ISDA

International Accounting Standards Board,
Columbus Building,
7 Westferry Circus,
Canary Wharf,
London E14 4HD

24th January 2022

Dear IASB,

Ref.: Request for Information (RFI) – Post-implementation Review, IFRS 9 Financial Instruments, Classification and Measurement

The International Swaps and Derivatives Association ("ISDA")[1] welcomes the opportunity to provide input on the above referenced RFI issued by the International Accounting Standards Board ("the Board") on 30 September 2021.

Our comments are focused on those aspects of the RFI which have relevance for derivatives, either directly or indirectly. This is because the accounting issues associated with derivatives is the primary area of interest for our members.

Our members fully support the Board's work in undertaking a post implementation review of the IFRS 9 classification and measurement requirements.

Now that IFRS 9 has been applied for several years it is appropriate to reflect upon the experience so far. Two aspects of IFRS 9 classification and measurement which our members think warrant the Board's particular consideration, relate to contractual cash flow characteristics as follows:

- For financial assets with environmental social and governance (ESG) features (such as those included in certain lending arrangements), our members recommend this is considered as part of either i) the loan's variable profit margin, or ii) a normal lending arrangement. This is consistent with how our members consider these features in the context of meeting their externally published ESG targets and accommodating the needs of borrowers to commit to similar ESG related targets. Recognition of such lending arrangements at amortised cost also ensures that the most decision useful information on the ESG lending is presented to users of the financial statements.
- Contractually linked instruments (CLI) is an area in which our members consider that the existing guidance does not meet the objectives for which it was developed. It would benefit from clarification of key definitions and the addition of examples and guidance to better indicate how it should be applied. Consideration should also be given for revising the scope of instruments captured by this guidance.

[1] Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 960 member institutions from 78 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's website: www.isda.org. Follow us on Twitter, LinkedIn, Facebook and YouTube.

The appendix includes responses to the other questions raised in the RFI of relevance to our members. We suggest the PIR could also usefully consider derecognition, since areas such as continuing involvement, would potentially benefit from additional guidance.

We look forward to supporting the IASB as its work progresses in this area. If it would be helpful, we would be happy to discuss in further detail the points raised above. If it would be of assistance to the IASB, we can illustrate our responses on CLI with illustrative examples based on actual transactions.

Should you have any questions or would like clarification on any of the matters raised in this letter please do not hesitate to contact the undersigned.

Yours sincerely,

Fiona Thomson
Managing Director
Goldman Sachs International
ISDA European Accounting WG Chair

Antonio Corbi
Senior Director
Risk and Capital
ISDA

Appendix attached

Appendix

Responses to specific questions

Question 1—Classification and measurement
Do the classification and measurement requirements in IFRS 9: (a) enable an entity to align the measurement of financial assets with the cash flow characteristics of the assets and how the entity expects to manage them? Why or why not? (b) result in an entity providing useful information to the users of the financial statements about the amount, timing and uncertainty of future cash flows? Why or why not? Please provide information about the effects of the classification and measurement changes introduced by IFRS 9, including the ongoing costs and benefits in preparing, auditing, enforcing or using information about financial instruments. This question aims to help the Board understand respondents' overall views and experiences relating to the IFRS 9 classification and measurement requirements. Sections 2–8 seek more detailed information on the specific requirements.

Our members consider that overall, IFRS 9 enables entities to broadly align the measurement of financial assets with cash flow characteristics of the assets and how the entity expects to manage them. IFRS 9 introduced a more coherent model for classification compared to IAS 39, which allowed entities to better reflect their business activities.

Upon adoption of IFRS 9, whilst the effort needed by our members to analyse how the new requirements applied to existing financial instruments was significant, the overall impact on their external reporting from changes to classification and measurement (excluding impairment) was not particularly significant.

With the benefit of having applied IFRS 9 for many years, there are some areas within the scope of the PIR which our members believe warrant further consideration, that we outline further in our responses to questions 2 to 8 below.

