IFRS® Accounting

Staff paper

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Emerging Economies Group 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)

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 direction in February 2025.

Contents

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Questions for EEG members

Questions for EEG members

1. Scope

(slides 12–15)

What is your assessment of the project scope?

Is the list of project topics broadly complete, considering the project objectives and the approach?

2. 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

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 avoid creating internal inconsistencies within 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—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	• 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	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. 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.
	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	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. Furthermore, clarification is requested on how to account for: • 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	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. Commonly raised fact patterns include: • 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.

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