asian-oceanian
standard-setters group

27 September 2023

Dr Andreas Barckow
Chair
International Accounting Standards Board
7 Westferry Circus
Canary Wharf London, E14 4HD
United Kingdom

Dear Dr Barckow,

The Asian-Oceanian Standard-Setters Group (AOSSG) is pleased to provide comments on the International Accounting Standards Board (IASB) Request for Information (RFI) on Post-implementation Review of the impairment requirements of IFRS 9 *Financial Instruments*. In formulating these comments, the views of the constituents within each jurisdiction were sought and considered.

The AOSSG currently has 28 member standard-setters from the Asian-Oceanian region: Australia, Bangladesh, Brunei, Cambodia, China, Dubai, Hong Kong, India, Indonesia, Iraq, Japan, Kazakhstan, Korea, Macao, Malaysia, Maldives, Mongolia, Nepal, New Zealand, Pakistan, Philippines, Saudi Arabia, Singapore, Sri Lanka, Syria, Thailand, Uzbekistan and Vietnam. To the extent feasible, this submission to the IASB reflects in broad terms the collective views of AOSSG members. The intention of the AOSSG is to enhance the input to the IASB from the Asia-Oceania region and not to prevent the IASB from receiving the variety of views that individual member standard-setters may hold. This submission has been circulated to all AOSSG members for their comments. In responding to the RFI, AOSSG members have provided their responses to the questions in the RFI as described in the Appendix of this submission.

The AOSSG acknowledges the efforts of the IASB to assess whether the effects of applying the impairment requirements in IFRS 9 on the stakeholders are as intended when the standard was developed.

Most of the AOSSG members that responded agreed that in most cases impairment requirements of IFRS 9 are working as intended and provide useful information. However, the members raised several concerns and observations in which they require further consideration including further guidance or illustrative examples. The most common areas of concern are summarised below:

Question 1—Impairment

AOSSG members that responded agreed that IFRS 9 results in more timely recognition of credit losses compared to IAS 39 *Financial Instruments: Recognition and Measurement* and provides more useful information to users of financial statements about the effect of credit risk on the amount, timing and uncertainty of future cash flows. Whilst no fatal flaws were identified by these members, they have identified several application issues potentially resulting in the diversity of the application, including the assessment of significant increase in credit risk and use of management overlays. Most of these members also noted the need for further guidance for non-banking and smaller entities, for example on application of the simplified approach. AOSSG members also noted the issue relating to the interaction of the IFRS 9 impairment requirements with the requirements on modification and derecognition of financial assets in IFRS 9 and suggested that the IASB considers developing more guidance.

Question 2—The general approach to recognising expected credit losses

AOSSG members that have responded to this question did not identify any fundamental questions regarding the application of the general approach to recognising expected credit losses (ECL). However, the AOSSG members noted issues discussed in the questions below regarding SICR assessment and measurement of ECL. In addition, some of the members that responded noted that cost and effort regarding the application of the general approach to intercompany loans may not be proportionate to the usefulness of resulting credit loss information and recommended the IASB consider a standard-setting and further guidance in this regard.

Question 3—Determining significant increases in credit risk

Whilst AOSSG members that provided comments on this question did not raise any fatal flaw concerns and agreed with the principle-based approach to assessing SICR, they noted some of their stakeholders' concerns in relation to the diversity in the application of judgments in this area and that stakeholders requested further application guidance to improve consistency of application and the comparability of financial statements. An AOSSG member also suggested incorporating the guidance issued by the IASB during the pandemic into the standard as their stakeholders found that guidance useful.

Question 4—Measuring expected credit losses

Most AOSSG members that commented on this question noted that some of their

stakeholders raised concerns about consistency of the judgement applied by the entities when measuring ECL, specifically regarding the modelling assumptions, number of scenarios and inputs into the post-model overlays and identified potential for further incremental improvement of related disclosure requirements to enhance usefulness of the information provided to the users of financial statements. Whilst AOSSG members did not identify any fatal flaws in the principle-based approach for measuring ECL, some of the members suggest the IASB considers providing more application guidance and illustrative examples to enhance the consistency of application and the comparability of financial statements. Some AOSSG members also recommended that the IASB clarify the meaning of term 'credit loss', i.e. whether it is based on an assessment of all cash flow shortfalls or based on shortfalls as a result of an inability to pay the contractual cash flows. Another AOSSG member requested the IASB to clarify the scope and definition of off-balance sheet credit risk exposures subject to ECL measurement.

Question 5—Simplified approach for trade receivables, contract assets and lease receivables

Most of the members that provided feedback on this topic noted that incorporating forward-looking information is too complex for some, in particular smaller and non-banking corporate entities, even when using the simplified approach. AOSSG members suggested enhancements to the application guidance, illustrative examples and additional educational material to support these entities, for example how to use and adjust when necessary, historical loss data when measuring expected credit losses. Some of these members also suggested to incorporate paragraph BCE.164 in the application guidance in the standard itself as it provides useful guidance on the sources of information that could be used when historical loss data is not available.

Question 6—Purchased or originated credit-impaired financial assets

One AOSSG member noted that the assessment whether a modification results in potentially recognising a new loan and assessing whether the new loan is credit impaired requires use of judgement and may result in different expected credit loss provisions depending how the judgement is applied. The member recommended the IASB considers providing further application guidance or illustrative examples to support consistency of application of the requirements. AOSSG members also provided further comments in this regard in Question 7 below.

Question 7—Application of the impairment requirements in IFRS 9 with other requirements

Majority of the members that responded noted the issue relating to the interaction of the ECL

requirements with the requirements on modification and derecognition in IFRS 9, in particular that the significant level of judgement may be required to determine whether a modification of a financial asset result in its derecognition and the result of the assessment has implications on the ECL measurement, including that it is not clear unclear how an entity should account for the ECL and the effect of the modification that did not result in derecognition. AOSSG members suggest that the IASB considers developing more guidance. These members acknowledged a project on amortised cost measurement has been added to IASB's research pipeline, which is expected to also consider findings from the post-implementation review of IFRS 9 impairment requirements.

One AOSSG member also recommended to clarify in IFRS 16 *Leases* that IFRS 9 impairment requirements apply to the operating lease receivables.

Question 8—Transition

None of the AOSSG members that provided comments noted any concerns in relation to the transition requirements.

Question 9—Credit risk disclosures

AOSSG members that provided comments did not identify any fundamental concerns regarding existing credit risk disclosure requirements. However, majority of these members noted that some of their stakeholders required additional disclosure application guidance, in particular to improve usefulness of the information provided on the use of post-model management overlays. Some of these members suggested that following the requirements being tested by the pandemic and increased economic uncertainties, the IASB investigates the best practice to identify any potential further improvements of credit risk disclosures to address these concerns (also noted in Question 4 above), for example to assess whether any specific disclosure requirements on the use of management overlays need to be added to better meet users' needs.

asian-oceanian standard-setters group

Question 10—Other matters

Other than the issues noted above, one AOSSG member recommended that the IASB provide guidance or clarification on how the relevant requirements in IFRS 9 should be applied to the accounting for financial guarantee contracts, in particular how to assess whether cash flows from the guarantee are integral to the contractual terms for ECL measurement from holder's perspective and how to apply requirements in paragraph 4.2.1(c) to the guarantees with premiums received over time.

The Appendix to this submission provides detailed comments by the respective AOSSG members on the questions in the RFI.

If you have any questions regarding this submission, please contact either one of us.