Question 2—Business model for managing financial assets	
(a)	**Is the business model assessment working as the Board intended? Why or why not?** Please explain whether requiring entities to classify and measure financial assets based on the business model assessment achieves the Board's objective of entities providing users of financial statements with useful information about how an entity manages its financial assets to generate cash flows.
(b)	**Can the business model assessment be applied consistently? Why or why not?** Please explain whether the distinction between the different business models in IFRS 9 is clear and whether the application guidance on the evidence an entity considers in determining the business model is sufficient. If diversity in practice exists, please explain how pervasive the diversity is and its effect on entities' financial statements.
(c)	**Are there any unexpected effects arising from the business model assessment? How significant are these effects?** Please explain the costs and benefits of the business model assessment, considering any financial reporting or operational effects for preparers of financial statements, users of financial statements, auditors or regulators.
In responding to (a)–(c), please include information about reclassification of financial assets (see Spotlight 2).	

(a) Our members believe that the business model test generally works as the IASB intended. Application has evolved and practice has become well established.

(b) The principles of the business model, the concepts of 'infrequent' and 'insignificant', and guidance provided in IFRS 9 around the different types of disposals, permit the use of judgement in the development of appropriate accounting policies by our members. This enables them to reflect the nature and context of their business activities, with an appropriate level of consistency over time and between entities. Our members consider that the existing IFRS 9 guidance in this area is sufficient.

(c) Our members have no comments on this part of the question

Question 3—Contractual cash flow characteristics

(a) Is the cash flow characteristics assessment working as the Board intended? Why or why not?

Please explain whether requiring entities to classify and measure a financial asset considering the asset's cash flow characteristics achieves the Board's objective of entities providing users of financial statements with useful information about the amount, timing and uncertainty of future cash flows. If, in your view, useful information could be provided about a financial asset with cash flows that are not SPPI applying IFRS 9 (that is, an asset that is required to be measured at fair value through profit or loss applying IFRS 9) by applying a different measurement approach (that is, using amortised cost or fair value through OCI) please explain:

(i) why the asset is required to be measured at fair value through profit or loss (that is, why, applying IFRS 9, the entity concludes that the asset has cash flows that are not SPPI).

(ii) which measurement approach you think could provide useful information about the asset and why, including an explanation of how that approach would apply. For example, please explain how you would apply the amortised cost measurement requirements to the asset (in particular, if cash flows are subject to variability other than credit risk). (See Section 7 for more questions about applying the effective interest method.)

(b) Can the cash flow characteristics assessment be applied consistently? Why or why not?

Please explain whether the requirements are clear and comprehensive enough to enable the assessment to be applied in a consistent manner to all financial assets within the scope of IFRS 9 (including financial assets with new product features such as sustainability-linked features).

If diversity in practice exists, please explain how pervasive the diversity is and its effect on entities' financial statements.

(c) Are there any unexpected effects arising from the cash flow characteristics assessment? How significant are these effects?

Please explain the costs and benefits of the contractual cash flow assessment, considering any financial reporting effects or operational effects for preparers of financial statements, users of financial statements, auditors or regulators.

In responding to (a)–(c), please include information about financial instruments with sustainability-linked features (see Spotlight 3.1) and contractually linked instruments (see Spotlight 3.2).

For the most part the contractual cash flows assessment works as our members believe the Board intended. However, in the context of the PIR there are two areas that our members have identified which warrant attention as follows:

i) Financial assets with ESG features (otherwise referred to as sustainability linked features).
ii) Contractually-linked instruments.

These two areas are discussed respectively in further detail below, in relation to the questions a, b and c raised above.

i) Financial assets with environmental Social and governance (ESG) features

For (a)

Financial assets with ESG features such as ESG-linked loans where the margin may step up or down depending on whether the counterparty meets certain entity specific ESG Key Performance Indicators (KPIs) are rapidly becoming more prevalent in financial markets and an increasingly common feature in the pricing of loans. This product feature was not present when IFRS 9 was developed and, therefore was not anticipated by the existing guidance but is now considered to be part of a basic lending arrangement. The volume of loans including ESG features is rapidly increasing with a result that the scale of the issue continues to increase.

For (b)

Whilst it remains unresolved, the scale of the potential accounting problem posed by ESG features will only increase. Should the accounting treatment currently being applied to loans with ESG features have to change, it could reduce confidence in entity's IFRS accounts and damage the credibility of IFRS more generally. Our members consider that it is vital that an appropriate and workable accounting approach for dealing with ESG features is developed and finalised as soon as possible.

Whilst the IFRS 9 PIR provides an opportunity to consider the topic, our members are of the view that it would be preferable to address the matter more quickly than the timing for completing the PIR may allow.

