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Our ref BOD/288

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Dear Dr. Barckow

Comment letter on Request for Information on the Post-implementation Review of IFRS 9 Impairment

We appreciate the opportunity to comment on the International Accounting Standards Board's (IASB) Request for Information on the Post-implementation Review (PIR) of IFRS 9 *Financial Instruments – Impairment* (RFI), published in May 2023. We have consulted with, and this letter represents the views of, the KPMG network.

We welcome the IASB's PIR on the impairment requirements of IFRS 9. We believe the impairment requirements in IFRS 9 generally work well in practice and achieve the IASB's objective of addressing problems of the predecessor impairment model under IAS 39 *Financial Instruments: Recognition and Measurement*.

We do not think that there are fundamental flaws in the impairment requirements of IFRS 9 and we believe the pre-implementation support the IASB has put in place, such as the IFRS Transition Resource Group for Impairment of Financial Instruments (ITG) and educational materials, proved helpful in resolving common application questions.

However, there are a number of areas that would benefit from further guidance and clarification of the relevant principles, such as the interaction between modification requirements, partial derecognition and impairment requirements.

In addition, we observe a wide-ranging diversity in the quality and the level of detail in credit risk disclosures across entities and jurisdictions. We acknowledge that some level of diversity is inevitable in a principles-based disclosure framework. However, we believe further guidance will help encourage companies to provide more comparable information to users of financial statements.

The appendix to this letter contains our detailed responses to the questions raised in the RFI.

Please contact Brian O'Donovan at brian.odonovan@kpmgifrg.com or Colin Martin at colin.martin@kpmgifrg.com if you wish to discuss any of the issues raised in this letter.

Yours sincerely,

KPMG IFRG Limited

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Appendix

KPMG's responses to the specific questions raised in the Request for Information

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.

We believe that the impairment requirements in IFRS 9 generally work well in practice and result in more timely recognition of credit losses compared to IAS 39, addressing the 'too little, too late' criticism associated with the predecessor impairment model.

We also believe that conceptually the incorporation of forward-looking information results in more useful information for users of financial statements about the effect of credit risk on the amount, timing and uncertainty of future cash flows.

The IFRS 9 impairment model worked relatively well during Covid-19, notwithstanding the additional uncertainty during that period. However, we note the use of highly judgemental management overlays has increased to deal with credit impacts of unexpected events. This has led to additional costs and efforts to obtain high quality audit evidence over Expected Credit Losses (ECL) provisions and associated disclosures.

We observe that the requirements resulted in greater alignment between accounting and credit risk management practices. While such alignment contributes to additional costs to audit ECL (for example the use of credit risk experts), it has helped accountants and credit risk managers to better understand the interaction of credit risk management practices and their financial reporting implications.

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.

General observation

We observe that the general approach for recognising ECL is well understood and appears to be working as the IASB intended. We do not think there are fundamental flaws in the impairment model in IFRS 9.

However, we identified an area that would benefit from further clarity:

Definition of credit losses

We acknowledge that the definition of credit losses refers to *all cash shortfalls,* regardless of whether they are caused by credit deterioration events. However, it is not always clear how the IFRS 9 requirements for modification (paragraph 5.4.3), revision of estimated contractual cash flows (paragraph B5.4.6) and partial derecognition interact with those for impairment. For example, we have encountered questions on whether, and when, a bank should recognise an impairment loss, a modification loss or a loss arising from the revision of cashflows if a law is expected to be enacted that would require lenders in the jurisdiction to offer payment holidays for a particular period. Differing views on this question could lead to differences in the timing of recognition, presentation and disclosures. Similar questions arise when an entity expects its borrower(s) will not be able to make repayments due to sanctions or when payments are collected by a branch or a subsidiary in a country with significant restrictions on transferring funds. We note a related question arose when the IFRS Interpretations Committee discussed *Lessor Forgiveness of Lease Payments*.

