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RO n°22

Request for Information—Post-implementation Review IFRS 9 *Financial Instruments*—Impairment

Dear Andreas,

I am writing to you on behalf of the Autorité des Normes Comptables (ANC) to express our views on the above-mentioned request for information (RFI) published in May 2023.

Entities in our jurisdiction have been applying the requirements in IFRS 9 since 2018 with the exception of some entities with insurance activities which first applied IFRS 9 together with IFRS 17 *Insurance Contracts* in 2023. With hindsight and on the basis of feedback received from our stakeholders, we think the impairment requirements in IFRS 9 have worked as intended *so far* and are generally resulting in useful information. That being said, we observe that (i) the transition to the new impairment requirements took place for many entities against a favourable economic backdrop and (ii) the massive state financial support that took place during the Covid-19 outbreak in 2020 generally helped financial institutions navigate through this peculiar event––this support resulted in incurred losses for those institutions being lower than the amounts they had expected at the inception of this event. In other words, the impairment requirements in IFRS 9 have hitherto worked but have not yet been 'stressed tested' by any major credit crisis. We note that the increasing number of economic and geopolitical uncertainties, together with the risks related to climate change, are potential headwinds that may shed light on the model's robustness and operability over the long term.

The transition from an 'incurred loss' model such as the model in IAS 39 *Financial Instruments: Recognition and Measurement* to the 'expected loss' model in IFRS 9 has been a great challenge for all stakeholders given the forward-looking nature of the new model—and noticeably the use of judgement it requires––and the material implementation and ongoing costs it entails. However, there is generally consensus among our stakeholders to assess that the benefits of the new model––in particular its ability to result in timely recognition of impairment losses––largely outweigh its costs.

We acknowledge that the principle-based nature of the impairment requirements, together with the use of judgement, results in some diversity in recognition, measurement and disclosures practices. That

being said, we observe that (i) the requirements materially affect entities subject to high regulatory and enforcement scrutiny––such scrutiny fosters consistent application of the impairment requirements–– and (ii) the implementation of those requirements is being refined over time as stakeholders gain deeper experience of the model. Accordingly, we think the Board should not modify the model's architecture.

Notwithstanding our overall appreciation of the model, we identified some matters which, in our view, should warrant the Board's consideration:

- applying the 'top-down approach' when assessing whether a significant increase in credit risk has occurred on a collective basis (see paragraphs 18–22);
- the accounting for financial guarantees received and issued (see paragraphs 28–34);
- applying the accounting for purchased or originated credit-impaired financial assets (see paragraphs 37–40) when such assets are acquired in a business combination; and
- the cash shortfalls to consider when measuring expected credit losses and, more broadly, the lack of clarity that exists for the accounting for subsequent changes in a financial asset's estimated cash flows (see paragraphs 41–48).

We also identified possible disclosure enhancements to IFRS 7 *Financial Instruments: Disclosures* as described in paragraph 52.

As explained above, a number of entities with insurance activities have applied IFRS 9 since 2023. Thus, those entities have still limited hindsight over the impairment requirements and IFRS 9 as a whole. This IFRS Accounting Standard and IFRS 17 are strongly interrelated for those entities. Consequently, we recommend the Board consider the interaction with the requirements in IFRS 9 when it undertakes the PIR of IFRS 17.

Appendix A to this letter sets out our comments on the questions included in the RFI.

Should you need any further clarification, please do not hesitate to contact me.

Yours sincerely,

Robert Ophèle

Appendix A

Question 1—Impairment Do the impairment requirements in IFRS 9 result in: (a) more timely recognition of credit losses compared to IAS 39 and address the complexity caused by having multiple impairment models for financial instruments? Why or why not? (b) an entity providing useful information to users of financial statements about the effect of credit risk on the amount, timing and uncertainty of future cash flows? Why or why not?

Is the ECL model in IFRS 9 an improvement to the measurement of financial instruments?

