will derecognise financial liabilities and related cash balances at different moments, compared to entities applying general derecognition rules, entities that did not elect to apply the exception in paragraph B3.3.8 of the Amendments could apply paragraph 48 of IAS 7 *Statement of Cash Flows* that requires disclosure of significant cash balances held by an entity that are not available for use by the group. This would help users of financial statements to understand the status of cash balances at that date and compare it between different entities. In addition, the requirements in IFRS 7 and IAS 1 *Presentation of Financial Statements* also require an entity to disclose information necessary for users of financial statements to understand the nature, amount and timing of future cash flows. As a result, EFRAG assesses that users will have sufficient information to compare the financial liabilities and cash balances between the entities applying and not applying the exception in paragraph B3.3.8.

39 EFRAG assesses that the clarification about 'settlement date' in paragraph 3.1.2A, together with the narrow scope of the exception, improves consistent application of derecognition requirements in IFRS 9 and addresses the operational concerns of stakeholders.

40 EFRAG's overall assessment is that the requirements in the Amendments will not have a negative impact on comparability of information.

Assessing contractual cash flow characteristics of financial assets and related disclosure requirements

41 The Amendments state that a financial instrument (including some financial instruments with ESG-linked features) fulfils the requirements to be measured at amortised cost or FVOCI if, in all contractually possible scenarios, the contractual cash flows before and after a contingent event that does not relate directly to changes in basic lending risks and costs would not be significantly different from the contractual cash flows on a financial instrument with identical contractual terms but without such a contingent feature.

42 The application of the Amendments allows consistent and comparable measurement of the financial instruments having contractual cash flows consistent with the basic lending arrangement and similar economic substance.

43 The disclosure of the effect of contractual terms that could change the amount of contractual cash flows required by paragraphs 20B-20D of the Amendments is also expected to improve the comparability of information.

44 The Amendments for financial assets with non-recourse features and CLIs address the stakeholders' concerns about diverse interpretations of some of the requirements. For example, applying the requirements for contractually-linked instruments instead of the requirements for financial assets with non-recourse features (or vice versa) could result in different accounting outcomes.

45 The Amendments clarify the description of CLIs, when they have non-recourse features and how such financial instruments need to be assessed.

46 In EFRAG's view, these clarifications help to ensure consistent accounting, reduce diversity in practice and hence improve comparability. Therefore, EFRAG's overall assessment is that the Amendments satisfy the comparability criterion.

Disclosure requirements for investments in equity instruments designated at FVOCI

47 The additional disclosure required in the Amendments will provide users of financial statements with information about fair value gains and losses on equity investments designated at FVOCI disposed of during the period and held at the end of the reporting period.

48 This disclosure will allow users of financial statements to assess and compare the returns on equity investments between different entities.

49 As a result, EFRAG assesses that the Amendments will enhance the comparability of information.

Understandability

50 The notion of understandability requires that the financial information provided be readily understandable by users with reasonable knowledge of business, economic activity and accounting and the willingness to study the information with reasonable diligence.

51 Although there are a number of aspects related to the notion of 'understandability', EFRAG believes that most of the aspects are covered by the discussion above about relevance, reliability and comparability.

52 As a result, EFRAG believes that the main additional issue it needs to consider in assessing whether the information resulting from the application of the Amendments is understandable is whether that information will be unduly complex.

Settling financial liabilities using an electronic payment system

53 EFRAG assesses that the criteria introduced by targeted amendments to general recognition and derecognition principles of IFRS 9 are not overly complex and should not have a negative impact on the understandability of the resulting information.

54 In EFRAG's view, the Amendments do not introduce any new complexity that may impair understandability. Therefore, EFRAG's overall assessment is that the Amendments satisfy the understandability criterion in all material respects.

Assessing contractual cash flow characteristics of financial assets and related disclosure requirements

55 The Amendments allow some financial instruments with ESG-linked and similar features to meet SPPI requirements and hence to be measured at amortised cost or FVOCI. The stakeholders reported that amortised cost provides useful information to users of financial statements about the amount, timing and uncertainty of future cash flows of these financial instruments.

56 These financial instruments will be presented in the financial statements in the same category as other financial instruments, having SPPI cash flows but without contractual terms containing such contingent features. To allow users of financial statements to understand the impact of these contractual terms on the contractual cash flows, the Amendments require disclosure of (a) a qualitative description of the nature of the contingent event; (b) quantitative information about the possible changes to contractual cash flows that could result from those contractual terms (for example, the range of possible changes); and (c) the gross carrying amount of financial assets and the amortised cost of financial liabilities subject to those contractual terms.