Yours sincerely,

Nishan Fernando

Chair of the AOSSG

Dr Keith Kendall

Leader of the AOSSG Financial Instruments and Liabilities Working Group

Appendix – Comments from AOSSG members

IASB Request for Information on Post-implementation Review of the impairment requirements of IFRS 9 *Financial Instruments*

Questions for respondents

Question 1—Impairment
Do the impairment requirements in IFRS 9 result in: **(a) more timely recognition of credit losses compared to IAS 39 and address the complexity caused by having multiple impairment models for financial instruments? Why or why not?** **(b) an entity providing useful information to users of financial statements about the effect of credit risk on the amount, timing and uncertainty of future cash flows? Why or why not?** Please provide information about the effects of the changes to the impairment requirements introduced by IFRS 9, including the ongoing costs and benefits of preparing, auditing, enforcing or using information about financial instruments. This question aims to help the IASB understand respondents' overall views and experiences relating to the IFRS 9 impairment requirements. Sections 2–9 seek more detailed information on specific requirements.

[Australia]

The AASB agrees that IFRS 9 does, in most cases, result in:

(a) more timely recognition of credit losses compared to IAS 39 and address the complexity caused by having multiple impairment models for financial instruments, and

(b) to some extent, an entity providing useful information to users of financial statements about the effect of credit risk on the amount, timing, and uncertainty of future cash flows.

However, we encourage the IASB to review several areas where the lack of guidance or the level of judgement involved may result in diversity of the application of the IFRS 9 impairment requirements and, therefore, may reduce the comparability of financial statements. Specific requests for further improvements to IFRS 9 through potentially additional standard setting, application guidance, or illustrative examples are explained in Questions 2 – 10.

[Hong Kong]

Overall, we consider that the use of the expected credit loss (ECL) model in IFRS 9 results in more timely recognition of credit losses and provides better information about an entity's ECL

as compared to the incurred loss model in IAS 39 *Financial Instruments: Recognition and Measurement*. Nevertheless, we have identified application issues relating to certain aspects of the ECL requirements that warrant the IASB's further consideration. We provide detailed comments in questions 4, 7 and 10 below, and summarise our primary comments and recommendations below.

[Korea]

In general, KASB think that the impairment requirements in IFRS 9 provide more timely recognition of credit losses and useful information for users of financial statements compared to IAS 39. KASB is of the view that the impairment requirements in IFRS 9 have a clear basis and justification for timely recognition of credit losses since IFRS 9 explicitly requires that accounting for impairment reflects reasonable and supportable information (historical, current, and forward-looking).

However, given the following two practical difficulties, we question whether the complexity of the IFRS 9 impairment requirements has been addressed.

(a) While the impairment requirements in IFRS 9 are intended to avoid a high practical burden by using all available information without undue cost or effort, the expected credit loss model itself has become more complex in practice, as it must reflect probability-weighted estimates and forward-looking information considering multiple scenarios in principle.

(b) For non-financial institutions, some stakeholders believe that including forward-looking information is not feasible without undue cost or effort, and that providing more application guidance or illustrative examples for non-financial institutions would greatly reduce the operational burden of the ECL model in IFRS 9.

[Malaysia]

Generally, stakeholders unanimously agreed that the impairment requirements in IFRS 9 result in more timely recognition of credit losses compared to the incurred loss model under IAS 39 as well as more useful information about the effect of an entity's credit risk. Nonetheless, many believed that these requirements were accompanied by higher, though not disproportionate compliance costs.

That said, some stakeholders highlighted the following observations:

(a) Possibility that the ECL model could result in "too much too soon" impairment losses which would be subsequently written back especially in highly volatile economic and market conditions.

(b) A key challenge with a forward-looking model is in addressing variables that evolve rapidly under dynamic circumstances as historical trends can no longer be relied on.

On top of this, entities struggle to capture the full impact of these evolving factors which interact with other key variables in the ECL model.

Although management overlays were used to address unexpected conditions, the lack of guidance resulted in diversity in practices. A few stakeholders indicated preference for the uncertainties to be built into the ECL model over the use of management overlays.

(c) Also, a few stakeholders from the banking industry highlighted the challenges faced in addressing the differences in credit risk modelling approaches under IFRS 9 and the Basel Framework for financial institutions. Whilst acknowledging that the objectives for financial reporting and prudential requirements are not necessarily aligned, these stakeholders would have preferred more alignment between the two frameworks to improve efficiency.

On the other hand, aligning the two frameworks would have significant implications on entities that are not within the scope of the Basel Framework which would need to be carefully evaluated.

[China]

Overall, we believe impairment requirements in IFRS 9 result in more timely recognition of credit losses compared to IAS 39 and address the complexity caused by having multiple impairment models for financial instruments. And the requirements can help entity provide useful information to users of financial statements about the effect of credit risk on the amount, timing and uncertainty of future cash flows. However, there are still some issues with the impairment requirements in IFRS 9, such as lack of guidance, unclear principles, and practical applications questions in certain areas. Please see our detailed responses on questions 2-10.

Question 2— The general approach to recognising expected credit losses

(a) Are there fundamental questions (fatal flaws) about the general approach? If yes, what are those fundamental questions?

Please explain whether requiring entities to recognise at least 12-month expected credit losses throughout the life of the instrument and lifetime expected credit losses if there has been a significant increase in credit risk achieves the IASB's objective of entities providing useful information about changes in credit risk and resulting economic losses. If not, please explain what you think are the fundamental questions (fatal flaws) about the clarity and suitability of the core objectives or principles of the general approach.

(b) Are the costs of applying the general approach and auditing and enforcing its application significantly greater than expected? Are the benefits to users significantly lower than expected?

If, in your view, the ongoing costs of applying the general approach to particular financial instruments are significantly greater than expected or the benefits of the resulting information to users of financial statements are significantly lower than expected, please explain your cost–benefit assessment for those instruments.

[Australia]

The AASB confirms that, in general, there are no fundamental questions (fatal flaws) about the general approach. However, the AASB understands that the relevant objective of the general approach was to distinguish between initial estimates of credit losses and subsequent changes and to provide users with useful information about changes in credit risk. Whether the objective was fully achieved is uncertain due to diversity in modelling and overlay adjustments that reduce the transparency and comparability of the information disclosed. Details of feedback received on modelling and overlays are included in Question 4.

Some stakeholders indicated that applying the general model to intercompany loans brings unnecessary complexity as the credit loss may depend on factors like the parent entity's willingness to reimburse the lending entity. As a result, the usefulness of the credit loss provisions may not be commensurate to the effort required for its calculation.

[Korea]

Our stakeholders have not raised any fundamental questions with the general approach to recognising ECL. However, financial institutions observe that the application of the general approach has increased the cost of preparing financial statements. In general, costs have increased due to the difficulty of collecting and managing historical data to statistically calculate probabilities of default, to determine whether there has been a significant increase in credit risk, and to incorporate forward-looking information.

From the auditor's perspective, more sophisticated analysis was required to validate the data used by the entities, and to obtain reasonable assurance about the judgements and assumptions, which ultimately resulted in higher costs for the audited entities as well.

Nevertheless, we believe that the general approach to recognising ECL appropriately reflects the behaviour of credit risk over time and provides useful information on credit risk exposure, taking into account the time evolution of credit risk.

[Malaysia]

Stakeholders did not identify any fundamental question on the general approach to recognising ECL. Almost all stakeholders agreed that the general approach has been working well and

meets the objective of providing useful information about changes in credit risk and resulting economic losses. An alternative of applying lifetime ECL throughout the life of the financial assets would have resulted in recognising 'too much too soon' impairment losses.

Whilst the cost of applying the general approach did increase, stakeholders acknowledged the resulting benefits of the information to users of their financial statements.

[China]

We generally believe that there are no fundamental questions (fatal flaws) about the general approach, the costs of applying the general approach and auditing and enforcing its application are not significantly greater than expected, and the benefits to users are not significantly lower than expected.

However, non-financial institutions and other entities face challenges in practice in applying the general approach to other receivables other than assets which should or can be applied simplified approach provided in paragraph 5.5.15 of IFRS 9. Besides, there are practical difficulties such as the lack of sufficient historical data and hard to obtaining forward-looking information. We suggest the IASB provide illustrative examples or guidance on the application of the general approach to non-financial institutions and other entities.