1. We agree that the impairment requirements in IFRS 9 result in more timely recognition of credit losses compared to the requirements in IAS 39. The expected credit losses (ECL) model in IFRS 9 is, in essence, more likely to be effective at avoiding the deferral of losses on financial instruments that are subject to impairment accounting because it requires entities to:
    a. recognise a loss allowance at an amount equal to *at least* 12-month ECL throughout the life of financial instruments;
    b. use forward-looking information about expected cash shortfalls when measuring credit losses––the recognition a credit loss allowance is not delayed until a triggering credit event occurs and the measurement of any such loss allowance does not solely reflect past events and current conditions;
    c. update their ECL amount at each reporting date to reflect changes in the credit risk of financial instruments; and
    d. consider backstops such as (i) the 30 days past due rebuttable presumption in paragraph 5.5.11 of IFRS 9 for assessing the existence of a significant increase in credit risk and (ii) the 90 days past due rebuttable presumption in paragraph B5.5.37 of IFRS 9 which ensures that entities do not define 'default' later than that point without reasonable and supportable information.

2. The ECL impairment model in IFRS 9 is part of, and interlinked with, amortised cost accounting. It notably applies––and it is the sole impairment model applying to––financial assets subsequently measured at amortised cost and those measured at fair value through other comprehensive income (FVOCI). Thus, we agree, consistent with the views expressed in paragraph BC5.124 of IFRS 9, that the impairment requirements in IFRS 9, together with those applicable to the classification and measurement of financial assets, helped address the complexity surrounding the accounting for such instruments in IAS 39.

Does the ECL model provide useful information?

3. We think the arguments the Board considered when it developed the ECL model, in particular when it published the 2009 and 2013 Exposure Drafts (ED), are still valid––we note in particular that paragraphs BC5.82–BC5.84, BC5.87–BC5.89, BC5.102–BC5.108, and BC5.149–BC5.150 of IFRS 9 still convincingly explain why the new model provides useful information.

4. Furthermore, we think helpful to keep in mind, consistent with the views expressed in our comment letter on the 2013 ED, that the model proposed in the 2009 ED was conceptually most faithfully representing ECLs but that the model proposed in the 2013 ED––which underpins the existing ECL model—was the best way forward because it approximated the

outcome of the 2009 model while responding to entities' operational constraints[1]. We have not identified any new argument that would lead to impugn the balanced approach underpinning the existing impairment model.

5. Accordingly, we continue to agree that the ECL model provides useful information to users at a reasonable cost for all stakeholders.

Question 2—The general approach to recognising expected credit losses

(a) Are there fundamental questions (fatal flaws) about the general approach? If yes, what are those fundamental questions?

(b) Are the costs of applying the general approach and auditing and enforcing its application significantly greater than expected? Are the benefits to users significantly lower than expected?

Are there any fatal flaws about the general approach?

6. We have not identified any such flaws with the general approach in IFRS 9.

7. Some aspects of the model are nonetheless subject to discussion among our stakeholders.

8. Paragraph 5.5.4 of IFRS 9 specifies that the objective of the impairment requirements is to recognise lifetime ECL for all financial instruments for which there have been significant increases in credit risk since initial recognition (SICR) (approach known as the 'relative assessment [to the initial credit risk]'). In other words, the IFRS 9 ECL model distinguishes between financial instruments for which the credit risk has increased significantly since initial recognition and those financial instruments for which this has not occurred. Consistent with this objective, the assessment of the significance of the change in the risk of a default occurring for different financial instruments depends on the credit risk at initial recognition and the time to maturity.

9. Some stakeholders observe that:

    a. this relative assessment may ensure comparability between different reporting periods for the same entity, and to some extent, for financial instruments with different maturities and different initial credit risk as explained in paragraph BC5.173 of IFRS 9; and

    b. IFRS 9 does not set any 'bright line' (such as absolute thresholds) for assessing whether a SICR has occurred.

[1] Paragraph BCE99 of IFRS 9 explains that '*…The impairment model in IFRS 9 seeks to achieve a balance between the benefits of the faithful representation of expected credit losses and the operational cost and complexity. In other words, IFRS 9 seeks to approximate the 2009 Impairment ED to the maximum extent possible in a way that is less operationally burdensome and more cost-effective*'.

10. Consequently, those stakeholders outline that:

    a. comparability may not exist for a same financial instrument being held by two different entities at the same reporting date. For example, one entity may recognise a stage 1 ECL[2] allowance on that instrument while the other entity may recognise a stage 2 ECL allowance at the reporting date whereas the counterparty' credit risk is the same at that date. This could be because those two entities (i) initially recognised that instrument at different times or (ii) apply differing accounting policies for assessing the existence of a SICR.

    b. the model creates complexity because an entity has to apply judgement and consider a wide range of information to identify when a SICR has occurred.

