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19 July 2023

Andreas Barckow
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Columbus Building
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Dear Dr Barckow

Exposure Draft IFRS Accounting Standard – Amendments to the Classification and Measurement of Financial Instruments – Proposed amendments to IFRS 9 and IFRS 7

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Accounting Standards Board's ("the IASB") Exposure Draft *Amendments to the Classification and Measurement of Financial Instruments – Proposed amendments to IFRS 9 and IFRS 7 ("*the ED").

We support the amendments proposed to IFRS 9 to explicitly permit the derecognition of financial liabilities at the date of the instruction to remit cash under an electronic payment system if certain criteria are met. However, we believe that the requirement to assess whether the paying entity has the right to cancel the instruction is not necessary and is unduly onerous. We believe that the other criteria proposed in the ED would be sufficient to support the assessment for derecognition of the financial liability at the date of the payment instruction.

We are also generally supportive of the IASB's efforts to amend the classification and measurement of financial assets in response to the growth in ESG-linked investing and lending activities. However, we are concerned that the proposed criteria would affect the accounting for other financial instruments for which the interest rate is linked to contingent events that are not specific to the debtor (for example, changes in benchmark interest rate or increased costs of lending adjustments). These commonly encountered features would fail the SPPI test if the proposals in the ED were implemented. We do not believe it was the IASB's intention to change the classification of such financial assets and therefore we have proposed alternative wording to address this issue.

Finally, we suggest that entities should be allowed to apply the amendments to the SPPI criteria (and associated disclosures in IFRS 7) in advance of the adoption of the remainder of the amendments proposed in the ED. We note that the amendment to the SPPI criteria are independent from the other amendments to IFRS 9. This approach would be particularly helpful in addressing issues currently faced by lenders and investors with material ESG-linked debt portfolios.

Our detailed responses to the questions in the ED are included in the Appendix.

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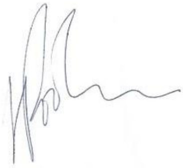
If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0)20 7936 3000.

Yours sincerely



Veronica Poole
Global IFRS and Corporate Reporting Leader

Appendix

Question 1—Derecognition of a financial liability settled through electronic transfer
Paragraph B3.3.8 of the draft amendments to IFRS 9 proposes that, when specified criteria are met, an entity would be permitted to derecognise a financial liability that is settled using an electronic payment system although cash has yet to be delivered by the entity.
Paragraphs BC5–BC38 of the Basis for Conclusions explain the IASB's rationale for this proposal.
Do you agree with this proposal? If you disagree, please explain what aspect of the proposal you disagree with. What would you suggest instead and why?

We support the proposed introduction of an explicit accounting policy choice in respect of the timing of derecognition of financial liabilities settled using electronic payment systems if certain criteria are met. However, we believe that the criteria to be eligible for the alternative accounting treatment could be simplified by focusing on whether the payer continues to have access to the cash that will be used to settle the payment instruction, rather than, as proposed in the ED, assessing whether the payer has a right to cancel the payment instruction. Additionally, we suggest that an entity that chooses to apply the alternative accounting treatment should be required to do so to all electronic payment systems that meet the criteria, as opposed to allowing the application of different accounting policies to each settlement system, as proposed in the ED.

The following comments elaborate on our suggestions.

Reference to settlement date accounting as applying to financial liabilities

We note that proposed IFRS 9:B3.1.2A indicates that settlement date accounting applies to the recognition and derecognition of financial liabilities (except in certain circumstances). However, settlement date accounting in existing IFRS 9:B3.1.6 is explained as applying to the recognition of an *asset* on the day it is received by the entity and the derecognition of an *asset* and recognition of any gain or loss on disposal. Therefore, it seems preferable not to refer to settlement date in the context of the derecognition of financial liabilities. Indeed, financial liability derecognition is subject to specific requirements based on legal extinguishment. Consistent with the fact that the general requirements of IFRS 9 remain unchanged, we believe it would be preferable if proposed IFRS 9:B3.1.2A referred to the existing general requirements for the recognition and derecognition of financial assets and liabilities, the existing regular way exception for financial assets, and the proposed alternative accounting policy for financial liabilities in paragraph B3.3.8 as an exception to those general requirements. We propose that this could be expressed as follows :

