

Amendments to the Classification and Measurement of Financial Instruments is issued by the International Accounting Standards Board (IASB).

IFRS Accounting Standards together with their accompanying documents are issued by the International Accounting Standards Board (the “Board”).

Disclaimer: To the extent permitted by applicable law, the Board and the IFRS Foundation (Foundation) expressly disclaim all liability howsoever arising from this publication or any translation thereof whether in contract, tort or otherwise (including, but not limited to, liability for any negligent act or omission) to any person in respect of any claims or losses of any nature including direct, indirect, incidental or consequential loss, punitive damages, penalties or costs.

Information contained in this publication does not constitute advice and should not be substituted for the services of an appropriately qualified professional.

Copyright © IFRS Foundation

All rights reserved. Reproduction and use rights are strictly limited. Contact the Foundation for further details at permissions@ifrs.org.

Copies of IASB publications may be obtained from the Foundation’s Publications Department. Please address publication and copyright matters to:

IFRS Foundation Publications Department
Columbus Building, 7 Westferry Circus, Canary Wharf, London, E14 4HD, United Kingdom.
Tel: +44 (0)20 7332 2730 Fax: +44 (0)20 7332 2749
Email: publications@ifrs.org Web: www.ifrs.org



The IFRS Foundation logo, the IASB logo, the IFRS for SMEs logo, the “Hexagon Device”, “IFRS Foundation”, “eIFRS”, “IAS”, “IASB”, “IFRS for SMEs”, “IASs”, “IFRS”, “IFRSs”, “International Accounting Standards” and “International Financial Reporting Standards”, “IFRIC” and “SIC” are **Trade Marks** of the IFRS Foundation.

Approval by the International Accounting Standards Board of *Amendments to the Classification and Measurement of Financial Instruments* issued in May 2024

Amendments to the Classification and Measurement of Financial Instruments was approved for issue by 13 of the 14 members of the International Accounting Standards Board. Mr Perrin dissented from the issue of the amendments. His dissenting opinion is set out after the Basis for Conclusions.

Andreas Barckow	Chair
Linda Mezon-Hutter	Vice-Chair
Nick Anderson	
Patrina Buchanan	
Tadeu Cendon	
Florian Esterer	
Zach Gast	
Hagit Keren	
Jianqiao Lu	
Bruce Mackenzie	
Bertrand Perrin	
Rika Suzuki	
Ann Tarca	
Robert Uhl	

Amendments to the Guidance on implementing IFRS 7 *Financial Instruments: Disclosures*

Paragraphs IG11A and IG11B providing guidance on implementing some of the disclosure requirements in paragraphs 11A and 11B of IFRS 7 *Financial Instruments: Disclosures* and the heading before paragraph IG11A are added. For ease of reading, new text is not underlined.

Significance of financial instruments for financial position and performance (paragraphs 7–30, B4 and B5)

...

Investments in equity instruments designated at fair value through other comprehensive income (paragraphs 11A and 11B)

IG11A The guidance in this paragraph and paragraph IG11B illustrates one possible way in which an entity could provide some of the disclosures required by paragraphs 11A and 11B of IFRS 7. The guidance does not purport to illustrate all possible ways of applying those disclosure requirements.

Background

Having met the requirements in paragraph 5.7.5 of IFRS 9 *Financial Instruments*, Entity A has elected to present subsequent changes in the fair value of its investments in equity instruments in other comprehensive income. In accordance with its accounting policies, Entity A transfers accumulated gains or losses from other comprehensive income to retained earnings only when an investment is derecognised. Entity A has a reporting year end of 31 December.

As at 1 January 20X1 Entity A's equity investments had an aggregate carrying amount of CU800,000, and the cumulative changes in fair value of these investments recognised in accumulated other comprehensive income as at that date were CU200,000. There were no disposals from this portfolio before 1 January 20X1.

On 31 July 20X1 Entity A acquired a non-controlling interest in Entity Y, a non-listed entity, for CU155,000.

On 30 June 20X1 Entity A received CU1,000 of dividend income from Entity X. On 30 September 20X1 Entity A disposed of its investment in Entity X for CU200,000, resulting in a cumulative gain of CU50,000.

Entity A's remaining investments had an aggregate fair value of CU820,000, as at 31 December 20X1. Entity A received total dividend income of CU5,000 from these remaining investments in 20X1.

The total change in fair value of Entity A's equity investments during the period was CU65,000, including CU20,000 relating to its investment in Entity X.

IG11B Entity A provides this information in the notes to its financial statements for the year ending 31 December 20X1 (for simplicity, comparative information is not shown):

Reference	Information provided in the notes to Entity A's financial statements
Paragraphs 11A(a), 11A(b) and 11B(d) of IFRS 7 and paragraphs 5.7.5 and B5.7.1 of IFRS 9	The following table shows the Company's equity investments in non-listed entities in Europe, the Middle East and Africa (EMEA). The Company holds these investments for strategic purposes on a medium- to long-term basis; the Company typically holds less than 5% interest in each entity and does not have a controlling interest in these entities. The investments are not held for trading. The Company has elected to present

Reference	Information provided in the notes to Entity A's financial statements
	subsequent changes in the fair value of these investments in other comprehensive income. Accumulated gains or losses are transferred to retained earnings only when an investment is disposed of.
	On 31 July 20X1 the Company acquired a non-controlling interest (less than a 5% equity investment) in Entity Y, a non-listed entity.
Paragraph 11B(a) of IFRS 7	On 30 September 20X1 the Company disposed of its investment in Entity X because holding this investment is no longer aligned with the Company's investment strategy.

Reference	Equity instruments designated at fair value through other comprehensive income		
		Carrying amount	Other comprehensive income
		CU '000 ^(a)	CU '000 ^(b)
	<i>Investments in EMEA</i>		
	1 January 20X1	800	200
	Investments acquired	155	—
	Fair value gains:		
¹ Paragraph 11A(f) of IFRS 7	Investments held as at year end	45 ¹	45
² Paragraph 11A(f) of IFRS 7	Investments disposed of	20 ²	20
³ Paragraph 11B(b) of IFRS 7	Investments disposed of	(200) ³	—
⁴ Paragraph 11B(d) of IFRS 7	Transfers within equity following disposal	—	(50) ⁴
⁵ Paragraph 11A(c) of IFRS 7	31 December 20X1	820⁵	215
Paragraphs 11B(c) and 11B(d) of IFRS 7	The Company transferred a cumulative gain of CU50,000, relating to the disposal of its investment in Entity X, from other comprehensive income to retained earnings during the year.		
Paragraph 11A(d) of IFRS 7	The Company received CU6,000 dividend income from its equity investments during the year, including CU1,000 that was received from Entity X.		

(a) Entity A cross-refers from this column to the note in which the information required by paragraph 93 of IFRS 13 *Fair Value Measurement* is disclosed.

(b) Entity A cross-refers from this column to the statement of changes in other comprehensive income and the statement of changes in equity.