Our members note that any solution reached needs to be capable of dealing with what is expected will be an increase in the prevalence of these features and potentially also some evolution in the type of features that are included in loans.

For (c)

Our members observe that the application of the contractual characteristics assessment to ESG features, may result in loans being reported at fair value. The financial reporting effects of this are discussed further below.

Potential reporting approaches

In arriving at an appropriate accounting treatment, a key consideration in this assessment is what would provide the most relevant decision useful information.

Our members note that measuring the whole ESG loan at fair value presents two important disadvantages for users:

i) Removing the exposure from the ECL model reduces the transparency of information disclosed in relation to credit risk management. The introduction of the ECL model and its subsequent development has greatly increased the transparency for how entities manage and are exposed to credit risk.

ii) Without interest income calculated on an effective interest rate (EIR) basis, banks' net interest margin, which is currently an industry-wide key performance indicator, would become much less relevant. This would make it more difficult for users of the accounts to compare different banks' business models and performance, for which net interest margin is a critical element, along with credit risk as described in i) above.

Expanding on these points, our members have identified the following relative factors for the presentation of decision useful information in applying amortised cost or fair value accounting to ESG-linked loans.

Amortised cost accounting considerations

- If the ESG-linked loan is measured at amortised cost then the EIR would be set upfront based on expectations of cash flows. The cash flow forecasts would reflect the expectation for whether the ESG KPIs would be met.
- Any changes in expectations of whether the counterparty would meet the ESG targets would result in an immediate change in cash flow expectations which would be considered as to whether they result in a change to the carrying amount. There is well established practice for how these changes are recognised as reflected in the response to question 7 below.
- Amortised cost (EIR and impairment model) provides the most decision useful information for such ESG-linked loans within a hold to collect business model. Our members believe that amortised cost can deal with the variability in cash flows and still provide useful information. Changes in cash flows would be reflected in a remeasurement of the financial asset and would provide information on the effect of the feature when the change occurs. Our members also consider that, rather than delaying recognition, this would allow recognition in a more understandable way than can be achieved through fair value and preserves the interest margin and impairment information comparable to the rest of the lending book. In a large lending book, this variation in interest is unlikely to cause a material difference to value of the interest receivable and interest margin information.
- Borrower/liability accounting: It should be noted that for the borrower the ESG feature would not require separation as an embedded derivative under IFRS and therefore it would apply amortised cost accounting treatment to the liability in full. Considering this presentation, there should be no reason to believe that amortised cost accounting would result in a less useful representation of the financial asset.

Fair value accounting considerations

- An SPPI fail outcome would mean the whole instrument would need to be fair valued and the fair value would reflect changes for all risks, including credit risk, interest rate risk and liquidity risk.
- Our members believe that fair value would not result in more decision useful measurement for these ESG-linked loans:
    - Disproportionate P&L volatility will arise from short term changes in market risk (i.e. the change in interest or credit risk), which are unrelated to ESG and

would never be realised in a hold to collect business model. These risks are accepted as part of a basic lending arrangement.

- ESG would be an unobservable input if subject to fair value, as it is specific to a counterparty and introduces subjectively and measurement uncertainty.
- ECL disclosures will be lost, which are specifically designed to capture and transparently disclose credit risks for the lending business.
- Net interest margin on an EIR basis which is a KPI for banks would cease to be relevant if these items were at FVPL.

ISDA Members' preferred solution

- Our members consider that the most appropriate approach is to consider the ESG related feature as consistent with a basic lending arrangement. Our members suggest that inclusion of an ESG feature may be relevant to both monetary and non-monetary measures of performance, including where these have been publicly communicated, e.g.
    - the bank is making the ESG-linked loan to meet its own published targets or KPIs
    - Borrowers increasingly require this
- Banks are providing loans with ESG features to fulfil strategies and targets on sustainable financing. Whilst any ESG feature must be acknowledged, by far the dominant characteristics of all ESG-linked loans are the exposure to credit risk, interest rate risk and liquidity risk presented to the lender. In the negotiations between borrower and lender when pricing a loan, the consideration of credit risk is paramount. It is complex to consistently attribute value between the different elements of a loan, such as the interest rate, the interest margin, fees, charges etc. In all cases though, ESG features represent a small adjustment from a risk perspective in the overall pricing.
- The focus on ESG-linked loans as being consistent with a basic lending arrangement restricts possible unintended consequences, e.g., it could not be applied to a step up in coupon linked to other market risks, for which the normal SPPI guidance would apply.
- It is also worth noting that ESG features are increasingly becoming a common request of corporate borrowers with the result that banks and other lenders are expected to be able to include such features in lending arrangements to meet this demand and to retain banking relationships. The inclusion of ESG features forms part of the overall pricing of lending arrangements and such features are considered an integral part of the profit margin that banks and other lenders earn from them. If a borrower meets its ESG target an individual loan may be less profitable for the bank, but the bank stands to benefits from other measures of performance such as meeting its own targets and goals for providing ESG-linked lending. Therefore, whilst ESG features may reduce the profit from an individual loan, as the bank's business model evolves to include ESG-linked lending, the bank's overall profitability should not be adversely affected.