Question 3— Determining significant increases in credit risk
(a) Are there fundamental questions (fatal flaws) about the assessment of significant increases in credit risk? If yes, what are those fundamental questions? Please explain whether the principle-based approach of assessing significant increases in credit risk achieves the IASB's objective of recognising lifetime expected credit losses on all financial instruments for which there has been a significant increase in credit risk since initial recognition. If not, please explain what you think are the fundamental questions (fatal flaws) about the clarity and suitability of the core objectives or principles of the assessment of significant increases in credit risk. **(b) Can the assessment of significant increases in credit risk be applied consistently? Why or why not?** Please explain whether the requirements provide an adequate basis for entities to apply the assessment consistently to all financial instruments within the scope of impairment requirements in IFRS 9. If diversity in application exists for particular financial instruments or fact patterns, please explain and provide supporting evidence about how pervasive that diversity is and explain what causes it. Please also explain how the diversity affects entities' financial statements and the usefulness of the resulting information to users of financial statements. If you have identified diversity in

application of the assessment, please provide your suggestions for resolving that diversity. In responding to (a) and (b), please include information about **applying judgement** in determining significant increases in credit risk (see Spotlight 3).

[Australia]

The AASB confirms that there are no fundamental questions (fatal flaws) about the assessment of significant increases in credit risk (SICR). However, some stakeholders noted the inconsistent application of requirements when assessing SICR. This was mainly evident during the pandemic when the local regulator had to issue guidance to further clarify the requirements.[1]

The AASB notes that during the pandemic, the IASB issued guidance to assist with SICR assessment.[2] As our stakeholders found this guidance helpful, we recommend removing the references to the pandemic and incorporating the explanation into the Standard as application guidance.

In addition, the feedback also indicated that whilst the expected credit loss (ECL) models are based on the entity's risk management model and internal policy, in practice, many entities in the non-financial services sector do not have an explicit internal policy addressing credit risk and rely on the indicators of SICR in the standard. The interaction between the definition of default, SICR indicators and available rebuttable presumptions may be complex to apply for some entities and therefore the AASB suggests that the IASB consider whether additional guidance or illustrative examples are needed to further support effective application of the requirements.

[Korea]

We suggest that the IASB consider the following to improve consistency and comparability of ECL amounts between entities, although no stakeholders have raised fundamental questions about the application of the current impairment requirements for determining whether there has been a significant increase in credit risk('SICR').

- It would be helpful to provide more illustrative examples or application guidance on the indicators for determining whether there has been a significant increase in credit risk. For example, when determining whether there has been a significant increase in credit risk based on a change in external credit ratings between the initial recognition date and the

1 ASIC FAQ #9A: COVID-19 implications for financial reporting and audit: Frequently asked questions (FAQs) | ASIC

2 IASB, IFRS 9 and Covid-19 – Accounting for expected credit losses

end of the reporting period, it is often difficult to determine to what extent there has been a significant increase in credit risk (IFRS 9 paragraph 5.5.9).

[Malaysia]

Stakeholders did not identify any fundamental question and agreed that the principle-based approach of assessing SICR achieves the objective of recognising lifetime ECL on all financial instruments for which there has been a SICR since initial recognition.

That said, a few stakeholders had observed diversity in practice on how entities determined SICR. Whilst judgment is involved in the determination, these stakeholders observed that two different banks had reached different conclusions on how they determined SICR on the same set of facts and circumstances.

Some stakeholders therefore requested for more application guidance on the determination of SICR to improve consistency in application.

[China]

We generally believe that there are no fundamental questions (fatal flaws) about the assessment of significant increases in credit risk, the principle-based approach of assessing significant increases in credit risk achieves the IASB’s objective.

However, there is diversity in practice in applying the principles of assessing significant increases in credit risk and 16 qualitative indicators in paragraphs B5.5.17 (a) - (p), such as on the staging criteria, the thresholds used to determine significant increases in credit risk, which is related to the entity’ sophistication, the characteristics of a financial instrument and the availability of data. In addition, entities face some challenges when applying the above guidance, for example, when considering the qualitative indicators such as an actual or expected significant change in the operating results of the borrower, other than the financial information announced by the borrower, other information may be difficult to obtain at reasonable cost or effort. Besides, the borrower may cover up its financial deterioration by adding collateral, obtaining support letters to avoid the lender exercising its early redemption option, or for the consideration of the impact on its own stock price, management remuneration. We suggest the IASB provide more representative guidance or illustrative examples of qualitative and quantitative assessments based on the current principles-based approach.

Question 4— Measuring expected credit losses
(a) Are there fundamental questions (fatal flaws) about requirements for measuring expected credit losses? If yes, what are those fundamental questions?

Please explain whether the requirements for measuring expected credit losses achieve the IASB's objective of providing users of financial statements with useful information about the amount, timing and uncertainty of an entity's future cash flows. If not, please explain what you think are the fundamental questions (fatal flaws) about the clarity and suitability of the core objectives or principles of the measurement requirements.

(b) Can the measurement requirements be applied consistently? Why or why not?

Please explain whether the requirements provide an adequate basis for entities to measure expected credit losses consistently for all financial instruments within the scope of impairment requirements in IFRS 9. If diversity in application exists for particular financial instruments or fact patterns, please explain and provide supporting evidence about how pervasive that diversity is and explain what causes it. Please also explain how the diversity affects entities' financial statements and the usefulness of the resulting information to users of financial statements. If you have identified diversity in application of the requirements, please provide your suggestions for resolving that diversity. In responding to (a) and (b), please include information about **forward-looking scenarios** (see Spotlight 4.1), **post-model adjustments or management overlays** (see Spotlight 4.2) and **off-balance-sheet exposures** (see Spotlight 4.3), as relevant

[Australia]

The feedback from stakeholders implied, mostly regarding the banking industry, that there is a lack of consistency:

(a) in the modelling and assumptions used, the number of scenarios used and inputs in overlays (or sometimes called post-model adjustments) to estimate provisions; and

(b) in the quality of information disclosed and its level of detail.

This inconsistency can make it difficult for some users of financial statements to understand the drivers of the provision movements and thus can reduce the comparability of ECLs in financial statements. The feedback from users also indicated their concerns about reverse engineering and entities amending the assumptions in the model to achieve a desired outcome.

Whilst the AASB acknowledges that it would be difficult to mandate exact guidance on the number of scenarios and model inputs used, we suggest that the IASB develop an illustrative example that could help entities with an assessment of what constitutes a reasonable number of scenarios.

Considering that the standard's requirements have been recently tested by the pandemic and increased economic uncertainties, the IASB should conduct research on the appropriateness of disclosure requirements and assess whether they meet users' needs (considering the cost to effort balance). The IASB could also investigate the best market practices in various jurisdictions to identify any potential improvements.

asian-oceanian standard-setters group

[Hong Kong]

Meaning of 'credit loss'

In our submission to the IFRS Interpretations Committee (IC) tentative agenda decision *Lessor Forgiveness of Lease Payments (IFRS 9 and IFRS 16),* we expressed concerns over the unclear meaning of 'credit loss' for the purpose of ECL assessment. On the one hand, Appendix A of IFRS 9 defines a credit loss as 'all cash shortfalls', which may imply that an entity should include all cash shortfalls in ECL measurement irrespective whether they are due to credit-related reasons. On the other hand, the objective and underlying concept of the ECL model (e.g. significant increase in credit risk, risk of default and credit impaired) seem to imply that the measurement of ECL should only be driven by credit-related factors.

Some respondents considered that the IFRS IC may have clarified this issue in its Agenda Decision (AD) *Lessor Forgiveness of Lease Payments (IFRS 9 and IFRS 16)* by concluding that the lessor, who voluntarily forgives certain lease payments due by the lessee, should include the anticipation of forgiving lease payments due into the measurement of ECL of the operating lease receivable to reflect 'all cash shortfalls'. However, other respondents considered that the AD has created further uncertainty about the boundaries of credit risk.