Cost of applying and auditing the general approach

We believe the principles-based requirements in IFRS 9 allow entities to apply the requirements proportionally (i.e. depending on the entity's level of sophistication, the characteristics of financial instruments it has and the data available) without undue cost or effort.

However, the ongoing costs of auditing the impairment requirements are significant and, in many cases, significantly higher than initially anticipated. The reasons include:

(a) the need for highly specialised skillsets — the creation, maintenance and audit of IFRS 9 impairment models require highly specialised skillsets (mainly credit risk modelling specialists but also economists) that are in short supply;

(b) the need to audit significant volumes of current and historical data — the use of models implicitly increases the reliance on data for model development, monitoring and validation. Entities are required to put in place financial reporting controls and governance around data sourcing, verification and other data related processes. This in turn brings more data sources and related controls into the scope of audit.

(c) the need for significant management judgement — principles-based requirements in IFRS 9 require management to exercise more judgement and auditors to collect more extensive audit evidence to support the audit opinion. The costs increase as the use of management overlays/post-model adjustments (PMA) increases to deal with uncertainties and risks arising from circumstances that credit risk models were not built for; and

(d) the need for frequent recalibration or rebuilding of credit risk models — IFRS 9 models have often been built using short-dated datasets, meaning that the shelf life of IFRS 9 models is limited, and they require frequent recalibrations or even rebuilds. This has a knock on impact on the audit as it requires assessing the continuing appropriateness of a model as the model performance deteriorates.

Additionally, local regulators often have a significant level of influence on how the impairment requirements are applied and audited.

Applying the impairment requirements to intercompany loans

While we support applying the same impairment requirements to both intercompany loans and third-party loans, we often see that the costs of applying the requirements to intercompany loans are as significant as, or in some cases even greater than, other types of financial assets (see our response to question 3 for examples of practice challenges unique to intercompany loans). In some cases, the benefits of the resulting information can be limited because investors tend to place greater reliance on consolidated financial statements.

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).

Generally, we believe the significant increase in credit risk (SICR) assessment is working as the IASB intended and achieves the IASB's objective of recognising lifetime ECL on all financial instruments for which there has been a SICR since initial recognition.

We observe diversity between entities and jurisdictions as to what is considered a SICR. While we acknowledge that such an outcome may be inherent in the principles-based requirements that allow the assessment to be aligned with the entity's own credit risk management, we note the differences in SICR thresholds often have significant impact on the resulting ECL amounts.

We further observe that IFRS 9 does not explain the objective of assessing SICR. The impact is that entities find it challenging to assess whether their SICR methodology is effective in achieving that objective. We note that paragraph 5.5.4 of IFRS 9 states that "*the objective of the impairment requirements is to recognise lifetime ECL for all financial instruments for which there have been SICR since initial recognition*". We also acknowledge the concept of SICR was added as a result of the IASB revising its 2009 proposals to address stakeholders' concerns. We nevertheless believe it would help more consistent application if the IASB could explain what objective(s) a good SICR method/threshold should achieve.

Application questions

In addition, we observe a number of application questions related to the SICR assessment and recommend that the IASB provide further guidance. Such application questions include:

Credit card exposures

We observe diversity in practice with respect to determining the date of initial recognition for a loan that is recognised as a result of the draw-down from a credit card for the purpose of assessing SICR. On a related note, we observe differing views on whether the issue of a new credit card to an existing credit card holder or credit reviews constitute a 'new originated loan' or 'an extension of the existing loan commitment'.

Also, we observe wide variations in the estimation of the expected life of credit card loans.

Intercompany loans that are repayable on demand

A parent may provide a loan that is repayable on demand to a subsidiary that does not currently have the ability to repay. The parent does not have the intention to call the loan until the subsidiary is in the position to be able to repay it. Questions arise, for the purpose of assessing SICR, whether the parent must consider the probability of default assuming the loan will be called immediately - i.e. based on the contractual maturity. Questions exist also for the measurement of ECL as the maximum period over which the parent measures ECL would be one day (or less) even if the parent does not expect to demand repayment of the loan in the near term.

