
Accounting Standards Advisory Forum meeting

Date	December 2024
Project	Amortised Cost Measurement
Topic	Project objectives and scope
Contacts	Iliriana Feka (ifeka@ifrs.org) Alev Halit Ongen (alev.halitongen@ifrs.org) Riana Wiesner (rwiesner@ifrs.org)

This paper has been prepared for discussion at a public meeting of the Accounting Standards Advisory Forum (ASAF). This paper does not represent the views of the International Accounting Standards Board (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*.

Purpose of this session

- The IASB has recently started a research project on Amortised Cost Measurement, following feedback on its post-implementation reviews of IFRS 9 *Financial Instruments*.
- In the initial research phase of the project, the IASB will decide on the **project direction**, including the **scope of the project**. The IASB is doing targeted consultations with its consultative groups to help inform these decisions.
- The purpose of this session is therefore to obtain your input on Amortised Cost Measurement project, including input on whether the initial list of project topics is complete.
- The IASB will decide on the project plan in February 2025.

Contents

Slides

Questions for ASAF members

4—6

Background

7—9

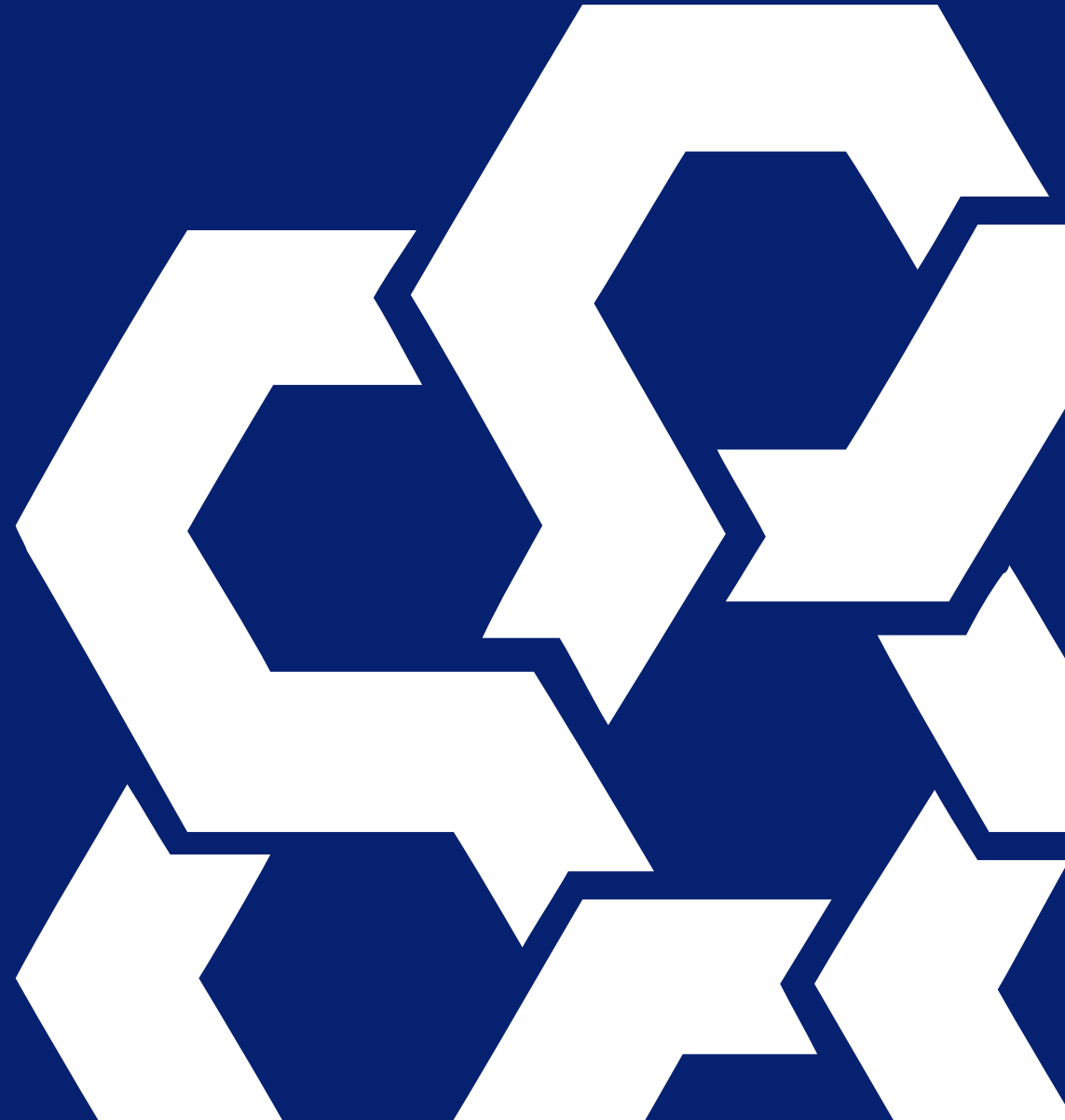
Project direction

10—12

Initial list of project topics

13—17

Questions for ASAF members



Questions for ASAF members

1. Project objectives and approach

(slides 11–12)

What is your assessment of the project objectives and the approach?

- a. Whether the project objectives and the approach adequately respond to stakeholder concerns and allow timely progress?
- b. Have you identified any specific areas relating to amortised cost measurement for which information provided to investors could be significantly improved?

2. Scope

(slides 14–17)

What is your assessment of the project scope?

Is the list of project topics broadly complete? Have you identified any issues missing from that list that are widespread in your jurisdiction and have a material effect in the financial statements?

Questions for ASAF members

3. Supporting stakeholders

Any initial advice about supporting stakeholders throughout this project?

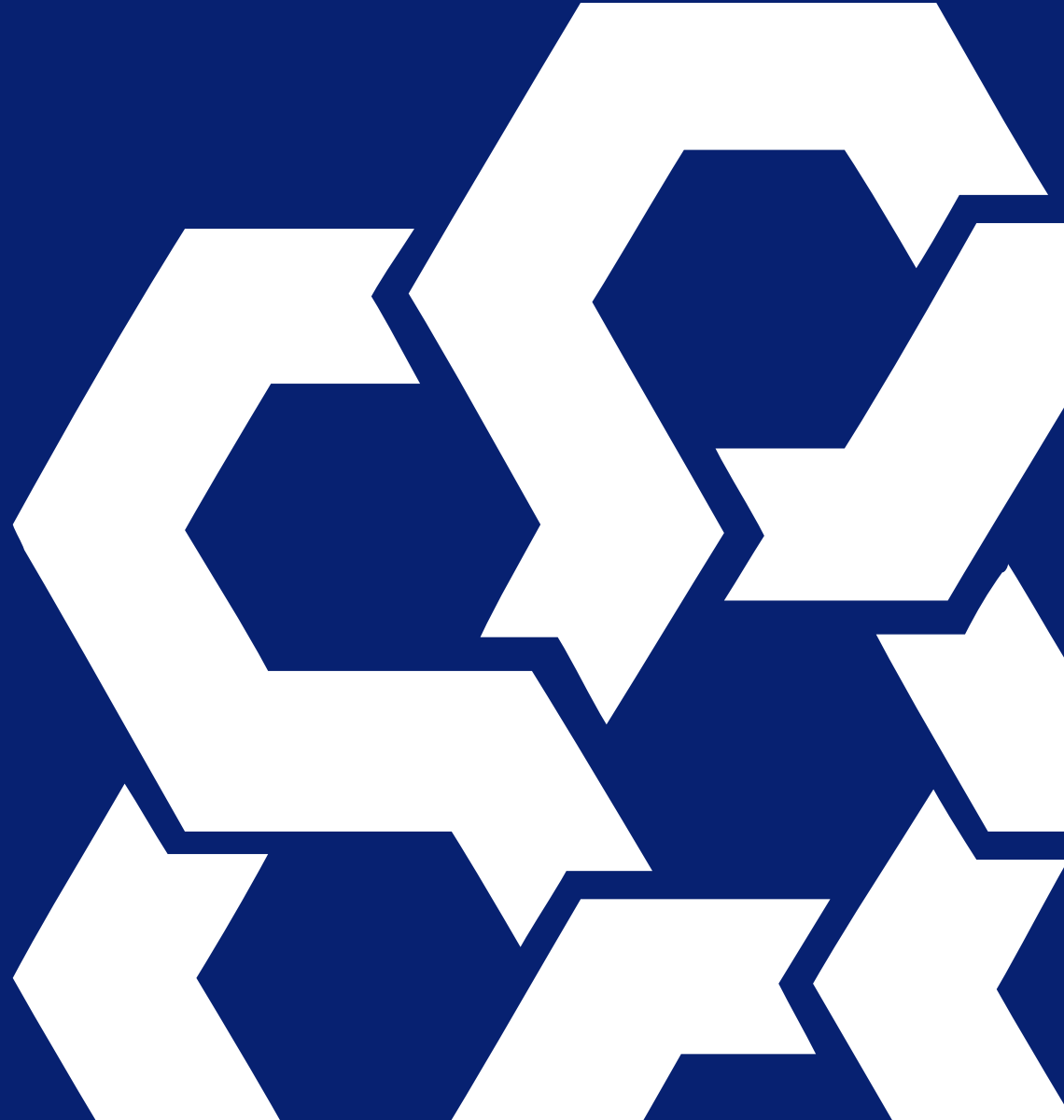
How can the IASB best support stakeholders that will be affected by this project, including any specific tools or resources to consider from the onset?