57 EFRAG's overall assessment is that the above requirements in the Amendments will result in information that is understandable.

Disclosure requirements for investments in equity instruments designated at FVOCI

58 The additional disclosure required in the Amendments will provide users of financial statements with the information about fair value gains and losses on equity investments designated at FVOCI disposed of during the period. The combination of the requirements in paragraph 11A(f) of IFRS 7 and, in particular, the requirement to disclose the cumulative fair value gain or loss on disposal would enable entities to provide users of financial statements with information about what is generally considered to be 'realised' gains or losses. This information is deemed to be required by users of financial statements to better understand and assess financial performance of equity investments.

59 EFRAG's overall assessment is that the disclosure requirements in the Amendments will result in information that is understandable.

Prudence

60 For the purpose of this endorsement advice, prudence is defined as caution in conditions of uncertainty. In some circumstances, prudence requires asymmetry in recognition such that assets or income are not overstated and liabilities or expenses are not understated.

Settling financial liabilities using an electronic payment system

61 The Amendments introduce a narrow-scope exception from general derecognition principles, which only applies to financial liabilities to be settled through electronic payment systems with insignificant settlement risk. It does not apply to financial assets or to other payment methods, and the three criteria in paragraph B3.3.8 further limit its application.

62 Based on all the above, EFRAG has concluded that the application of the Amendments will lead to prudent accounting.

Assessing contractual cash flow characteristics of financial assets and related disclosure requirements

63 The Amendments clarify which features of financial instruments are in the scope of amortised cost or FVOCI measurement. These instruments contain contractual terms that could change the amount of contractual cash flows based on occurrence (or non-occurrence) of a contingent event that does not relate directly to the changes in basic lending risks and costs.

64 To inform users about the effect of such contractual terms on the changes in the contractual cash flows, the Amendments require a set of qualitative and quantitative disclosures.

65 EFRAG is of view that the combination of classification and disclosure requirements in the Amendments will not adversely affect prudent accounting.

True and Fair View Principle

66 A Standard will not impede information from meeting the true and fair view principle when, on a stand-alone basis and in conjunction with other IFRS Standards, it:

(a) does not lead to unavoidable distortions or significant omissions in the representation of that entity's assets, liabilities, financial position and profit or loss; and

(b) includes all disclosures that are necessary to provide a complete and reliable depiction of an entity's assets, liabilities, financial position and profit or loss.

67 EFRAG has assessed that the Amendments do not create any negative interactions with other IFRS Standards. Accordingly, EFRAG has assessed that the Amendments do not lead to unavoidable distortions or significant omissions and therefore do not impede financial statements from providing a true and fair view.

68 EFRAG has concluded that the appropriate disclosures that are necessary to provide a complete and reliable depiction of an entity's assets, liabilities, financial position and profit or loss are required.

69 As a result, EFRAG concludes that the application of the Amendments would not lead to information that would be contrary to the true and fair view principle.

Conclusion

70 Accordingly, for the reasons set out above, EFRAG's assessment is that the Amendments meet the technical requirements for EU endorsement as set out in the IAS Regulation.

Appendix 3: Assessing whether the Amendments are conducive to the European public good

Introduction

1 EFRAG considered whether it would be conducive to the European public good to endorse the Amendments. In addition to its assessment included in Appendix 2, EFRAG has considered a number of issues in order to identify any potential negative effects for the European economy on the application of the Amendments. In doing this, EFRAG considered:

(a) whether the Amendments improve financial reporting. This requires a comparison of the Amendments with the existing requirements and how they fit into IFRS Standards as a whole;

(b) the costs and benefits associated with the Amendments; and

(c) whether the Amendments could have an adverse effect on the European economy, including financial stability and economic growth.

2 These assessments allow EFRAG to draw a conclusion as to whether the Amendments are likely to be conducive to the European public good. If the assessment concludes there is a net benefit, the Amendments will be conducive to the objectives of the IAS Regulation.

EFRAG's evaluation of whether the Amendments are likely to improve the quality of financial reporting

3 EFRAG notes that the Amendments are designed:

(a) Provide a narrow-scope solution for the application of the derecognition requirements for financial liabilities settled in cash using an electronic payment system before the settlement date when certain criteria are met. The Amendment addresses concerns expressed by stakeholders on the tentative agenda decision on the IFRS IC submission in September 2021 concerning the application of IFRS 9 in relation to the recognition of cash received via electronic transfer as settlement of a financial asset.