> "When recognising or derecognising a financial asset or financial liability, an entity shall apply the general relevant requirements in this Standard (specifically paragraph 3.1.1 in the case of recognition of financial assets and financial liabilities, section 3.2 in the case of derecognition of financial assets and section 3.3 in the case of derecognition of financial liabilities) ~~an entity shall apply settlement date accounting (see paragraph B3.1.6)~~ unless paragraph B3.1.3 applies or an entity elects to apply paragraph B3.3.8."

We believe that the changes we propose to paragraph B3.1.2A do not affect the accounting outcome sought by the IASB but better reflect the general requirements of IFRS 9 that remain unchanged as a result of these amendments.

Similarly, we suggest that the wording proposed in IFRS 9:B3.3.8, BC10, BC 18a), BC22a, BC32 and BC38, which all include a reference to settlement date accounting, should be reconsidered.

We note that while proposed IFRS 9:B3.3.8 explains clearly that the alternative accounting policy results in derecognition of the financial liability at the trade date, the amendments do not specify that the corresponding credit is to cash, i.e. the *derecognition* of a financial asset (or in the case of an overdraft, the *recognition* of a financial liability, as we note below under *Positive and negative balances*). Accordingly, we propose the following change to proposed IFRS 9:B3.3.8:

> "… - that will be settled with cash using an electronic payment system - to be discharged (and the corresponding cash to be derecognised or bank overdraft liability or similar facility to be recognised) before the settlement date, if and only if, the entity has initiated the payment instruction and: …"

No ability to withdraw, stop or cancel the payment instruction

To apply the alternative accounting treatment, proposed IFRS 9:B3.3.8(a) requires that an entity must have no practical ability to withdraw, stop or cancel the payment instruction. Although in practice cancellation is unlikely, we note that in theory payment instructions may be contractually cancelled, often subject to a fee. Other payments instructions are not formally subject to cancellation rights but require both parties to make their best efforts to settle, such that the parties do not intend to cancel. Proposed IFRS 9:B3.3.8(a) would require entities to perform an extensive legal analysis of explicit (and implicit) rights to cancel payment instructions for electronic payment systems across multiple jurisdictions. We do not think that this is proportionate given entities that use such electronic settlement systems do not expect to cancel a payment instruction that has been initiated.

We believe that the critical conditions to support the derecognition of a financial liability at the date of the payment instruction are those proposed in IFRS 9: B3.3.8(b) and (c). Consequently, we believe the criteria in IFRS 9:B3.3.8(a) (i.e. the absence of a right to cancel the payment instruction) is not required. If an entity has complied with IFRS 9: B3.3.8(b) (i.e. entity does not have access to the funds that have been allocated for remittance under the instruction) the entity's right to access the cash subject to the payment instruction has changed. We believe that this fact, along with the fact that settlement risk is insignificant, are sufficient to justify derecognition of the financial liability. We believe that if an entity exercised its right to cancel a payment instruction, this would represent a separate event as the bank would reinstate the entity's right to access the cash that was originally allocated to settlement of the payment instruction.

If the IASB is concerned that window-dressing may arise if an entity derecognised a financial liability as a result of a payment instruction initiated prior to the reporting date that is cancelled immediately after, this may be addressed by requiring the disclosure of post-reporting date cancellation of payment instructions. As stated earlier, we think that instances of cancellation are uncommon. Indeed, entities initiate electronic payment instructions on the basis that the bank will follow through on the instruction, not based on an expectation or desire to have the flexibility to withdraw or cancel that instruction.