4. Other matters

Any other matters?

Do you have any observations on other aspects of this project?

Background



Feedback from the post-implementation reviews of IFRS 9

Overall feedback from the PIR of classification and measurement and the PIR of impairment



- The core objectives and principles of IFRS 9 are robust, without any fatal flaws
- No fundamental changes to IFRS 9 are needed
- There are some ‘problem areas’ for which there is significant diversity in practice—strong demand for a project on amortised cost measurement

Improvements requested on these IFRS 9 areas:



Mechanics of effective interest method



Modification, derecognition, write-off



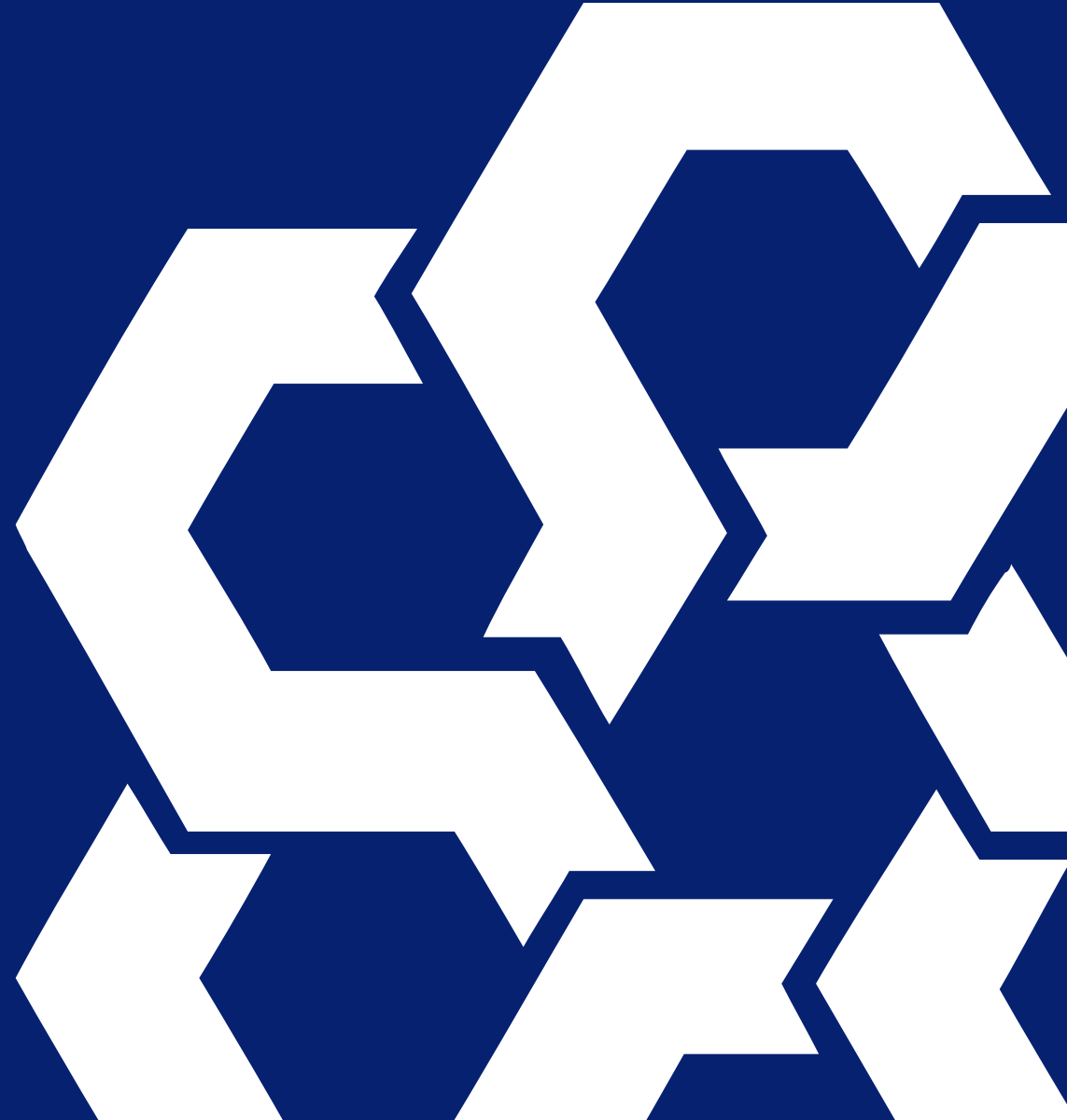
Interaction with impairment

Feedback from other projects

The issues reported through the two post-implementation reviews of IFRS 9 have not only arisen in practice since IFRS 9 was issued but have a long history, dating back to 2008. Stakeholders have raised such issues in several other projects of the IASB or the IFRS Interpretations Committee (Committee)—most notably:

Project	Description
<u>Exposure Draft Financial Instruments: Amortised Cost and Impairment (2009)</u>	The IASB proposed to establish new principles for amortised cost measurement, including changing the definition of the effective interest rate. Proposals were rejected because of substantial operational complexity and extensive subjective judgements.
<u>Agenda decision Derecognition of financial instruments upon modification (2012)</u>	The Committee considered a question about Greek Government Bonds that were held as financial assets. It concluded that, by analogy to the guidance on financial liabilities, a substantial change to the terms of the bonds results in derecognition.
<u>Interest Rate Benchmark Reform—Phase 2 (2019–2020)</u>	The IASB amended IFRS 9 to clarify what constitutes a ‘modification’ of a financial instrument when accounting for the effects of the interest rate benchmark reform. For this purpose, a modification was described as a change in the basis for determining the contractual cash flows of a financial asset or a financial liability.
