ASC

ACCOUNTING STANDARDS COUNCIL
SINGAPORE

24 January 2022

Dr Andreas Barckow
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(By online submission)

Dear Andreas

RESPONSE TO REQUEST FOR INFORMATION ON POST-IMPLEMENTATION REVIEW OF IFRS 9 *FINANCIAL INSTRUMENTS*—CLASSIFICATION AND MEASUREMENT

The Singapore Accounting Standards Council (ASC) appreciates the opportunity to comment on the Request for Information on Post-Implementation Review of IFRS 9 *Financial Instruments*—Classification and Measurement (the RFI) issued by the International Accounting Standards Board (the IASB or the Board) in September 2021.

We strongly support the conduct of a post-implementation review (PIR) of each new IFRS Standard or major amendment to an IFRS Standard. We believe it is a critical step in the goal of improving financial reporting.

Based on feedback received from our stakeholders, the classification and measurement (C&M) requirements in IFRS 9 generally work as intended and represent an improvement to the complex and rule-based requirements in IAS 39 *Financial Instruments: Recognition and Measurement*. Nonetheless, our stakeholders have identified a number of areas that require attention as elaborated in this letter.

The following comments on the specific questions in the RFI are formulated based on feedback received from our stakeholders and do not purport to represent the views of the Singapore ASC.

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**

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why not?

(b) results 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.

Save for the issues described under Questions 2–9 which may affect the usefulness of information reported in financial statements, our stakeholders considered that the C&M requirements in IFRS 9 generally enable an entity to align the measurement of financial assets with the cash flow characteristics of those assets and how the entity manages them, thereby resulting in the provision of useful information to users of financial statements (users) about the amount, timing and uncertainty of future cash flows.

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).

Our stakeholders considered that the business model assessment is generally working as intended by the IASB, except as described below.

Reclassification of financial assets after initial recognition/Changes in business models

Some of our stakeholders commented that the business model assessment may not result in appropriate C&M outcome in some situations, because it prohibits an entity from reclassifying financial assets, despite changes to the manner in which the entity manages those assets after initial recognition.

For example, reclassification of financial assets is prohibited in the following situations, which do not meet the high bar in IFRS 9 for changes in business models:

- A transfer of financial assets between parts of an entity with different business models, which changes the manner in which those assets are managed. Such transfers are relatively common between different units in a bank.

- Loan syndications where prior to syndication, an entity determines the portion of the loan it intends to retain (classified as 'hold to collect') and the portion it intends to sell (classified as 'managed on a fair value basis', for example). However, notwithstanding that management's intention has not changed, the entity is unable to sell the latter fully leaving it with no alternative other than to hold the unsold portion.

Moreover, an entity that does not meet the requirements in paragraph B4.4.1 of IFRS 9 for changes in business models (e.g. the change is not demonstrable to external parties or is not significant to the entity's operations) may nonetheless consider that its business model has changed by reference to the evidence in paragraph B4.1.2B of IFRS 9. The bases for the different conclusion, which has implications on the C&M of financial assets, may be difficult to reconcile.

Additionally, given that business models may change over time when business environment changes, the 'significant event' and 'very infrequent' thresholds for changes in business models have caused some challenges in practice.

Although those stakeholders appreciate the IASB's rationale for setting the high bar for changes in business models, they believed it is important that financial statements faithfully represent how financial assets are managed at the reporting date so as to provide information that is useful in assessing the amounts, timing and uncertainty of an entity's future cash flows. Therefore, those stakeholders suggested that the IASB considers refining the requirements in IFRS 9 for changes in business models and reclassification of financial assets after initial recognition.

Furthermore, diversity in practice and/or application challenges have been observed in the following areas:

Frequency and significance of sales activity

IFRS 9 requires an entity to consider the frequency and value of sales in prior periods in

determining the business model, but does not provide guidance on the threshold beyond which those sales are deemed inconsistent with the objective of a ‘hold to collect’ business model.

Some of our stakeholders observed that preparers and auditors may make different judgements and reach different conclusions about whether sales are infrequent and/or insignificant in value, resulting in diversity in practice in determining the business model.

Moreover, an entity’s sales activity may be affected by a variety of factors such as changes in management’s strategies/risk appetite, market conditions and business environment. Application challenges and consequently, diversity in practice, could arise in determining whether and when the absence of such activity would contradict a ‘hold to collect and sell’ business model.

Internal restructurings

In situations where an entity undertakes an internal restructuring of its business models, for example, by merging two business models with the effect that only one of the objectives of the legacy business models would be retained after the merger, there are questions on whether such internal restructurings should be accounted for as changes in business models.