We note that the ED proposes that an entity would be allowed to apply the alternative accounting treatment separately for each electronic payment system, such that an entity could apply different accounting policies for electronic payment systems that provide the same legal rights. If the IASB retains our suggestion to permit application of the alternative accounting treatment if the entity has no practical ability to access the cash subject to the payment instruction and the settlement risk is insignificant (i.e. eliminating the criteria in IFRS 9:B3.3.8(a)), we suggest that an entity that chooses to apply the alternative accounting treatment would be required to do so for *all* electronic payment systems for which the criteria are met. As a consistently applied and disclosed accounting policy, our approach would lead to greater transparency of the timing of financial liability derecognition compared with the approach proposed in the ED.

Settlement risk

The final sentence proposed in IFRS 9:B3.3.9 states that settlement risk would not be insignificant (and therefore the alternative accounting treatment would not be available) if the completion of the payment instruction is subject to the entity's ability to deliver cash on the settlement date. We do not believe that this sentence is necessary to establish that the settlement risk is insignificant. Indeed, the criteria proposed in IFRS 9:B3.3.8(b), which requires that the entity does not have the practical ability to access the cash to be used for settlement of the payment instruction, seems to serve the same purpose as the last sentence in IFRS 9:B3.3.9. Further, we think that this sentence relates more to the entity's own credit risk (which is the criteria addressed in IFRS 9:B3.3.8(b)) than to the settlement risk (which is addressed in IFRS 9:B3.3.8(c)). Therefore, we propose deleting the last sentence of proposed IFRS 9:B3.3.9.

Positive and negative balances

The preamble in proposed IFRS 9:B3.3.8 refers to "settled with cash" and (b) of that paragraph refers to "access the cash". It is unclear whether "cash" for this purpose refers to "cash on hand and demand deposits" (as per IAS 7:6), i.e. refers only to positive cash balances. Alternatively, "cash" could refer to the concept in IAS 7:7 which acknowledges that "bank overdrafts which are repayable on demand form an integral part of an entity's cash management" and "[i]n these circumstances, bank overdrafts are included as a component of cash and cash equivalents", i.e. "cash" includes negative balances. We believe the latter interpretation is appropriate given an entity may instruct payments from a bank account that is in overdraft, or other similar facility, or that will become a negative balance following settlement of the instruction. As previously stated, eligibility should be based on whether the entity's access to the cash is reduced following the payment instruction. In this respect, it is irrelevant whether the balance is positive or negative. The payment from a negative balance requires the entity to have capacity within any undrawn facility to settle the instruction and this capacity would be reduced by the payment instruction. Further, it would not be practical for an entity to determine for each payment instruction whether at the date of settlement the bank balance will be positive or negative given overdrafts are part of an entity's overall cash management. It would be useful to clarify that indeed the reference to "cash" in IFRS 9:B3.3.8 reflects the broader definition in IAS 7:7.

Cheques

We understand that practice for some entities is to derecognise financial liabilities and derecognise cash upon writing and presentation of a cheque to the owed party. We understand the settlement of a liability by writing and presenting a cheque would not be subject to the alternative accounting treatment proposed in IFRS 9:B3.3.8 such that both the issuer and recipient of the cheque will be required to derecognise their corresponding financial liability (payable) and financial asset (receivable) respectively only upon settlement of the cheque. We believe it would be useful if the amendments were explicit in this respect since many constituents raised this issue as part of their response to the IFRIC's agenda decision that preceded these amendments.

Question 2—Classification of financial assets—contractual terms that are consistent with a basic lending arrangement
Paragraphs B4.1.8A and B4.1.10A of the draft amendments to IFRS 9 propose how an entity would be required to assess: (a) interest for the purposes of applying paragraph B4.1.7A; and (b) contractual terms that change the timing or amount of contractual cash flows for the purposes of applying paragraph B4.1.10. The draft amendments to paragraphs B4.1.13 and B4.1.14 of IFRS 9 propose additional examples of financial assets that have, or do not have, contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. Paragraphs BC39–BC72 of the Basis for Conclusions explain the IASB's rationale for these proposals. Do you agree with these proposals? Why or why not? If you disagree, please explain what aspect of the proposals you disagree with. What would you suggest instead and why?

