

To: Financial Reporting Working Group

From: Philippe Angelis

Meeting: 18 March 2021

Reference: ECO-FRG-21-037

Subject: IE discussion on IFRS 9 Post Implementation Review

Objective

For discussion – members' input is sought on the IFRS 9 Post Implementation Review objectives and strategy.

Background

In October 2020 the IASB Board decided to begin the PIR of the IFRS 9 classification and measurement requirements, but not to begin the PIR of the Standard's impairment and hedge accounting requirements.

The objective of the PIR of IFRS 9—Classification and Measurement is to:

- (a) assess whether the requirements introduced by IFRS 9 have improved financial reporting (without disproportionate cost); and
- (b) identify lessons learned that will help the IASB in its efforts to continuously improve its standard-setting.

In assessing whether the requirements have improved financial reporting, the IASB will consider the following questions:

- (a) are the requirements working as intended?
- (b) are the requirements capable of being applied consistently? and
- (c) are there any significant unexpected effects, either positive or negative.

In the first phase of the PIR, IASB Board members and staff will perform outreach with preparers, auditors, investors, regulators and standard setters. This will be done by consulting the IASB consultative bodies (such as ASAF) at their public meetings, as well as gathering detailed input through one-on-one meetings with small groups or individual stakeholders that have a particular interest in IFRS 9.

Also the IASB staff will search for and review academic research and other materials (for example, news articles and reports) that are available and that are relevant to the PIR. Finally, in addition to the reactive part of the PIR – comments to be provided by constituents – the IASB would also investigate proactively whether:

- (a) the requirements of IFRS 9 work as intended (eg does a reclassification as a result of the change in business model only happen infrequently); or
- (b) whether other lessons can be learnt from the experience with IFRS 9 (eg. transition on an instrument-by-instrument basis – are there alternatives that would arrive at the same result).

Timeline

The outreach in the first phase of the PIR will be performed in the first half of 2021 with the aim to identify matters on which it will consult publicly in a Request for Information. The IASB Board expects to publish the Request for Information in the third quarter of 2021.



The IASB Staff aims to present the issue at the March ASAF meeting. The EFRAG TEG-CFSS meeting preceding that is scheduled for 3 March 2021. The EFRAG Secretariat will consult the IAWG on 2 March in order to collect information on issues that are to be considered by the IASB during the post-implementation review of IFRS 9.

Insurance Europe position

Recycling issue

We continue to strongly support the **reintroduction of recycling for equities measured at fair value through other comprehensive income (FVOCI)**. Its reintroduction is necessary to ensure that the profit and loss account of long-term investors who use FVOCI correctly reflects their financial performance. One of the key concerns expressed by the IASB is that the impairment model under IAS 39 was not effective. We propose the introduction of quantitative triggers to define what is a significant or prolonged decline in fair value. This could be done by defining a specific percentage decline from the acquisition cost and a specific time period over which the fair value has been below the acquisition cost. However, these quantitative triggers should be rebuttable to take into consideration certain facts and circumstances. The impairment model would also need to allow reversals of equity impairments using symmetric quantitative rebuttable thresholds. The IAS 39 impairment model for equity instruments has favoured late recognition of impairment by prohibiting reversals.

It is also important that **equity-like instruments, such as undertakings for collective investments in transferable securities (UCITS), be eligible for recycling**. Under IAS 39, investments through an investment fund are usually accounted for as equity instruments (such as UCITS) classified as Available for Sale (AFS), with recognition of changes in fair value in OCI. Under IFRS 9, those investments are considered to be debt instruments and have to be accounted for at FVPL since these would normally not meet the "solely payments of principal and interest" (SPPI) criteria. This significant change in accounting treatment creates volatility in the statement of profit and loss that is not consistent with the long-term investment perspective of these instruments.

Hedge accounting issue

Another topic which has been raised during the endorsement of IFRS 17 is **hedge accounting under IFRS 9 for insurance liabilities**. The concern is that problems with hedge account results in accounting volatility arising from inconsistent treatment under IFRS standards between assets and liabilities.

Hedge accounting under IFRS 9 and IAS 39 requires that the strategy meets a number of criteria (including eligibility, designation, hedge effectiveness, measurement and documentation). All of the relevant conditions are a prerequisite for hedge accounting.

EFRAG held a TEG meeting on 25 March with audit experts to assess whether hedge accounting requirement could be applied to insurance liabilities. They concluded that while in general, hedge accounting is not precluded, provided that all the relevant conditions in IFRS 9 are met for the specific facts and circumstances of each particular case, there will be instances where some hurdles need to be overcome, before it could be stated that hedge accounting can be possible. It is unclear at this stage whether insurers will be able to use hedge accounting for insurance liabilities.

Input requested

Members are invited to share their views on:

- (a) the two IFRS 9 issues described in this document
- (b) whether any other issue with IFRS 9 should be added
- (c) the strategy advocating for those changes in the IFRS 9 PIR

Next steps

- IASB ASAF IFRS 9 discussion: 18-19 March
- IASB to publish a Request For Information consultation: H2 2021.