
IASB[®] meeting

Date	May 2024
Project	Post-implementation Review of IFRS 9—Impairment
Topic	Feedback analysis—Other matters Eun Young Park (epark@ifrs.org)
Contacts	Iliriana Feka (ifeka@ifrs.org) Riana Wiesner (rwiesner@ifrs.org)

This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB). This paper does not represent the views of the IASB or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS[®] Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB[®] *Update*.

Introduction

1. The IASB has been discussing feedback to the [Request for Information Post-implementation Review of IFRS 9—Impairment](#) (the RFI) since November 2023.
2. The purpose of this paper is to cover two remaining topics:
 - (a) **the simplified approach**—the paper provides an analysis of feedback to the RFI about the simplified approach to recognising expected credit losses (ECL).
 - (b) **update on intragroup financial instruments**—the paper provides a summary of input from the March 2024 meetings of the [IFRS Interpretations Committee](#) (Committee) and the [Accounting Standards Advisory Forum](#) (ASAF) about intragroup financial instruments and an updated staff analysis. The IASB discussed feedback about intragroup instruments at its [February 2024 meeting](#).
3. This paper is structured as follows:
 - (a) a [summary of staff recommendations and a question for the IASB](#);
 - (b) [feedback and staff analysis on other matters](#); and
 - (c) [staff conclusion on whether and when to take action in response to PIR feedback on matters discussed in this paper](#).

Summary of staff recommendations and a question for the IASB

4. Based on the staff analysis in this paper, we recommend that the IASB classify as medium priority and add to its research pipeline the matter relating additional illustrative examples for financial instruments with particular features (such as between related parties).
5. If the IASB agrees with this staff recommendation, we think that the IASB could perform the applicable due process steps (such as potential exposure for comments) in combination with another related project (see paragraph 47 of this paper). Doing so might help the IASB and external stakeholders maximise the benefits of going through the due process with smaller incremental efforts.

Question for the IASB

Do you agree with the staff recommendation in paragraph 4 of this paper?

Feedback and staff analysis on other matters

6. For each of the two topics discussed in this paper, this section provides background, a summary of feedback and staff analysis of that feedback.

A. Simplified approach

Background

7. IFRS 9 reduces the costs and complexities of applying the ECL model for non-financial institutions and other entities through the simplified approach by removing the need to calculate 12-month ECL and track the increase in credit risk since initial recognition. This approach applies to trade receivables or contract assets that result from transactions in the scope of IFRS 15 *Revenue from Contracts with Customers*, and lease receivables that result from transactions in the scope of IFRS 16 *Leases*.

-
8. Applying the simplified approach as set out in paragraph 5.5.15 of IFRS 9, an entity:
- (a) is required to recognise lifetime ECL for trade receivables or contract assets without a significant financing component; and
 - (b) has an accounting policy choice to measure lifetime ECL for trade receivables or contract assets with a significant financing component and lease receivables.

Feedback

9. As outlined in [Agenda Paper 27A](#) for the November 2023 IASB meeting, comment letters included little feedback on the requirements for the simplified approach. Most respondents who commented said that the approach works well and that there are no fatal flaws. They also said that the approach achieves the objective of reducing application costs for preparers without significantly reducing the usefulness of information for users of financial statements.
10. Stakeholders noted that the simplified approach is widely applied by non-financial entities (including the use of a provision matrix as a practical expedient) and is generally appropriate for companies without sophisticated credit risk management systems. However, some stakeholders identified challenges such as:
- (a) difficulties in sourcing and using forward-looking information to measure ECL. A few of these respondents said that, in practice, some entities estimate ECL solely on the basis of historical loss rates without considering forward-looking information. A securities regulator said that they observe diversity in practice with regards to how entities incorporate forward-looking information but did not elaborate further on the root cause or whether consequences are substantial; and
 - (b) applying the simplified approach to financial instruments for which there is a lack of historical loss data (eg trade receivables arising in new markets or from new products/customers or trade receivables from related parties).

