IFRS Accounting

Staff paper

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Project	**Amortised Cost Measurement**
Topic	**Project commencement**
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Introduction

1. In July 2022, the IASB added to its research pipeline a project on amortised cost measurement in response to feedback on the post-implementation review of classification and measurement requirements of IFRS 9.

2. At this meeting, the IASB will make the Amortised Cost Measurement project active and discuss the project direction. The project will move from the research pipeline to the research work plan.

3. The IASB is not being asked to make any decisions at this meeting but welcome any views or questions on the information in this paper.

4. The paper provides:

   (a) background information on the project;

   (b) our preliminary views on the project direction; and

   (c) an overview of the initial work we plan to undertake.

5. The paper also includes two appendices: Appendix A—Initial list of project topics and Appendix B—Relevant IFRS 9 requirements.

Background

6. Over the years, stakeholders have consistently raised application questions and accounting challenges related to the amortised cost measurement requirements of IFRS 9. Specifically, they asked the IASB to clarify and provide additional application guidance about requirements related to:

   (a) the effective interest method; and

   (b) the modification of financial instruments, including modifications that lead to derecognition, and write-off of financial assets.

7. In July 2022, the IASB decided to add to its research pipeline the Amortised Cost Measurement project in response to feedback on its Post-implementation Review of IFRS 9—Classification and Measurement. The aim of this project was to clarify amortised cost measurement requirements for financial assets and financial liabilities.

8. At the time of this decision, the IASB acknowledged that there is an interdependency between the requirements for amortised cost measurement in Section 5.4 of IFRS 9 and the impairment requirements in Section 5.5 of IFRS 9. Accordingly, the IASB noted that any potential clarifications to the requirements on amortised cost will need to carefully consider the interaction with the impairment requirements.

9. During the Post-implementation Review of IFRS 9—Impairment, stakeholders expressed support for the IASB's decision to add the Amortised Cost Measurement project as a pipeline project. In this context, they identified several issues that relate to the interaction between the impairment requirements and the requirements for modification and write-off of financial assets. In April 2024, the IASB decided to add to the Amortised Cost Measurement project the topic of interaction with the impairment requirements to respond to this feedback.

10. Appendix A provides a list of the issues reported by stakeholders during the post-implementation reviews of IFRS 9 which the IASB decided to consider in this project.

11. However, as discussed at the July 2022 IASB meeting, 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:

    (a) Tentative agenda decision *Application of the Effective Interest Rate* (2008). The Committee referred the matter to the IASB which tentatively decided to address the matters raised through its Annual Improvement process but did not finalise the proposed amendments.

    (b) Exposure Draft *Financial Instruments: Amortised Cost and Impairment* (2009). In this exposure draft the IASB proposed to establish new principles for amortised cost measurement, including changing the definition of the effective interest rate. These proposals were rejected because of substantial operational complexity and significant subjective judgements.

    (c) Agenda decision *Derecognition of financial instruments upon modification* (2012). 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 would result in derecognition.

    (d) Derecognition of modified financial assets (2015). The Committee considered a potential narrow-scope project to clarify when a modification or exchange of financial assets result in derecognition. The Committee decided not to pursue the matter because of its broad nature, concluding that the matter could not be resolved through an Interpretation and instead required standard-setting.

    (e) *Interest Rate Benchmark Reform—Phase 2* (2019–2020). 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 (see paragraphs 5.4.5–5.4.6 of IFRS 9).

(f) TLTRO III transactions (2021). 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 approach

12. A clear message heard from stakeholders during both post-implementation reviews of IFRS 9 was that the classification and measurement requirements as well as the impairment requirements of IFRS 9 work well in practice, with no fundamental questions in their core objectives or principles. Accordingly, stakeholders did not suggest fundamental review or changes to these requirements.

13. However, stakeholders identified application questions and challenges associated with the amortised cost measurement requirements of IFRS 9. They said that the lack of specific requirements, coupled with insufficient application guidance, result in diversity in practice. Stakeholders suggested the IASB resolves those issues by clarifying the principles underlying the amortised cost measurement requirements along with guidance that explains the application of these principles.