11. We acknowledge the model's limitations outlined by those stakeholders. We note however that the Board:

    a. considered alternative approaches––such as those described in paragraphs BC5.160–BC161 (absolute level of credit risk) and paragraphs BC5.166–168 of IFRS 9––that could have responded to those limitations but did not consider them further, notably because of the lack of support from stakeholders; and

    b. acknowledged in paragraph BCE113 of IFRS 9 that the model is subject to measurement uncertainty, relies on management's judgement and the quality of the information used. This led the Board to develop qualitative and quantitative disclosures assisting users in (i) understanding and comparing different measures of ECLs and, ultimately, (ii) enabling comparisons to be made between entities.

12. We also note that modifying the 'relative assessment' in IFRS 9 would be a major change to the model and would result in significant implementation costs. In our view, the limitations described above are not of such an extent that they should warrant reworking the model as it still provides useful information. Accordingly, we recommend the Board not change the model.

The costs of applying, auditing and enforcing the general approach

13. The above-mentioned costs are consistent with those that the Board expected when it assessed the likely effects of IFRS 9 (see section BCE of the Basis of Conclusions on IFRS 9).

14. Financial institutions in our jurisdiction say they incurred significant implementation costs. They also incur significant ongoing costs because of the model's inherent complexity. Some financial institutions note in particular that understanding the model can be difficult for stakeholders within an entity (credit risk monitoring, accounting booking and controls and financial reporting) and outside the entity (some users for example)––this, in turn, creates operational risks. That being said, financial institutions generally observe the model enables them to reflect their credit management practices and results in useful information.

15. Other stakeholders do not report unexpected significant costs when auditing and enforcing the requirements in IFRS 9.

[2] For ease of reference, (i) stage 1 refers to the circumstances in which the entity measures the loss allowance for a financial asset at an amount equal to 12-month ECLs, (ii) stage 2 refers to those circumstances in which a SICR has occurred and the entity measures the loss allowance at an amount equal to the lifetime ECLs and (iii) stage 3 to the circumstances in which the financial asset is subject to the measurement requirements applicable to credit-impaired financial assets.

Question 3—Determining significant increases in credit risk

(a) Are there fundamental questions (fatal flaws) about the assessment of significant increases in credit risk? If yes, what are those fundamental questions?

(b) Can the assessment of significant increases in credit risk be applied consistently? Why or why not?

Are there any fatal flaws about the general approach?

16. Determining a SICR is a cornerstone of the impairment model. IFRS 9 specifies principles and application guidance for making such determination but does not prescribe any 'bright line'. The logical outcome is that entities apply their judgement considering their own facts and circumstances. The use of judgement might impair comparability between entities; consequently, IFRS 7 *Financial Instruments: Disclosures* requires disclosures to enable users to identify and understand the inputs, assumptions and techniques applied to identify a SICR.

17. With this in mind, we have not identified any fatal flaw.

Application difficulty

18. We have identified one application matter in relation to the collective assessment basis of SICR (paragraphs B5.5.1–B5.5.6 of IFRS 9) that, in our view, should warrant further clarifications from the Board. It specifically relates to the requirements for the 'top down approach' in paragraph B5.5.6 of IFRS 9 and illustrated in paragraph IE39 of that same IFRS Accounting Standard.

19. Paragraph B5.5.1 specifies that to meet the objective of recognising lifetime ECL for SICRs since initial recognition, it may be necessary to perform the assessment of SICR on a collective basis. Paragraph B5.5.5 specifies that a collective assessment can be achieved by grouping financial instruments on the basis of shared credit risks characteristics (SCRCs) ('bottom-up approach'). Paragraph B5.5.6 goes on and specifies that if it is not possible to group financial instruments for which the credit risk is considered to have increased significantly since initial recognition based of SCRCs, an entity should recognise lifetime ECL on a portion of the financial assets for which a SICR is *deemed* to have occurred ('top down approach').

20. Assume that an entity has a portfolio of loans financing residential real estate. All those loans are subject to a stage 1 ECL allowance. Owing to an economic crisis, the entity estimates—on the basis of reasonable and supportable statistical information—that 20 per cent of the loans in the portfolio have been subject to a SICR. However, the entity is capable of identifying a SICR for only 15 percent of the individual loans in the portfolio. We understand that, applying paragraph B5.5.6 of IFRS 9, the entity should recognise a stage 2 allowance for 20 per cent of the loans in the portfolios—ie the reclassification in stage 2 is not limited to the 15 percent of loans the entity was able to identify.