(b) Provide a speedy solution to resolve difficulties in applying the guidance on assessing whether a financial asset's contractual cash flows are SPPI on the principal amount outstanding for financial assets with ESG-linked or similar features, which were raised by respondents (including EFRAG) during the PIR of classification and measurement requirements of IFRS 9. To address stakeholders' request about the need for an urgent solution, the IASB allows early application of the amendments to the Application Guidance to Section 4.1 of IFRS 9 (Classification of financial assets) and related disclosures without early adoption of other parts of the Amendments.

(c) Provide users with additional information about contingent events, their nature and possible effects on contractual cash flows (e.g. the nature and effect of changes based on the occurrence or non-occurrence of a contingent event that does not relate directly to changes in basic lending risks and costs by introducing additional disclosure requirements. This will address one of the concerns of the PIR whereby users of financial statements indicated that they need to better understand the effect of contractual terms that could change the timing or amount of contractual cash flows.

(d) Provide solutions for other issues on the SPPI assessment raised by PIR participants, i.e. assessment of financial assets with non-recourse features and CLIs.

(e) Provide users of financial statements with useful, transparent and more comprehensive information about the amounts accumulated in other comprehensive income and, in particular, about fair value gains or losses on disposal of equity investments. Currently, IFRS 9 prohibits an entity from reclassifying the amounts accumulated in OCI to profit or loss if the entity disposes of an equity investment that was designated as FVOCI. Participants in the PIR had indicated that this prohibition meant that the financial statements may not faithfully represent the performance of such investments upon disposal. In EFRAG's view this disclosure, even though not replacing the recycling of gains and losses at derecognition of equity instruments designated at FVOCI to profit or loss, will enable users to receive more relevant information about the gains and losses on equity instruments designated at FVOCI and reconstruct, if needed, what they consider to be realised gains and losses. EFRAG will be monitoring the IFRS 9 and IFRS 17 implementation by the insurance industry to assess the impact resulting from non-recycling of equity instruments designated at FVOCI.

4 EFRAG has therefore concluded that the Amendments are likely to improve the quality of financial reporting. In addition, EFRAG indicates that the Amendments provide a speedy solution to some of the issues, notably the SPPI assessment of financial instruments with ESG-linked and similar features, where such a solution was expeditiously required by PIR respondents and other constituents, also permitting their early adoption.

EFRAG's initial analysis of the costs and benefits of the Amendments

5 EFRAG has considered that a less extensive cost-benefit analysis of the effects of the Amendments is proportionate and needed than would be the case for Standards or Interpretations, which have a wider scope. Furthermore, the urgency of some of the amendments, especially those related to the SPPI assessment of financial instruments with ESG-linked or similar features, limits the extent to which any formal effect analysis can be carried out.

Cost for preparers

6 EFRAG has carried out an assessment of the cost implications for preparers resulting from the Amendments.

7 EFRAG does not expect that implementation of the amendments related to the SPPI assessment – i.e. those concerning financial assets with ESG-linked and similar features, financial assets with non-recourse features and CLIs – will result in significant costs for preparers. Conducting the SPPI assessment is familiar to the preparers of the financial statements since IFRS 9 came into effect. In addition, the Amendments do not require to perform a quantitative analysis of the different elements of interest to determine whether contractual cash flows are consistent with a basic lending arrangement, stating instead that, in many cases, qualitative assessment may be sufficient. This will allow preparers to avoid significant additional implementation and ongoing costs. EFRAG notes that the use of amortised cost or FVOCI measurement for financial instruments with varying contractual cash flows might increase the application of paragraph B5.4.6 of IFRS 9 when the expectation

relating to contractual cash flows is changing. However, whilst some modifications of the existing internal processes for the preparers may be necessary, including updating internal accounting documentation, accounting categories and staff training, it is unlikely that those changes would result in significant costs for the preparers.

8 On the contrary, EFRAG considers that the disclosure requirements intended to provide more information about contingent events and their nature and possible effects on contractual cash flows may be more burdensome for some preparers, especially for those who hold significant and growing portfolios of financial assets with ESG-linked or similar features. Despite suggestions from participants in the PIR, including EFRAG, the IASB decided not to exclude several categories of financial instruments, notably financial assets at FVOCI and credit impaired financial assets, from the scope of the disclosure requirements, while such measure would have reduced the costs for preparers. EFRAG observes, however, that the final version of the Amendments contains several improvements which will reduce these costs, namely:

(a) The scope of the disclosure requirements is described by referring to contractual terms that change the amount of contractual cash flows based on a contingent event that does not directly relate to a change in basic lending risks or cost, which effectively narrows the scope of financial instruments to which disclosure requirements may apply.

(b) More flexibility is given in the manner of how quantitative disclosures should be provided. In particular, instead of requiring that the range of possible adjustments to contractual cash flows be disclosed, in the final Amendments this range is referred to as an example of how this disclosure can be provided while different ways of disclosing the required information are allowed if the entity considers that doing so would result in better information being disclosed.

