International Accounting Standards
Board (IASB)
30 Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

18 July 2023

Dear Member of the Board,

Re: ED/2023/2 - Amendments to the Classification and Measurement of Financial Instruments

BusinessEurope welcomes the opportunity to comment on the proposed amendments to IFRS 9 as set out by the ED/2023/2 (the “ED”).

We appreciate the IASB’s quick reaction to the comments that have been received in response to the tentative agenda decision of the IFRS Interpretations Committee regarding “Cash Received via Electronic Transfer as Settlement for a Financial Asset”. However, we are concerned that the proposed criteria for the derecognition of a financial liability are overly strict and would limit the applicability to only a very few payment mechanisms.

We further disagree with the scope of the IASB’s proposal, as the ED does not respond to the fact patterns presented in the submission to the IFRS IC and the vast amount of comments received in response thereto. While the ED addresses the issue of liabilities, it does not mention the derecognition of receivables, despite this being the major concern of many constituents. We fear that the tentative agenda decision of the IFRS IC of September 2021 will prevail and therefore disrupt long-standing practices of preparers and increase the administrative burden while not increasing the usefulness of the information provided.

We agree with the intention to clarify that ESG features are, under certain conditions, aligned with the SPPI criteria. We emphasize that we see this to be very important in order not to discourage green investments. We, however, would urge the board to better articulate the line of argument in order to prevent unintended consequences.

We provide additional comments – including comments on the other amendments proposed within the ED – in Appendix attached.

If you wish to discuss any of the above, please do not hesitate to contact us.

Yours sincerely,

Erik Berggren
Senior Adviser

Appendix

Question 1—Derecognition of a financial liability settled through electronic transfer
Paragraph B3.3.8 of the draft amendments to IFRS 9 proposes that, when specified criteria are met, an entity would be permitted to derecognise a financial liability that is settled using an electronic payment system although cash has yet to be delivered by the entity.

Paragraphs BC5–BC38 of the Basis for Conclusions explain the IASB's rationale for this proposal.

Do you agree with this proposal? If you disagree, please explain what aspect of the proposal you disagree with. What would you suggest instead and why?

We appreciate the IASB's efforts to amend IFRS 9 in response to the many comments sent by stakeholders to the IFRS IC's tentative agenda decision. We regret however, that the amendments cover only liabilities for which a payment transaction has been initiated, while many preparers follow a long-standing accounting practice in also regarding receivables as settled when certain payment processes have been initiated by the customer/debtor. Not considering the fact pattern presented to the IFRS IC ultimately will have the effect that preparers will be required to follow the IFRS IC's tentative agenda decision rather than their long-standing practice, thereby increasing the administrative burden while not delivering more useful information.

With regard to the criteria proposed in IFRS 9.B3.3.8 we are of the opinion that the criteria seem to be unnecessarily strict. Whether an entity has the ability to withdraw, stop or cancel the payment instruction is subject to a thorough and potentially costly legal assessment. We suspect that many electronic payment systems would allow for some actions to be taken to stop a transaction from being processed, however, such option would only be exercisable in extraordinary circumstances (e.g., the detection of fraud or when doubts arise whether the liability for which the payment is to be made is justified). In essence, entities would have an ability to stop the payment instruction which would be very rarely used and therefore could be considered as non genuine, and this would nonetheless prevent them from making use of the amendment. The same would apply to the condition relating to an entity's practical ability to access the cash to be used for the settlement. Here, it seems unclear what the term "practical ability" means; for example, how would an overdraft facility be incorporated in this assessment? As explained above, entities may have some conditional abilities to access the cash in extraordinary circumstances.

In addition, the proposed criteria for the derecognition of a liability are likely not to be met for other payment methods, such as payments by cheque or credit card, which will pose the same difficulties and complexities for preparers. We therefore suggest that the IASB reconsiders the scope of this amendment.

Overall, we would suggest to the IASB to include a requirement to consider the past practice of the entity, so that entities that have not stopped payment instructions in the past are under a rebuttable presumption to regard liabilities as settled as soon as a payment instruction has been issued.

Such a mechanism could also be used to inform the treatment of receivables and the recognition of cash. Entities that have experienced little or no defaults of customers/debtors once payment has been initiated would continue to benefit from such a mechanism as they would not be obliged to track each and every single payment. It should be noted that by the time of the publication of financial statements, entities will be aware of any defaults and could adjust the cash-balance and amount of receivables accordingly.

Question 2—Classification of financial assets—contractual terms that are consistent with a basic lending arrangement
Paragraphs B4.1.8A and B4.1.10A of the draft amendments to IFRS 9 propose how an entity would be required to assess:
(a) interest for the purposes of applying paragraph B4.1.7A; and
(b) contractual terms that change the timing or amount of contractual cash flows for the purposes of applying paragraph B4.1.10.
The draft amendments to paragraphs B4.1.13 and B4.1.14 of IFRS 9 propose additional examples of financial assets that have, or do not have, contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.
Paragraphs BC39–BC72 of the Basis for Conclusions explain the IASB's rationale for these proposals.
Do you agree with these proposals? Why or why not? If you disagree, please explain what aspect of the proposals you disagree with. What would you suggest instead and why?

BusinessEurope is aware of the uncertainties relating to the classification of financial instruments with ESG-linked features. While we agree with the intention to account for such instruments at amortized cost, as this may provide the most useful information for such instruments, provided that the remaining features of the instrument represent cash flows in line the SPPI criteria, we also note that interest is described in IFRS 9.4.1.3 as "[…]consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. […]".

In the IASB's proposal, contractual terms that change the cash flows of the instrument are consistent with a basic lending arrangement if the change is aligned with the direction and magnitude of the change in basic lending risks or costs (ED B4.1.8A), the contingent event causing the change is specific to the debtor and does not represent an investment in the debtor or exposure to the performance of specified assets (ED.B4.1.10A).