Those stakeholders suggested that additional guidance from the IASB would be helpful.

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 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 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).

Our stakeholders considered that the cash flow characteristics assessment is generally working as intended by the IASB for most basic lending arrangements. However, there are challenges observed in applying the assessment to financial assets with new product features or with more complex contractual features as described below.

Moreover, our stakeholders shared that because different 'bright lines' may be adopted by different entities in applying the cash flow characteristics assessment, for example, in determining whether the modified time value of money element could result in contractual cash flows that are significantly different from the benchmark cash flows or whether the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination, some diversity in practice is expected.

Financial instruments with contractual cash flows linked to environmental, social and governance (ESG) targets

Financial instruments with ESG features have become increasingly prevalent in recent years and are expected to grow significantly. Such instruments can be structured in a variety of forms, some more sophisticated than others. The most common types of such instruments in our jurisdiction at this juncture are those with contractual cash flows linked to ESG targets specific to the borrower, for example, instruments with interest rates that increase or decrease based on whether the borrower meets pre-determined ESG targets.

<u>Accounting from holders' perspective</u>

Because IFRS 9 does not adequately cater for such instruments, our stakeholders observed that four broad views have emerged on how the ESG features affect the solely payments of principal and interest on the principal amount outstanding (SPPI) condition:

(a) The SPPI condition would not be met because the ESG features introduce exposure to risks or volatility in contractual cash flows that is unrelated to a basic lending arrangement.

(b) The SPPI condition would be met because the ESG features:

  (1) Are considered 'de minimis' in accordance with paragraph B4.1.18 of IFRS 9.

  (2) Are part of profit margin charged to borrowers.

  (3) Are part of consideration for credit risk.

View (b)(1) appears to be more widely adopted in practice. Nonetheless, some of our stakeholders:

- Acknowledged that the 'de minimis' argument may not be a sustainable argument if the ESG features become more prominent (i.e. increase in the size of the ESG incentives) in future as the market for such product develops.

- Observed that determining whether or not a contractual feature has a 'de minimis' effect on the contractual cash flows of a financial asset may involve significant judgement and that there could be diversity in practice when preparers and auditors adopt different thresholds in their analyses. Besides, the analysis could be qualitatively discharged in practice, which further impedes consistent application.

Our stakeholders shared that the holders of such instruments generally view those instruments as basic lending arrangements. Therefore, there are concerns that if the 'de minimis' argument no longer holds true and SPPI does not accommodate the ESG features triggering measurement at fair value through profit or loss (FVPL), the resulting information would be less decision useful, particularly if those instruments are held within a 'hold to collect' business model.

Furthermore, there could be challenges in measuring the fair value of such instruments as it would require consideration of whether or not the ESG targets would be met by the borrower. That said, the ESG features would also complicate application of the effective interest method as elaborated below.

Moreover, measuring such instruments at FVPL would have implications on regulatory capital requirements, potentially discouraging a build up for such instruments.

<u>Accounting from issuers' perspective</u>

The limited feedback received from our stakeholders suggested that the existing guidance in IFRS 9 is clear that the ESG feature is not an embedded derivative, since it is a non-financial variable that is specific to the issuer of the instrument. Accordingly, the issuer should account

for the instrument at amortised cost using the effective interest method, unless it is a financial liability at FVPL.

Applying the effective interest method to financial instruments with ESG features

Our stakeholders shared that there are concerns around application of the effective interest method in IFRS 9 to financial instruments with ESG features, should such instruments be eligible for measurement at amortised cost or fair value through other comprehensive income (FVOCI). The issues include:

- Whether an entity should take into account the likelihood of the borrower meeting the ESG targets in determining the effective interest rate at initial recognition, and if so, how. There are concerns that entities may face considerable practical challenges in determining the likelihood of the borrower meeting or not meeting the ESG targets.

- Should an entity apply paragraph B5.4.5 or paragraph B5.4.6 of IFRS 9 when the interest rate is adjusted based on whether the ESG targets have been met. Some of our stakeholders considered paragraph B5.4.5 to be a practical approach, although other stakeholders believed that it would not be appropriate to apply paragraph B5.4.5 because changes in cash flows due to the borrower meeting or not meeting ESG targets are not changes arising from movements in market rates of interest.

The IASB should address the various issues relating to financial instruments with ESG features in a timely manner as such instruments are expected to grow significantly in the near future.