Amendments to the Basis for Conclusions on IFRS 9 *Financial Instruments*

Paragraphs BC3.37–BC3.63, BC4.254–BC4.303 and BC7.100–BC7.103 are added. Headings are added before paragraphs BC3.37, BC4.254 and BC7.100. For ease of reading, new text is not underlined.

Recognition and derecognition (Chapter 3)

...

Amendments to the Classification and Measurement of Financial Instruments (May 2024)

Background

- BC3.37 The IFRS Interpretations Committee (Committee) received a request about the date on which the right to receive cash (or another financial asset) is extinguished for a payment received via electronic transfer as settlement for a financial asset.
- BC3.38 The Committee concluded that an entity, applying paragraphs 3.2.3(a) and 3.1.1 of IFRS 9, is required:
- (a) to derecognise a trade receivable on the date on which its contractual rights to the cash flows from the trade receivable expire; and
 - (b) to recognise the cash (or other financial asset) received as settlement for that trade receivable on the same date.
- BC3.39 Feedback on the Committee’s work did not disagree with its technical analysis and conclusions. However, many stakeholders were concerned about the potential operational outcome of applying that accounting within a short time frame, especially with regard to financial liabilities.
- BC3.40 The IASB decided to undertake narrow-scope standard-setting to respond to stakeholders’ concerns. The IASB considered, but rejected, an amendment to IFRS 9 to clarify *when* the contractual rights to the cash flows from a financial asset expire (paragraph 3.2.3(a) of IFRS 9) or *when* a financial liability is extinguished (paragraph 3.3.1 of IFRS 9). The IASB observed that the post-implementation review of the classification and measurement requirements in IFRS 9 provided no evidence of fundamental questions about the clarity and suitability of the objectives or principles of the derecognition requirements in IFRS 9. The IASB concluded that such an approach would require a fundamental reconsideration of those requirements, including reconsideration of the recognition requirements for financial assets and financial liabilities.
- BC3.41 Therefore, to facilitate a consistent approach with regard to the application of the requirements in IFRS 9, the IASB decided:
- (a) to clarify on which date an entity is required to recognise or derecognise financial assets or financial liabilities unless paragraph 3.1.2 of IFRS 9 applies (see paragraphs BC3.44–BC3.45); and
 - (b) to develop new requirements to permit an entity to derecognise, before the settlement date, a financial liability that will be settled in cash using an electronic payment system (see paragraphs BC3.46–BC3.63).
- BC3.42 The IASB acknowledges that such narrow-scope amendments to IFRS 9 will not resolve all the concerns that stakeholders had raised, nor will it reduce the costs of applying the derecognition requirements in IFRS 9 to all financial liabilities—because the new requirements will apply only in specified circumstances. However, the IASB is of the view that these amendments will improve the consistent application of the derecognition requirements, address operational concerns and limit the risk of unintended consequences.
- BC3.43 In developing the amendments, the IASB considered feedback on its proposals published as part of the Exposure Draft *Amendments to the Classification and Measurement of Financial Instruments* issued in March 2023 (the 2023 Exposure Draft).

Date of initial recognition or derecognition

- BC3.44 The IASB decided to clarify the date of initial recognition or derecognition of financial assets and financial liabilities with reference to the relevant paragraphs in IFRS 9. The IASB noted that for financial assets and financial liabilities, ‘settlement date’ typically refers to the date on which the contractual right to receive, or the contractual obligation to pay, cash (or another financial asset) is established or extinguished. However, to avoid the risk of unintended consequences for the initial recognition and derecognition of financial assets, the IASB decided to refer to ‘settlement date’ only in the context of the derecognition of financial liabilities.
- BC3.45 The IASB considered referring to settlement date accounting (as described in paragraph B3.1.6 of IFRS 9) instead of the settlement date. However, paragraph B3.1.6 and the reference to settlement date accounting apply only in the context of a purchase or sale of a financial asset in a regular way transaction. The IASB therefore concluded that referring to settlement date accounting in the context of all financial assets and financial liabilities would create the risk of confusion and possible unintended consequences.

Derecognition of financial liabilities

Criteria for derecognising a financial liability before the settlement date

- BC3.46 The IASB decided to permit an entity to deem a financial liability (or part of it)—that will be settled in cash using an electronic payment system—to be discharged before the settlement date if, and only if, the entity has initiated a payment instruction that has resulted in:
- (a) the entity having no practical ability to withdraw, stop or cancel the payment instruction (see paragraphs BC3.47–BC3.48);
 - (b) the entity having no practical ability to access the cash to be used for settlement as a result of the payment instruction (see paragraphs BC3.49–BC3.51); and
 - (c) the settlement risk associated with the electronic payment system being insignificant (see paragraphs BC3.52–BC3.54).

No practical ability to withdraw, stop or cancel the payment instruction

- BC3.47 An entity typically initiates cash payments to settle financial liabilities by issuing payment instructions to its bank(s) through a wide range of payment systems or platforms. Depending on the nature of the payment system, the entity might be able to withdraw or cancel the payment instruction before the cash has been transferred to a creditor, even though the entity is committed to settling a liability. The IASB decided that, if an entity has the ability to withdraw, stop or cancel a payment instruction, the entity could not be considered to have discharged the liability, as required by paragraph B3.3.1(a) of IFRS 9.
- BC3.48 However, the IASB acknowledged stakeholders’ concerns that electronic payment systems often include protective rights that, in extreme circumstances, would allow the entity to withdraw, stop or cancel a payment instruction (for example, to prevent fraudulent transactions from being processed). If an entity were required to have no ability to withdraw, stop or cancel the payment instruction, few electronic payment systems would meet the criterion in paragraph B3.3.8(a) of IFRS 9. So that electronic payments would be able to meet the criterion in paragraph B3.3.8(a) of IFRS 9, the IASB decided to require an entity to have no *practical* ability to withdraw, stop or cancel the payment instruction.

No practical ability to access the cash used for settlement

- BC3.49 In the IASB’s view, it would be inappropriate for an entity to deem a financial liability to be discharged if the entity could still access or direct the use of the cash to be used to settle the liability. If, in those circumstances, an entity has the practical ability to access the cash for a purpose other than settling the financial liability, it cannot be considered that the entity has delivered the cash or that the entity has discharged the liability by paying with cash (as required by paragraph B3.3.1(a) of IFRS 9).
- BC3.50 Some respondents to the 2023 Exposure Draft asked for further guidance on the meaning of ‘cash’ and whether this would include payments made using an overdraft. The IASB noted that ‘cash’, as it is used in paragraph B3.3.8 of IFRS 9, has the same meaning as used throughout IFRS 9 and IAS 32. The IASB therefore decided not to add further explanation about ‘cash’.
- BC3.51 The IASB also considered whether it was necessary to specifically address payment instructions prepared in advance of a future payment. The IASB noted that, at the date of an advance payment instruction, such instruction would most likely not meet the requirements for the financial liability to be deemed to be

discharged. Such instructions can usually still be withdrawn, cancelled or amended; and the entity retains the practical ability to access the cash. The requirements in paragraph B3.3.8 of IFRS 9 would be met only at a later date, at which time an entity could apply the paragraph. Therefore, the IASB concluded that no further refinement to, or explanation of, the criterion in paragraph B3.3.8(b) was necessary.