We considered that the meaning of 'credit loss' is not only fundamental to the ECL assessment but is also closely related to the issue of the boundaries between the requirements on modification of financial assets and ECL (see below). In light of the ongoing concern in the market, we recommend that the IASB undertake proper standard-setting activities to clarify the meaning of 'credit loss' in IFRS 9, i.e. whether it is based on an assessment of 'all cash shortfalls' or 'shortfalls as a result of an inability to pay'. We also recommend the IASB conduct a thorough review of IFRS 9 to ensure that the related concepts and terminologies applied in the ECL measurement align with the clarified meaning of 'credit loss' within the context of IFRS 9.

[Korea]

While we do not have fundamental questions about the current impairment requirements for measuring expected credit losses, we suggest the following additional considerations regarding the requirements for measuring expected credit losses.

(a) The lack of application guidance on incorporating forward-looking information makes it difficult to apply in practice. As a result, there is a wide range of assumptions and methodologies used by entities to incorporate forward-looking information, which increases management's discretion and undermines comparability between entities. For example, when building up multiple scenarios, as there is no clear guidance on whether scenarios can be different depending on portfolios (e.g. household loans, business loans, etc.), it leads to significant management discretion. More application guidance

is also needed on how to reflect forward-looking information in measuring ECL regarding the significant exogenous macro-economic events such as COVID-19.

(b) As the definition and scope of off-balance sheet exposures subject to measuring ECL are not clear, it is necessary to clarify the scope and definition of off-balance sheet credit risk exposures, such as loan commitments.

[Malaysia]

Stakeholders did not identify any fundamental question and generally agreed that the IFRS 9 requirements for measuring ECL are clear. Almost all stakeholders supported the principle-based requirements and believed the requirements can be applied consistently to all financial instruments within the scope of IFRS 9, with judgment applied taking into consideration the underlying facts and circumstances.

A few stakeholders, however, were sceptical about how judgments were applied in practice. These stakeholders had observed diversity in the application of judgments such as:

(a) in identifying the number of scenarios, estimating probability-weightage and applying a broad range of forward-looking information; and

(b) in applying management overlays or post-model adjustments which were particularly significant for banks during the pandemic in the absence of available data and with the rapidly evolving conditions.

These stakeholders were concerned that these diversities could potentially lead to inconsistencies in measuring ECL and consequently, impact the usefulness of the information provided to users of financial statements.

Following this, some stakeholders suggested that the IASB considers providing more application guidance, particularly on when and how to apply management overlays. It would be useful to set out the thought process rather than introducing new requirements in a principle-based framework.

[New Zealand]

Corporate entities face some application challenges relating to the measurement of ECL. Given that corporate entities mainly use the simplified approach to determining ECL, the application challenges referred to in this letter are in the context of the simplified approach (which is the reason why we responded to Questions 4 and 5 together). Outside of these particular application challenges, the ECL requirements are generally working well, and stakeholder feedback highlighted improved comparability among industry peers in terms of impairment of financial assets, and that the impairment requirements of IFRS 9 were helpful for internal management purposes – they have facilitated better management of debtors.

We do *not* consider the application challenges mentioned in this letter to be 'fatal flaws' in IFRS 9. Nevertheless, action is needed to help corporate entities, to better understand and apply consistently the ECL requirements and the simplified approach to ECL.

Application challenges relating to the simplified approach to ECL for corporate entities

We have received feedback about the following application challenges relating to corporate entities:

(a) Some corporate entities effectively continue to use the 'incurred loss' model, and/or consider only historical loss data when determining ECL under the simplified approach, without considering adjustments for current conditions and future expectations;

(b) It can be challenging to determine ECL when no historical loss data is available – which can happen when an entity enters into a new market, and therefore does not have previous experience with the type of debtors that make up the receivables balance;

(c) Some corporate entities do not have a good understanding of the ECL requirements under the simplified approach, including the concept of a 'provision matrix'.

Our recommendations to address the above matters are explained below.

General recommendation: educational material

We recommend publishing educational material aimed at corporate entities (hereafter referred to as 'educational material'), which would include the following:

(a) A reminder that for trade receivables and contract assets without a significant financing component, ECL is determined using the 'simplified approach' – and how to apply this approach – which would include:

(i) A general explanation of the key aspects of the ECL approach – including that ECL refers to the difference between the cash flows that the entity is entitled to receive as compared to the cash it expects to receive, and therefore reflects

the probability of a 'default' occurring in the future with respect to the receivables, etc. It would be useful to include an explanation of what could constitute 'default' – given that the IASB had previously decided not to define 'default' in IFRS 9.

(ii) An explanation of how the simplified approach applies to receivables and contract assets, using clear language and step-by-step examples – including more detailed guidance on using a 'provision matrix' (in addition to the guidance provided in the Illustrative Examples accompanying IFRS 9), and a reminder about the content of paragraphs B5.5.51 and B5.5.52 of IFRS 9, which provide some guidance on using historical loss rates and adjusting them for current and forecast future conditions when determining ECL – as well as a reminder of the circumstances when unadjusted historical rates from previous years can be used (see below); and

(iii) An explanation of how the simplified approach to ECL is different to the application of the previous 'incurred loss' requirements in IAS 39 – which could be built into the abovementioned explanation of the ECL requirements and application examples.

(b) A brief description of how the 'simplified approach' to ECL is different to the 'general approach', and the types of assets that the general approach would apply to – to help entities understand the difference between the two approaches, but without necessarily going into the details of the general approach.

As a useful starting point for developing this educational material, we recommend considering the following guidance document issued by the New Zealand Treasury: *Guidance on Accounting for Financial Instruments Under PBE IFRS 9 for Non-financial Entities*. This guidance was published when the New Zealand Government adopted the IFRS 9-based standard PBE IFRS 9 *Financial Instruments* – which included ECL requirements aligned with IFRS 9. The guidance focuses on the application of PBE IFRS 9 to receivables and term deposits – being simple financial assets that are commonly held by many non-bank entities. The document included guidance on applying the ECL requirements to receivables, using an example with a 'provision matrix' and including an explanation of how the ECL method is different to the previous 'incurred loss' requirements.

Recommended enhancements to the provision matrix example – adjustments to historical loss rates

We also recommend enhancing one of the illustrative examples that accompany IFRS 9 – Illustrative Example 12, which relates to the provision matrix – so that it includes more guidance on adjusting historical loss rates for forward-looking estimates.

Our recommendations regarding Illustrative Example 12 are explained in more detail below.

(a) Illustrative Example 12 already states the following: "The provision matrix is based on its historical observed default rates over the expected life of the trade receivables and is adjusted for forward-looking estimates. At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analysed. In this case it is forecast that economic conditions will deteriorate over the next year".

(b) We recommend enhancing this example by illustrating how the historical loss rates were adjusted for forward-looking expectations.

(c) One way to do this could be by showing the prior year actual loss rates with respect to the entity's receivables, explaining what forward-looking information the entity has considered to adjust the historical rates (i.e. which economic indicator or other piece of information was used – and which other indicators could have been used but were not selected in this case), and explaining how this information resulted in the expected default rates that are currently shown in the Illustrative Example. We recommend mentioning that climate-related risks could be one of the factors to consider when determining adjustments to historical loss rates – for example, if the entity has customers in an industry or sector where climate-related risks could affect the customers' ability to pay the entity (e.g. because many entities in the industry/sector are likely to stop operating or suffer significant losses due to climate-related risks).

Recommendations relating to the ability to use unadjusted historical rates in some circumstances

Paragraph B5.5.52 explains that when determining ECL, in some cases the best reasonable and supportable information could be the unadjusted historical information, depending on the nature of the historical information and when it was calculated, compared to circumstances at the reporting date and the characteristics of the financial instrument being considered.