21. This approach raises practical questions. If the entity is able to identify the 15 percent individual loans that had undergone a SICR, then it shall transfer those loans into stage 2. With regard to the loans about which the entity has no individual information as to whether they have undergone a SICR, but for which credit risk has (or is deemed to have) increased, we think that their probability of default (PD) should be adjusted to reflect such increase and

that they should be transferred to stage 2 based on the threshold that the entity has set. If, as the application guidance in IFRS 9 possibly suggests, the entity were to arbitrarily transfer 5 per cent of such loans into stage 2 (ie without being able to identify those loans that have genuinely undergone a SICR), we think:

a. the process of identifying such 5 per cent would be arbitrary and could lead to manipulation if the loans have different initial PDs, and

b. there would be little chance that the loans, when moving to stage 3, would come from this population, which raises the question of when the entity should transfer back such loans into stage 1 since the entity will not be able to assess at the individual level whether such loans have still undergone a SICR: the entity can only assess whether they have defaulted or not. Accordingly, based on an assessment performed at an individual level, such loans that have been transferred into stage 2 will stay into stage 2 until they either (i) default––in which case they will transfer to stage 3––or (ii) they are derecognised.

22. The practical questions described above result in entities in some jurisdictions being unable to apply the 'top down approach' whilst some supervisors may promote its use. In our view, the Board should explain how (i) to apply this method (ie collective assessments for both transfers in and out of Stage 2) and (ii) the disclosures requirements in IFRS 7 would apply to the above-described fact pattern.

Question 4—Measuring expected credit losses

(a) Are there fundamental questions (fatal flaws) about requirements for measuring expected credit losses? If yes, what are those fundamental questions?

(b) Can the measurement requirements be applied consistently? Why or why not?

Are there any fatal flaws about the general approach?

23. Paragraph 5.5.17(a) of IFRS 9 specifies that an entity shall measure ECLs of a financial instrument in a way that reflect an unbiased and probability-weighted amount that is determined by *evaluating a range of possible outcomes*. In other words, IFRS 9 requires the use of more than one forward-looking economic scenarios. There is however very limited application guidance in this respect in IFRS 9––only paragraphs 5.5.18, B5.5.41 and B5.5.42 elaborate on this.

24. Determining the adequate number of forward-looking scenarios and the probability to assign to each of those scenarios is an area where application challenges and thus, diversity in practices, exist. Some stakeholders observe that the use of a unique 'central' scenario for measuring ECLs may, in a number of circumstances, result in an outcome that could approximate the outcome derived from the approach required in IFRS 9 and thus, could reduce the complexity and costs of the existing impairment model. That being said, there is, on balance, consensus among our stakeholders to support retaining the existing principle-based and multi-scenarios approach that, if supplemented with sufficiently-detailed and clear disclosures, should result in entities providing useful information whilst being allowed to use techniques that work best in their specific circumstances.

25. The use of 'post model adjustments' (PMAs) might have led some stakeholders to question

the effectiveness and cost-benefit balance of the impairment model. Those stakeholders also point out that PMAs should only be transitory in nature because they should lead to adjustments to statistical models afterwards. However, there is, on balance, consensus among our stakeholders that PMAs are necessary to reflect new facts and circumstances that statistical models are unable to take into account at a given reporting date––for example, PMAs were helpful from 2020 onwards to reflect the effects of the Covid-19 pandemic and other disruptive events[3]. Our stakeholders note those adjustments are usually subject to high governance and audit oversight. They think, here again, that sufficiently-detailed disclosures about the approach retained for determining PMAs and their amount should result in entities providing useful information.

26. Overall, we have not identified any fatal flaws about the requirements for measuring ECLs. Nor have we identified any practical difficulty that should warrant further action from the Board.

Feedback on specific matters included in the RFI

- ***Loan commitments***

27. We have not been made aware of noteworthy application difficulties or diversity in accounting practices in relation to this matter.

- ***Financial guarantees to which the requirements in IFRS 9 apply***

28. Those are transactions for which adequate requirements in IFRS 9 are often missing. This, in turn, results in operational complexity and diversity in reporting practices. We have been made aware that such transactions (if within the scope of IFRS 9) may have material effects for those affected. Accordingly, we recommend those matters be subject to further standard-setting. We provide an overview of those matters in paragraphs 29–34 below.