ii) Contractually-linked instruments (CLI)

In summary, our members make the following key observations:

- There is diversity in practice. Additional examples added to IFRS 9 or educational material could help to clarify what is intended to be CLI.

- Our members believe that if the CLI guidance were working effectively, senior lending should generally be at amortised cost if it is part of a hold to collect (HTC) business model, even if the underlying assets are not financial assets. Some interpretations of the current CLI guidance do not achieve this outcome. As part of this assessment, risk transfers should be distinguished from funding trades. As a starting point for making the distinction, in a funding trade the entity making the borrowing that originated the financial assets owned by the SPV, holds all the junior notes, such that the financial assets are not derecognised by the borrower when they are transferred to the SPV. In a risk transfer the financial assets are derecognised by the transferor and originator.

For (a)

Shortcomings of the current IFRS 9 CLI requirements

Our members observe that the CLI guidance was primarily intended for public securitisations, such as Collateralised Loan Obligations, Collateralised Mortgage-Backed Securities, Collateralised Debt Obligations etc. The exact nature of what constitutes a CLI is not precisely defined. It is noteworthy that the final CLI rules were not subject to an exposure draft before they were finalised, and as a result they did not receive public comment, which may have identified the shortcomings described here.

In our response below, we provide some examples which apply CLI to basic common lending arrangements. Our members believe that senior lending should generally be at amortised cost in a HTC business model.

CLI requires the underlying portfolio all to be SPPI, which means credit protection provided by more junior tranches is recognised but not protection against other sources of variability. CLI gives what our members consider to be the wrong answer if a senior tranche is (in effect) immunised against variability from the feature causing the underlying assets to fail SPPI such as, for instance, if they are non-financial assets.

For example, there may be instruments in a pool which have SPPI fail features but where these cash flows are hedged in the pool through other instruments to leave the net exposure across the two pools of instruments as SPPI cash flows. This could arise for example where there might be a pool of auto lease receivables with some residual value but where the residual value is subject to a forward purchased at a fixed price. When considered in combination, the cash flows are solely payments of principal and interest but if assessed on an individual instrument basis then the look through test would fail and the debt instruments issued also fail the SPPI test. This results in an accounting outcome which is different to if the transaction had qualified as a non-recourse financing (NRF), even though economically it may be the same.

If a special purpose vehicle (SPV) holds a pool of auto lease receivables, the SPV may be exposed to the residual value risk of the vehicles at the end of the lease, in addition to the credit risk associated with the lease receivables. If the SPV has issued sufficient equity to absorb the residual value risk of the lease receivables, then the SPV's senior debt should qualify as SPPI. If, however, the SPV has issued multiple tranches of debt in a securitisation whereby the junior tranches provide protection from the residual value risk, in assessing the cash flow characteristics of the underlying pool of assets under IFRS 9.B4.1.21(b), applying the CLI guidance would result in the SPPI test not being met for the SPV's senior debt.

For (b)

Bilateral collateralised lending arrangements may be CLI, whilst those which may be economically almost identical can have different outcomes depending on the interpretation of the CLI requirements.

Distinguishing between a CLI and a NRF structure is difficult with the current guidance. There is diversity in practice and disagreements with stakeholders, including some regulators, on what is the appropriate accounting treatment.

For (c)

The volume of analysis required is onerous and costly, e.g. conducting a detailed analysis of senior financing instruments considering factors with very little economic relevance, bringing costs of application but no benefits, etc.

