



# Addressing financial asset classification issues

23 March 2023

Global IFRS Institute | Financial instruments



**Mahesh Narayanasami**  
Partner  
KPMG US, DPP New York

**“We welcome the IASB tackling emerging issues promptly.”**

## 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.

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.

Publication name: *Addressing financial asset classification issues*

Publication date: March 2023

© 2023 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

KPMG International Standards Group is part of KPMG IFRG Limited.

KPMG refers to the global organization or to one or more of the member firms of KPMG International Limited ("KPMG International"), each of which is a separate legal entity. KPMG International Limited is a private English company limited by guarantee and does not provide services to clients. For more detail about our structure please visit <https://home.kpmg/xx/en/home/misc/governance.html>.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

*This publication contains copyright © material and trademarks of the IFRS® Foundation. All rights reserved. Reproduced by KPMG IFRG Limited with the permission of the IFRS Foundation. Reproduction and use rights are strictly limited. For more information about the IFRS Foundation and rights to use its material please visit [www.ifrs.org](http://www.ifrs.org).*

**Disclaimer:** *To the extent permitted by applicable law, the IASB, the ISSB and the IFRS Foundation expressly disclaims 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.

*'ISSB (TM)' is a Trade Mark and 'IFRS®', 'IASB®', 'IFRIC®', 'IFRS for SMEs®', 'IAS®' and 'SIC®' are registered Trade Marks of the IFRS Foundation and are used by KPMG IFRG Limited under licence subject to the terms and conditions contained therein. Please contact the IFRS Foundation for details of countries where its Trade Marks are in use and/or have been registered.*