-
11. These respondents suggested that the IASB support preparers by providing application guidance or examples illustrating:
- (a) how to adjust historical data to reflect the effects of forecasts of future economic conditions and when historical data can be used without adjustments. In this context, a standard-setter said that it would be useful if the IASB adds further explanation on how historical data can be adjusted to reflect forward-looking information in Example 12 of the Illustrative Examples accompanying IFRS 9; and
 - (b) how to estimate ECL when there is little or no historical information available. For example, a standard-setter said that specific guidance on what alternative information an entity can use in such cases (for example when there is a lack of information for comparable instruments), would support preparers. In this context, another standard-setter suggested moving paragraph BCE.164 of the Basis for Conclusions on IFRS 9 into the application guidance of IFRS 9. That paragraph explains the IASB's basis for not requiring an exhaustive search for information to assess significant increases in credit risk, noting that entities with little historical information would, for example, draw their estimates from internal reports or statistics.

Staff analysis

12. PIR feedback from most respondents indicates that the simplified approach is working as intended and that there are no fatal flaws. Most respondents also said that the approach is widely used by non-financial entities and that the objective of reducing costs and complexities for these entities was largely achieved.
13. In analysing the application challenges raised by some respondents described in paragraph 10(a) of this paper, we note that in the context of the simplified approach, forward-looking information would only affect the measurement of lifetime ECL (as opposed to the general approach where it could also affect determining whether there has been a significant increase in credit risk).

-
14. In describing what constitutes ‘reasonable and supportable information’, paragraph B5.5.49 of IFRS 9 refers to information about past events, current conditions and forecasts of future economic conditions. However, this does not mean that an entity needs to apply a mechanistic approach to simply adjust its estimate of ECL for expected future economic conditions. Paragraph B5.5.51 of IFRS 9 adds an important qualification by stating that an entity should use reasonable and supportable information that is available *without undue cost or effort and that is relevant to the estimate of expected credit losses*.
 15. This is further supported by the statement in paragraph BC5.140 of the Basis for Conclusions on IFRS 9 that an entity should consider ‘*the effect of forward-looking information (ie changes in macroeconomic indicators) that affect the risk of a default occurring*’. Although this statement is made in the context of determining significant increases in credit risk using a collective assessment, in our view it equally applies to the measurement of ECL, regardless of which approach an entity uses.
 16. While IFRS 9 does not exempt an entity from considering the effect of forward-looking information on the measurement of ECL when applying the simplified approach, it also does not require ECL amounts to be mechanistically adjusted for forward-looking information (eg when there is no reasonable and supportable forward-looking information available without undue cost or effort).
 17. The measurement of ECL needs to be consistent with the underlying principles of the impairment model. This includes the requirement for the information used to include factors that are specific to the borrower, general economic conditions and an assessment of current and forecast conditions to the extent that it is relevant to the entity’s exposure to credit risk at the reporting date. To this effect, paragraph B5.5.52 of IFRS 9 acknowledges that in some cases, the best reasonable and supportable information could be the unadjusted historical information, depending on the nature of the historic information and when it was calculated compared to the circumstances at the reporting date and the characteristics of the financial assets being considered.