9 Non-financial entities are also expected to bear certain costs due to these disclosure requirements as they can have financial liabilities with the mentioned features. However, such costs are unlikely to be significant because most of these entities would only issue a limited number of such instruments.

10 EFRAG expects that costs resulting from implementation of the disclosure requirements on investments in equity instruments designated at FVOCI will be mostly limited to necessary one-off updates of reporting systems and are, therefore, unlikely to be significant.

11 EFRAG expects that for some entities the amendments related to settling financial liabilities using an electronic payment system may be burdensome from the operational perspective and may give rise to significant costs due to the necessity of updating multiple accounting and reporting systems, also significantly changing some internal cash reports. EFRAG also understands that there are concerns regarding feasibility of the effective date of 1 January 2026 for this part of the Amendments, similar to those expressed by an IASB member in a dissenting opinion to the Amendments. However, in EFRAG's view it can be mitigated by the fact that an entity can use top-level adjustments to reflect the application of the Amendments while the accounting systems are being updated.

12 Overall, EFRAG's assessment is that the Amendments will likely result in limited and mostly one-off costs for preparers except for (a) disclosure requirements for financial instruments with ESG-linked and similar features and (b) settling financial liabilities using an electronic payment system due to the effective date of 1 January 2026 which, according to some opinions, does not leave sufficient time for the implementation of the requirements.

Costs for users

13 EFRAG has carried out an assessment of the cost implications for users resulting from the Amendments.

14 Except for initial one-off costs of understanding the impacts of the Amendments on the entities and training of employees, users are unlikely to incur significant implementation costs resulting from the Amendments.

Benefits for preparers and users

15 EFRAG has carried out an assessment of the benefits for users and preparers resulting from the Amendments.

16 Overall, EFRAG's assessment is that users are likely to benefit from the Amendments.

(a) New requirements concerning SPPI assessment will provide a solution for the concerns regarding financial instruments with ESG-linked and similar features as well as financial assets with non-recourse features and CLIs, which were raised during the PIR. This will result in providing more relevant and reliable information about the financial instruments in question. Also, by clarifying and elaborating the existing requirements, the Amendments will reduce diversity of existing accounting practice, thus improving consistency and comparability of financial information over these instruments.

(b) New disclosures will provide additional useful information about contingent events and their nature and possible effects on contractual cash flows, notably for financial instruments with ESG-linked and similar features, and about the amounts accumulated in other comprehensive income and, in particular, about fair value gains or losses on disposal of equity investments. Therefore, users will be able to enhance their analysis. However, EFRAG is of view that disclosing this information for credit impaired financial assets does not provide relevant information to users of financial statements.

(c) Amendments related to settling financial liabilities using an electronic payment system will result in more consistent application of derecognition requirements of IFRS 9 and, accordingly, in improved comparability of financial statements.

17 EFRAG's assessment is that preparers are also likely to benefit from the Amendments.

(a) Amendments related to settling financial liabilities using an electronic payment system will improve the consistent application of derecognition requirements of IFRS 9 and address operational concerns.

(b) Amendments related to the SPPI assessment of financial assets with ESG-linked and similar features will allow more financial assets to be measured at amortised cost which, in many cases, represents the preferred accounting treatment both for

preparers and for users. In addition, these amendments, as well as the amendments related to the SPPI assessment of financial assets with non-recourse features and CLIs, further clarify requirements of IFRS 9, thus simplifying in many cases their application by preparers.

Conclusion on the costs and benefits of the Amendments

18 EFRAG's overall assessment is that the benefits of the Amendments to users and preparers are likely to outweigh costs associated with their implementation, notably operational burden caused by new disclosure requirements on financial instruments with ESG-linked and similar features and the operational complexities of implementing amendments related to settling financial liabilities using an electronic payment system within the given time frame.

Conclusion

19 EFRAG believes that the Amendments will generally bring improved financial reporting when compared to the existing requirements of IFRS 9 and IFRS 7. As such, their endorsement is conducive to the European public good in that improved financial reporting improves transparency and assists in the assessment of management stewardship.

20 EFRAG has not identified that the Amendments could have any significant adverse effect on the European economy, including financial stability and economic growth.

21 Furthermore, EFRAG has not identified any other factors that would mean endorsement is not conducive to the public good.

22 EFRAG has concluded that the benefits of the endorsement of the Amendments outweigh the costs involved. Furthermore, in the course of its assessment as summarised above, EFRAG has not identified any adverse effect of the Amendments on the European economy and has therefore concluded that, overall, endorsing them is conducive to the European public good.