International Accounting Standards Board (IASB)

30 Columbus Building

7 Westferry Circus

Canary Wharf

London E14 4HD

United Kingdom

27 January 2022

Dear Board Member,

Re: **Request for Information and comment letters: Post-implementation Review of IFRS 9—Classification and Measurement**

We welcome the opportunity to provide views on this request for information as we believe that these reviews are an important step in the standard-setting process.

Our views are laid out in the appendix. If you require any more information on any of these topics, please do not hesitate to contact us. Yours sincerely,

Yours sincerely,

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| Lise CHORQUES | Lé Quang TRAN VAN | Karine MERLE |

**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 why not?*

*(b) result 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. Sections 2–8 seek more detailed information on the specific requirements.*

For some non-financial entities (corporates) the new standard imposed some fairly major changes, notably the need to reclassify those assets previously classified as Available for Sale or Held to Maturity. Although these had to be analysed and reclassified accordingly, the overall impact was not too detrimental. Moreover, loans remained valued at amortised cost.

As far as financial institutions are concerned (banks), the impact of the first implementation was not major. The questions and concerns about the classification are more orientated towards the future and the emergence of new financial instruments and the realigning of business models with sustainable financing.

**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).*

The introduction of the taking into account of the business model in the financial instrument valuation model has been well received and has facilitated a notable improvement in the quality of IFRS reporting.

The principles for the defining of the business model are generally well understood and implemented, although there have been some instances of entities experiencing difficulties with interpretation and/or application.

There have been problems of differences in interpretation between entities and auditors, since the latter sometimes have a very restrictive view of what evolution can take place within a portfolio and still be considered to be held with the purpose of collecting contractual cashflows.

The main issue that entities have with the model is that in effect all reclassifications are forbidden because the constraints imposed by the requirements are very strict. We think the provisions of IFRS 9 in respect of the reclassification of financial assets are overly restrictive and may lead to a situation in which the accounting model can no longer reflect the way the financial asset is actually managed.

There are instances where reclassification might be relevant but the conditions for a change in business model are not satisfied. Examples of the cases which could justify a change in the holdings of certain assets but which cannot be classified as a change in the business model under the current conditions are loan syndications, intra-group transfers, reputational risk and client risk, amongst others.

We think that there is scope for the rules to be relaxed to some extent without the risk of opening up loopholes for potential exploitation. We would encourage the Board to examine this area further.

These concerns raised by these constraints are compounded by the expectation that the developments in issues relating to environmental, societal and governance (ESG) reporting and regulations could incite banks to eliminate carbon-related investments from their portfolios. Unforeseen and undesirable accounting impacts might have a braking effect on this development and persuade banks to wait for a "natural and programmed" exit from loans rather than to effect a rapid transformation of portfolios into "green" portfolios. Indeed, the disqualification of a portfolio would create a high risk that the new elements would not be eligible to be treated under the amortised cost model. We would therefore encourage the IASB to revise the constraints related to the reclassification of the elements of portfolios, with perhaps a compensating enhancement of the information that would be required in the disclosures.

**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 useful 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 effects 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).*

The Board chose not to adopt the bifurcation model for financial assets with embedded derivatives and consequently the SPPI test has become crucial in deciding how assets should be categorised and measured. Any variability in the asset's contractual cash flows can thus disqualify it from being accounted for using the amortised cost model.

In general, however, there does not appear to be a problem with SPPI tests other than in the following instances:

- Indirect holdings: In this case, one is immediately bound by the provisions for puttable instruments at fair value through P&L (FVPL), even though an analysis which looks through to the underlying assets would often allow one to determine in favour of the SPPI characteristic of the underlying assets. The conclusion that the portfolio should be classified as FVPL and the resulting volatility of the value recognised in P&L sometimes seem to be inconsistent with the objective of such investments which are in fact intended to diversify and reduce risk.

  Today the only solution to this contradiction is to have full control over the fund and to recognise each asset via full consolidation, thus enabling the SPPI test to result in a classification as being at amortised cost. The provisions relating to assets linked by contract could therefore be extended to other specific situations. However, it must be recognised that these provisions are themselves often quite complex to implement and very constraining.

  We think that this constraint may have caused some entities to abandon investment in funds in favour of direct holdings, a phenomenon which we consider to be undesirable since the accounting model appears to dictate the actual business approach, instead of the opposite.