-
18. In our view, the challenges described in paragraph 10(b)**Error! Reference source not found.** of this paper are similar to respondents’ feedback about the general approach to recognise ECL for particular financial instruments, as discussed by the IASB in its [February 2024 meeting](#). Specifically, the same underlying concern was raised by respondents about estimating ECL for intragroup financial instruments and financial instruments with non-commercial terms.¹
19. In analysing the PIR feedback about both the general and the simplified approaches for recognising ECL, we note that there is a common underlying theme—respondents asking for guidance on how to estimate ECL when they have limited information available.
20. Generally, respondents are raising this feedback in context of financial instruments for which the entity has limited credit risk management information, often because of the characteristics of such instruments (eg not issued purely for commercial reasons such as intragroup loans, related party trade receivables, short-term receivables).
21. We continue to emphasise that the principles in IFRS 9 allow an entity to adjust its ECL approach depending on the entity’s credit risk management actions, the characteristics of an instrument and what reasonable and supportable information is available without undue cost or effort. Therefore, the staff analysis in paragraphs 23-26 of [Agenda Paper 27A](#) discussed at the February 2024 meeting is largely relevant also in analysing the feedback described in paragraph 10 of this paper.
22. In particular we note that IFRS 9 requires that estimating ECL is based on *reasonable and supportable information that is available to an entity without undue cost or effort* and more specifically that:
- (a) an exhaustive search for information is not required. Paragraph B5.5.51 of IFRS 9 provides application guidance supporting this relief, noting that an entity may use various sources of data that are relevant to the estimate of ECL,

¹ See feedback for intragroup instruments and non-commercial instruments in paragraphs 11-18 of [Agenda Paper 27A](#) of February 2024 IASB meeting.

which may be both internal (entity-specific) and external. Possible data sources include internal historical credit loss experience, internal ratings, credit loss experience of other entities and external ratings, reports and statistics. Entities that have no, or insufficient, sources of entity specific data may use peer group experience for a comparable financial instrument (or groups of financial instruments). As further explained in paragraph BCE.164 of Basis for Conclusions on IFRS 9 this may mean that entities with little historical information would draw their estimates from internal reports and statistics (which may, for example, have been generated when deciding whether to launch a new product), information that they have about similar products or from peer group experience for comparable financial instruments; and

- (b) simplifications and practical expedients to estimate ECL are provided, for example, using a provision matrix for trade receivables. As explained in paragraph B5.5.35 of IFRS 9, a provision matrix might specify fixed provision rates depending on the number of days that a trade receivable is past due. Depending on the characteristics of its customer base, the entity would use appropriate groupings if its historical credit loss experience shows significantly different loss patterns for different customer segments. Examples of criteria that might be used to group assets include geographical region, product type, customer rating, collateral or trade credit insurance and type of customer (such as wholesale or retail). Illustrative Example 12 accompanying IFRS 9 further illustrates the use of provision matrix to calculate ECL for trade receivables.

23. Therefore, notwithstanding requests for additional application guidance about how to calculate ECL for specific financial instruments or specific facts and circumstances, we think that incremental benefits from additional application guidance would be limited. IFRS 9 already has well-described principles and application guidance that is equally relevant to financial instruments in scope of the simplified approach (as summarised in paragraphs 21–22 of this paper).

-
24. Developing effective examples illustrating how to estimate ECL when there is limited information would require careful consideration. That is because, among other factors, what represents ‘reasonable and supportable information available without undue cost or effort’ would inevitably vary from entity to entity and instrument to instrument, as well as over time.

B. Intragroup financial instruments

Background

25. At its [February 2024 meeting](#), the IASB discussed PIR feedback about the IFRS 9 requirements for the general approach to recognising ECL. In particular, the IASB considered feedback from respondents about the application challenges that arise from applying the general approach to particular financial instruments, such as instruments between entities under common control (intragroup financial instruments) and instruments issued on non-commercial terms or for reasons that are not purely commercial (non-commercial financial instruments). The PIR feedback indicated that the costs of applying the general approach to some of those instruments might appear to be excessive in some cases if requirements in IFRS 9 are applied mechanically.
26. At that meeting, the IASB tentatively decided to take no standard-setting action on this matter. As explained in more detail in paragraphs 23–37 of [Agenda Paper 27A of the February 2024 IASB meeting](#), IFRS 9 provides an adequate basis for determining ECL for these instruments and applying the requirements mechanically would be inconsistent with the principles in IFRS 9.
27. However, we discussed the matter with the Committee and ASAF in March 2024 to obtain further evidence on the root cause for the ‘excessive’ application costs and an indication of what non-standard-setting actions, if any, the IASB could take to provide further support for preparers (eg through illustrative examples or educational material).