The asset classes impacted are diverse and widespread and include corporate real estate loans, aviation financing, infrastructure projects plus bilateral lending over pools of both financial and non-financial assets such as operating leases and fixed assets. One possible solution would be to apply the NRF guidance to all non IFRS 9 assets.

An example of the problems experienced by our members, is if a structure is deemed to be a CLI but where underlying assets are non-financial meaning that the instruments cannot meet the SPPI criteria. This can result in fair value measurement for what is essentially a vanilla non-recourse lending arrangement. The resulting accounting gives rise to P&L volatility for the bank and higher regulatory capital (charges due to prudential valuation rules), which has the effect of increasing the cost of borrowing for affected counterparties compared to lending of equivalent risk that passes the SPPI criteria.

Please note, if it would be helpful to the IASB, our members are willing to provide to the IASB on a confidential basis, further and more detailed examples of actual transactions.

<u>Proposed solutions - Enhance existing guidance</u>

Our members suggest that the existing guidance could be enhanced as follows

i. Some examples could be added to IFRS 9 either in the implementation guidance or perhaps as educational material, providing conclusions and explanation regarding whether the transactions should be accounted for as a CLI or NRF.

ii. Define terms in IFRS 9.B4.1.20:

   a) Multiple – This should be clarified that this means at least more than two tranches, e.g. three or above.

   b) Tranche - (i) provide clarity on whether the requirements apply for a legal versus an implicit tranche given both can have the same economic effect (and give rise to ‘concentration of credit risk’); (ii) where the sponsor borrows funds from a single lender (or multiple lenders all of whom rank pari-passu) and has overcollateralization or deferred compensation, where this is no different to a standard collateralisation arrangement, clarify whether this is intended to be in the scope of CLI.

c) Contractual linkage/waterfall – Clarify whether this is to be implied for any lending to a SPV (or any entity with limited other assets).

d) Issuer – Whether this is the legal entity or the consolidated group.

e) Any cash flows – whether if cash flows generated by the entity are used to pay operating expenses, e.g. property maintenance rather than being allocated between the debt tranches, then this condition is not met.

Different approaches to address the CLI scope question

As indicated above, our members note that identifying what is within the scope of the CLI guidance is critical to ensuring that the guidance is applied appropriately. Some further suggestions for how the guidance could be improved are described below.

1. The most senior tranche should be assessed as NRF (this would reduce the scale of the current problem which identifies too many notes as CLI). More junior notes within a structure would follow the enhanced CLI guidance.

   - Scope of the CLI guidance should be clarified and reduced to only capture tranches that provide credit protection to other tranches.

   - The most senior tranche, which only receives credit protection from other tranches, should be analysed using a similar approach to other senior non-recourse financial assets in a manner consistent with the original IFRS 9 ED.

   - This would provide a clearer boundary between CLI and NRF and should result in more consistent outcomes. i.e., it should mitigate the risk that economically similar senior financing instruments are accounted for differently depending on whether they are considered CLI.

   - It would reduce the volume of instruments that have to be analysed under the CLI guidance, which is onerous and costly. This proposed change is quite targeted (it requires limited changes or additional guidance to be added to IFRS 9 to simply clarify that the CLI guidance only applies to tranches that provide credit protection to other tranches) and our members consider that this would be consistent with the concepts underlying the original IFRS 9 ED.

2. Suggestions for improvement:

   - Lending arrangements where there is a sponsor borrowing from a single lender (or multiple lenders all of whom rank pari-passu) should not be in the scope of CLI (in this context the term 'sponsor' here would also mean the borrower, i.e., it is the same party).

   - IFRS 9 should be clear what is meant by concentrations of credit risk and whether this can happen with only two tranches where the sponsor holds the junior tranche. Therefore, situations where the transaction unwinds or goes into default before the tranches (other than the sponsor's tranche) suffers a loss, should not be within the scope of CLI.

Question 4—Equity instruments and other comprehensive income

(a) Is the option to present fair value changes on investments in equity instruments in OCI working as the Board intended? Why or why not?

Please explain whether the information about investments in equity instruments prepared applying IFRS 9 is useful to users of financial statements (considering both (i) equity instruments measured at fair value through profit and loss; and (ii) equity instruments to which the OCI presentation option has been applied).