Settlement risk associated with the electronic payment system is insignificant

- BC3.52 ‘Settlement risk’ generally refers to the risk that a transaction will not be settled (or completed) and therefore that a debtor will not deliver cash to a creditor on the settlement date. For the purposes of the requirements in paragraph B3.3.1 of IFRS 9, when a financial liability has been discharged by paying cash to a creditor, the creditor is no longer exposed to any settlement risk associated with the transaction.
- BC3.53 The IASB is of the view that, for an entity to deem a financial liability to be discharged before the settlement date, the risk of settlement not occurring must be insignificant. Paragraph B3.3.9 of IFRS 9 states that settlement risk is insignificant if the characteristics of an electronic payment system are such that ‘completion of the payment instruction follows a standard administrative process and the time between the criteria in paragraphs B3.3.8(a) and (b) being met and the cash being delivered to the counterparty is short’. The longer the completion time for a specific payment system, the higher the settlement risk because the payment may not be completed due to, for example, a default of the debtor.
- BC3.54 The IASB decided not to add further explanation of ‘standard administrative process’ or a ‘short’ time. Doing so might involve setting an arbitrary threshold with regard to the number of days, which might not appropriately take into account the characteristics of some electronic payment systems.

Scope of the election in paragraph B3.3.8

Limited to electronic payment systems

- BC3.55 Electronic payment systems establish a controlled environment for cash transfers so that the risk of the cash not being delivered to the creditor is minimal (or de minimis). This is because these electronic payment systems follow a standard administrative process to complete transactions. For other payment methods, such as cheques, completion of the payment remains subject to settlement risk that is more than insignificant until the cash is delivered (that is, transferred from the payer’s account). Consequently, the IASB decided not to expand the scope of the requirements beyond electronic payment systems.
- BC3.56 The IASB also decided that, when elected, an entity would apply the exception to all settlements made through the same electronic system. The IASB acknowledged the concerns raised by some respondents to the 2023 Exposure Draft that permitting the proposed election to be applied on a system-by-system basis could be used to manipulate the payment date when settling financial liabilities. However, the IASB disagreed with this view. The election in paragraph B3.3.8 of IFRS 9 is an exception to the derecognition requirements that is intended to provide a practical approach in very specific circumstances. The IASB was therefore of the view that the requirements in paragraph B3.3.9 of IFRS 9 would ensure consistency in application but without being too restrictive as might have been the case if the IASB had required application on an ‘all-or-nothing’ basis to all electronic payment systems.

Limited to financial liabilities

- BC3.57 Some respondents to the 2023 Exposure Draft said an exception—similar to that in paragraph B3.3.8 of IFRS 9—is needed for the derecognition of financial assets. These respondents said that not permitting the derecognition of a trade receivable before the settlement date would require a change in industry practice, particularly when considering payment methods such as cheques and credit card receivables. They also said that not doing so would lead to inconsistencies in accounting for intercompany balances.
- BC3.58 The IASB decided not to extend the exception in paragraph B3.3.8 of IFRS 9 to financial assets. For financial assets, there is no equivalent notion of having ‘no practical ability to withdraw, stop or cancel the payment instruction’. Similarly, derecognition of a financial asset cannot be based on requiring an entity to know when the counterparty has no practical ability to withdraw a payment instruction. Derecognition of a financial asset is based on the expiry of the right to receive cash (or another financial asset) and not the rights or obligations of the counterparty.
- BC3.59 The IASB also noted that when a debtor initiates a payment instruction through an electronic payment system (and the debtor has no practical ability to withdraw the instruction as required in paragraph B3.3.8(a)), the debtor loses the practical ability to access (that is, use) the cash during the time before the cash is delivered. However, when a creditor has received notification that a debtor has submitted a payment instruction, the creditor has no practical ability to access the cash; that happens only when the cash is

delivered to the creditor's account. Therefore, a debtor meeting the criterion in paragraph B3.3.8(b) does not justify the derecognition of a financial asset by the creditor before the settlement date.

- BC3.60 In the absence of having access to the cash, a confirmation from a debtor that a payment instruction has been initiated does not lead to the expiry of the right to receive cash. It is only when the cash is received that such a right expires.

Other considerations

Corresponding credit entry

- BC3.61 The IASB considered specifying that, when a financial liability is derecognised before the settlement date, the corresponding cash amount is also derecognised at the same time. The IASB noted that derecognising the corresponding cash amount when the criteria in paragraph B3.3.8 of IFRS 9 are met is consistent with the IASB's intention in developing the criteria, which are met only when an entity concludes that it has no practical ability to access the cash to be used for settlement. By deeming the liability to be discharged, an entity also deems its right to the cash used to discharge the liability to be expired once it loses the practical ability to access that cash. The IASB decided that it was unnecessary to add requirements specifically on the derecognition of cash because IFRS 9 already includes sufficient requirements in this respect and any additional requirements could raise new questions.

Disclosure requirements for an entity that does not apply paragraph B3.3.8

- BC3.62 A few respondents to the 2023 Exposure Draft were concerned that users of financial statements could be misled about the amount of cash held by an entity at the reporting date if an entity initiated payment instructions before the reporting date but did not elect to apply the requirements in paragraph B3.3.8 of IFRS 9. In such a case, the entity could show a large cash balance at the reporting date that could be depleted shortly after the reporting date, when the payment instructions were completed.
- BC3.63 The IASB noted that paragraph 48 of IAS 7 requires disclosure of significant cash balances held by an entity that are not available for use by the group to help users of financial statements to understand the status of cash balances at that date. Other requirements in IFRS 7 and IFRS 18 *Presentation and Disclosure in Financial Statements* also require an entity to disclose information necessary for users of financial statements to understand the nature, amount and timing of future cash flows. Therefore, the IASB decided not to add disclosure requirements.

Classification (Chapter 4)

...

Amendments to the Classification and Measurement of Financial Instruments (May 2024)

Background

- BC4.254 The IASB concluded its post-implementation review of the classification and measurement requirements in IFRS 9 and of the related requirements in IFRS 7 (Classification and Measurement PIR) in December 2022.
- BC4.255 Participants in the Classification and Measurement PIR noted the challenges of assessing the contractual cash flows of financial assets with features linked to the achievement of environmental, social and governance (ESG) targets. The IASB decided that standard-setting was required to address participants' concerns about potential diversity in practice developing, because the matter was pervasive and could have substantial consequences. The IASB decided it would be inappropriate to create an exception to the requirements in IFRS 9 for such financial assets, because their classification should be determined on the same basis as any other financial asset. The IASB agreed with participants that amortised cost provides useful information to users of financial statements about the amount, timing and uncertainty of future cash flows on some financial assets with ESG-linked features.
- BC4.256 The IASB decided to clarify how to apply the requirements in the Application Guidance to Section 4.1 of IFRS 9 to all financial assets, including those with ESG-linked features, by amending the requirements relating to:

- (a) the elements of interest that are consistent with a basic lending arrangement (see paragraphs BC4.259–BC4.262); and
- (b) contractual terms that change the timing or amount of contractual cash flows (see paragraphs BC4.263–BC4.278).