<u>TLTRO III transactions (2021)</u>	The Committee considered a request about how to account for the third programme of the targeted longer-term refinancing operations (TLTROs) of the European Central Bank. One of the questions asked related to the application of the effective interest method to contractual cash flows with specific conditions attached to the contractual interest rate. The Committee referred the matter to the post-implementation review of the classification and measurement requirements of IFRS 9.

Project direction



Project objectives

The project aims:

- to resolve **application matters** that are widespread and have a material effect arising from amortised cost measurement requirements in IFRS 9, by clarifying the underlying principles or developing new principles, and adding accompanying application guidance, where necessary; and
- to make specific improvements to **information** provided to **investors** about financial instruments measured at amortised cost.

Ultimately, the **desired outcomes** for the project would be:

- to reduce accounting diversity in practice;
- to clarify interactions between amortised cost and impairment requirements in IFRS 9; and
- to complete the targeted improvements in a timely manner.

Project approach



Targeted improvements
to amortised cost
measurement requirements

- responsive to stakeholders' feedback;
- designed to be a **principle-based approach**;
- focus on **root causes underlying the issues**, not on particular features or types of financial instruments; and
- a clear starting point, ie the known application issues as raised by stakeholders over time, and the current requirements in IFRS 9



Not a **fundamental review**
of requirements

- inconsistent with overall feedback that IFRS 9 requirements work well, without fundamental questions or fatal flaws.

