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Post Implementation Review:

Process discussion, in preparation of the PIR of IFRS 9 C&M

Cover Note

Objective

- 1 The objective of this session is for the EFRAG Board to provide directions on the process to be put in place for the PIR of IFRS 9.

Background

- 2 As per the Technical Work Plan that the EFRAG Board reviews periodically, post-implementation review responses should be finalised by EFRAG TEG, as responses to IASB post-implementation reviews collate European views and do not include an EFRAG position. IASB proposed post-implementation reviews are included in the work plan for the convenience of EFRAG Board members, but no action is expected from the EFRAG Board.
- 3 Following the above, EFRAG response to the PIR for IFRS 10, 11 and 12 has been finalized with the approval of EFRAG TEG, informing the EFRAG Board prior to the formal issuance of the response.
- 4 The discussion at EFRAG TEG showed that some of the members would have preferred a different approach, where the technical merits of the issues raised by the constituents are assessed and EFRAG expresses a position on the key issues.

PIR of IFRS 9 – Classification and Measurement (C&M) – status of the IASB project

- 5 The effective date of IFRS 9 was set as annual reporting periods beginning on or after 1 January 2018. Insurers and EU financial conglomerates have the possibility to defer the application date of IFRS 9 till 1 January 2023 (subject to fulfilling particular conditions).
- 6 In October 2020 the IASB decided to begin the PIR of the IFRS 9 classification and measurement requirements, but not to begin the PIR of the Standard's impairment and hedge accounting requirements.
- 7 The objective of the PIR of IFRS 9 - Classification and Measurement is to:
 - (a) assess whether the requirements introduced by IFRS 9 have improved financial reporting (without disproportionate cost); and
 - (b) identify lessons learned that will help the IASB in its efforts to continuously improve its standard-setting.

- 8 In assessing whether the requirements have improved financial reporting, the IASB will consider the following questions:
- (a) are the requirements working as intended?
 - (b) are the requirements capable of being applied consistently? and
 - (c) are there any significant unexpected effects, either positive or negative.
- 9 The IASB Staff has performed outreach in the first half of 2021, to assist the IASB in identifying matters on which it will consult publicly in a Request for Information (RFI). The IASB expects to publish the RFI in the third quarter of 2021.

Status of the EFRAG project

- 10 The EFRAG Secretariat has consulted EFRAG working groups (Academic Panel, FIWG, IAWG, User Panel, CFSS) and had an exchange with the IFRS 9 Task Force of Accountancy Europe. This consultation has allowed to prepare a first comprehensive list of issues that have been reported to the IASB Staff, including at the ASAF member in March 2021. Agenda Paper 06-02 illustrates these issues.

Preparing the process for the next phase

- 11 There are two main discussion points in order to consider possible enhancements to the current process:
- (a) The opportunity/feasibility to include in the response to the RFI a technical assessment on the reported issues. This technical assessment would primarily focus on the IASB's questions of the RPI (paragraph 8 above) and on forming a view on whether standard setting is considered necessary. It would not necessarily entail providing view on a possible standard setting solutions at this stage.
 - (b) The opportunity/feasibility to provide indications of how prevalent the reported issues are in Europe.
- 12 On the first point, developing a position on each of the issues on the list (and possible on other issues that will be further reported in the outreach process) doesn't seem feasible in the available timeframe. A possible approach would be to select a list of key issues, based on their prevalence, for which EFRAG would assess the technical merits. For the other issues, the same approach adopted for the PIR of IFRS 10, 11, 12 would apply: they would be in the list of issues with the caveat that they have been reported to us by some stakeholders, but they are not accompanied by a technical assessment.
- 13 On the second point, as also confirmed in the PIR of IFRS 10, 11, 12, it is challenging to obtain information about the prevalence of a single issue. A possible approach would obtain indicative perception of prevalence based on input from members of EFRAG working groups, including CFSS, and from EFRAG TEG members, including TEG members with audit background.
- 14 Should the EFRAG Board proceed with the decision to form a position on a list of core issues, following the normal EFRAG due process, the response to the RFI would need to be approved by the EFRAG Board (thus with the need to plan EFRAG Board decision-making sessions close to the EFRAG TEG ones) and it would be subject to public consultation, like other draft comment letters.

- 15 It is worth mentioning the following issues that may have a dimension of possible impact on European public good:
- (a) Recycling the changes in FV accumulated in OCI for equity instruments;
 - (b) FVTPL treatment for equity-type instruments (e.g. units of funds);
 - (c) Applying the SPPI test to sustainable finance products (e.g. green bonds, green loans, green deposit products etc.).
- 16 Information about the prevalence and effects of the first two topics is already available, as these two issues were covered in the assessment and the consultation performed by EFRAG prior to issuing its [advice on alternative accounting treatments for long-term equity investments](#) provided by EFRAG to the European Commission in January 2020.
- 17 Information about the prevalence and effects of the third issue may be found in the [Summary Report](#) of the Stakeholder Consultation on the Renewed Sustainable Finance Strategy issued by the European Commission (8 April 2020 - 15 July 2020):

the classification of sustainability linked (eg. green) loans that were largely non-existing when IFRS 9 was issued in 2014. Contractual links to sustainability performance targets can imply that such loans do not meet the criteria for measurement at amortised cost. Consequently, under IFRS 9 companies should (financial institutions) measure these at fair value, which does not reflect the held to collect cash flows business model.

Agenda Papers for this session

- 18 Agenda Paper 06-02 illustrates the list of issues collected so far (for background only).

Questions for the EFRAG Board

- 19 Does EFRAG Board agree that for IFRS 9 the EFRAG response to the RFI should provide EFRAG's view of the technical merit of the issues?
- 20 Does the EFRAG Board agree that the assessment has to be limited to the list of the key issues and the remaining issues would be reported with the caveat that they are not accompanied by an assessment?
- 21 Does the EFRAG Board agree that the technical assessment should be focused on providing indications as to whether standard setting is considered necessary to solve the issue, without providing indications of the possible standard setting solution?
- 22 Do EFRAG Board members have directions on how to select the key issues?
- 23 Do EFRAG Board members agree that indications of prevalence of each issue are provided to the extent possible based on perception of prevalence by members of EFRAG working groups and EFRAG TEG?