BC4.257 Participants in the Classification and Measurement PIR also raised questions about assessing the contractual cash flow characteristics of other types of financial assets. In response to these questions, the IASB made clarifying amendments to the requirements relating to:

- (a) financial assets with non-recourse features (see paragraphs BC4.279–BC4.286); and
- (b) contractually linked instruments (see paragraphs BC4.287–BC4.303).

BC4.258 In developing these amendments, the IASB considered feedback on its proposals published as part of the Exposure Draft *Amendments to the Classification and Measurement of Financial Instruments* issued in March 2023 (the 2023 Exposure Draft).

Elements of interest in a basic lending arrangement

BC4.259 Paragraph B4.1.7A of IFRS 9 states that contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are consistent with a basic lending arrangement. That paragraph also outlines some typical elements of interest that are consistent with a basic lending arrangement, namely, consideration for the time value of money; credit risk; other basic lending risks, such as liquidity risk; costs associated with holding the financial asset; and a profit margin.

BC4.260 In analysing the feedback on the Classification and Measurement PIR, including uncertainty about the term ‘basic lending arrangement’, the IASB reconfirmed that:

- (a) the elements of interest specified in paragraph B4.1.7A of IFRS 9 do not constitute an exhaustive list of the elements that are consistent with a basic lending arrangement;
- (b) the specified elements do not provide a ‘safe haven’—even if something is labelled ‘credit risk’ or ‘profit margin’, further analysis may be required;
- (c) an entity is not necessarily required to carry out a quantitative analysis of the different elements of interest to determine whether contractual cash flows are consistent with a basic lending arrangement; and
- (d) contractual terms are not necessarily consistent with a basic lending arrangement simply because they are common in the market in which an entity operates.

BC4.261 Having considered the feedback on the Classification and Measurement PIR, the IASB decided to amend IFRS 9 to clarify how an entity is required to assess interest for the purposes of applying paragraph B4.1.7A of IFRS 9. The IASB confirmed the principle explained in paragraph BC4.182(b)—that the assessment of interest focuses on what the entity is being compensated for rather than how much the entity receives for a particular element. The IASB nonetheless noted that the amount of consideration might be an indication that the entity is being compensated for something other than basic lending risks and costs. The IASB decided it would be helpful to incorporate these principles into paragraph B4.1.8A of IFRS 9.

BC4.262 The IASB concluded that it would not be possible to prescribe an exhaustive list of elements of interest that would be consistent with a basic lending arrangement. Instead, the IASB clarified in paragraph B4.1.8A of IFRS 9 that the term ‘basic lending arrangement’ is used in IFRS 9 to refer to the nature of a lending arrangement, rather than to an arrangement that is common or widespread in a particular market or jurisdiction. Contractual cash flows are inconsistent with a basic lending arrangement if they are indexed to a variable that is not a basic lending risk or cost (in other words, if the movement in contractual cash flows tracks the movement in a variable such as an equity or commodity price). This would be the case regardless of whether loans in a particular market commonly have contractual terms that are indexed to such variables.

Contractual terms that change the timing or amount of contractual cash flows

BC4.263 Paragraph B4.1.10 of IFRS 9 acknowledges that some financial assets contain contractual terms that could change the timing or amount of contractual cash flows during the life of those assets and requires an entity to determine whether the cash flows that could arise are solely payments of principal and interest on the principal amount outstanding.

BC4.264 Participants in the Classification and Measurement PIR asked the IASB for more guidance on applying the principles in paragraph B4.1.10 of IFRS 9 to contingent events that were not currently covered by the examples in that paragraph. Feedback suggested that entities might infer from one of the examples—related to a change in the debtor’s credit risk—that, for cash flows to be solely payments of principal and interest

on the principal amount outstanding, the nature of any contingent event must be associated with one of the elements of interest specified in paragraph B4.1.7A of IFRS 9.

BC4.265 The IASB decided that it would be helpful to clarify in paragraphs B4.1.10–B4.1.10A of IFRS 9 the interrelated principles for assessing the contractual cash flows over the life of a financial asset, in particular that:

- (a) all possible changes in contractual cash flows are considered irrespective of the probability of a contingent event occurring (see paragraphs BC4.267–BC4.268); and
- (b) if the nature of a contingent event does not relate directly to changes in basic lending risks and costs, an entity shall further assess the effect of the contingent feature on the contractual cash flows (see paragraphs BC4.269–BC4.278).

BC4.266 The IASB also added examples to paragraphs B4.1.13 and B4.1.14 of IFRS 9 to illustrate these principles.

All possible changes in contractual cash flows specified in the contract

BC4.267 When developing IFRS 9, the IASB considered feedback suggesting that a contingent feature should not affect the classification of a financial asset if the likelihood were remote that the future event would occur. The IASB rejected this approach, concluding that, even if the probability of a contingent event occurring is low, an entity must consider all contractual cash flows that could arise over the life of the instrument unless the contingent feature is not genuine (see paragraphs BC4.186 and BC4.189).

BC4.268 The IASB therefore confirmed that the contractual cash flow assessment is based on all contractual cash flows that could arise over the life of the financial instrument—it is not a probability-based assessment. In other words, an entity is required to consider the effect on contractual cash flows of any contingent event specified in the contract, however likely or unlikely the event is to occur (unless the contractual terms are not genuine, as described in paragraph B4.1.18 of IFRS 9).

Contingent features that do not relate directly to changes in basic lending risks and costs

BC4.269 Paragraph B4.1.10 of IFRS 9 states that, although the nature of the contingent event in itself is not a determinative factor in assessing whether the contractual cash flows are solely payments of principal and interest, it may be an indicator that they are. The example in paragraph B4.1.10 indicates that it is more likely for a financial asset with a contingent event linked to credit risk (and, by extension, other basic lending risks and costs) to have cash flows that are solely payments of principal and interest than for a financial asset with a contingent event linked to a specified equity index (and, by extension, other factors that do not relate directly to basic lending risks and costs). However, paragraph B4.1.10 does not state in which circumstances, if any, the latter instrument may nonetheless have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

BC4.270 The IASB therefore decided to develop additional requirements in paragraph B4.1.10A of IFRS 9 for cases when, having applied the requirements in paragraphs B4.1.7–B4.1.26 of IFRS 9, the entity cannot conclude that the contractual cash flows of a financial asset are solely payments of principal and interest on the principal amount outstanding only because the nature of the contingent event itself does not relate directly to changes in basic lending risks and costs. This would be the case, for example, if the interest rate on a loan would change by a specified amount if the entity achieves a contractually specified reduction in carbon emissions. Paragraph B4.1.10A would not apply if any contingent event, or combination of contingent events, irrespective of the nature of these events, were to give rise to contractual cash flows that are inconsistent with a basic lending arrangement. For example, paragraph B4.1.10A would not apply if the amount of the change in contractual cash flows were indexed to a variable that was not a basic lending risk or cost (see paragraph B4.1.8A of IFRS 9).