14. Accordingly, it follows that the most appropriate approach for this project would be a ‘**targeted improvements**’ approach. This approach would:

(a) aim to resolve longstanding application issues that are widespread and have a material effect on those affected by clarifying the underlying, or adding new, principles in IFRS 9. Underlying principles may be clarified, for example, by adding an explanation of what the current requirements in IFRS 9 are designed to achieve and by adding application guidance that facilitates the application of

the current requirements and the clarified principles. The IASB may also consider adding new principles to support the requirements, if there is no underlying principle in IFRS 9 for specific requirements.

(b) involve clarifying the interactions between different requirements in IFRS 9.

(c) focus on resolving the root causes underlying these application issues and not on particular features or types of financial instruments, ie avoid clarifying requirements solely to achieve a desired accounting outcome for particular features or instruments.

(d) primarily focus on the measurement requirements in IFRS 9 relating amortised cost. However, resolving some of the project issues might also require improvements to presentation or disclosure requirements.

15. In our view, a targeted improvements approach has the following main advantages:

(a) it is responsive to stakeholders' feedback that suggested the IASB focuses on resolving 'problem areas' without making fundamental changes to IFRS 9.

(b) it is designed to be a principle-based approach which has a greater potential of addressing currently known as well as future application issues.

(c) the IASB would have a clear starting point, ie the known application issues and accounting challenges raised by stakeholders over time, as well as the current requirements in IFRS 9. This means the IASB is likely to spend less time and resources compared to an alternative approach which would require a fundamental review of IFRS 9.

(d) transition efforts for stakeholders would also be lower compared to an alternative approach which would require fundamental changes to IFRS 9.

16. However, we acknowledge that a targeted improvements approach has some risks:

(a) it might not resolve as wide a range of issues as a fundamental review of IFRS 9 would because the IASB would largely be working within the confines of the existing amortised cost measurement requirements in IFRS 9 instead of developing a fundamentally new measurement approach. A targeted

improvements approach would therefore not resolve all application questions that arise when applying amortised cost measurement requirements in IFRS 9.

(b) it may be difficult to change some stakeholders' views on what the underlying principles in IFRS 9 are in some cases. Similarly, some stakeholders might be resistant to a change in their long-standing practice, even if they agree with the clarifications of the underlying principles. Over time, practice has been established and embedded in entities' processes and systems. Potential amendments to reduce diversity in practice will inevitably disrupt existing practices of some entities and thus involve implementation costs for preparers (see also paragraph 19(a) of this paper).

(c) potential amendments carry a risk of possible unintended consequences and might give rise to new interpretative issues.

17. We considered but rejected alternative approaches for this project because, in our view, they would not adequately respond to stakeholders' feedback. Specifically:

(a) an approach that would aim for a **fundamental review** of amortised cost measurement requirements to develop a new approach, without being limited by existing principles of IFRS 9 or confined to the known 'problem areas'. Although this approach might enable the IASB to address a wider range of issues, it might lead to more fundamental changes in accounting outcomes and require significant time and resources from the IASB and stakeholders.

(b) an approach that would aim to make **narrow-scope amendments** to IFRS 9 by adding or modifying requirements in IFRS 9 for a specific fact pattern or a specific feature of financial instruments, without clarifying underlying principles or rationales. Under this approach quick solutions could be provided for a few application issues, but most of the challenging areas related to amortised cost measurement are unlikely to be solved by looking at a narrow fact pattern or a specific feature of a financial instrument.

(c) an approach that would aim to resolve measurement issues only through improvements in disclosures (ie **disclosure-only** approach). The main

application challenges that arise from applying the amortised cost measurement requirements would not be resolved through a disclosure-only project. Without resolving measurement issues, the usefulness of information provided in the financial statements can be improved only to a limited extent.