Identify application issues

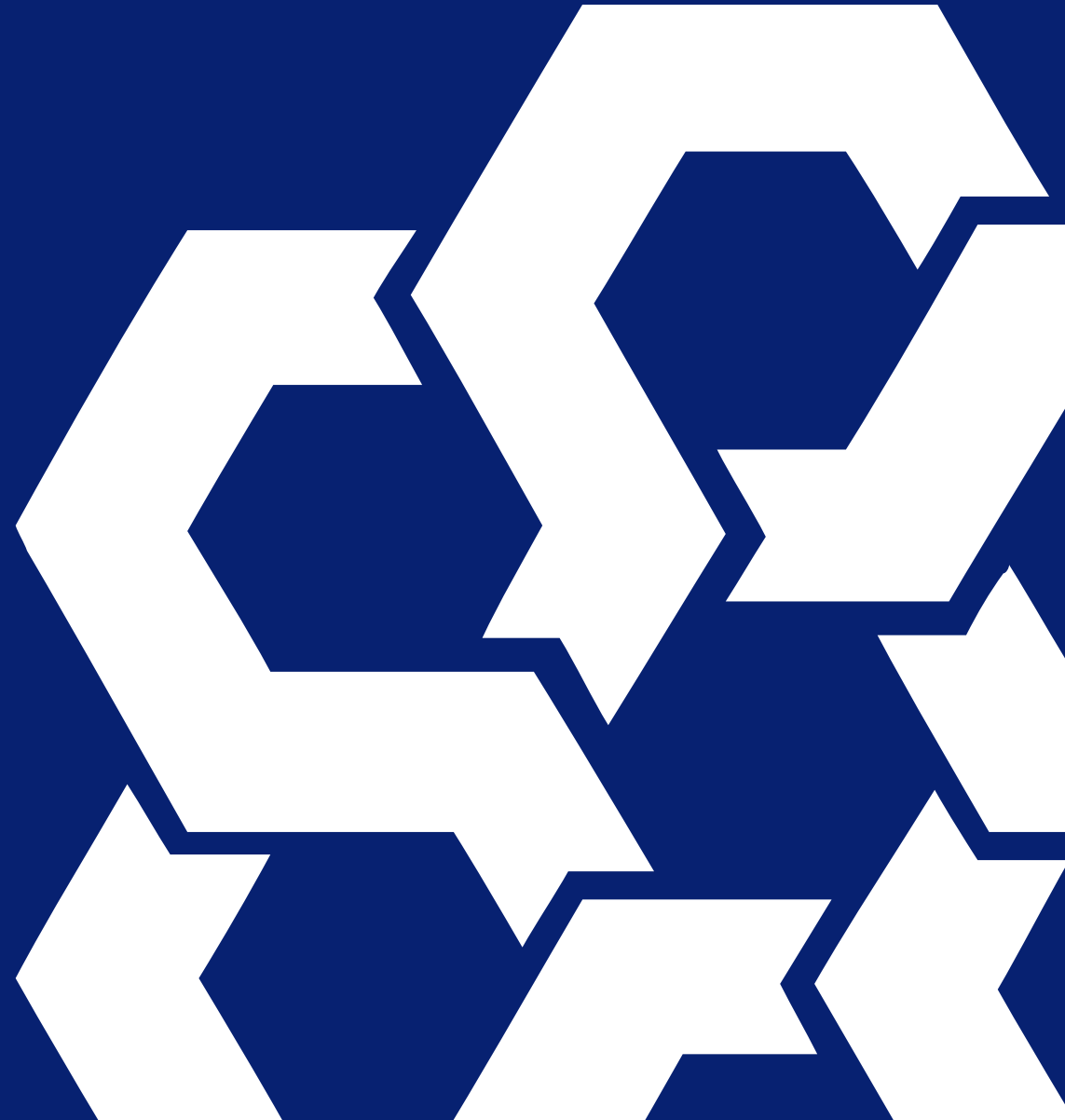


Identify the underlying
principles—clarify existing
principle or develop a new
principle



Apply the principles to the
known application issues

Initial list of project topics



Initial list of project topics

- At its September 2024 meeting, the IASB discussed the list of topics that it might consider in this project. [Agenda Paper 11](#) of that meeting provides a more detailed description of these topics.