Therefore, it could be appropriate for an entity to determine ECL using *unadjusted historical loss data from a previous year* (not necessarily the immediately preceding accounting period) where the *economic conditions and outlook were similar to what they are in the current year*, and the debtors that make up the receivables balance in that year are of a *similar type to the*

current year debtors – because in that case, the historical rates would be reflective of conditions similar to the current and future economic conditions as at the current year.

Some corporate entities may not be aware of this approach and when it is appropriate to apply. We recommend adding a new Illustrative Example which demonstrates these points, and drawing attention to paragraph B5.5.52 and its implications in the abovementioned educational material.

Recommendations relating to challenges in measuring ECL when historical data is not available

The application guidance in Appendix B of IFRS 9 contains some general guidance that could be relevant for considering how to determine ECL when historical loss data is not available. For example, paragraph B5.5.49 refers to using reasonable and supportable information that is available without undue cost or effort, paragraph B5.5.51 says that an entity may use internal and external sources of information, and paragraph B5.5.51 also notes that "entities that have no, or insufficient, sources of entity-specific data may use peer group experience for the comparable financial instrument".

However, the above guidance is quite general, and we consider that additional guidance on lack of historical data is needed to help entities with applying the ECL requirements in such situations.

We recommend adding integral application guidance and an illustrative example covering this situation, as explained below.

(a) We recommend bringing the Basis for Conclusions paragraph BCE 164 into the application guidance in Appendix B of IFRS 9 – given that this Basis for Conclusions paragraph refers more specifically to sources of information that could be used when historical loss data is not available. Specifically, paragraph BCE 164 says: "entities with little historical information would draw their estimates from internal reports and statistics (which may, for example, have been generated when deciding whether to launch a new product), information that they have about similar products or from peer group experience for comparable financial instruments."

(b) We also recommend adding an Illustrative Example to show:

  (i) Types of internal and/or external data that could be appropriate in determining ECL when historical data is not available, e.g. when an entity enters into a new market;

  (ii) How to determine when the data sources mentioned above could be appropriate – including how to determine whether they constitute 'reasonable

and supportable information that is available without undue cost and effort'; and

(iii) The type of adjustments that would need to be made to the data from the abovementioned sources, to reflect the credit risk of the debtors in the new market, etc.

Educational material on disclosures

We are aware of concerns that disclosures provided by corporate entities in relation to credit risk and ECL have been voluminous and 'boiler plate' – rather than focusing on relevant information.

In IFRS 7, paragraph 35D gives entities flexibility to consider how much detail to disclose, how much emphasis to place on the different aspects of the disclosure requirements, and the appropriate level of aggregation. However, some preparers may not be aware of the implications of paragraph 35D.

We recommend that the IASB develops educational material which highlights the requirements of paragraph 35D, together with the general guidance on the application of materiality in IAS 1 and the qualitative characteristics in the Conceptual Framework. This would assist preparers, and their auditors, on focusing ECL related disclosures on relevant information, rather than on every disclosure item relating to ECL and credit risk as listed in IFRS 7.

[China]

We generally believe that there are no fundamental questions (fatal flaws) about requirements for measuring expected credit losses, the requirements for measuring expected credit losses achieve the IASB′s objective.

However, there is diversity in practice in application of forward-looking scenarios, post-model adjustments or management overlay, loan commitments and financial guarantee contracts base on the general feedback from stakeholders. For example, post-model adjustments or management overlay is highly subjective in practical application, which may not be beneficial to users of financial statements to understand the changes in the credit risk and impairment amount of entities in the case of insufficient disclosure of the reasons, methods and quantitative effects of the adjustments. In addition, IFRS 9 has no explicit guidance on how entities should reflect forward-looking information about particular risks (such as climate risk) into the measurement of expected credit losses. We suggest the IASB provide more detailed guidance on the above areas, such as on the selection of macroeconomic variables, the consideration of the forecast period and the retrospective review of the rationality of macroeconomic variables regarding to the incorporation of forward-looking information. We further suggest the IASB

consider incorporating the key points of ITG meeting summary (such as the selection of multiple scenarios in the case of non-linear relationships stated in December 2015) and the educational materials (for example, post-model adjustments or management overlays need to be considered if the effects cannot be reflected in models stated in March 2020) into IFRS 9 itself, to enhance the consistency in practice and the comparability of financial information.

In addition, the definition of credit loss in Appendix A of IFRS 9 does not emphasize that the cash shortfalls need to be caused by the debtor's "credit risk", which lead to different understandings in practice. We note that the IFRS Interpretations Committee (IFRIC) agenda decision in October 2022 on Lessor Forgiveness of Lease Payments states that the measurement of expected credit losses includes the lessor considering its expectations of forgiving lease payments recognised as part of that receivable, regardless of whether the forgiveness is caused by the lessee's "credit risk". However, there is no such principle provided for financial assets other than the operating lease receivable. Stakeholders′ feedback indicated that it is widely accepted in practice that credit loss is caused only by debtor's "credit risk". We suggest the IASB further clarify the definition of credit loss and its relationship with the credit risk of the debtor, and clarify that credit loss only related to the cash shortfalls due to the debtor's credit risk to enhance consistency in practice. Meanwhile, when applying the definition of credit loss, there are some confusion in practice as follows, which we suggest the IASB to clarify: (i) whether and how to consider the incremental internal or external costs that are directly attributed to the recovery of contractual cash flows for the defaulted financial asset (i.e. collection costs) which the entity expects to incur, in the measurement of expected credit loss when estimating the cash shortfalls; (ii) for contractually-linked instruments that meet the SPPI criterion, the issuer has no contractual obligation to make payments in the absence of sufficient cash flows from the underlying assets, it is unclear that whether the cash shortfalls is zero or should it be calculated as the difference between the stated contractual cash flows without reduction for credit losses in the underlying pool and the cash flows expected to be received after allocation of credit losses in the underlying pool.

Question 5— Simplified approach for trade receivables, contract assets and lease receivables
(a) Are there fundamental questions (fatal flaws) about the simplified approach? If yes, what are those fundamental questions? Does applying the simplified approach achieve the IASB's objective of reducing the costs and complexities of applying IFRS 9 impairment requirements to trade receivables, contract assets and lease receivables? If not, please explain what you think are the fundamental questions (fatal flaws) about the clarity and suitability of the core objectives or principles of the simplified approach.

(b)	**Are the costs of applying the simplified approach and auditing and enforcing its application significantly greater than expected? Are the benefits to users significantly lower than expected?** If, in your view, the ongoing costs of applying the simplified approach are significantly greater than expected, or the benefits of the resulting information to users of financial statements are significantly lower than expected, please explain your cost–benefit assessment.

[Australia]

The AASB confirms that, in general, there are no fundamental questions (fatal flaws) about the simplified approach.

Several stakeholders thought that the requirement to incorporate forward-looking information is too complex for some smaller corporate entities, even when using the simplified approach. Those stakeholders noted a need for additional guidance on calculating the ECL for new customers or markets in the absence of historical information. The AASB suggests that the IASB considers the need for educational material on the application of the standard (including the incorporation of forward-looking factors) by smaller corporate entities. In addition, we suggest including BCE.164 in the standard, as it explains that entities with little historical information would draw their estimates from internal reports and statistics (which may, for example, have been generated when deciding whether to launch a new product), information that they have about similar products or from peer group experience for comparable financial instruments.

The stakeholders' feedback also noted that some entities do not define and disclose what the default event is (also noted in Question 3 above). The AASB suggests that the issued educational guidance should include an explanation of the relevance of the requirements in IAS 1 paragraph 117 on disclosure of material accounting policies.