Project objectives

18. Considering the areas of focus for this project, as summarised in paragraph 14 of this paper, in our preliminary view, the overall objectives for the targeted improvements to amortised cost measurement requirements would be to:

    (a) resolve application matters that are widespread and have a material effect arising from the amortised cost measurement requirements in IFRS 9 by clarifying the underlying principles or developing new principles and adding guidance where necessary; and

    (b) make specific enhancements to information provided to users of financial statements about financial instruments measured at amortised cost.

19. Ultimately, the desired outcomes for the project would be to:

    (a) reduce accounting diversity by clarifying the applicable amortised cost measurement requirements. We note that reducing accounting diversity—which is one of the main outcomes requested by stakeholders—will inevitably mean that some entities would need to change their longstanding practices in some cases.

    (b) clarify interactions between amortised cost and the impairment requirements of IFRS 9 and avoid creating internal inconsistencies within IFRS 9.

    (c) complete the targeted improvements in a timely manner. As noted in the background section of this paper, the issues identified have persisted over a long period of time. Therefore, we think that timely completion should be an important aim for this project.

Criteria to determine scope

20. To ensure that the project objectives are achieved, we think the IASB should develop a set of criteria for determining which issues should be in scope of this project.

21. These criteria would help the IASB deliver the project in an efficient and effective manner. They would also help stakeholders in providing targeted input as the project progresses.

22. In developing a set of criteria for this purpose, we considered:

    (a) the criteria set out in the post-implementation review framework for taking action on application matters;

    (b) the Committee's agenda criteria set out in paragraph 5.16 of the Due Process Handbook;

    (c) the criteria used in similar projects (for example, Financial Instruments with Characteristics of Equity) for purposes of assessing the efficiency and effectiveness of potential solutions to a particular application issue; and

    (d) the specific criteria that may need assessment as this project progresses. For example, we think criteria requiring assessment of the operational feasibility of a particular solution to an issue is important in this project. That is because, the IASB has previously explored proposals that had conceptual merits but were rejected due to operational complexity (see paragraph 11(b) of this paper).

23. As a result, in our preliminary view, the IASB should explore solutions for issues:

    (a) that are widespread and have, or expected to have, a material effect on those affected;

    (b) for which financial reporting would be improved through clarifications to reduce the diversity in application resulting from a lack of clarity in the IFRS 9 requirements or insufficient application guidance, and through specific improvements to presentation and disclosure requirements;

(c) for which the benefits from the resulting information are expected to exceed the operational costs. In this context, the IASB will assess, for example, whether a particular solution to an issue has been previously rejected because of operational complexity; and

(d) that can be resolved by the IASB efficiently and effectively without:

(i) fundamentally rewriting the requirements of IFRS 9;

(ii) creating internal inconsistencies in IFRS 9; and

(iii) amending other IFRS Accounting Standards (except for consequential amendments).

24. We note that the issues summarised in Appendix A have been subject to the IASB's deliberations and decisions during its post-implementation reviews of IFRS 9 and accordingly, the IASB had concluded that these issues meet the criteria described in paragraphs 23(a)–23(b). An assessment against these criteria would therefore be required only for the new issues that emerge during the project.

25. The criteria in paragraphs 23(c)–23(d), on the other hand, would require reassessment as the project progresses. In particular, the IASB would assess whether a solution can achieve an appropriate balance between benefits from the resulting information and operational costs; and that it can be developed within a timeframe that would not significantly delay the finalisation of the other issues within the scope of the project. For the purpose of developing a project plan, the working assumption will be that an issue meets these two criteria unless the IASB and staff are already aware of a reason that the issue cannot be resolved efficiently and effectively, in which case it would not be included in the project plan.

Initial work to develop project plan

26. In our view, the IASB has sufficient information to inform the issues that should be in scope of this project. That is because the issues summarised in Appendix A represent issues raised by most stakeholders on the post-implementation reviews of IFRS 9.

This feedback is not only recent (ie up to date), but it is also consistent with the feedback provided to the IASB in previous projects (see paragraph 11).