Contractually linked instruments (CLI) vs. non-recourse finance

Some of our stakeholders have the following comments on the CLI requirements in IFRS 9:

(a) IFRS 9 does not provide sufficient guidance on when a financial asset would fall within the scope of the CLI requirements and how those requirements interact with the non-recourse requirements, which have implications on how the cash flow characteristics assessment is to be applied. It is also not entirely clear whether the CLI requirements would apply in situations where the underlying pool of assets includes some non-financial assets or does not include any financial assets.

(b) To meet the SPPI condition, the underlying pool of assets must include financial instruments with SPPI cash flows under the CLI requirements, but not under the non-recourse requirements. Therefore, depending on the structure employed (i.e. single instrument or tranches), the outcome of the cash flow characteristics assessment can be very different, notwithstanding that the most senior tranche in CLI could be insulated from the feature that causes the underlying pool of assets to not meet the SPPI condition. The outcome can also be counterintuitive in that CLI with relatively little asset risk may be required to be measured at FVPL, whilst instruments applying the non-recourse requirements with higher asset risk may be measured at amortised cost.

Those stakeholders suggested that the IASB should:

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- Clarify the objective of the CLI requirements and the rationale for the different outcome described in (b); and

- Provide additional guidance to address the issues described in (a).

Other issues

Some of our stakeholders have identified the following additional issues relating to the cash flow characteristic assessment:

Interest rate benchmark reform (IBOR reform)—Compounded risk-free rate (RFR)

As a result of IBOR reform, some IBOR based rates were replaced with overnight RFRs. The overnight RFR is typically compounded over a longer tenor (e.g. one month) in lending arrangements.

Some of our stakeholders commented that it is not clear as to how the compounded RFR would interact with the time value of money concept in IFRS 9. Specifically, it is not clear whether:

(a) The time value of money is always considered to be modified for compounded RFR; or

(b) Compounding an overnight RFR over a longer tenor of say one month makes the compounded RFR a rate with a one month tenor such that the time value of money is not modified, if settled in accordance with that frequency.

View (a) would result in undue cost and effort in assessing whether the SPPI condition is met.

Those stakeholders believed that some guidance or clarification from the IASB would be helpful.

Assessing if prepayment amount meets SPPI condition

Some of our stakeholders shared that it is common for banks to enter into hedging arrangements either on a one-on-one basis or at a portfolio level for their loan portfolios and to include the cost to terminate or to re-establish the hedging arrangements in the prepayment amount of the loan contracts. The hedging instruments used may include cross currency swaps, interest rate swaps, etc.

Those stakeholders commented that IFRS 9 does not contain sufficient guidance on how an entity assesses whether the prepayment amount meets the SPPI condition in such situations. They suggested that additional guidance from the IASB would be helpful to achieve consistency in application.

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?

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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).

Our stakeholders have the following comments on the requirements in IFRS 9 for investments in equity instruments (equity investments).

Investors with long-term view

Some of our stakeholders shared that for investors that take a long-term view of their investments, the performance of each investment is determined at the point of divestment. Therefore, to reflect the financial performance of such investors, it is critical that profit or loss reports the realised gains or losses of those investments at the point of divestment.

IFRS 9 requires equity investments that are not held for trading to be measured either at FVPL or at FVOCI. However, measuring equity investments at FVPL makes no distinction between unrealised and realised gains or losses in profit or loss, whilst adding significant profit or loss volatility in the reporting periods before divestment. The alternative FVOCI measurement, by prohibiting the recycling of gains and losses accumulated in OCI to profit or loss (OCI recycling) on disposal of the investments, would significantly distort financial performance reported in profit or loss. In other words, in those stakeholders' view, both measurement bases do not reflect the business model of investors with long-term view of

their investments and consequently, do not provide decision useful information to users.

To address the above issues, those stakeholders suggested that the IASB should consider:

- For equity investments measured at FVPL—Requiring entities to distinguish between unrealised and realised gains or losses on the face of the primary financial statements (i.e. profit or loss in the statement of financial performance and retained earnings in the statement of financial position). This would enhance the decision usefulness of information provided to users.

- For equity investments measured at FVOCI—Permitting OCI recycling as further elaborated below.

FVOCI option

Our stakeholders shared that entities typically apply the FVOCI option to equity investments that are: (a) held for strategic purposes; (b) held for long-term; or (c) not held for trading.