We wonder whether this explanation is sufficient and therefore urge the Board to better articulate how the achievement of a greenhouse gas reduction fulfils the criteria to be in line (ED. B4.1.13 – Instrument EA). While it is obvious that the event is specific to the debtor and does not represent an investment in the debtor or exposure to the performance of specified assets, we wonder how such a target would meet the requirement to align with the direction and magnitude of the change in basic lending risks or costs. We fail to see how the achievement will affect the time value of money, the credit risk associated with the principal amount outstanding or other basic lending risks or costs or the profit margin in a way that would allow for a reduction in interest payments.

When applying the guidance to other cases, e.g., a reduction in interest payments when the debtor's profitability increases, it seems to be a straight-forward analysis as the profitability of the debtors is directly linked to its credit risk.
Thus, we encourage the Board to explain the link between the example provided and the result of the analysis that is provided.

Question 3—Classification of financial assets—financial assets with non-recourse features The draft amendments to paragraph B4.1.16 of IFRS 9 and the proposed addition of paragraph B4.1.16A enhance the description of the term 'non-recourse'. Paragraph B4.1.17A of the draft amendments to IFRS 9 provides examples of the factors that an entity may need to consider when assessing the contractual cash flow characteristics of financial assets with non-recourse features. Paragraphs BC73–BC79 of the Basis for Conclusions explain the IASB's rationale for these proposals. Do you agree with these proposals? Why or why not? If you disagree, please explain what aspect of the proposals you disagree with. What would you suggest instead and why?

BusinessEurope agrees with the proposals. The proposed clarifications of the Board underline the existing principles of IFRS 9 and support consistent application.

Question 4—Classification of financial assets—contractually linked instruments
The draft amendments to paragraphs B4.1.20–B4.1.21 of IFRS 9, and the proposed addition of paragraph B4.1.20A, clarify the description of transactions containing multiple contractually linked instruments that are in the scope of paragraphs B4.1.21–B4.1.26 of IFRS 9.
The draft amendments to paragraph B4.1.23 clarify that the reference to instruments in the underlying pool can include financial instruments that are not within the scope of the classification requirements of IFRS 9.
Paragraphs BC80–BC93 of the Basis for Conclusions explain the IASB's rationale for these proposals.
Do you agree with these proposals? Why or why not? If you disagree, please explain what aspect of the proposals you disagree with. What would you suggest instead and why?

BusinessEurope welcomes the proposed amendments to the application of IFRS 9 to contractually linked instruments. In our view, allowing an underlying pool of assets to consist also of instruments outside of the scope of IFRS 9 but still complying with the SPPI criterion is sound and leads to useful information.

Question 5—Disclosures—investments in equity instruments designated at fair value through other comprehensive income
For investments in equity instruments for which subsequent changes in fair value are presented in other comprehensive income, the Exposure Draft proposes amendments to:
(a) paragraph 11A(c) of IFRS 7 to require disclosure of an aggregate fair value of equity instruments rather than the fair value of each instrument at the end of the reporting period; and
(b) paragraph 11A(f) of IFRS 7 to require an entity to disclose the changes in fair value presented in other comprehensive income during the period.
Paragraphs BC94–BC97 of the Basis for Conclusions explain the IASB's rationale for these proposals.
Do you agree with these proposals? Why or why not? If you disagree, please explain what aspect of the proposals you disagree with. What would you suggest instead and why?

BusinessEurope appreciates the deletion of the requirement to disclose the fair value of each equity instrument measured at fair value through other comprehensive income. We think that the disclosure has added costs to preparers while not delivering the corresponding benefits to users.

With regard to the proposed disclosures of ED. IFRS 7.11A(f) we are not of the opinion that a disclosure of the fair value changes of these equity instruments separately for instruments derecognized during the period and those still held at the end of the reporting

period provides useful information. Preparers will have to trace back the changes in the fair value of a particular instrument for the period which may require a change to accounting systems used by preparers. We think that the disclosure of the cumulative amounts for instruments that are derecognized provides all relevant information.

Finally, we note that a number of commentators (including several major national standard setters) replying to the PIR of IFRS 9 *Classification and Measurement* cited the prohibition of the reclassification of the post-acquisition changes in fair value of equity instruments to profit and loss upon disposal as a continuing problem and we think that the Board should reconsider this.

Question 6—Disclosures—contractual terms that could change the timing or amount of contractual cash flows Paragraph 20B of the draft amendments to IFRS 7 proposes disclosure requirements for contractual terms that could change the timing or amount of contractual cash flows on the occurrence (or non-occurrence) of a contingent event. The proposed requirements would apply to each class of financial asset measured at amortised cost or fair value through other comprehensive income and each class of financial liability measured at amortised cost (paragraph 20C). Paragraphs BC98–BC104 of the Basis for Conclusions explain the IASB's rationale for this proposal. Do you agree with this proposal? Why or why not? If you disagree, please explain what aspect of the proposal you disagree with. What would you suggest instead and why?

BusinessEurope agrees with the proposed disclosures.

Question 7—Transition Paragraphs 7.2.47–7.2.49 of the draft amendments to IFRS 9 would require an entity to apply the amendments retrospectively, but not to restate comparative information. The amendments also propose that an entity be required to disclose information about financial assets that changed measurement category as a result of applying these amendments. Paragraphs BC105–BC107 of the Basis for Conclusions explain the IASB's rationale for these proposals. Do you agree with these proposals? Why or why not? If you disagree, please explain what aspect of the proposals you disagree with. What would you suggest instead and why?

BusinessEurope agrees with the transition requirements.