27. Furthermore, to inform its post-implementation reviews of IFRS 9, the IASB has already performed extensive meetings with a wide range of stakeholders, including multiple meetings with its different consultative groups and types of stakeholders.[1]

28. Accordingly, for the purpose of developing a project plan (which includes the scope of the project), we plan to do only targeted consultation with stakeholders to confirm the scope of the project, using information on this paper. For example, we plan to seek input from the Accounting Standards Advisory Forum (ASAF) at the December 2024 meeting and from the Committee at the November 2024 meeting. We will seek input on matters such as:

    (a) whether the issues identified adequately reflect the findings on the post-implementation reviews of IFRS 9 for which the IASB decided to take action.

    (b) which of the issues the IASB should prioritise and why.

    (c) what are the underlying problems or root causes with the amortised cost measurement requirements that give rise to the identified issues. Understanding the root causes is required to clarify the requirements in a principle-based manner and will contribute to 'future-proof' any potential amendments.

29. At a future meeting, we will present the input received from these targeted consultative activities, our analysis of that feedback and a tentative project plan which will set out the project topics and issues for deliberation and an indicative timeline.

[1] For further details refer to Appendix B of the Project Summary and Feedback Statement: Post-implementation Review of IFRS 9—Impairment and Appendix B of the Project Report and Feedback Statement PIR IFRS 9 Financial Instruments—Classification and Measurement.

Question for the IASB

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Does the IASB have any comments or questions on the project direction and our plans for initial work to develop project plan?

Appendix A—Initial list of project topics

A1. We reviewed the feedback analyses from the Post-implementation Review of IFRS 9—Classification and Measurement (see Agenda Paper 3A and 3B of the July 2022 IASB meeting and the feedback statement) and the Post-implementation Review of IFRS 9—Impairment (see Agenda Paper 27C of the April 2024 IASB meeting and the feedback statement).

A2. Based on that review, we identified the following list of topics and issues that the IASB might consider in this project.

#	Area(s)	Key IFRS 9 requirements	Topic	Description of the issue
1	Effective Interest Method	Paragraph 5.4.1 Appendix A and paragraphs B5.4.1–B5.4.3	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—specifically: • whether, in estimating future cash payments or receipts, an entity is required to reflect the conditional contractual terms of an instrument such as specified adjustments to the contractual interest rate. For example, a reduction in the contractual rate based on the borrower's performance in meeting lending or ESG-linked targets. • if so, how such conditional terms are reflected in estimating cash flows through the expected life of the financial instrument—whether an entity uses a probability-weighted average (or expected value), the most likely or best estimate outcome, or the statistical median. [2]

[2] For a detailed description of this topic see paragraphs 8–11 of Agenda Paper 3B of the July 2022 IASB meeting.

#	Area(s)	Key IFRS 9 requirements	Topic	Description of the issue
2	Effective Interest Method	Paragraphs 5.4.2 and B5.4.5–B5.4.6	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—specifically: • whether an entity adjusts the EIR for such changes applying paragraph B5.4.5 of IFRS 9; or • whether it accounts for such changes through a cumulative catch-up adjustment, applying paragraph B5.4.6 of IFRS 9. Two related clarifications were also requested about the meaning of the terms: • 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. • '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.[3]
3	Effective Interest Method and Modifications	Paragraphs 5.4.1–5.4.3	The effect of modifications on EIR	What is the effect of a modification of contractual cash flows on EIR—for example, when the basis of calculation of interest changes from a fixed to a floating rate or vice versa. Specifically, whether, and when, an entity is required to adjust the EIR of a financial instrument following a modification of contractual cash flows.

[3] For a detailed description of this topic see paragraphs 12–16 of Agenda Paper 3B of the July 2022 IASB meeting.

#	Area(s)	Key IFRS 9 requirements	Topic	Description of the issue
4	Effective Interest Method and Modifications	Paragraphs B5.4.1–B5.4.8	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.
5	Effective Interest Method and Modifications	Paragraph 5.4.3	The meaning of 'fees and costs incurred'	What is meant with 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.[4]
6	Modifications	Paragraph 5.4.3 Paragraph 3.3.2	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 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).[5]

[4] In May 2020, as part of the Annual Improvements process, the IASB amended paragraph B3.3.6 and added paragraph B3.3.6A of IFRS 9 to clarify which fees and costs to include for purposes of assessment of modifications that lead to derecognition of financial liabilities.