For equity instruments to which the OCI presentation option has been applied, please explain whether information about those investments is useful considering the types of investments for which the Board intended the option to apply, the prohibition from recycling gains and losses on disposal and the disclosures required by IFRS 7.

(b) For what equity instruments do entities elect to present fair value changes in OCI?

Please explain the characteristics of these equity instruments, an entity's reason for choosing to use the option for those instruments, and what proportion of the entity's equity investment portfolio comprises those instruments.

(c) Are there any unexpected effects arising from the option to present fair value changes on investments in equity instruments in OCI? How significant are these effects?

Please explain whether the requirements introduced by IFRS 9 had any effects on entities' investment decisions. If yes, why, how and to what extent? Please provide any available evidence supporting your response which will enable the Board to understand the context and significance of the effects.

In responding to (a)–(c), please include information about recycling of gains and losses (see Spotlight 4).

Some of our members have identified challenges associated with the application of the fair value through other comprehensive income (FVOCI) classification for equities. In particular:

- There are some business models when recycling to the income statement would be appropriate, e.g. not a short-term trading exposure but not a long-term strategic investment either.
- The treatment of peripheral transaction costs/gains and losses etc is not clear. As a result, there appears to be diversity in practice.
- How selling and acquisition costs should be treated, whether in P&L or in other comprehensive income (OCI) is not clear from the current guidance.
- The treatment of any difference between the transaction price and Price x Quantity for bulk on day 1 is not clear, whether it should be in P&L or OCI.

Some of our members, predominately those with large insurance businesses, note that in some circumstances non recycling of gains to P&L from FVOCI investments is counterintuitive:

- The IASB's solution was designed for companies in certain jurisdictions which have significant strategic investments. For other companies it works much less well.
- The non-recycling is really a means to avoid dealing with the impairment of assets through OCI impairment. Gains and losses stuck in OCI make members uncomfortable. A solution would be to come up with an impairment test for assets classified as FVOCI.

Some of our members also note that for this issue to be addressed a suitable impairment approach would need to be developed, which avoids the problems with the impairment model for AFS equity securities under IAS 39.

Question 5— Financial liabilities and own credit	
(a)	**Are the requirements for presenting the effects of own credit in OCI working as the Board intended? Why or why not?** Please explain whether the requirements, including the related disclosure requirements, achieved the Board's objective, in particular, whether the requirements capture the appropriate population of financial liabilities. (b) Are there any other matters relating to financial liabilities that you think the Board should consider as part of this post-implementation review (apart from modifications, which are discussed in Section 6)? Please explain the matter and why it relates to the assessments the Board makes in a post-implementation review.
(b)	**Are there any other matters relating to financial liabilities that you think the Board should consider as part of this post-implementation review (apart from modifications, which are discussed in Section 6)?** Please explain the matter and why it relates to the assessments the Board makes in a post-implementation review.

For (a)

Our members note that in most cases, presenting the effects of own credit in OCI works as intended. The approach helpfully excludes from the income statement the own credit related fair value volatility that reverses over the life of the contract once the liabilities mature. Our members therefore support the treatment and consider that it was a beneficial change.

However, there are some instances when the own credit adjustment (OCA) for financial liabilities can give rise to problems where liabilities are redeemed early, if amounts cannot be released from OCI.

- Where OCA is economically hedged with credit risk in the derivatives portfolio, but hedge accounting is not applied as the risks are different (e.g., own credit risk versus industry wide risk). The debit valuation adjustment (DVA) on derivatives is always recognised in the income statement whereas OCA is currently recognised only through OCI. The extent of the accounting mismatch can change over time, which the inability to change the election makes difficult to manage.
- OCA should be required to be recycled to P&L where liabilities are repurchased or cancelled crystalising a gain or loss which if not recycled to P&L creates an accounting mismatch, and when it happens, the economic and accounting effect can be significant. Since in such cases the OCA does not reverse over time, our members consider that it is more appropriate to recognise in the income statement the accumulated gain or loss

Our members also note that under this proposed accounting treatment, the gain or loss arising on the early repurchase or cancellation of a liability at fair value would not be different to that if an amortised cost liability were early terminated or repurchased. The treatment in such instances from an income statement perspective would arguably be consistent.

For (b)

There are no other issues in relation to financial liabilities which our members think should be considered as part of the PIR.