[Korea]

Overall, no stakeholders have raised fundamental questions about the current impairment requirements for applying the simplified approach, but we are aware that there are some practical difficulties in measuring expected credit losses on conventional trade receivables for non-financial entities. For example, the credit quality of the receivables is high, so that historical loss data is insufficient, or the receivables are due from related parties (intra-group loans) (e.g. parent, subsidiaries, etc.). In this case, even when using the simplified approach, it may be unclear on what basis to measure expected credit loss. If specific application guidance or practical cases to consider when historical default data is insufficient or unavailable are provided, we believe the simplified approach will further reduce the practical burden on entities measuring ECL.

[Malaysia]

Stakeholders generally supported the simplified approach.

[New Zealand]

Response to Question 5 is incorporated in the response to Question 4.

[China]

We generally believe that there are no fundamental questions (fatal flaws) about the simplified approach, the costs of applying the simplified approach and auditing and enforcing its application are not significantly greater than expected, and the benefits to users are not significantly lower than expected. However, due to lack of sufficient historical data and other problems, there are still application questions or challenges of simplified approach.

For example, non-financial institutions and other entities that hold a large amount of trade receivables and apply simplified approach may use practical expedients (such as a provision matrix) to calculate expected credit losses in accordance with paragraph B5.5.35 of IFRS 9, they face the following application questions or challenges: (i) the provision matrix cannot be applied due to the lack of sufficient historical data, but if the expected credit loss is calculate at the individual level, the costs and efforts may be very high and sometimes may even be unable to obtain sufficient information for calculation; (ii) entities face the challenge of how to better reflect the fluctuation of the historical data in the model; (iii) there are some difficulties in obtaining, interpreting and forecasting macroeconomic or other forward-looking information when entities incorporate forward-looking information into the measurement of expected credit losses. The incorporation of forward-looking information is highly subjective in practice, which results in a decrease in the accuracy and rationality of forward-looking information, and affects whether it can achieve the objective of reflecting credit risk more reasonably. We suggest the IASB provide illustrative examples or guidance, such as the common methods of constructing provision matrix. As mentioned in our response to Question 2, we suggest the IASB consider to provide more guidance and illustrative examples for non-financial institutions and other entities to better apply the expected credit loss model and further reduce the application complexity of the impairment requirements based on weighing materiality, the implementation costs, and the overall benefits of refined measurement of credit losses.

Question 6— Purchased or originated credit-impaired financial assets
Can the requirements in IFRS 9 for purchased or originated credit-impaired financial assets be applied consistently? Why or why not?

asian-oceanian standard-setters group

Please explain whether the requirements can be applied consistently to these types of financial assets and lead to accounting outcomes that faithfully reflect the underlying economic substance of these transactions.

If there are specific application questions about these requirements, please describe the fact pattern and:

(a) explain how the IFRS 9 requirements are applied;
(b) explain the effects of applying the requirements (for example, the quantitative effect on an entity's financial statements or an operational effect);
(c) explain how pervasive the fact pattern is; and
(d) support your feedback with evidence.

[Australia]

Our stakeholders' feedback implied that the interaction between ECL, restructuring, and modifications is challenging, especially for purchased or originated credit-impaired (POCI) assets. In particular, determining whether changes to the cash flows of the financial instrument are substantial requires the use of management judgement (as the AASB noted in its response to the Request for Information on Post-implementation review of the classification and measurement requirements of IFRS 9). This has an impact on potentially recognising a new loan and assessing whether the new loan is POCI, which may result in different expected credit loss provisions. The AASB recommends that the IASB considers issuing additional guidance and illustrative examples to assist entities with the assessment of the new asset. The AASB acknowledges that a project on amortised cost measurement has been added to IASB's research pipeline, which will consider findings from the post-implementation review of IFRS 9 impairment requirements.

[Korea]

In general, we think that current impairment requirements in IFRS 9 for purchased or originated credit-impaired financial assets are applied consistently in practice and stakeholders have not raised questions or particular concerns about this topic.

[Malaysia]

Stakeholders did not raise any specific concern on the requirements in IFRS 9 for purchased or originated credit-impaired financial assets.

[China]

We generally believe that the requirements in IFRS 9 for purchased or originated credit-impaired financial assets ("POCI asset") can be basically applied consistently to these types of financial assets and lead to accounting outcomes that faithfully reflect the underlying economic substance of these transactions.

However, there are different understandings and treatments in practice on whether the subsequent improvement in credit risk of a POCI asset should be recognised as a negative loss allowance or as an increase in the gross carrying amount in the statement of financial position. We suggest the IASB further clarify this issue to enhance the consistency in practice and the comparability of financial information.

Question 7— Application of the impairment requirements in IFRS 9 with other requirements
Is it clear how to apply the impairment requirements in IFRS 9 with other requirements in IFRS 9 or with the requirements in other IFRS Accounting Standards? If not, why not? If there are specific questions about how to apply the impairment requirements alongside other requirements, please explain what causes the ambiguity and how that ambiguity affects entities' financial statements and the usefulness of the resulting information to users of financial statements. Please describe the fact pattern and: (a) indicate the requirements in IFRS 9 or in other IFRS Accounting Standards to which your comments relate; (b) explain the effects of applying the requirements (for example, the quantitative effect on an entity's financial statements or an operational effect); (c) explain how pervasive the fact pattern is; and (d) support your feedback with evidence. In responding to this question, please include information about matters described in this section of the document.

[Australia]

Similar to comments raised regarding POCI in the question above, stakeholders raised an issue relating to the modification of contractual cash flows in response to the interaction of ECL requirements with other IFRS 9 requirements or other standards.

The AASB notes that the standard is unclear with respect to what is meant by "substantial modification" to contractual cash flows of financial assets. This is not consistent with the guidance on financial liability, where paragraph B.3.3.6 explains the meaning of "substantially different" with respect to a financial liability. We recommend that the IASB considers developing similar guidance for financial assets, including indicators of substantial modification of contractual cash flow, as any diversity in such assessments may also have an impact on the ECL calculation.

[Hong Kong]

Interaction of the ECL requirements with the requirements on modification and derecognition in IFRS 9

IFRS 9 does not contain clear guidance on how the requirements for modification and ECL interact with each other. Specifically, following a modification that does not result in derecognition, it is unclear how an entity should account for the ECL and the effect of the modification. Questions arise as to whether certain losses should be treated as impairment losses, write-offs, or modification losses. The uncertainty about the boundaries between the requirements for modification and ECL is further exacerbated by the unclear meaning of 'credit loss' as mentioned above ('all cash shortfalls' or 'shortfalls as a result of an inability to pay'.

In our submission to the IASB on *PIR of IFRS 9 – Classification and Measurement*, we expressed significant concerns regarding the modification requirements. Due to insufficient guidance in IFRS 9, different entities have developed varying accounting policies to assess whether a modification results in derecognition. The lack of clarity affects whether a modification would lead to derecognition of the original financial asset and recognition of a new one, resulting in a reset of initial credit risk and hence stage classification for ECL measurement. This is in contrast to cases where the modification does not result in derecognition, and the modified financial assets would be classified as stage 2 if the credit risk has increased significantly.

We note that the IASB has added a standard-setting project to its research pipeline on *Amortised Cost Measurement*, which will consider the modification of financial instruments. In this regard, we strongly recommend the IASB include the interaction of the modification and ECL requirements within the scope of that project and commence the project as soon as practicable.

[Korea]

Some stakeholders commented on difficulties in applying the impairment requirements in IFRS 9 with other requirements of IFRS 9 or requirements in other accounting standards, as follow.

(a) More application guidance is needed on the measurement of expected credit losses taking into account modification of the terms between the lender and the borrower. the IFRS Interpretations Committee's agenda decision 'Accounting for a Lessor forgiveness of Lease Payments' (Oct '22) required the measurement of expected credit losses on a lessor's operating lease receivables to consider any cash shortfall resulting from a lessor forgiveness of lease payments. It is not clear whether the measurement of cash shortfalls in other financial instruments should always take into account events other than financial difficulty of the borrower. Therefore, guidance is needed on how

the impairment requirements (IFRS 9 paragraph 5.5) and the requirements for renegotiation or modification of the terms (IFRS 9 paragraph 5.4.3) should be applied together.