Some of our stakeholders continue to hold the view that OCI recycling should be permitted on disposal of the equity investments, particularly in the case of (b) and (c). Those stakeholders have the following comments:

- The IASB explained in paragraph BC5.25(b) of the Basis for Conclusions on IFRS 9 that OCI recycling should be prohibited for equity investments because: (1) gains or losses on those investments should be recognised only once; and (2) to require otherwise would create the requirement to assess those investments for impairment, which had created application problems under IAS 39:

  - The IASB's argument in (1) lacks conceptual merit as it is inconsistent with the OCI recycling requirements for debt instruments measured at FVOCI in IFRS 9 and for foreign currency translation reserves in IAS 21 *The Effects of Changes in Foreign Exchange Rates*. It is evident from those OCI recycling requirements that the IASB considers OCI recycling to reflect the gain or loss from realising an asset is the correct accounting approach.

  - Many of the application problems in (2) were contributed by the rule-based approach to applying the 'significant or prolonged' criteria in IAS 39 that had developed in practice due to the lack of guidance in IAS 39 and the propensity to delay recognition of impairment losses in response to the prohibition in IAS 39 from recognising subsequent reversals of impairment through profit or loss. The IASB has cited the difficulty in distinguishing reversals of impairment from other increases in fair value as the basis for the prohibition, yet concluded that reversals of impairment for debt instruments measured at FVOCI should be recognised in profit or loss because they are more objectively determinable than those for equity investments. Such a view is conceptually flawed because a reversal of impairment for a debt instrument is no less attributable to an improvement in the issuer's underlying fundamentals as compared to a reversal of impairment for an equity investment.

- The objective for holding equity investments with an intention for sale at some point in the

future is similar to the 'hold to collect and sell' business model for debt instruments and therefore, should not warrant significantly different impairment and OCI recycling requirements. In fact, some equity investments provide a steady stream of dividends and are commonly held for both periodic dividend income and eventual sale in the future. The IASB has justified prohibiting OCI recycling for equity investments by rationalising that a gain on loss on such investments should be recognised only once, but failed to explain why recognising a gain or loss more than once is appropriate for debt instruments.

Those stakeholders urged the IASB to:

- Develop an impairment model or improve the impairment model in IAS 39 for equity investments. Such a model should require reversals of impairment to be recognised through profit or loss; and

- Permit OCI recycling for equity investments.

On the other hand, some other stakeholders continue to support the IASB's decision to prohibit OCI recycling for equity investments. This is because of the challenges in the impairment assessment for such investments, including the difficulty in distinguishing reversals of impairment from other increases in fair value because unlike debt instruments which must have SPPI cash flows to qualify for measurement at FVOCI, equity investments represent a residual interest in the issuer. Those stakeholders observed that despite the IASB's extensive standard-setting work including the consideration of research performed by regional and national standard-setting bodies, it was unable to identify a conceptually sound impairment model that is not unduly complex for equity investments. Unless there is a realistic chance of the IFRS community reaching a broad consensus on a conceptually sound impairment model that is not unduly complex, it could be more appropriate for the IASB to deploy its limited resources to other standard-setting projects that have a reasonable chance of improving financial reporting. Besides, the IASB has attempted to improve the information reported for equity investments, for example, by requiring disclosure of their fair value at the date of derecognition and the cumulative gain or loss on disposal.

Definition of equity instrument from issuers' and holders' perspectives

As an exception to the definition of a financial liability, paragraphs 16A–16D of IAS 32 *Financial Instruments: Presentation* require particular puttable instruments or instruments that impose an obligation on the issuer to deliver to another party a pro rata share of the issuer's net assets only on liquidation to be classified as equity (equity-like instruments).

On the other hand, paragraph BC5.21 of the Basis for Conclusions on IFRS 9 broadly stipulates that the FVOCI election in IFRS 9 for equity investments is not available to holders of equity-like instruments because those instruments do not meet the definition of equity instruments. The outcome is that a holder of equity-like instruments is required to measure its investments in those instruments at FVPL (unless the investment is an associate, a joint venture or a subsidiary), because such instruments would not meet the SPPI condition for debt instruments.

Some of our stakeholders highlighted that the asymmetric accounting between the issuer and the holder of equity-like instruments lacks conceptual merits, introduces unnecessary

complexity to financial reporting and reduces the understandability of financial statements. Moreover, an investor could manage its investments in equity-like instruments in the same manner as its investments in equity instruments that are not held for trading for which measurement at FVOCI has been elected.

Those stakeholders suggested that the IASB should extend the FVOCI election to equity-like instruments with additional disclosures where necessary. Such an approach would also result in the consistent treatment of all investments in equity-like instruments.

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.

Our stakeholders generally considered that for financial liabilities that are designated as at FVPL, presenting the effects of own credit in OCI, instead of in profit or loss, provides more useful information to users.