Question 6— Modifications to contractual cash flows	
(a)	**Are the requirements for modifications to contractual cash flows working as the Board intended? Why or why not?** Please explain what changes you consider to be modifications of a financial asset for the purpose of applying paragraph 5.4.3 of IFRS 9 and as a modification of a financial liability for the purpose of applying paragraph 3.3.2 of IFRS 9. Does the application of those paragraphs, and the disclosure requirements related to modifications, result in useful information for users of financial statements?
(b)	**Can the requirements for modifications to contractual cash flows be applied consistently? Why or why not?** Please explain whether the requirements enable entities to assess in a consistent manner whether a financial asset or a financial liability is modified and whether a modification results in derecognition. Have the requirements been applied differently to financial assets and financial liabilities? If diversity in practice exists, please explain how pervasive the diversity is and its effects on entities' financial statements.

Our members are comfortable that the requirements to account for modifications to contractual cash flows are working as the Board intended. The detailed principles have been established and working practices have evolved which allow consistent treatment. Any additional guidance that could be provided would be of limited value, since there is such a wide range of potential modifications that could occur. The guidance will always need to evolve. Our members believe the current framework provides a satisfactory basis for that to happen.

Question 7—Amortised cost and the effective interest method	
(a)	**Is the effective interest method working as the Board intended? Why or why not?** Please explain whether applying the requirements results in useful information for users of financial statements about the amount, timing and uncertainty of future cash flows of the financial instruments that are measured applying the effective interest method.
(b)	**Can the effective interest method be applied consistently? Why or why not?** Please explain the types of changes in contractual cash flows for which entities apply paragraph B5.4.5 of IFRS 9 or paragraph B5.4.6 of IFRS 9 (the 'catch-up adjustment') and whether there is diversity in practice in determining when those paragraphs apply. Please also explain the line item in profit or loss in which the catch-up adjustments are presented and how significant these adjustments typically are. If diversity in practice exists, please explain how pervasive the diversity is and its effect on entities' financial statements.
In responding to questions (a)–(b), please include information about interest rates subject to conditions and estimating future cash flows (see Spotlight 7).	

Our members Consequently, our members consider that this is an area for which additional guidance over that already in IFRS 9 is not required.

Question 8—Transition	
(a)	**Did the transition requirements work as the Board intended? Why or why not?** Please explain whether the combination of the relief from restating comparative information and the requirement for transition disclosures achieved an appropriate balance between reducing costs for preparers of financial statements and providing useful information to users of financial statements. Please also explain whether, and for what requirements, the Board could have provided additional transition reliefs without significantly reducing the usefulness of information for users of financial statements.
(b)	**Were there any unexpected effects of, or challenges with, applying the transition requirements? Why or why not?** Please explain any unexpected effects or challenges preparers of financial statements faced applying the classification and measurement requirements retrospectively. How were those challenges overcome?

Our members consider that the transition requirements worked as intended and there were no unexpected effects or challenges that arose.

Question 9—Other matters	
(a)	**Are there any further matters that you think the Board should examine as part of the post-implementation review of the classification and measurement requirements in IFRS 9? If yes, what are those matters and why should they be examined?** Please explain why those matters should be considered in the context of the purpose of the post-implementation review, and the pervasiveness of any matter raised. Please provide examples and supporting evidence when relevant.
(b)	**Considering the Board's approach to developing IFRS 9 in general, do you have any views on lessons learned that could provide helpful input to the Board's future standard-setting projects?**

For (a)

We note that the IASB has not identified derecognition as a topic to be covered in the PIR. Our members consider that there some issues arise in applying the derecognition guidance on which it would be beneficial for the IASB to obtain feedback. There are some challenges that arise in relation to securitisation as follows:

- In the context of assets transferred to a special purpose vehicle, some of our members consider that it is not clear how to determine whether control has passed for the purpose of assessing whether the assets should be derecognised by the transferor.
- The continuing involvement requirements are complex to apply and can give rise to counterintuitive results. This can affect many different types of transactions. This includes securitisations that do not correspond to one of the examples provided in the standard, for which the resulting accounting treatment is often not clear and may be confusing to both users and preparers. A possible solution could be to remove the

continuing involvement guidance and require full continued recognition by the transferor in circumstances when substantially all the risks and rewards are neither transferred nor retained, but control is retained. Our members would appreciate the opportunity for this to be considered further.

For (b)

Our members have no particular views on this topic.