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.

Generally, the requirements for measuring ECLs 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.

However, we observe diversity in practice in respect of the use of forward-looking scenarios, post-model adjustments or management overlays and the application of ECL to loan commitments and financial guarantee contracts, as also identified by the IASB® staff during the phase 1 outreach. While we acknowledge that such an outcome may be inherent in principles-based requirements, further guidance from the IASB would help encourage more consistent application. ITG meeting summaries and agenda papers as well as educational materials helped bring more clarity as to what is expected by IFRS 9 on some of these areas and we would recommend the IASB incorporate the key points in IFRS 9 itself. For example, we note that IFRS 9 does not explicitly mention the need to consider multiple scenarios and associated cash shortfalls.

We observe a number of application questions in this area that would benefit from additional application guidance and/or educational materials. They include:

Collection costs

If an entity expects to incur internal or external costs that are direct and incremental to collecting contractual cash flows from a defaulted financial asset (e.g. a commission calculated as a percentage of the amounts collected), it is unclear whether the entity should include such collection costs in the measurement of ECLs.

Contractually linked instruments

Questions arise about how to apply the definition of cash shortfalls to contractually linked instruments (CLIs) that are subject to the impairment requirements. For example, a CLI may meet the Solely Payments of Principal and Interest (SPPI) criterion but the issuer is not contractually obliged to make those payments to the extent that it does not receive sufficient cash from the underlying pool. Because 'cash shortfall' is defined as ''*the difference between the contractual cash flows that are due to the entity under the contract and the cash flows that the entity expects to receive*'', it might be argued that for such a CLI this difference is generally zero. However, restricting cash flows due under a CLI to the extent that there is cash available from the underlying pool of assets is a means of passing credit losses on assets in the pool through to the holder of the CLI. As such, we recommend the IASB make it clear that such losses are reflected in ECL.

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.

Overall, we observe that the simplified approach generally works well in practice and is widely used. It achieves the IASB's objective of reducing the costs and complexities of applying IFRS 9 impairment requirements to trade receivables, contract assets and lease receivables (see our response to Question 7 for related application questions).

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? 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.

We observe that the application of the purchased or originated credit-impaired (POCI) model is generally limited in practice, except for those entities that specialise in distressed debt and POCI assets arising in a business combination. As a result, there is a relatively limited understanding of how the POCI model should work and how to interpret the resulting information in the financial statements. We have encountered questions on the scope of the POCI model, especially for those instruments that are originated.

We observe that the application of the POCI model could distort some key statistics, for example ECL coverage ratio. That is because the POCI model reduces the gross carrying amount by the ECL amount as of the date of purchase or origination as if the asset is partially written off. The IASB may want to consider a more specific disclosure requirement to explain such effects that would enable investors to better understand the POCI model.

Despite paragraph 5.5.14, we have seen differing views on whether subsequent improvement in credit risk of a POCI asset should be accounted for on the statement of financial position as an increase in the gross carrying amount of the asset, or as a negative ECL allowance when a favourable change would lead to a negative allowance amount associated with the POCI asset. We recommend the IASB clarify the requirement.

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.

Generally, it is 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. However, certain areas would benefit from more guidance as highlighted below. Many issues identified below are consistent with the IASB's findings from phase 1 of the PIR. We recommend the IASB clarify the relevant principles.

The interaction of modification of financial assets and impairment

As mentioned in our response to Question 2, we observe there are application questions about the boundaries between the IFRS 9 requirements on modification, partial derecognition and impairment, including questions about expected modifications (both due to the borrower's financial difficulties and not related to the borrower's financial difficulties) and the order in which these requirements are applied to a financial asset.

These questions often arise when forbearance occurs. We note that other than two brief mentions in the Basis for Conclusions, IFRS 9 does not mention accounting for forbearance at all. Given forbearance is the most common form of financial asset modification, we recommend the IASB provide further guidance, possibly with an illustrative example, to explain how these different requirements interact.