BC4.271 In deciding what additional assessment to require in the circumstances described in paragraph BC4.270, the IASB identified requirements in IFRS 9 to perform a quantitative or qualitative assessment of the effect of a contractual feature that might be inconsistent with changes in basic lending risks and costs, including requirements in paragraphs B4.1.9B–B4.1.9D, B4.1.9E and B4.1.12 of IFRS 9. The purpose of such an assessment is to determine whether, despite the contractual feature, amortised cost would still provide users of financial statements with useful information.

BC4.272 The IASB decided to develop a requirement similar to the assessment required if the time value of money element were modified (as specified in paragraphs B4.1.9B–B4.1.9D of IFRS 9). The purpose of this assessment is to determine how different the contractual cash flows would be from the cash flows on a financial instrument with identical contractual terms but without the contingent feature. In other words, the purpose is to assess the effect the contingent feature could have on the contractual cash flows. If, in all

contractually specified scenarios, the cash flows would not differ significantly from this benchmark instrument and there were no other indicators that the contractual terms of the asset were inconsistent with a basic lending arrangement, the financial asset would have cash flows that are solely payments of principal and interest on the principal amount outstanding.

- BC4.273 The IASB decided that, for the purposes of paragraph B4.1.10A of IFRS 9, an entity is required to consider all scenarios in which the contractual cash flows could possibly change on the occurrence (or non-occurrence) of a contingent event, regardless of the probability of the event. In other words, the entity is required to consider all possible combinations of contingent events occurring because all these possible scenarios are contractually specified (see paragraph BC4.267). In contrast, paragraph B4.1.9D of IFRS 9 requires an entity to consider only reasonably possible scenarios, because the scenarios are based on possible movements in different market interest rates, rather than different contractually specified scenarios.
- BC4.274 The IASB further decided to clarify that, similar to the requirements in paragraph B4.1.9B of IFRS 9, entities may, in some cases, be able to perform a qualitative assessment to determine whether the contractual cash flows in question could be significantly different. For example, considering the specific characteristics of the economic environment (such as the level of interest rates)—an entity might determine a range of adjustments to contractual cash flows that would result in cash flows that are not significantly different from the cash flows of an identical financial instrument without the contingent feature. If the adjustments to contractual cash flows fall within this range, an entity might be able to conclude that the requirement in paragraph B4.1.10A of IFRS 9 is met without performing a detailed quantitative assessment.
- BC4.275 The IASB considered whether the assessment in B4.1.10A of IFRS 9 should be based on cash flows that are ‘not significantly different’ or ‘not more than insignificantly different’. The IASB noted feedback on the modified time value of money element that ‘more than insignificant’ could be unduly restrictive (see paragraph BC4.177(c)). Consistent with the assessment of interest focusing on what an entity is being compensated for, rather than how much compensation it receives (see paragraph B4.1.8A of IFRS 9), the IASB decided that a threshold of ‘not more than insignificantly different’ would again unduly emphasise ‘how much’ compensation an entity receives.
- BC4.276 The IASB also decided, consistent with other requirements in IFRS 9, that it would be sufficient to require an assessment of whether contractual cash flows are ‘significantly different’ without specifying a more precise quantitative threshold. An entity would use its judgement to determine what ‘significantly different’ means in this context.

Other considerations

- BC4.277 When developing the requirements discussed in paragraphs BC4.259–BC4.276, the IASB considered requiring an entity to assess whether a contingent event is specific to the debtor. However, based on feedback on the 2023 Exposure Draft, the IASB decided against this approach because:
- (a) assessing whether the occurrence (or non-occurrence) of the contingent event is specific to the debtor is not necessarily consistent with the concept of basic lending risks and costs as discussed in paragraph B4.1.7A;
 - (b) taking this approach could have had unintended consequences for the assessment of contractual terms that are widely considered to be consistent with a basic lending arrangement (for example, so-called ‘increased cost clauses’); and
 - (c) taking this approach might have precluded amortised cost accounting for any financial asset with ESG-linked targets set at a group level or for a group entity other than the debtor, regardless of the significance of the effect of the contingent feature on the contractual cash flows of the financial asset.
- BC4.278 The IASB also considered requiring an entity to assess whether the fair value of the contingent feature is insignificant at initial recognition, similar to the requirement in paragraph B4.1.12(c) of IFRS 9. However, the IASB decided against such a requirement because the fair value of a contingent feature at initial recognition would not necessarily be a good representation of possible changes to contractual cash flows over the life of the instrument. For example, the fair value could be insignificant at initial recognition because the probability of the event occurring is low or because of offsetting adjustments.

Financial assets with non-recourse features

- BC4.279 Participants in the Classification and Measurement PIR asked the IASB to clarify the meaning of the term ‘non-recourse’ as it is used in paragraph B4.1.16 of IFRS 9; in particular, the difference between financial assets with non-recourse features and financial assets for which a creditor’s claim is secured by assets pledged as collateral. Participants also observed that, for the purposes of assessing both financial assets with

non-recourse features (paragraph B4.1.17 of IFRS 9) and contractually linked instruments (paragraph B4.1.22 of IFRS 9), an entity is required to ‘look through to’ particular underlying assets or the underlying pool of financial instruments. The PIR participants sought greater clarity about the purpose of the ‘look through’ assessment in these situations.