Summary of the input from the Committee and ASAF

28. The staff asked the Committee and ASAF members whether:
- (a) the issue of application costs for ECL of intragroup financial instruments is pervasive, has substantial consequences and what is the root cause?
 - (b) the issue is limited to intragroup instruments only or is part of a broader underlying issue? and
 - (c) non-standard-setting actions could help reduce application challenges of estimating ECL for intragroup instruments and what are those actions?
29. Most Committee and ASAF members agreed that this matter requires no standard-setting actions. For example, some of these members explicitly said that they would not suggest amending IFRS 9 for reasons similar to those discussed by the IASB.²
30. However, most of the members were sympathetic to the difficulties preparers face in estimating ECL of intragroup instruments. They said that application challenges arise due to the features of these instruments (eg contractual terms not at arm's length basis); and that there is generally limited credit risk information available because management does not generally undertake typical credit risk management activities for those instruments. In this context, they said these instruments are different to the 'typical' instruments issued to third parties for which IFRS 9 works very well.
31. Accordingly, many Committee members said that the root cause of application costs is not inadequate requirements in IFRS 9, but rather the limited credit risk management information and the subjective features of these instruments.
32. Some Committee members further explained that the intragroup transactions are prevalent, and many application questions arose upon implementation of IFRS 9 but there are less application questions now. However, application and auditing costs are

² See [the discussion by the Committee](#). See the [discussion by the ASAF](#) and the [ASAF meeting summary notes](#).

still high because estimating ECL relies heavily on management's estimates and judgement due to limited concrete credit risk information (eg historical loss data).

33. There were mixed views among the Committee and the ASAF members about whether the IASB should take further action on this matter and whether such actions could be useful. Specifically:
- (a) *some suggested no further action.* They said that the principles in IFRS 9 allow an entity to adjust its approach based on the features of the instrument and entity's credit risk management practices. The fact that IFRS 9 lists no acceptable / mechanistic approaches is sufficiently helpful. Applying judgement is inevitable because of the subjective terms of the instruments. A few members also said that, considering intragroup instruments alone, the consequences in practice are not necessarily substantial.
 - (b) *a few suggested educational material.* A few members said that potentially excessive application costs might be a result of 'over-engineered' approaches for estimating ECL. In this context, educational material might be helpful to remind entities of the simplifications available in IFRS 9 and that mechanistic approaches are inconsistent with the objective of impairment. For example, a Committee member noted that some of the messages in the IASB's educational material published during covid-19 could be relevant to intragroup financial instruments and hence might be repurposed. Such material could also discuss how an entity might incorporate qualitative factors in estimating ECL in accordance with IFRS 9. In contrast, a few other members said that educational material might not be an effective tool because they are not translated and do not form part of IFRS literature, hence not widely accessible.
 - (c) *others suggested illustrative examples.* Some members who did not consider educational material as an effective tool, suggested developing illustrative examples because examples are translated and more accessible from preparers. However, a few other members cautioned that intragroup instruments are a very broad population (ie they take many forms, have a variety of features and the terms and conditions can be influenced from jurisdictional requirements).