In addition, as highlighted in the Committee discussion on *Lessor Forgiveness of Lease Payments*, it is not clear, especially for financial assets other than lease receivables, when to apply modification requirements (or paragraph B5.4.6 of IFRS 9) and when to apply impairment requirements.

Recoveries from amounts previously written off of financial assets

IFRS 9 does not provide guidance on the recognition of recoveries from amounts previously written off, for example when cash is received or when recovery becomes virtually certain. In addition, there is no guidance on the presentation of recoveries from assets previously written off, which leads to diversity in how entities present these recoveries in the statement of profit or loss.

Definition of a loan commitment

IFRS 9 generally excludes loan commitments from its scope except from the derecognition requirements and, for the issuer of a loan commitment, the impairment requirements. Although the Basis for Conclusions describes a loan commitment as a firm commitment to provide credit under pre-specified terms and conditions, a 'loan commitment' is not actually defined by IFRS 9. We have encountered questions as to whether a commitment to enter into a convertible bond contract (that may be a compound instrument or a hybrid instrument) is a 'loan commitment' that is subject to the impairment requirement of IFRS 9 or should be accounted for as a derivative.

Acquired financial assets

Under IFRS 3 *Business Combinations*, a financial asset acquired as part of a business combination is recognised at fair value and does not attract a loss allowance at its date of acquisition (IFRS 3.B41). Similarly, IFRS 9 requires financial assets to be initially measured at fair value. Fair value includes expected future credit losses. IFRS 9 requires ECLs to be provided for these financial assets at the first reporting date after they are recognised. We are aware that many stakeholders and investors find such a financial reporting outcome counterintuitive especially when the acquisition is close to the reporting date. We understand the necessity of such an outcome given the IFRS 9 model, but from the feedback we receive, that understanding may not be widespread.

Interaction with IAS 10 Events after the Reporting Period

IAS 10 provides as an example of an adjusting event the bankruptcy of a customer that occurs after the reporting period, confirming that the customer was credit-impaired before the reporting date. Questions arise as to whether and how to adjust the ECL amounts when the ECL as of the reporting date already considers such a possibility as it represents a probability-weighted amount as required by IFRS 9. For example, would the entity be required to override the probability-weighting as at the reporting date and assign a 100% weighting once such an adjusting event occurs?

Trade receivables, contract assets and lease receivables

We observe some questions arising on the application of impairment requirements to trade receivables, contract assets and lease receivables. They include whether:

(a) an entity is required to include the value-added tax (VAT) in the amount of a receivable for the purpose of measuring ECL in accordance with IFRS 9 and if in the event of non-payment by a customer the entity is entitled to a full refund of VAT previously remitted to the tax authority, how this affects the measurement of ECL;

(b) a lessor is required to exclude the unguaranteed residual value of the asset underlying a finance lease applying IFRS 16 *Leases* for the purpose of measuring expected credit losses in accordance with IFRS 9;

(c) a lessor is required to present credit impairment losses in profit or loss separately (i.e. applying IAS 1.82(ba)) or a lessor is permitted to present those amounts within finance income (i.e. because IAS 1.82(ba) is intended to apply only to assets entirely within the scope of IFRS 9); and

(d) a lessor is required to present the '*net investment in the lease*' including the ECL allowance or should the allowance be presented as a separate amount adjacent to the '*net investment in the lease*'.

In addition, we observe that under IFRS 15 *Revenue from Contracts with Customers*, contract assets and trade receivables are both in the scope of IFRS 9 for impairment purposes. This helpfully prevents entities from experiencing a sudden impairment charge when a contract asset becomes a receivable. However, under IFRS 16 operating lease receivables are in the scope of IFRS 9 but accrued operating lease income is not. This means that entities will experience a sudden impairment charge when accrued operating lease income becomes a receivable. We recommend the IASB considers whether such a reporting outcome for operating lease receivables is consistent with its objective.