- In respect of index-linked ESG instruments, we note that the topic will become an important one in the European Union. It seems to us that the subject needs to be taken very seriously at an early date. This will necessitate a period of joint reflection by all stakeholders in view of defining the most appropriate accounting model which will allow one to avoid creating obstacles to the virtuous process of the reallocation of resources to sustainable activities. Entities will inevitably wish, or be compelled, to sell "non-green" investments and buy green investments. It would be unhelpful if this activity were to taint the entity's financial instrument portfolios and result in accounting treatments which do not fairly represent the business model. We recognise that the rapid reflections that have been made to date on this topic could lead to the conclusion that an FVPL measurement is appropriate for these instruments, since the index-linked characteristic of ESG instruments may be considered as inconsistent with the SPPI nature of contractual cash flows. However, the notion of SPPI is based on characteristics of loans which are regarded as simple and was developed by the board at a time when ESG instruments did not yet exist. We think that this very notion of simple loans ought to be reconsidered, since the motivation for the ESG instruments of the future are such that index-linked ESG instruments could become the norm and thus an integral element of the type of risk covered by the interest rate in the same way as the liquidity risk is today.

Moreover, we note that the question of the embedded derivative on the borrower's side has been raised. We understand that if the economic characteristics and risks of the embedded derivative were

deemed to be not closely related to the economic characteristics and risks of the host instrument -a conclusion which could be questionable and not straightforward, as mentioned above - then the borrowers would have the option of separating out the derivative and accounting for the host instrument at amortised cost, If this approach is agreed to be appropriate for financial liabilities, then we think that this would be an opportune moment for the IASB to re-open the question of bifurcation for these instruments on the asset side.

Finally, we are aware that other emerging instruments, such as carbon funds, also raise numerous issues and would merit analysis at the same time.

**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? 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).*

We continue to believe that recycling is the most relevant treatment of gains and losses upon disposal. The disposal of an asset on a specified date is an act of management whose effect should be reflected in profit or loss account for the period. We therefore reiterate some of our previous responses to this matter:

"We think that all cash flows should ultimately be recognised in the profit and loss account as an element of cost or income. This is the test of the relevance of the profit and loss account, the realization of the cash flows being the ultimate proof of performance. We are therefore in favour of the Conceptual Framework establishing the principle of the systematic recycling of all the elements recognised in OCI and of each individual standard setting the principles for recycling for each type of element.
Recycling permits the recognition of cash flows whose value would become probable because of a corporate decision or a change in the business model. To improve comprehension and predictability of the income statement, items resulting from recycling could be distinguished from other cash flows realized over the period.

We therefore believe that recycling should not be a "rebuttable presumption" but rather a principle.

We share the view that the accounting model for equity instruments should be consistent with that for other assets and we thus consider that it should include both recycling and some form of impairment recognition. We also agree that impairment enhances the relevance of profit or loss for stewardship purposes.

in respect of the thresholds for the notion of "significant decline" and "prolonged decline", we believe that the management should be left responsible for specifying their own definition of these terms with transparent disclosures in the notes. However, we understand the need for a more rigorous approach and we could accept the proposal that the IASB sets rebuttable presumptions in terms of upper limit for both terms, in accordance with paragraph 4.18(c).

This presumption may however be rebuttable when the upper limits are judged to be clearly not relevant for specific equity instruments. In such a case, the entity would have to disclose when and why the presumption has been refuted. This could be the case, for example, for strategic investments with very long holding periods or with a very high volatility that could be demonstrated.

We believe that reflecting changes in the adverse effects in the investee's future performance improves the relevance of net income. When the impairment loss is no longer probable, this change should also be translated into net income. Moreover, authorising such reversals to be recognised in net income would probably limit the perceived temptation experienced by entities to defer the recognition of impairment losses in the net result. It will therefore have a beneficial effect on the determination of impairment thresholds.

We are in favour of a reversal model based on the same triggers as those used for impairment since this will lead to a symmetric model and once again will reinforce the reliability of the triggers used for the impairment side, in other words, the impairment model with a limited reversal threshold."

### 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.*

No specific comment on this topic.

### 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.*

No specific comment on this topic.

**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).*

No specific comment on this topic.

**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?*

No specific comment on this topic.

**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 developing 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?*

Although this PIR focuses on Classification and Measurement, we would like to mention that some of our members have been facing issues in applying own-use accounting to non-financial instruments

(notably commodity contracts) under IAS 39 and that those difficulties (i.e., the ability to reflect the economics and the risk management activities) have not been resolved with IFRS 9 (noting that the limited amendment related to the FV option has been of little use in practice for those members). These complexities have been reported in the past to the IASB (notably via the IEAF, "International Energy Accounting Forum") and are also related to the "unit of account", the definition of the practice of net settlement (and the concept of similar contracts), the use of written options etc. ACTEO does not aim going into more details on those issues as our members (organized through the IEAF for the energy sector) would be pleased to discuss them in detail for the Board (including other issues linked to the application of [macro-]hedge accounting whose topic will be dealt with in a third phase).