Staff analysis

34. We note that the input from the Committee and ASAF members is largely consistent with the staff analysis set out in paragraphs 23-37 of [Agenda Paper 27A](#) of the IASB's February 2024 meeting. In particular, it confirms that:
- (a) IFRS 9 provides an adequate basis for entities to estimate ECL for intragroup or similar financial instruments. The principles in IFRS 9 enable an entity to adjust its approach to estimating ECL depending on facts and circumstances and thus, achieve an appropriate balance between costs and benefits.
 - (b) intragroup instruments are prevalent and high application and auditing costs could arise in practice. In most cases, the root cause for such costs is a lack of credit risk management information and the high level of management judgement required in estimating ECL because of the characteristics of financial instruments (eg subjective terms).
 - (c) although some members suggest that the IASB take action to reduce the application challenges, there is no consensus on whether the most effective tool would be educational material or illustrative examples. A few members also caution the IASB that developing a useful example might not be simple because intragroup instruments represent a broad population with varied features, facts and circumstances.
35. Therefore, considering the evidence gathered relating the matter of intragroup financial instruments in isolation, the IASB could conclude to take no further action.
36. However, as noted in paragraphs 19–20 of this paper, considering the PIR feedback holistically, there is a common theme across respondents' feedback—more guidance on how to estimate ECL for financial instruments with particular features. Essentially, respondents are asking the IASB to illustrate how the principles in IFRS 9 would apply to a financial instrument with 'atypical' features—such as, issued at terms that are not on an arms' length basis / between related parties, limited credit risk management information available (particularly, quantitative information).

-
37. On balance, in the light of the collective feedback received in this PIR, we think that the IASB could consider exploring whether it can develop examples illustrating how an entity might estimate ECL applying IFRS 9 for financial instruments with particular features or for which there is limited information available. For example, the IASB could consider whether it can develop a useful example illustrating how to estimate ECL for a financial instrument using qualitative information.
38. We acknowledge that the objective of developing an example for such financial instruments could pose challenges like those noted in paragraph 34(c) of this paper. For example, a potential illustrative example could risk being too broad or too simplified to be useful; or too narrow or complex because it might attempt to illustrate application of requirements to instruments with very specific characteristics.
39. However, we note that there are common features for the instruments for which respondents are asking for guidance, for example, issued at terms that are not on an arms' length basis / between related parties, limited credit risk management information available, particularly, quantitative information.
40. Accordingly, the IASB could explore whether it can develop examples that would be useful for instruments with such features, and therefore, respond to the PIR feedback.

Staff conclusion

Step 1—is further action needed?

41. The staff assessed the above matters against the [PIR framework](#) to determine whether any further action needs to be taken:³

³ Please refer to [Agenda Paper 27A](#) of February 2024 meeting for the staff assessment against the PIR framework for the topic of the general approach for recognising ECL, including application of such approach to intragroup financial instruments.

PIR evaluation requirements	Staff assessment
	<i>Simplified approach</i>
<p>Are there fundamental questions (ie ‘fatal flaws’) about the clarity and suitability of the core objectives or principles in the new requirements?</p>	<p>No. PIR feedback and the staff analysis indicates that the requirements on the simplified approach for recognising ECL are working as intended and that there are no fundamental questions about the clarity and suitability of the objectives or principles in IFRS 9.</p> <p>Majority of respondents said that the simplified approach also meets the objective for which it was intended and works well in practice for most financial instruments.</p>
<p>Are the benefits to users of financial statements of the information arising from applying the new requirements significantly lower than expected?</p>	<p>No. PIR feedback did not provide any evidence that the benefits to users of financial statements of information arising from applying the simplified approach requirements to relevant financial instruments are significantly lower than expected.</p> <p>In fact, as noted in paragraph 9 of this paper, most stakeholders said that the simplified approach achieves the objective of reducing costs for preparers without causing loss of useful information to users of financial statements.</p>
<p>Are the costs of applying the new requirements and auditing and enforcing their application significantly greater than expected?</p>	<p>Yes, to some extent. Feedback indicates that the costs of applying the relevant IFRS 9 requirements to particular financial instruments might be high, and possibly exceed the benefits from the resulting information, if an entity does not make appropriate use of the application guidance, simplifications and practical expedients available in IFRS 9. In other words, the application costs might be higher than expected if the requirements are applied in a way that the IASB did not intend.</p> <p>Guidance, such as illustrative examples, might assist entities to estimate ECL for some instruments more efficiently and avoid situations in which the requirements are applied in a way not intended by the IASB.</p>

Step 2—is the finding high, medium or low priority?