    - Financial guarantee contract issued

29. Paragraph 4.2.1(c) of IFRS 9 specifies requirements for the subsequent measurement of those contracts. Those requirements are clear and do not create any practical difficulty *when the entity receives the premiums on initial recognition (upfront payment)*. In those circumstances, at the initial recognition of the contract, the premium amount is generally higher than the amount of lifetime ECLs: accordingly, applying the requirements in paragraph 4.2.1(c) of IFRS 9, the entity would not recognise any impairment allowance immediately after initial recognition––the entity would apply the measurement basis specified in paragraph 4.2.1(c)(ii) of IFRS 9. Paradoxically, we observe that the impairment requirements in IFRS 9 would have resulted in the entity recognising at least a 12-month ECL allowance had it issued a loan to the same counterparty, which some could find rather counterintuitive considering the Board's observations in paragraphs BC5.125–BC5.128 of IFRS 9 (notably the reference to a single impairment model for all credit exposures).

30. Additionally, there is uncertainty as to how to apply paragraph 4.2.1(c) of IFRS 9 *when the entity does not receive the premiums on initial recognition*. Entities generally apply either a 'gross approach' (consisting in recognising a liability measured in accordance with paragraph 4.2.1(c) of IFRS 9 and a financial asset for the premiums yet to be received) or a

[3] In the document 'Accounting for expected credit losses applying IFRS 9 Financial Instruments in the light of current uncertainty resulting from the covid-19 pandemic' published in March 2020, the IASB did not oppose the use of overlays and outlined that '*…if the effects of covid-19 cannot be reflected in models, post-model overlays or adjustments will need to be considered…*'.

'net approach' (consisting in recognising a single amount, often equal to nil at initial recognition). We also understand that several variations of the 'net approach' exist in practice. Reference manuals of some audit firms provide descriptions of the accounting policies seen in practice.

- Financial guarantee contracts held

31. Paragraph B5.5.55 of IFRS 9 requires the inclusion of cash flows from collateral and other credit enhancements––including financial guarantees received––in the measurement of ECLs if the credit enhancement *is part of (or integral to) the contractual terms* and is not recognised separately by the entity. IFRS 9 does not define the phrase '*integral to the contractual terms*'. In December 2015, the Transition Resource Group for Impairment of Financial Instruments discussed the meaning of that phrase and observed that an entity (i) would be required to apply its judgement in assessing what is meant by 'integral to the contractual terms' and (ii) in making that assessment should consider all relevant facts and circumstances. Making that assessment results in diversity in practice.

32. When the guarantee is part of a financial asset's contractual terms, entities generally consider the premiums paid as an integral part of the effective interest rate (EIR) of that asset. Hence, the financial guarantee which mitigates the future credit losses for an amount equal to the premium paid results in recognising those losses over the financial asset's expected life–– because of the inclusion of the premium paid in the EIR––ie in a pattern of recognition that is not aligned with the timing of recognition generally required by the impairment model–– which requires recognising a 12 month-ECL at the initial recognition of a financial asset.

33. Paragraph B5.5.55 of IFRS 9 specifies requirements as to how to reflect credit enhancements in the measurement of ECLs when those enhancements are part of the contractual terms. Neither this paragraph nor any other paragraph in IFRS 9 specify requirements when the enhancements are *not* integral to the contractual terms––typically when a financial guarantee is received after the initial recognition of the related financial instrument. Accordingly, entities apply paragraphs 10–12 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to develop and apply an accounting policy for those contracts.

34. When a financial guarantee is not integral to a financial asset's contractual terms, entities generally consider the requirements in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* because this IFRS Accounting Standard includes requirements dealing with similar and related issues, namely the requirements for reimbursement assets. However, there are differing views as to how to measure this asset and any upfront fee paid––which, in turn, results in differing effects on the statement of financial performance, notably when the entity first recognises the guarantee:

    a. some hold the view that two assets can be recognised separately: a reimbursement asset measured at the amount of ECLs and a prepayment asset measured at the premium amount paid to the guarantor. This results in the entity offsetting in profit or loss the ECL allowance ('Day 1 gain') that the entity had recognised before receiving the guarantee. Applying this approach, an entity recognises ECL on the instrument in a manner similar to the one described in paragraph 32.

    b. in contrast, some think recognising two assets measured separately would result in some double-counting. In those circumstances, some would, for example, recognise a single asset measured at the higher of the ECL allowance at initial recognition and the prepayment asset. In a simar vein, some would also allocate all or part of the

premium paid to the reimbursement asset, only the latter being amortised in profit or loss over time.