Nonetheless, some of our stakeholders continue to hold the view that recycling from OCI to profit or loss should be required when the effects of own credit are realised and backed by cash flows, for example, when a financial liability is repaid before maturity at fair value. This view is consistent with the view expressed in Question 4 on recycling of gains and losses on equity investments to which the OCI presentation option has been applied.

In this regard, those stakeholders disagreed with the IASB's rationale for prohibiting recycling, which is that the cumulative effect of changes in the credit risk of a liability designated as at FVPL over its life will typically net to zero, because an entity would typically repay the contractual amount for such liabilities.

Those stakeholders suggested that the IASB should reconsider its prohibition decision.

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 stakeholders observed diversity in practice in the accounting for modifications to the contractual cash flows of financial assets due to the lack of guidance in IFRS 9 on when such modifications would or would not result in the derecognition of financial assets. Some entities have applied the '10%' threshold for financial liabilities in paragraph B3.3.6 of IFRS 9 by analogy to financial assets, whilst others have incorporated particular qualitative factors in their assessment.

To improve consistency and robustness in the accounting for modifications of financial assets and financial liabilities, some of our stakeholders suggested that the IASB could consider, for example:

- Developing a definition for modification, which is applicable to both financial assets and financial liabilities.
- Providing guidance on when modifications of financial assets would or would not result in the derecognition of those financial assets.
- Assessing whether the 10% bright line for financial liabilities should be supplemented by qualitative assessment or replaced with a more principle-based approach to determining 'substantial' modification, and whether there should be symmetry in the modification requirements for both financial assets and financial liabilities.

On the other hand, some other stakeholders highlighted that practice has been well established and that any changes to the modification requirements at this juncture could be disruptive and costly.

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).

Except as described in Question 3, our stakeholders generally considered that the effective interest method works well and provides useful information to users.

Some of our stakeholders suggested that the IASB should consider providing additional guidance on what constitute 'movements in market rates of interest' in paragraph B5.4.5 of IFRS 9 to help entities determine whether particular changes in contractual cash flows should be accounted for under that paragraph or under paragraph B5.4.6 of IFRS 9.

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 stakeholders generally considered that the transition reliefs in IFRS 9 had made it easier for preparers to implement the Standard and that the combination of the relief from restating comparative information and the requirement for transition disclosures achieved an appropriate balance between reducing costs for preparers and providing useful information to users.

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 develop 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?**

Some of our stakeholders shared the following issues in applying IFRS 9 to contracts to buy or sell a non-financial item that can be settled net in cash (in particular, commodity contracts). Those stakeholders suggested that the IASB should develop additional guidance to address the identified issues.

<u>Whether a contract is within the scope of IFRS 9</u>

Broadly, paragraph 2.6(b) of IFRS 9 specifies that a contract is considered to be settleable net in cash if an entity has a practice of settling similar contracts net in cash.

However, because IFRS 9 does not provide guidance on what constitutes 'similar' contracts or what amounts to 'practice' of net cash settlement, including the required degree of that practice, stakeholders may reach different conclusion about whether or not a contract is within the scope of IFRS 9, resulting in diversity in practice.

<u>Changes in accounting after contract inception</u>

IFRS 9 does not contain guidance on whether and when an entity is permitted to change its accounting for such contracts from 'own use' to derivative accounting and vice versa after contract inception, if there is a change in management's intention on how the contract would be fulfilled.

This lack of guidance can give rise to opportunistic behaviour. In fact, such changes in accounting have been observed in practice, with profit or loss implications.

Accounting for difference between fair value and transaction price—Paragraph B5.1.2A of IFRS 9

Broadly, paragraph B5.1.2A of IFRS 9 requires an entity to recognise a day 1 gain or loss if the fair value of a financial instrument at initial recognition differs from the transaction price, provided the fair value is evidenced by a quoted price in an active market for an identical asset or liability or is based on a valuation technique that uses only data from observable markets.

There is a view that paragraph B5.1.2A does not adequately cater for contracts to buy or sell a non-financial item that are within the scope of IFRS 9, which could lead to inappropriate accounting outcome. For example, applying paragraph B5.1.2A to long-term offtake commodity contracts that were entered into at a discount would result in the recognition of a day 1 gain on those contracts, which does not appear appropriate.

We hope that the above comments will contribute to the IASB's deliberation on the PIR of the C&M requirements in IFRS 9. Should you require any further clarification, please contact our project managers Yat Hwa Guan at Guan_Yat_Hwa@asc.gov.sg or Yu Shan Koo at Yu_Shan_Koo@asc.gov.sg.

Yours faithfully

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