[Malaysia]

Stakeholders did not highlight any significant issue in applying the impairment requirements in IFRS 9 with other requirements in IFRS 9 or with the requirements in other IFRS Accounting Standards.

That said, a few stakeholders would like the IASB to consider providing more guidance on the interaction between ECL and derecognition of financial assets. These stakeholders shared the following situations observed in practice:

(a) Varying practices in the treatment of restructured financial assets. For example, loans receivable that were in stage 3 pre-restructuring for banks – some entities continue to categorise the restructured loans receivable in stage 3 (i.e., no derecognition of the 'old' loan) whilst some entities recognise a new loan as purchased or originated credit-impaired loan (i.e., derecognition of the 'old' loan). These stakeholders believe that clearer guidance on when to derecognise restructured financial assets would help to reduce the diversity in practices.

(b) Difficulties in applying the ECL requirements in IFRS 9 in a situation involving inter-company sale of financial asset which results in the derecognition of the financial asset in one subsidiary (Subsidiary A) and recognition in another subsidiary (Subsidiary B). Although the inter-company transfer would have no impact to the consolidated financial statements, it would require a reset of the credit risk staging of the financial asset in the financial statements of Subsidiary B at initial recognition. The stakeholder sought clarification on:

   (i) whether this could change the credit risk staging of the financial asset after the transfer. E.g., a stage 2 financial asset in Subsidiary A could be determined as stage 1 in Subsidiary B after the transfer; and

   (ii) at initial recognition in the financial statements of Subsidiary B, the financial asset could only be in either stage 1 (performing) or purchased or originated credit-impaired.

[China]

In addition to the intersection identified by the IASB on the impairment requirements with the requirements on modification of financial assets, write-off of financial assets and recognition of expected credit losses for trade receivables, contract assets and lease receivables, there are some other intersections in practice, for example:

(i) There are application questions about the boundaries between the requirements on modification of financial assets, revision estimated cash flows and expected credit losses. When the future contractual cash flows of a financial asset are anticipated to be changed, it is confusing about which one or more of these requirements are applied and in what older. For example, there are different understandings and judgements on apply those requirements when the entity anticipates that the future contractual cashflows will be changed as a result of laws or regulatory requirements that are expected to be enacted, which results in incomparable financial information. Besides, we noted that the IASB has added a research pipeline project related to amortised cost measurement in July 2022, we suggest the intersection between the requirements on modification of financial assets, revision estimated cash flows and expected credit losses, be included as part of this project.

(ii) There are practical concerns regarding financial assets acquired as part of a business combination are treated in the same way as other financial assets for the recognition of impairment in IFRS 9. According to paragraphs B41 of IFRS 3 Business Combinations, the acquirer shall not recognise a separate valuation allowance as of the acquisition date for assets acquired in a business combination that are measured at their acquisition-date fair values. Accordingly, a financial asset acquired in a business combination would attract a loss allowance at the first reporting date after it is recognised, even if that date is the date on which the business combination has taken place. The effects of uncertainty about future cash flows are included in the fair value measure in accordance with IFRS 13, however, expected credit losses still need to be measured in accordance with IFRS 9, which may result in ″double accounting″ of impairment losses in the above case. While this is a natural consequence of the application of impairment requirements, the impact of this issue is magnified in the case of business combination. We suggest the IASB fully consider and carry out some research on this issue.

(iii) Contract assets would not only be subject to credit risk, but also be subject to other risks, for example, performance risk. We suggest the IASB further clarify the accounting treatment of impairment of contract assets and provide more detail guidance and illustrative examples on how the impairment requirements under IFRS 9 is applied to contract assets.

(iv) There are different understandings in practice on the measurement of the gross carrying amount and the loss allowance for financial instruments that are measured at amortised cost and are credit-impaired (but not purchased or originated credit-impaired). We suggest incorporating the December 2015 interpretation of the ITG on the gross carrying

amount and the loss allowance into IFRS 9 to enhance the consistency in practice and comparability of financial information.

Question 8— Transition
Were the costs of applying the transition requirements and auditing and enforcing their application significantly greater than expected? Were the benefits to users significantly lower than expected?
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 explain any unexpected effects or challenges preparers of financial statements faced applying the impairment requirements retrospectively. How were those challenges overcome?

[Australia]

We did not note any concerns in relation to the transition requirements.

[Korea]

We did not find any difficulties when applying the transition requirements in IFRS 9.

[Malaysia]

Stakeholders did not highlight any specific issue in relation to the transition requirements.

[China]

We generally believe that the costs of applying the transition requirements and auditing and enforcing their application were not significantly greater than expected and the benefits to users were not significantly lower than expected. The relief from restating comparative information and the requirement for transition disclosures basically achieved an appropriate balance between reducing costs for preparers of financial statements and providing useful information to users of financial statements.

Question 9— Credit risk disclosures
(a) Are there fundamental questions (fatal flaws) about the disclosure requirements in IFRS 7 for credit risk? If yes, what are those fundamental questions?

Please explain whether the combination of disclosure objectives and minimum disclosure requirements for credit risk achieves an appropriate balance between users of financial statements receiving:

(i) comparable information—that is, the same requirements apply to all entities so that users receive comparable information about the risks to which entities are exposed; and

(ii) relevant information—that is, the disclosures provided depend on the extent of an entity's use of financial instruments and the extent to which it assumes associated risks.

If an appropriate balance is not achieved, please explain what you think are the fundamental questions (fatal flaws) about the clarity and suitability of the core objectives or principles of the disclosure requirements.

(b) Are the costs of applying these disclosure requirements and auditing and enforcing their application significantly greater than expected? Are the benefits to users significantly lower than expected?

If, in your view, the ongoing costs of providing specific credit risk disclosures are significantly greater than expected or the benefits of the resulting information to users of financial statements are significantly lower than expected, please explain your cost–benefit assessment for those disclosures. Please provide your suggestions for resolving the matter you have identified.

If, in your view, the IASB should add specific disclosure requirements for credit risk, please describe those requirements and explain how they will provide useful information to users of financial statements.

Please also explain whether entities' credit risk disclosures are compatible with digital reporting, specifically whether users of financial statements can effectively extract, compare and analyse credit risk information digitally.

[Australia]

The AASB confirms that there are no fundamental questions (fatal flaws) about the disclosure requirements in IFRS 7 for credit risk. However, some concerns relating to current disclosure requirements were expressed in Question 4 above.

[Korea]

The disclosure requirements in IFRS 7 related to credit risk generally appear to work well in practice as intended by the IASB, but some stakeholders suggest that further consideration is needed as follow.

(a) Clarification is needed on disclosure requirements and examples of significant judgements made by management in measuring expected credit losses. Especially as noted in the Request for Information by the IASB, more application guidance is needed on the appropriate disclosure of management overlays and post-model adjustments

(PMAs), if any, in the measurement of expected credit losses, given the fact that economic uncertainty during the COVID-19 pandemic has increased the use of management overlays and post-model adjustments and its financial impact on financial statements.

[Malaysia]

Stakeholders did not identify any fundamental question and generally agreed that the existing disclosure requirements on credit risk are working as intended and meet users' information needs.

That said, some stakeholders suggested that the IASB considers adding specific disclosure requirements on the use of management overlays including reasons for applying or reversing management overlays given that its application is becoming more extensive.

IFRS 7 does not dictate the format or extent of disclosure on credit risk required to meet the objective of the credit risk disclosures. Some stakeholders highlighted that users could face challenges to extract, compare and analyse the credit risk disclosures digitally as some entities may present credit risk information in narrative form and others in tabular format.