[5] For a detailed description of this topic see paragraphs 9–11 of Agenda Paper 3A of the July 2022 IASB meeting.

#	Area(s)	Key IFRS 9 requirements	Topic	Description of the issue
7	Modifications	Paragraph 5.4.3 Paragraph 3.3.2 and B3.3.6	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, is an entity 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.[6]
8	Modifications, write-off and derecognition	Paragraphs 3.2.2 and 3.3.1–3.3.3 Paragraphs 5.4.3–5.4.4 and B3.2.16(r)	Partial derecognition versus modification of a financial instrument	Clarification of 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). Furthermore, clarification of the interaction of these requirements with the impairment requirements of IFRS 9, including the required order of application of the requirements.[7]

[6] For a detailed description of this topic see paragraphs 12–19 of Agenda Paper 3A of the July 2022 IASB meeting.

[7] For a detailed description of this topic see paragraphs 20–24 of Agenda Paper 3A of the July 2022 IASB meeting.

#	Area(s)	Key IFRS 9 requirements	Topic	Description of the issue
9	Modifications and impairment	Paragraph 5.4.3	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.[8]
10	Write-off	Paragraphs 5.4.4	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 loss arising from writing-off of a financial asset—as a reversal of impairment losses or separately as a write-off loss and presented accordingly in the statement of profit or loss; and • a recovery of amounts after a financial asset has been written-off.[9]
11	Modification, derecognition, write-off and impairment	Section 5.4 Section 5.5	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,

[8] For a detailed description of this topic see paragraphs 25–28 of Agenda Paper 3A of the July 2022 IASB meeting.

[9] For a detailed description of this topic see paragraphs 39–40 of Agenda Paper 27C of the April 2024 IASB meeting.

#	Area(s)	Key IFRS 9 requirements	Topic	Description of the issue
				including what is the required order of applying the pertinent IFRS 9 requirements. Commonly raised fact patterns and questions 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—applying IFRS 9, is the entity required to consider whether a portion of the asset should be written off before the modification takes place? If so, whether such a write-off affects application of modification or impairment requirements, including the required order of applying the requirements? • 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—applying IFRS 9, when and how does the lender evaluate whether the contractual terms of a financial asset subject to the law are effectively changed. How is such a change accounted for applying IFRS 9, including what is the required order of applying impairment, write-off or modification requirements.[10]

[10] For a detailed description of this topic see paragraphs 35–38 of Agenda Paper 27C of the April 2024 IASB meeting.

Appendix B—Relevant IFRS 9 requirements

Determining the EIR at initial recognition

B1. Appendix A to IFRS 9 defines the EIR of a financial asset or financial liability as (emphasis added):

> … the rate that exactly discounts **estimated future cash payments or receipts** through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability. When calculating the EIR, an entity shall estimate the expected cash flows by considering **all the contractual terms of the financial instrument** (for example, prepayment, extension, call and similar options) but shall not consider the expected credit losses. The calculation includes **all fees and points paid or received** between parties to the contract that are **an integral part of the EIR** (see paragraphs B5.4.1–B5.4.3 of IFRS 9), transaction costs, and all other premiums or discounts …

Subsequent changes to the effective interest rate

B2. The original EIR is based on estimated future cash flows at initial recognition of a financial asset or financial liability as described in paragraph B1 of this paper. Whether an entity updates the EIR over the life of an instrument depends on the applicable requirements in IFRS 9.