- BC4.280 ‘Non-recourse features’ refers to the absence of liability on the part of a debtor beyond specified assets. In contrast, in the case of a collateralised loan, a creditor’s claim is secured by the collateral only in the case of default. Throughout the life of such a collateralised loan, the creditor has recourse to the debtor for repayment of the loan.
- BC4.281 The IASB observed that, in some cases, non-recourse features might be established through a combination of contracts. For example, a loan is made to a structured entity with specified assets and the creditor has no recourse to the entity that has transferred the assets to the structured entity. In such a situation, the creditor’s main exposure could be to the performance risk of the specified assets, as opposed to basic lending risks, such as credit risk.
- BC4.282 In other situations, although a creditor’s claim is limited to the value of the assets pledged as collateral, the creditor could require the debtor to pledge additional assets. For example, a creditor might have a contractual right to require a debtor to ‘top-up’ the pledged assets if specified assets do not generate sufficient cash flows or when their value decreases below a specified threshold. In those situations, the creditor has recourse to the debtor to secure its contractual right to the cash flows from the financial asset and the financial asset does not have non-recourse features.
- BC4.283 To assist entities in determining whether a financial asset has ‘non-recourse features’, the IASB decided to clarify the description of such an asset. For a financial asset to have such features, the creditor’s ultimate right to receive cash flows is contractually limited to the cash flows generated by specified assets.
- BC4.284 The IASB also decided to clarify the purpose of the ‘look through’ assessment required by paragraph B4.1.17 of IFRS 9 for financial assets with non-recourse features to enable an entity to understand the link between the underlying assets and the contractual cash flows of the financial asset being classified. The effect of the underlying assets on those contractual cash flows could be mediated by other financial instruments issued by the debtor, such as subordinated debt or equity instruments which are expected to absorb any shortfalls in cash flows generated by the underlying assets.
- BC4.285 The IASB considered specifying that an entity’s contractual right to receive cash flows is limited to the cash flows generated by specified assets ‘both over the life of the financial asset and in the case of default’. However, some respondents to the 2023 Exposure Draft were concerned that the proposed description of non-recourse features was narrower than the common interpretation of this term in practice. During its redeliberation, the IASB confirmed that its intention was not to use ‘non-recourse features’ in a narrower sense than the meaning of the phrase as it was used in the initial development of IFRS 9. The IASB therefore decided not to specify that the limit has to apply ‘both over the life of the financial asset and in the case of default’.
- BC4.286 In response to some respondents’ questions about whether a financial asset only has non-recourse features if such features are explicit in the contractual terms, as opposed to being structurally implied (for example, when an entity purchases a financial asset that is credit-impaired on initial recognition), the IASB reiterated that there has to be a contractual, rather than a purely economic, limitation on the creditor’s rights to receive contractual cash flows. This limitation can be established through a combination of contracts, such as in the case of a loan to a structured entity.

Investments in contractually linked instruments

- BC4.287 Participants in the Classification and Measurement PIR asked the IASB to clarify the scope of the requirements in paragraphs B4.1.20–B4.1.26 of IFRS 9. They noted that there are diverse interpretations of some of the terms used in the Standard to describe the types of instruments to which those requirements are applied. They said that, for some types of financial assets, it is unclear whether an entity should apply the requirements for contractually linked instruments or the requirements for financial assets with non-recourse features. In their view, applying the requirements for contractually linked instruments instead of the requirements for financial assets with non-recourse features (or vice versa) could result in different accounting outcomes.
- BC4.288 Participants also asked whether financial instruments that are not entirely within the scope of IFRS 9 could meet the criteria for financial instruments in the underlying pool, as set out in paragraph B4.1.23 of IFRS 9.

Scope

- BC4.289 The IASB decided to clarify the description in paragraph B4.1.20 of IFRS 9 of the characteristics of contractually linked instruments that distinguish them from other transactions. The clarifying amendments include the addition of a description of transactions that are not contractually linked instruments.
- BC4.290 The IASB noted that the phrase ‘contractually linked’ refers to a transaction for which the relationship between, and the rights and obligations associated with, the different tranches—including the order in which cash flows are allocated—are specified in the contractual terms of the instruments being classified. Although it is common for transactions involving such instruments to have three or more tranches, the IASB did not intend paragraphs B4.1.20–B4.1.26 of IFRS 9 to be understood as applying only to transactions with three or more tranches.
- BC4.291 Paragraph BC4.26 refers to a ‘waterfall’ structure that prioritises payments to the holders of the different tranches. The IASB concluded that it would be useful to include this wording from paragraph BC4.26 in the description of contractually linked instruments in paragraph B4.1.20 of IFRS 9 to explain how concentrations of credit risk are created.
- BC4.292 The IASB further decided to clarify that, in a transaction that uses contractually linked instruments, the holders of the different tranches have recourse only to the cash flows from the underlying pool of financial instruments. Such transactions therefore have non-recourse features.
- BC4.293 However, not all financial assets with non-recourse features are contractually linked instruments. An important factor that distinguishes contractually linked instruments from financial assets with non-recourse features is the disproportionate allocation of cash shortfalls from the underlying pool between the holders of the tranches. For example, if the holders of multiple debt instruments have recourse only to the issuer’s underlying assets, the instruments have non-recourse features and the holders share proportionately in the losses of those underlying assets. Thus, there are no concentrations of credit risk, as specified in paragraph B4.1.20 of IFRS 9 for contractually linked instruments. The IASB therefore decided to clarify that the description of contractually linked instruments includes the disproportionate allocation of cash shortfalls from the underlying pool between the holders of the different tranches.
- BC4.294 Many respondents to the 2023 Exposure Draft said that it would be helpful to explain that contractually linked instruments have non-recourse features. However, these respondents asked for clarification about whether, in addition to applying paragraphs B4.1.20–B4.1.26 of IFRS 9, an entity is also required to apply paragraph B4.1.17 of IFRS 9 in its accounting for contractually linked instruments. The IASB decided to clarify that contractually linked instruments are required to be assessed only in accordance with paragraphs B4.1.20–B4.1.26; paragraph B4.1.17 does not apply to such instruments.
- BC4.295 The IASB considered whether the requirements for contractually linked instruments apply to lending arrangements in which a creditor agrees to make a loan to a customer subject to specified assets being transferred into a structured entity as security for the loan. In such an arrangement, the customer—as the sponsoring entity of the structured entity—would typically provide a portion of the funding the structured entity uses to acquire the specified assets. This could be in the form of either an equity investment or a debt instrument that is subordinated to the debt instrument held by the creditor.
- BC4.296 The IASB noted that the type of lending transaction described in paragraph BC4.295 is different in nature from a transaction in which contractually linked instruments are issued to the holders of the tranches, as described in paragraph B4.1.20 of IFRS 9. In such a lending transaction, the contract is generally negotiated between the creditor and the customer by means of a structured entity. Thus, the IASB decided to clarify that such a transaction does not contain contractually linked instruments although the transaction seemingly has the characteristics of contractually linked instruments.
- BC4.297 The IASB also considered that some respondents were concerned about potential structuring opportunities to avoid the application of the requirements in paragraphs B4.1.20–B4.1.26 of IFRS 9. These respondents said that, in this type of lending transaction, the sponsoring entity should not be permitted to sell the junior debt instrument to a third party subsequent to initial recognition.
- BC4.298 The IASB noted that these types of lending transactions would normally contain contractual conditions to prevent the sponsoring entity from selling the junior debt instrument to a third party without the approval of the holder of the senior debt instrument. Such conditions exist because the purpose of the junior debt instrument is to provide credit protection to the senior debt holder. The IASB decided to clarify that, in the kind of transaction described in paragraph B4.1.20A of IFRS 9, the sponsoring entity has no practical ability to sell the junior debt instrument without the senior debt instrument becoming payable.
- BC4.299 The IASB also acknowledged that, in practice, the senior debt instrument could be syndicated between multiple creditors. This structure also contains no contractually linked instruments because there are no waterfall payment structures among holders, creating a concentration of credit risk. Thus, the IASB decided

to clarify that there could be a group of creditors with no prioritisation of payment in these types of lending arrangements.