Question 5—Simplified approach for trade receivables, contract assets and lease receivables

(a) Are there fundamental questions (fatal flaws) about the simplified approach? If yes, what are those fundamental questions?
(b) Are the costs of applying the simplified approach and auditing and enforcing its application significantly greater than expected? Are the benefits to users significantly lower than expected?

35. We have not identified any fatal flaw about the simplified approach. Nor have we been made aware any practical difficulty or unexpected implementation costs.

Question 6—Purchased or originated credit-impaired financial assets (POCI assets)

Can the requirements in IFRS 9 for purchased or originated credit-impaired financial assets be applied consistently? Why or why not?

36. We have not been made aware of any diversity in reporting practices for those assets.

37. However, there is a conceptual question about the requirements in IFRS 9 applying to those assets which, in turn, results in practical difficulties and undue costs.

38. Applying the requirements in paragraph 5.5.14 of IFRS 9, an entity recognises favourable changes in lifetime ECLs as an impairment gain, even if the lifetime ECLs are less than the amount of ECLs that were included in the estimated cash flows on initial recognition. Favourable changes in those instruments' credit risk do not result in the entity applying the general impairment approach specified in paragraphs 5.5.3 and 5.5.5 of IFRS 9––ie the entity does not reclassify those assets in stages 1 or 2 for the purpose of recognising ECLs.

39. We see the merits of retaining a stage 3 impairment classification for POCI assets until their derecognition date if the entity originates such assets. This being said, there are questions as to whether the stage 3 classification shall be retained until derecognition when the entity first recognises POCI assets further to a business combination. Financial institutions in our jurisdiction generally do not originate POCI assets but happen to acquire such assets in business combinations. Those entities:

    a. subsequently manage those assets in a manner other than the manner the acquiree had followed until the acquisition date––for example, entities would typically accelerate the recovery of the contractual cash flows through active recovery management. In those entities' view, applying POCI asset accounting in those circumstances is debatable.

    b. observe that the impairment accounting for POCI assets fundamentally differs from the one that applies to other financial assets. Those entities say that the accounting for POCI require specific monitoring and IT design––in other words, they result in additional implementation costs (operational costs of maintaining different accounting for a small number of POCI assets).

40. We question whether the benefits of applying the accounting for POCI to financial assets

acquired in a business combination exceed their related costs. Thus, we recommend the Board consider further this matter.

Question 7—Application of the impairment requirements in IFRS 9 with other requirements
Is it clear how to apply the impairment requirements in IFRS 9 with other requirements in IFRS 9 or with the requirements in other IFRS Accounting Standards? If not, why not?

41. We have one matter to report to the Board.

42. In September 2022, the IFRS-IC (Committee) published an Agenda Decision (AD), *Lessor Forgiveness of Lease Payments (IFRS 9 Financial Instruments and IFRS 16 Leases)*. In this AD, the Committee responded to a request asking, among other things, how a lessor applies the ECL model to an operating lease receivable before granting a rent concession to a lessee if the lessor expects to forgive payments due from the lessee under a lease contract. The Committee concluded that the measurement of ECLs includes the lessor considering its expectations of forgiving lease payments recognised as part of that lease receivable––in other words, the expected cash shortfalls include the effect of the rent concession.

43. In our letter dated 25 May 2022, we disagreed with the Committee's technical analysis, noting this was only *one* possible reading of the requirements in IFRS 9 and, in particular, that :

    a. the Committee was extending the concept of credit losses in ECL to cash shortfalls that are not related to the counterparty's credit risk; and

    b. any such analysis was raising questions as to how to account for financial assets that an entity recognises applying other IFRS Standards—notably IFRS 15 *Revenue from Contracts with Customers*––but to which IFRS 9, in particular the impairment requirements in this Standard, apply.

44. Our views in this respect are unchanged and think this matter should have been dealt with adequate narrow-scope standard-setting.

