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Amortised cost measurement

Cover Note

Objective

1 The objective of this session is to provide a brief introduction of the project being launched and to obtain first high-level views of EFRAG FR TEG members concerning the IASB's approach, timing of the project and its priorities. The session is intended to be short and high-level, a more in-depth discussion will be held at a future meeting after obtaining the views of EFRAG FIWG.

Background

2 In September 2024 the IASB made *the Amortised Cost Measurement* an active project moving it from the research pipeline to the research work plan.

3 The IASB has recently undertaken post-implementation reviews ('PIR') of the classification and measurement as well as the impairment requirements of IFRS 9. The key message from the stakeholders is that the classification and measurement requirements as well as the impairment requirements of IFRS 9 work well in practice, with no fundamental questions in their core objectives or principles. Accordingly, stakeholders did not suggest fundamental review or changes to these requirements.

4 Therefore, the purpose of *the Amortised Cost Measurement* project is to resolve application questions and challenges associated with the amortised cost measurement requirements of IFRS 9, taking into account both recent PIRs and previous history of addressing the accounting challenges concerning the measurement of amortised cost.

5 Accordingly, in the IASB staff's view, the most appropriate approach for this project would be a 'targeted improvements' approach. This approach would:

(a) aim to resolve the application issues by clarifying the underlying, or adding new, principles in IFRS 9;

(b) clarifying the interactions between different requirements in IFRS 9;

(c) focus on resolving the root causes underlying these application issues, i.e. avoid clarifying requirements solely to achieve a desired accounting outcome for particular features or instruments; and

(d) primarily focus on the measurement requirements in IFRS 9 relating amortised cost. However, additional disclosure requirements might also be considered.

6 The IASB staff considered but rejected several alternative approaches, namely those representing (i) a fundamental review of the amortised cost measurement requirements, (ii) narrow-scope amendments and (iii) disclosure-only approach.

7 When defining the criteria to determine the scope of the project, the IASB noted that the IASB should explore solutions for issues:

(a) that are widespread and have, or expected to have, a material effect on those affected;

(b) for which financial reporting would be improved through clarifications to reduce the diversity in practice;

(c) for which the benefits from the resulting information are expected to exceed the operational costs; and

(d) that can be resolved by the IASB efficiently and effectively without (i) fundamentally rewriting the requirements of IFRS 9; (ii) creating internal inconsistencies in IFRS 9; and (iii) amending other IFRS Accounting Standards.

8 The IASB staff summarised an initial list of project topics in Appendix A to the IASB agenda paper AP11 which was presented at the IASB September 2024 meeting.

9 The IASB staff is currently working on the project plan which they intend to present at a future IASB meeting. For this purpose, they plan to consult with stakeholders, including seeking input from the ASAF at the December 2024 meeting and from the IFRS IC at the November 2024 meeting.

IASB September 2024 meeting

10 The IASB was not asked to make any tentative decisions but rather to share their views concerning the project, notably the approach proposed by the IASB staff.

11 In general, the IASB agreed with the proposed approach ('targeted improvements') and criteria. However, some members noted that it may be useful to provide a clearer explanation to the wider audience to articulate the difference between 'targeted improvements' and 'narrow-scope amendments'' in order to avoid possible confusions.

12 Several members noted that an important task of the project will be not only reducing diversity in practice but also understanding root causes of the existing diversity. Also, some members observed that eliminating all of the existing diversity should not be the target and, on the other hand, reducing diversity may result in changes in existing practices which may be undesired by the some of the stakeholders impacted.

EFRAG Secretariat initial observations on the IASB scope determination

13 The EFRAG Secretariat notes that the list of issues summarised in Appendix A of the IASB agenda paper AP11 fairly represents the feedback received from the stakeholders during both PIR, including issues raised by EFRAG, such as for example absence of a definition of "substantial modification" and application challenges of EIR method when part of the contractual cash flows is either not certain to occur and/or their timing of occurrence is uncertain. EFRAG in its final comment letter on the PIR of classification and measurement requirements of IFRS 9 recommended to monitor how practice will develop, in particular when applying B5.4.5 and subsequent paragraphs.

14 The EFRAG Secretariat is of the view that amortised cost measurement should remain a simple calculation method and is not in favour of developing sophisticated calculations with multiple scenarios.

15 The EFRAG Secretariat observes that often the most important issue related to amortised cost is the scope i.e. whether or not to measure financial instruments at amortised cost rather than how to calculate it.

16 Amortised cost is an accounting calculation and not a reflection of an economic phenomenon.

17 The current diversity in practice is to a large extent driven by the fact that different "simplifying" assumptions in the calculation/application of amortised cost are generally not expected to have material effect on the outcome. This assumption and the consequences of it, should be expected to continue to exist after any clarification of the amortised cost calculation.

18 Adding any new simplifying assumptions might increase the risk of internal inconsistencies within IFRS 9.

19 The EFRAG Secretariat notes that as soon as amortised cost has to be calculated in an accounting (or accounting support) system, then operational costs relate more to the set-up of the system rather than to the ongoing operation of the system. When considering operational costs for calculating amortised cost, costs to produce accompanying disclosure requirements must also be considered.

Next steps

20 Following the today's discussion, the EFRAG Secretariat will discuss the project, its priorities and key issues at EFRAG FIWG and will present their views at a later EFRAG FR TEG meeting, with an intention to provide feedback for the ASAF December 2024 meeting.

Questions to EFRAG FR TEG

21 What are your initial views with regards to the approach taken by the IASB (targeted improvements)?

22 At this stage, do you already see any issues which should be prioritised?

23 Do you have any other comments or observations concerning the project direction?