42. This table sets out each of the factors the IASB considers in assessing the priority for taking an action in response to findings raised in a PIR, and the staff assessment of the priority that should be assigned to possible action in response to findings discussed in this paper.

Does PIR feedback indicate:	Staff assessment <i>Simplified approach</i>
(a) the matter has substantial consequences?	<p>Yes, to some extent. PIR feedback does not necessarily provide evidence that there are substantial operational or financial reporting consequences. Financial instruments such as intragroup instruments are widespread transactions but generally not the most significant part of entities' financial assets.</p> <p>However, respondents raise concerns that application costs, in some cases, might exceed the benefits of the resulting information. We also note that if entities apply the IFRS 9 requirements in a way not intended by the IASB, the application costs would be greater than the IASB expected when developing the requirements.</p>
(b) the matter is pervasive?	<p>Yes. As previously noted, the same underlying concern is raised by respondents for different financial instruments. Essentially, respondents are asking the IASB to illustrate how the principles in IFRS 9 would apply to a financial instrument with 'atypical' features— such as, issued at terms that are not on an arms' length basis / between related parties, limited credit risk management information available, particularly, quantitative information.</p>
(c) the finding could be addressed by the IASB or the Committee?	<p>Yes. We think the finding could be addressed by the IASB. We note that, in developing IFRS 9, the IASB designed principle-based requirements, simplifications and practical expedients so that the costs of applying the requirements do not significantly exceed the benefits of the resulting information and so that, useful information is provided to users about the economics of transactions.</p> <p>In the light of PIR feedback, we think that an illustration of such requirements, might reduce application challenges faced in relation to estimating ECL for financial instruments with particular features.</p>

Does PIR feedback indicate:	Staff assessment
(d) the benefits of any action would be expected to outweigh the costs?	<p><i>Simplified approach</i></p> <p>Yes. As previously noted, examples that illustrate how an entity could estimate ECL applying IFRS 9, including the simplifications and practical expedients available, would support entities estimate ECL for particular instruments in a more efficient manner.</p> <p>The staff view is that any potential examples should focus on broader credit risk management characteristics of a financial instrument and that such characteristics should be generally applicable, rather than being limited to a particular type of instruments. The staff think any potential examples are unlikely to disrupt current practice and would not necessitate entities to reassess their ECL approaches. Illustrative examples are not mandatory and do not add or change requirements. Such a potential example would be designed to reduce operational burden for preparers, including non-financial institutions. Nonetheless, any potential project to add illustrative examples to IFRS 9 would require further outreach with stakeholders to minimise the risk of unintended consequences.</p>

Conclusion

43. Based on the staff assessment set out above, we note that most of the prioritisation characteristics are present to some extent and the benefits of any action are expected to exceed the costs.
44. Applying the PIR framework, we recommend that the IASB classify as medium priority the matter relating additional illustrative examples for financial instruments with particular features (such as between related parties, limited information available).
45. According to that framework, medium priority findings would be added to the research pipeline. The IASB will endeavour to make pipeline projects active before the next agenda consultation.
46. We did not think that considering this matter as part of the next agenda consultation would be beneficial. The matter is specific to the impairment requirements of IFRS 9, and a broader consultation is unlikely to provide new information. The IASB has already gathered sufficient evidence from respondents to the RFI and consultations with ASAF and the Committee.
47. If the IASB agrees with the staff recommendation to consider developing illustrative examples, in our view, it would be beneficial if the IASB performs the applicable due process steps (such as potential exposure for comments) alongside another related project. For example, in combination with the credit risk disclosure project (subject to the IASB's decision on Agenda Paper 27B of this meeting), or the amortised cost measurement project.
48. Doing so, rather than undertaking due process steps separately, might help the IASB and external stakeholders maximise the benefits of going through the due process with smaller incremental efforts.