Underlying pool of financial instruments

- BC4.300 Paragraph B4.1.21(b) of IFRS 9 states that a tranche has cash flow characteristics that are solely payments of principal and interest on the principal amount outstanding only if the underlying pool of financial instruments has the cash flow characteristics set out in paragraphs B4.1.23 and B4.1.24 of IFRS 9. Participants in the Classification and Measurement PIR asked whether financial instruments that are not entirely within the scope of IFRS 9, such as lease receivables, could meet the criteria for the underlying pool of instruments, as set out in paragraph B4.1.23.
- BC4.301 The IASB noted that its intention was not to limit the scope of eligible financial instruments in the underlying pool to only those financial instruments that are entirely in the scope of IFRS 9. For example, lease receivables are not in the scope of IFRS 9 for classification purposes but are in the scope of the impairment and derecognition requirements and could have cash flows that are equivalent to solely payments of principal and interest on the principal amount outstanding.
- BC4.302 Accordingly, the IASB decided to clarify that financial instruments that are not within the scope of the classification requirements of IFRS 9, such as some lease receivables, can be included in the underlying pool of financial instruments for the purpose of paragraph B4.1.23 of IFRS 9 if those instruments have contractual cash flows equivalent to solely payments of principal and interest on the principal amount outstanding.
- BC4.303 The IASB also decided to provide some examples of lease receivables that do not have contractual cash flows equivalent to solely payments of principal and interest on the principal amount outstanding to illustrate that not all lease receivables meet the condition in paragraph B4.1.23 of IFRS 9.

Effective date and transition (Chapter 7)

...

Amendments to the Classification and Measurement of Financial Instruments (May 2024)

- BC7.100 In setting an effective date for narrow-scope amendments, the IASB typically allows for an implementation period of 18 months. A few stakeholders argued that a longer implementation period may be needed by entities whose accounting practices are not aligned with the clarifications made in paragraph B3.1.2A of IFRS 9 on the date of initial recognition or derecognition of financial assets and financial liabilities. These stakeholders said sufficient time would be needed to understand how the requirements might affect the date that financial instruments are derecognised and may require legal reviews of the relevant terms and conditions. Based on this feedback, many IASB members supported a later effective date for the amendments.
- BC7.101 However, a majority of IASB members supported an effective date of annual reporting periods beginning on or after 1 January 2026, without the need to restate comparative information (see paragraph BC7.103). These IASB members concluded that there was insufficient evidence to justify a longer than typical implementation period for the clarifications made in paragraph B3.1.2A of IFRS 9, or any of the other amendments.
- BC7.102 Many stakeholders emphasised the relative urgency of the amendments to the Application Guidance to Section 4.1 of the Standard (Classification of financial assets) as compared to the other amendments. In permitting early application, the IASB therefore decided to also permit entities to apply only these amendments for an earlier period, together with the related disclosure requirements in paragraphs 20B–20D of IFRS 7. The amendments relating to recognition and derecognition and those relating to the classification of financial assets are not interdependent. The IASB decided that permitting the earlier application of the amendments relating to the classification of financial assets is consistent with the IASB's intention to provide certainty about the accounting requirements for these instruments in a timely manner.
- BC7.103 The IASB decided not to require the restatement of comparatives, consistent with the transition requirements on initial application of IFRS 9. The IASB decided to specify that an entity shall adjust the opening balance of financial assets, financial liabilities and components of equity at the date of initial application. For example, any adjustment to the cash balance as a result of applying paragraph B3.1.2A of IFRS 9 would be reflected as an adjustment to the opening balance of cash and cash equivalents in the

statement of cash flows. To enable users of financial statements to understand any change in the classification of financial assets and the resulting effects, an entity is required to disclose information about the measurement of those financial assets immediately before and after the amendments are applied.

Dissenting opinions

...

Dissent of Bertrand Perrin from *Amendments to the Classification and Measurement of Financial Instruments* (issued May 2024)

- DO1 Mr Perrin disagrees with the effective date of the amendment to IFRS 9 relating to the date of initial recognition or derecognition of financial assets or financial liabilities.
- DO2 Paragraph B3.1.2A of IFRS 9 clarifies the date of initial recognition or derecognition of a financial asset or a financial liability. Except in a limited set of circumstances when other requirements in IFRS 9 apply, this date would typically be equivalent to the settlement date for financial assets and financial liabilities.
- DO3 This amendment will require many entities (especially non-financial corporate entities) to change their accounting policy for derecognising financial assets and financial liabilities.
- DO4 Mr Perrin is of the view that the proposed effective date (1 January 2026) of the amendments does not give entities sufficient time to apply the amendments, because, in some instances, applying those requirements could necessitate widespread reporting system changes. The impacted entities would need time to plan, design, test, build and roll out these changes, which would necessitate an effective date later than 1 January 2026.
- DO5 Paragraph 2.39 of the *Conceptual Framework for Financial Reporting* states: ‘Reporting financial information imposes costs, and it is important that those costs are justified by the benefits of reporting that information.’ This cost constraint is one of the factors the IASB should consider in amending Accounting Standards. Mr Perrin is of the view that the mandatory effective date is set so that, in such instances, the entities applying the amendments might not have sufficient time to prepare for the new requirements. For those entities, the costs of applying the amendments would, in many cases, exceed the benefits.

Amendments to the Basis for Conclusions on IFRS 7 *Financial Instruments: Disclosures*

Paragraphs BC22A–BC22K and the heading before paragraph BC22A are added. Paragraphs BC35ZZA–BC35ZZF and the heading before paragraph BC35ZZA are added immediately after paragraph BC35. For ease of reading, new text is not underlined.

Balance sheet disclosures (paragraphs 8–19 and B4)

...

Investments in equity instruments designated at fair value through other comprehensive income

Background

- BC22A When an entity disposes of an investment in an equity instrument that was designated using the other comprehensive income presentation option (an equity investment), the requirements in IFRS 9 prohibit the entity from reclassifying the amounts accumulated in other comprehensive income to profit or loss (recycling). As part of the post-implementation review of the classification and measurement requirements in IFRS 9 and related disclosure requirements in IFRS 7 (Classification and Measurement PIR), the Board was informed that this prohibition could mean that financial statements might not faithfully represent the financial performance of such investments upon disposal.
- BC22B The Board noted that neither IFRS 9 nor IFRS 7 distinguishes between ‘realised’ and ‘unrealised’ gains or losses. The Board had received no evidence as part of the Classification and Measurement PIR to support the contention that recycling would necessarily result in users of financial statements receiving more or better information about what they consider to be realised gains or losses, or the financial performance of the equity investments that are disposed of.
- BC22C Nonetheless, to provide users of financial statements with useful, transparent and more comprehensive information, the Board proposed amendments to IFRS 7 in the Exposure Draft *Amendments to the Classification and Measurement of Financial Instruments* published in March 2023 (2023 Exposure Draft) to require entities to disclose additional information about the amounts accumulated in other comprehensive income.