[China]

We generally believe that there are not fundamental questions about the disclosure requirements in IFRS 7 for credit risk, the combination of disclosure objectives and minimum disclosure requirements for credit risk basically achieves an appropriate balance between users of financial statements receiving comparable information and relevant information. The costs of applying these disclosure requirements and auditing and enforcing their application are not significantly greater than expected, and the benefits to users are not significantly lower than expected.

However, as identified by the IASB, there is a lack of consistency in the type and granularity of information disclosed by different entities for credit risk in practice, and the inconsistency is mainly reflected in determining significant increases in credit risk, post-model adjustments or management overlays. We suggest the IASB provide guidance and add particular illustrative examples in IFRS 7 to achieve greater consistency in the information disclosed, thus enhancing comparability.

Besides, while some entities disclose sensitivity information about expected credit losses in accordance with the requirements of paragraph 125 of IAS 1 Presentation of Financial Statements, IFRS 7 does not cross-reference such requirements of IAS 1, nor does it specify requirements for sensitivity disclosure as in IAS 36 Impairment of Assets or IFRS 13 Fair Value Measurement. We suggest the IASB add specific requirements for sensitivity disclosures

regarding expected credit losses in IFRS 7 to provide useful and consistent information to users of financial statements.

Question 10— Other matters
(a) Are there any further matters that you think the IASB should examine as part of the post-implementation review of the impairment 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 this post-implementation review and the pervasiveness of any matter raised. Please provide examples and supporting evidence. **(b) Do you have any feedback on the understandability and accessibility of the impairment requirements in IFRS 9 that the IASB could consider in developing its future IFRS Accounting Standards?**

[Australia]

No additional issues were raised by our stakeholders.

[Hong Kong]

Accounting for financial guarantee contracts (FGCs)

FGCs are widely used financial instruments in Mainland China and Hong Kong. However, we noted several application issues relating to the accounting for FGCs and recommend that the IASB provide guidance or clarification on how the relevant requirements in IFRS 9 should be applied. These issues include:

(a) From the holder's perspective: There is a potential inconsistency between IFRS 9:B5.5.55 and the discussions by the IFRS Transition Resource Group for Impairment of Financial Instruments in terms of what 'integral' means when assessing whether cash flows from FGCs are integral to the contractual terms for ECL measurement. This raises concerns on how to appropriately perform the integral assessment, particularly when the FGC is not mentioned in the contractual terms or the FGC is obtained for a revolving pool of receivables.

(b) From the issuer's perspective: IFRS 9 does not provide application guidance on how the extant requirements for subsequent measurement in IFRS 9:4.2.1(c) are applied to FGCs with premiums received over time, leading to diversity in practice. In addition, questions have also been raised as to how the two amounts recognised under IFRS 9:4.2.1(c), namely the amortisation amount determined based on IFRS 15 and the ECL

allowance, interact with each other and hence how they should be presented in the statement of profit or loss.

[Korea]

No comments.

[Malaysia]

Considering the experience in implementing IFRS 9 impairment requirements and the practical application challenges highlighted, many stakeholders believe that more application guidance that are based on real life experiences would be helpful to improve consistency in application.

[New Zealand]

Scope of the ECL requirements

Entities do not always appreciate the full scope of assets that the ECL requirements in IFRS 9 apply to – including the fact that operating lease receivables recognised under IFRS 16 *Leases* and contract assets recognised under IFRS 15 *Revenue from Contracts with Customers* are within the scope of the impairment requirements.

IFRS 9 specifically states that contract assets and lease receivables are in the scope of the ECL requirements of IFRS 9. IFRS 15 also specifically requires applying the ECL requirements of IFRS 9 to contract assets. However, in IFRS 16, the lessor accounting requirements for *operating leases* do not include a reference to the impairment requirements in IFRS 9 (while the lessor accounting requirements for finance leases includes such a reference).

Therefore, we recommend amending IFRS 16 so that the lessor accounting requirement for operating leases specifically refer to applying the impairment requirements in IFRS 9 to operating lease receivables. This way, when a lessor is reading IFRS 16 to determine how to account for operating leases, there will be a clear 'flag' directing the lessor to apply the impairment requirements of IFRS 9 to operating lease receivable.

We also recommend that the abovementioned educational material (recommended in response in Question 4 above) also includes a reminder of the scope of the ECL requirements of IFRS 9 – including:

(a) The fact that the ECL requirements apply to certain assets that are recognised under other IFRS Accounting Standards;

(b) A non-exhaustive list of examples of assets that the ECL requirements apply to, in addition to trade receivables – and this list of examples would include contract assets and operating lease receivables (as well as intercompany receivables); and

(c) An explanation of whether the simplified approach must/can be applied to the abovementioned assets, or whether the general approach must be applied.

Application of the ECL requirements to intercompany balances

We are aware of application challenges and questions on the cost/benefit balance in relation to applying the ECL requirements to intercompany loans and receivables. For intercompany loans and receivables (other than ones that are trade receivables, etc.), ECL is usually required to be determined under the 'general approach'. However, for intercompany balances, credit losses often depend on the willingness and ability of the reporting entity's parent to reimburse the entity for the intercompany debtor's defaults. There can be uncertainty in relation to the parent entity's willingness and ability to do this – which then needs to be considered in addition to uncertainties around the debtor's ability to pay. This can be challenging and can affect the usefulness of the resulting ECL amount. Furthermore, in situations where the parent company is generally willing and able to reimburse defaults by intercompany debtors, this may mean that the ECL amount is close to nil – and performing the work required as part of the general approach to ECL to substantiate that this is the case may not be commensurate with the benefits of performing this work.

So that the benefits of determining ECL for intercompany balances outweighs the cost, we recommend that the IASB consider one of the following options.

(a) Amending IFRS 9 so that it specifically allows the application of the 'simplified approach' when determining ECL for intercompany receivables and intercompany loans; or

(b) Considering whether there is a subset of intercompany receivables and/or loans to which the ECL requirements should not apply, due to cost/benefit considerations, and to develop other requirements for impairing such assets.

We also recommend that the abovementioned educational material (recommended in response in Question 4 above) include a reminder that:

(a) Intercompany receivables are in the scope of the ECL requirements of IFRS 9 if they meet the definition of a financial asset and the requirements for being classified and measured at amortised cost – which would often be the case for intercompany balances; and

(b) If the intercompany receivable is not in the nature of 'trade receivables', then the 'general approach' to ECL applies to the intercompany receivable.

Given that intercompany receivables are a relatively common financial asset among corporate entities, we also recommend including in the educational material some guidance on the

application of the ECL requirements to intercompany receivables – to assist corporate entities in this regard.

[China]

We noted that there is no guidance on how to assess whether a financial guarantee contract held is part of the contractual terms of a financial instrument in IFRS 9, and no explicit requirements on the accounting treatment of financial guarantee contracts that are not part of the contractual terms of a financial instrument in IFRS 9 or other IFRS Accounting Standards. Thus, lead to the following concerns: (i) diversity in practice arises in the judgment of whether the financial guarantee contract held is part of the contractual terms of a financial instrument; (ii) for financial guarantee contract held that are not part of the contractual terms of a financial instrument, entities generally recognise a reimbursement asset up to the amount of expected credit losses of the related financial instruments by analogy to the guidance for reimbursements in IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The accounting result may not faithfully reflect the economic substance of the transaction due to the mismatch between the recognition of reimbursement assets and the expected credit losses of the related financial instruments. In addition, diversity in practice also arises in the presentation in profit or loss and in accounting for transactions fees of financial guarantee contracts.

We suggest the IASB provide guidance on the factors to be considered in assessing whether a financial guarantee contract is part of the contractual terms of a financial instrument, and further clarify the accounting treatment of financial guarantee contracts that are not part of the contractual terms of a financial instrument, to improve consistency in practical applications.