45. Since its publication, the AD has worsened the confusion existing about how to account for subsequent changes in a financial asset's estimated cash flows––by adjusting the effective interest rate (applying paragraph B5.4.5 of IFRS 9) or through a cumulative catch-up adjustment (applying paragraph B5.4.6 of IFRS 9) or, since the September 2022 AD, as a revision of ECLs (applying paragraph 5.5.8 of IFRS 9). This confusion was observed for an increasing number of fact patterns during the Covid-19 crisis, or more recently, in the context of high interest rates. In those fact patterns, an entity expected the cash flows on financial assets to be reduced for reasons other than the debtor's creditworthiness—for example laws or regulations capping the interest rate or the amounts to be paid by the debtor to the creditor.

46. In those circumstances, there is notably a question as to whether the entity applies:

    a. paragraph B5.4.6 of IFRS 9––the entity revises its estimates of payments or receipts *when the law or regulation come into effect* and adjusts, as required in paragraph 5.4.3 of IFRS 9, the gross carrying amount of the financial asset, with the adjustment being reflected in profit or loss; or

b. the analysis set out in the above-mentioned AD––ie the entity reflects the changes in estimated cash inflows in the measurement of the financial asset's ECL *when the entity has expectations that the law or regulation will come into force*.

47. The two above-mentioned views have differing implications on (i) *when* the entity recognises the effect of the law or regulation in profit or loss, (ii) the *amount* recognised in profit or loss at that date and (iii) the *presentation* in profit or loss.

48. We recommend the Board consider this matter for standard-setting. In our view, this could part of standard-setting the Board might undertake in the context of the Amortised Cost Measurement project that the it added to its research pipeline in July 2022.

Question 8—Transition

Were the costs of applying the transition requirements and auditing and enforcing their application significantly greater than expected? Were the benefits to users significantly lower than expected?

49. We have not received any feedback indicating that the costs related to the first-time application of the new impairment model were greater than those the Board expected when developing IFRS 9. Implementation costs were significant given the conceptual change introduced by an ECL model. The transitional requirements did not create any practical challenges.

50. Ongoing costs are in consistent with those initially expected.

Question 9—Credit risk disclosures

(a) Are there fundamental questions (fatal flaws) about the disclosure requirements in IFRS 7 for credit risk? If yes, what are those fundamental questions?

(b) Are the costs of applying these disclosure requirements and auditing and enforcing their application significantly greater than expected? Are the benefits to users significantly lower than expected?

51. We have not identified any fundamental questions about the existing requirements in IFRS 7. We note (i) those requirements rather set out disclosure objectives than specific items of information and (ii) the Implementation Guidance of IFRS 7 suggests possible ways to apply some of the disclosure requirements (however illustrative tables and examples are limited—see paragraphs IG20A–IG20D of IFRS 7). Some observe this is helpful for entities to disclose information based on their specific facts and circumstances but some other observe the resulting information may not genuinely be comparable between entities. There is here a fine balancing act but we have not identified a better way forward than the approach currently set out in IFRS 7.

52. We did outreach with some users to understand whether the existing disclosures were providing useful information. Those users have not identified any fatal flaw but have identified some areas which, in their view, would require better or more granular disclosures. Some of those improvements could be achieved by specifying additional requirements in IFRS 7, notably requiring entities to:

a. provide some or all the information set out in paragraphs 35H–35I of IFRS 7 at minimum at the level of reportable segments as defined in IFRS 8 *Operating Segments*. Entities shall currently provide the disclosures in paragraphs 35H–35I of IFRS 7 '*by class of financial instruments*'. However, there are differing understandings of that phrase and thus, differing disclosures practices. Our recommendation would ensure users get sufficiently granular information because segment information is often the starting point for users' forecasts.

b. disclose for each class of financial instruments in stage 2 of the impairment model, the loss allowance that is equal to 12-month ECLs. This disclosure would complement the information entities already provide––because IFRS 9 requires entities to recognise a loss allowance that is equal to 12-month ECL for financial instruments in stage 1 of the model––and give an overview of the 12-month ECLs an entity expects for all the financial instruments that are subject to the impairment requirements. We expect this information to be available without any undue costs or efforts.

Question 10—Other matters

(a) Are there any further matters that you think the IASB should examine as part of the post-implementation review of the impairment requirements in IFRS 9? If yes, what are those matters and why should they be examined?

(b) Do you have any feedback on the understandability and accessibility of the impairment requirements in IFRS 9 that the IASB could consider in developing its future IFRS Accounting Standards?

53. We do not have any specific topic to put forward for the Board's consideration.