KPMG

Addressing financial asset classification issues

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Global IFRS Institute | Financial instruments

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Proposals to amend IFRS 9 and IFRS 7 following post-implementation review

Highlights

- **What's the issue?**
- **What is the IASB proposing?**
- **What's next? Have your say by 19 July 2023**

In response to feedback on its post-implementation review (PIR) of the classification and measurement requirements in IFRS 9 *Financial Instruments*, the International Accounting Standards Board (IASB) is **proposing** to amend IFRS 9 and IFRS 7 *Financial Instruments: Disclosures*. The proposals include guidance on the classification of financial assets, including those with ESG-linked features.

What's the issue?

The proposals address a number of matters arising from the PIR, including:

- the classification and disclosures of financial assets with an ESG-linked feature;
- the classification of contractually linked instruments (CLIs); and
- disclosures on investments in equity instruments.

In addition, following an issue submitted to the IFRS® Interpretations Committee in 2021, the proposals also address derecognising financial assets and financial liabilities that are settled via **electronic payment systems**.

What is the IASB proposing?

Classifying financial assets with an ESG-linked feature

The proposed amendments clarify how a company would assess the solely payments of principal and interest (SPPI) condition for the contractual cash flows arising from a financial asset with contingent features.

The proposals address a specific call for clarification on how to classify financial assets with an ESG-linked feature – e.g. a feature that adjusts the interest rate on an asset by a specified number of basis points depending on whether the borrower achieves a pre-determined ESG or sustainability-related target(s). However, the proposals address all contingent features, not just ESG-linked features.

"We welcome the IASB tackling emerging issues promptly."

Similarly, the proposals include additional disclosures not only for these financial assets but also for all financial assets and financial liabilities that have particular types of contingent cash flows and are not measured at fair value through profit or loss.

Classifying contractually linked instruments (CLI)

To address questions on applying the SPPI requirements to CLIs, the proposals clarify their key characteristics and how they differ from financial assets with non-recourse features. The proposals also provide factors a company could consider when assessing the cash flows underlying a financial asset with non-recourse features (the 'look through' test).

Disclosures on investments in equity instruments

The IASB is proposing additional disclosures for equity instruments that are measured at fair value and whose gains or losses are presented in other comprehensive income (FVOCI). It is not proposing any change to the measurement requirements for investments in equity instruments.

What's next? – Have your say by 19 July 2023

Read our **summary of the amendments** and have your say by 19 July 2023. For further information on the proposals, speak to your KPMG contact.

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