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?

We believe 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.

The transition requirements were appropriate and the reliefs provided from restating comparative information were helpful to preparers. The transition disclosures were useful (particularly the reconciliation of impairment allowances under IAS 39 and IFRS 9) in helping understand how entities determined ECL, including the effect of incorporating forward-looking information into the measurement of credit losses.

We note that it is important to consider the interaction between the transition provisions between standards that are effective at the same time. As the IASB are aware, we observe that questions arose with respect to restating comparatives when applying IFRS 17 *Insurance Contracts* and IFRS 9 at the same time.

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. **(a) 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.

We observe a significant lack of consistency in the quality and granularity of information disclosed by different entities which impairs comparability between entities. There is wide ranging diversity across jurisdictions.

We generally support the disclosure requirements to be principles-based and we believe that we as an audit firm have an important role to play in high quality implementation and consistent application of the requirements. However, there are various ways to meet IFRS 7 disclosure objectives and it is highly subjective to determine whether the information disclosed is adequate or sufficiently detailed to meet the disclosure objectives.

In some jurisdictions, prudential regulators issued recommendations for qualitative disclosures and minimum quantitative disclosures, which may evidence that IFRS 7 requires further specification/guidance. For example, UK regulators issued reports setting out recommendations on a comprehensive set of ECL disclosures in order to promote high quality and consistent ECL disclosures.

We recommend the IASB provide guidance that sets expectations regarding minimum disclosure requirements and the expected level of granularity, encourage a specific format for some disclosures where appropriate and add more illustrative examples in IFRS 7 to achieve greater consistency in the information provided. In doing so, considering the notion of proportionality would be relevant so that such expectations are set considering the type of entities and the type of credit risk exposures an entity has (e.g. banks versus trading companies).

We observed a lack of consistency in the disclosures provided (such as the level of detail and the format) and often a lack of sufficiently detailed explanation about the following areas in particular:

(a) post-model adjustments or overlays (PMA): there is a lack of consistency in how PMA amounts (and their components) are disclosed and the extent to which an explanation is provided for the reasons for using PMAs and the approach used for their estimation.

(b) determining SICR: there is a lack of disclosed information that would explain the different factors that entities apply to determine SICR;

(c) how an entity's credit risk management policies and practices relate to the recognition and measurement of ECLs, including the methods, assumptions and information the entity uses; and

(d) how an entity incorporates forward looking information in the measurement of ECL and the assessment of SICR.

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?**

Accounting for financial Guarantee Contracts held

IFRS 9 has no guidance on how to assess whether a financial guarantee contract (FGC) held is considered to be part of the contractual terms of a financial instrument (integral FGC) — and thus reflected in the measurement of ECL.

Furthermore, there are no explicit requirements in IFRS 9 or other IFRS Accounting Standards on accounting for FGCs that are not considered integral to the contractual terms (non-integral FGC). Consequently, entities develop an accounting policy applying IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Generally, entities apply, by analogy, IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to non-integral FGCs held, recognising a reimbursement asset up to the amount of ECL for the related financial instrument.

This outcome may limit entities' ability to faithfully depict the economic substance of the transaction - i.e. the mitigation of the credit losses, especially due to the timing difference between recognition of the reimbursement asset and that of the ECL for the related financial instrument. Furthermore, the approach has consequences for presentation in profit or loss and in accounting for transactions fees of FGCs.

We recommend the IASB provide guidance on what should be considered for the ‘integral vs non-integral FGC’ assessment and how non-integral FGCs should be accounted for.

Environmental, social and governance (ESG) risk in the context of IFRS 9 Impairment

There is an increasing number of questions around to what extent, and how, an entity should consider ESG risk in applying the impairment requirements of IFRS 9.

We appreciate the IASB is considering issuing further guidance on the effects of climate-related matters on financial statements. We would welcome more guidance and educational materials on this area.