Area	Topic	Description
Effective Interest Method	Conditions attached to the contractual interest rate and determining effective interest rate (EIR)	In determining EIR upon initial recognition, how to reflect uncertainty arising from conditions attached to the contractual interest rate, including the method to use for calculating the EIR—for example, whether an entity uses a probability-weighted average (or expected value), the most likely or best estimate outcome, or the statistical median.
	Accounting for subsequent changes in estimated future cash flows	<ul style="list-style-type: none"> How is an entity required to account for subsequent changes in estimated future contractual cash flows—applying paragraph B5.4.5 or applying paragraph B5.4.6 of IFRS 9? What is the meaning of a ‘floating rate’ financial instrument in paragraph B5.4.5 of IFRS 9 and whether it refers to the overall contractual rate or a component thereof? What is the meaning of ‘movements in market rates of interest’ in paragraph B5.4.5 of IFRS 9 and whether this includes any adjustments to the contractual interest rate?

Initial list of project topics (*continued*)

Area	Topic	Description
Effective Interest Method and Modification	The effect of modifications on EIR	What is the effect of a modification of contractual cash flows on EIR—specifically, whether, and when, an entity is required to adjust the EIR of a financial instrument following a modification of contractual cash flows.
	Unamortised transaction costs and fees received as part of a modification	How to account for unamortised transaction costs or fees received as part of a modification of financial assets and financial liabilities.
	The meaning of ‘fees and costs incurred’	What is meant by the phrase ‘fees and costs incurred’ in paragraph 5.4.3 of IFRS 9 and whether this includes fees received, fees paid, and costs paid by both the lender and the borrower.
	What is a ‘modification’ of financial instruments	Clarification requested whether modification represents changes in contractual terms of a financial instrument (see paragraph 3.3.2 of IFRS 9 applicable to financial liabilities) or changes in contractual cash flows (see paragraph 5.4.3 of IFRS 9 applicable to financial assets). Furthermore, in amendments to IFRS 9 relating to Interest Rate Benchmark Reform , the IASB described modifications as changes in the basis for determining the contractual cash flows (paragraphs 5.4.5–5.4.9 of IFRS 9)

Initial list of project topics (*continued*)

Area	Topic	Description
Modification, derecognition, write-off	Assessment of modifications that lead to derecognition of a financial instrument	<p>Clarification requested about which modifications lead to derecognition of a financial instrument, including how to assess whether a modification is ‘substantial’ and whether, and when, an entity is required to use qualitative or quantitative indicators or both for purposes of assessing whether a modification leads to derecognition of a financial instrument.</p> <p>Additional clarifications requested include whether, and if so, to what extent, the reason for a modification (for example, forbearance versus on-market renegotiations) affects whether a modification results in derecognition.</p>
	Partial derecognition versus modification of a financial instrument	What is the difference between a partial derecognition versus modification of a financial instrument (including the order of applying the requirements, and the subsequent accounting for the remaining part of, or modified, financial instrument).
	Accounting for modification gains or losses	Clarification about how to determine and present gains or losses resulting from modification of a financial instrument in statement of profit or loss— specifically, whether to present such gains or losses as part of the impairment losses, as part of interest revenue or separately.

Initial list of project topics *(continued)*

Area	Topic	Description
Modification, derecognition, write-off and Impairment	Accounting for write-offs and subsequent recoveries	<p>Perceived insufficient application guidance about determining whether the conditions for write-off are met—specifically, determining when an entity has ‘no reasonable expectations’ of recovering a financial asset.</p> <p>Furthermore, clarification is requested on how to account for:</p> <ul style="list-style-type: none"> • a write-off of a financial asset—by reducing the gross carrying amount of the financial asset or only account for the difference between write-off amount and the ECL allowance and recognise any difference as impairment; • a recovery of amounts after a financial asset has been written-off.
	Accounting for changes in expected cash flows	<p>Clarifications requested about whether, or when, to account for changes in expected cash flows as a modification, write-off, or as expected credit losses, including what is the required order of applying the pertinent IFRS 9 requirements.</p> <p>Commonly raised fact patterns include:</p> <ul style="list-style-type: none"> • if, as part of forbearance, an entity plans to modify a financial asset in a way that would result in forgiveness of part of the existing contractual cash flows • if a new law is enacted that either imposes an automatic change in the contractual cash flows of a financial asset (eg a payment holiday) or gives borrowers an option to require such a change.

Follow us online

 [ifrs.org](https://www.ifrs.org)

 [@IFRSFoundation](https://twitter.com/IFRSFoundation)

 [IFRS Foundation](https://www.youtube.com/IFRSFoundation)

 [International Accounting
Standards Board](https://www.linkedin.com/company/ifrs-foundation)