Fair value at the end of the reporting date (paragraph 11A(c))

- BC22D As part of the Classification and Measurement PIR, the Board was informed that when an entity applies the other comprehensive income presentation option to a number of different equity investments, disclosing the fair value for each investment held at the end of the reporting period is onerous and does not necessarily provide useful information to users of financial statements. Therefore, the Board decided to amend paragraph 11A(c) of IFRS 7 to no longer require disclosure of the fair value of each equity investment at the end of the reporting period.
- BC22E For clarity, the amendments also specify that an entity is required to provide the disclosures required by paragraph 11A of IFRS 7 for each class of investment in equity instruments. This requirement is consistent with those in paragraphs 6 and B3 of IFRS 7.

Fair value gains or losses (paragraph 11A(f))

- BC22F The Board decided to expand the disclosure requirements in paragraph 11A of IFRS 7 to require the disclosure of fair value gains or losses presented in other comprehensive income during the reporting period. The Board also decided to require an entity to disaggregate fair value gains or losses between those related to investments derecognised during the reporting period and those related to investments held at the end of the reporting period.
- BC22G The Board noted that without disclosure of the information required by paragraph 11A(f) of IFRS 7, there could be a loss of information for the users of financial statements because of the amendment to no longer

require disclosure of the fair value of each equity investment at the end of the reporting period. The Board developed the requirements in paragraph 11A(f) of IFRS 7 to enable users of financial statements to distinguish between the financial performance of and the fair value changes related to investments retained at the end of the reporting period and those related to investments derecognised during the reporting period.

BC22H In the Board's view, the requirements in paragraph 11A(f) of IFRS 7 will provide useful information about the financial performance of equity investments in a similar way to the requirement in paragraph 11A(d) of IFRS 7. Paragraph 11A(d) requires separate disclosure of dividends recognised related to equity investments held at the end of the reporting period and those derecognised during the reporting period.

BC22I The Board concluded that the benefits of the required information being disclosed would outweigh the costs of tracking and collating the information. Similar to the requirement in paragraph 11A(d) of IFRS 7, an entity is required to distinguish between fair value changes that occurred during the reporting period only and not over time on an ongoing basis. Therefore, entities are not required to track fair value gains or losses related to equity investments that have been disposed of during previous reporting periods. The Board also noted that paragraph 11B(c) of IFRS 7 requires disclosure of the cumulative gain or loss on disposal of an investment in equity instruments. An entity is therefore already required to determine and separately calculate the fair value changes related to investments that have been derecognised during the period. An entity is therefore expected to have access to the information required by paragraph 11A(f) of IFRS 7 and to be able to separately identify fair value gains or losses on equity investments derecognised during the reporting period.

Transfer upon disposal (paragraph 11B(d))

BC22J Paragraph 11B(c) of IFRS 7 requires the disclosure of the cumulative gain or loss on disposals. The Board was informed by the respondents to the 2023 Exposure Draft that disclosure of any transfer of the cumulative fair value gains or losses within equity relating to equity investments that have been derecognised—similar to the requirement in paragraph 11A(e) of IFRS 7—would provide useful information. The Board therefore added to paragraph 11B of IFRS 7 a requirement similar to that in paragraph 11A(e) of IFRS 7. The Board concluded that this would not result in significant additional costs for entities because the transfer of such amounts remains voluntary. The amendment would also ensure that all disclosure requirements that apply specifically to the derecognition of an equity investment are included in the same paragraph.

BC22K The Board concluded that the combination of the requirements in paragraph 11A(f) of IFRS 7 and the other requirements in paragraph 11B of IFRS 7—in particular, the requirement to disclose the cumulative fair value gain or loss on disposal—would enable entities to provide users of financial statements with information about what is generally considered to be 'realised' gains or losses. The Board also noted that entities are required by IFRS 18 *Presentation and Disclosure in Financial Statements* (previously IAS 1 *Presentation of Financial Statements*) to consider whether to provide additional information—beyond what is required by paragraphs 11A and 11B of IFRS 7—to enable users of financial statements to understand the effect on the financial statements of investments in equity instruments to which the entity has applied the other comprehensive income presentation election.

...

Contractual terms that could affect the amount of contractual cash flows (paragraphs 20B–20D)

BC35ZZA In responding to the Classification and Measurement PIR, users of financial statements said it is important to their analysis and assessment of an entity's future cash flows to understand the effect of contractual terms that could change the amount of contractual cash flows—for example, those linked to environmental, social or governance (ESG) targets. The Board therefore decided to require an entity to disclose qualitative and quantitative information about contractual terms that could change the amount of contractual cash flows. The Board decided that such disclosures are not needed for financial instruments measured at fair value through profit or loss, because the changes in the fair value of such instruments recognised in profit or loss provide sufficient information for users of financial statements.

BC35ZZB The Board decided to limit the scope of these disclosure requirements to contractual terms that could change the amount of contractual cash flows based on the occurrence (or non-occurrence) of a contingent event that does not relate directly to changes in basic lending risks and costs. The Board's intention was not to require entities to disclose information about contractual terms present in most basic lending arrangements, such as penalty interest rates or the loan becoming payable on demand in the event of missed payments, breaches of debt-coverage ratios or other proxies for increases in credit risk.

BC35ZZC The Board considered whether to require the disclosure of information about contingent features of financial assets that do not result in contractual cash flows that are significantly different from those of financial instruments with identical contractual terms but without such features (and are therefore eligible to be measured at amortised cost or fair value through other comprehensive income in accordance with paragraph B4.1.10A of IFRS 9). The Board noted that such features may nonetheless be qualitatively material, or material in aggregate across a portfolio of financial assets. Therefore, the Board decided to include financial assets with such features within the scope of the requirements in paragraphs 20B–20D of IFRS 7.

BC35ZZD The Board considered suggestions to exclude financial liabilities from the scope of the requirements in paragraphs 20B–20D of IFRS 7 due to a potential overlap with the requirements in paragraph B10A of IFRS 7. However, the Board rejected these suggestions, noting that the requirements in paragraphs 20B–20D of IFRS 7 are more specific than the requirements in paragraph B10A.

BC35ZZE The Board also considered suggestions that the disclosure requirements should be limited to instruments with ESG-linked features. However, the Board noted that there was no conceptual basis for limiting the disclosure requirements to only those instruments. Users of financial statements would find useful information about all instruments with contractual terms linked to contingent events that are not directly related to changes in basic lending risks and costs.

BC35ZZF In balancing the benefits and costs of requiring the disclosure of information about these contractual terms, the Board decided:

- (a) to require entities to disclose quantitative information such as a range of possible changes in contractual cash flows (for example, the range of adjustments to the contractual interest rates that could arise from contingent events linked to ESG targets). Users of financial statements had informed the Board that qualitative information alone would be insufficient to meet their needs.
- (b) not to require entities to provide a sensitivity analysis of possible changes in contractual cash flows or a quantification of the likely effect these contingent events could have on their financial statements.