B3. Paragraph B5.4.5 of IFRS 9 applies to specific changes in estimated future cash flows of floating rate financial instruments—it states (emphasis added):

> For floating-rate financial assets and floating-rate financial liabilities, periodic re-estimation of cash flows to reflect the **movements in the market rates** of interest **alters the effective interest rate.** If a floating-rate financial asset or a floating-rate financial liability is recognised initially at an amount equal to the principal receivable or payable on maturity, re-estimating the future interest payments normally has **no significant effect on the carrying amount of the asset or the liability.**

B4. Paragraph B5.4.6 of IFRS 9 applies to other changes in estimated future cash flows in financial instruments—it states (emphasis added):

> If an entity revises its estimates of payments or receipts …, it shall **adjust the gross carrying amount of the financial asset or amortised cost of a financial liability** (or group of financial instruments) to reflect actual and revised estimated contractual cash flows. The entity recalculates the gross carrying amount of the financial asset or amortised cost of the financial liability as the present value of the estimated future contractual cash flows that are discounted at the financial instrument's original effective interest rate …. **The adjustment is recognised in profit or loss** as income or expense.

Financial liabilities

Derecognition

B5. The derecognition requirements for financial liabilities are set out in paragraphs 3.3.1–3.3.5 and paragraphs B3.3.1–B3.3.7 of IFRS 9. Paragraph 3.3.1 of IFRS 9 states that an entity should derecognise a financial liability (or part of it) when and only when it is extinguished—ie when the obligation specified in the contract is discharged or cancelled or expires.

B6. Paragraph 3.3.2 of IFRS 9 provides further requirements about what constitutes 'extinguishment' of a financial liability—it states (emphasis added):

> An exchange between an existing borrower and lender of debt instruments with **substantially different terms** shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, **a substantial modification** of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) **shall be accounted for as an extinguishment** of the original financial liability and the recognition of a new financial liability.

B7. Paragraph B3.3.6 of IFRS 9 provides application guidance about assessing whether the terms of an exchange between an existing borrower and lender of debt instruments are 'substantially different' including the reference to the quantitative '10 per cent test'.

Financial assets

Derecognition

B8. The derecognition requirements for financial assets are set out in paragraphs 3.2.1-3.2.23 of IFRS 9. Paragraph 3.2.3 states:

> An entity shall derecognise a financial asset when, and only when:
>
> (a) the contractual rights to the cash flows from the financial asset expire; or
>
> (b) it transfers the financial asset as set out in paragraphs 3.2.4 and 3.2.5 and the transfer qualifies for derecognition in accordance with paragraph 3.2.6.

B9. Unlike for financial liabilities, IFRS 9 does not provide specific application guidance about assessing whether a modification leads to derecognition of a financial asset.

B10. When measuring the carrying amount at the date of derecognition, an entity is required also to remeasure the loss allowance attributable to the financial asset at the date of derecognition.

Modification of contractual cash flows

B11. Paragraph 5.4.3 of IFRS 9 provides requirements for modifications of financial assets that do not result in derecognition, requiring that a modification gain or loss to be calculated and recognised similar to financial liabilities. However, it makes reference to 'contractual cash flows' which is different to the term 'contractual terms' used in paragraph 3.3.2 of IFRS 9 for purposes of modifications that lead to derecognition for financial liabilities.

B12. Paragraphs B5.5.25 and B5.5.26 of IFRS 9 state that when the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of the modified financial asset, the modified asset is considered a 'new' financial asset for the purposes of IFRS 9, with the date of the modification being the date of initial recognition of that new asset when applying the impairment requirements.

Write-off

B13. Paragraph 5.4.4 of IFRS 9 provides the write-off requirements for financial assets—it states that an entity shall directly reduce the gross carrying amount of a financial asset when the entity has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. A write-off constitutes a derecognition event as per paragraph B3.2.16(r) of IFRS 9.

Impairment

B14. Appendix A of IFRS 9 defines a credit loss as:

> The difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (ie all cash shortfalls), discounted at the original **effective interest rate** (or **credit-adjusted effective interest rate** for **purchased or originated credit-impaired financial assets**). An entity shall estimate cash flows by considering all contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) through the expected life of that financial instrument. …

B15. This definition is consistent with requirements for determining expected credit losses as set out in paragraphs B5.5.28−B5.5.29 of IFRS 9.