We support the IASB's efforts to propose amendments to the criteria for basic lending arrangements in IFRS 9 to reflect the development of lending practices, particularly the growth in ESG-linked lending since IFRS 9 was issued. We note that the Basis for Conclusions refers to the amendments in this respect as "clarifying amendments". However, the changes proposed by the IASB are significant changes to the types of terms and conditions that are deemed consistent with basic lending arrangements and therefore we do not consider the amendments as merely clarifying the current requirements. We believe that the amendments introduce new criteria, specifically in IFRS 9:B4.1.10A, such that a lending arrangement that meets the new criteria would qualify as a basic lending arrangement whereas previously it may not have done so. If the IASB wishes to retain the term 'clarifying' in the finalised amendments, it would be beneficial to explain how such amendments clarify the existing requirements of IFRS 9.

The proposed amendments introduce a requirement that any change in contractually specified cash flows following the occurrence or non-occurrence of a contingent event can only give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI) if the contingent event is specific to the debtor. We also note that proposed IFRS 9:BC67 states that contingent events specific to the creditor or another party are inconsistent with basic lending arrangements.

We agree that a contingent event specific to the debtor may meet the SPPI criteria (subject to meeting other criteria), but do not agree that a contingent event must be specific to the debtor in order to meet the SPPI criteria. If applied literally, debt arrangements with cash flows linked to benchmark interest rates would fail SPPI since the contingent event (the change in benchmark interest rate) is not specific to the debtor. We believe that this is not the IASB's intention as this would be contrary to the principles of basic lending arrangements in IFRS 9:4.1.3(b).

We also observe that loans often include increased cost clauses which aim to provide additional compensation to the lender if the lender incurs additional costs associated with the loan asset (such as regulatory costs, adverse tax effects, changes in law, funding costs and hedge breakage costs if the loan is prepaid). We believe such contingent events may pass the SPPI criteria since IFRS 9:4.1.3 permits lenders to be compensated for a profit margin. Such features in loan arrangements are designed to protect the lender's profit margin in certain events. Therefore, we do not agree with the statement in proposed IFRS 9:B4.1.10A that the contingent event must be specific to the debtor to meet the SPPI criteria nor with

the statement proposed in IFRS 9:BC67 that a contingent event specific to a party other than the debtor is inconsistent with a basic lending arrangement.

We understand that the IASB's intention is to address the accounting of financial assets with cash flows that are contingent on an event that is specific to the debtor. Accordingly, we suggest the following changes to the proposals in the ED:

- replace the third sentence in IFRS 9:B4.1.10A with the following sentence : "In addition to the contingent events that are determined to result in contractual cash flows that are solely payments of principal and interest applying IFRS 9.4.1.3(b) and B4.1.10, a change in contractual is consistent with a basic lending arrangement if the contingent event is specific to the debtor."
- deleting the indication in IFRS 9:BC67 that contingent events cannot be specific to the creditor or another party, and
- adding a paragraph to the Basis for Conclusions to explain that the amendments are not intended to address or change the existing accounting for financial assets with cash flows subject to contingent events that are not specific to the debtor.

In practice, many ESG-linked features in loan arrangements, for example the level of greenhouse gas emissions, are measured at the consolidated level rather than at an individual entity level. The requirement that the contingent event must be specific to the debtor, read literally, would cause such ESG-linked features to fail the SPPI criteria as an ESG-link linked feature measured at the consolidated level is specific to "another party", i.e. other entities that form part of the same consolidated group as the debtor. We believe this was not the intention of the amendments and our proposed deletion of "another party" in paragraph IFRS 9:BC67 would assist in this respect. Further, we suggest that the IASB amends the description of Instrument EA proposed in IFRS 9:B4.1.13 to refer to "*consolidated* greenhouse gas emissions" to illustrate that a 'debtor' can be interpreted more broadly, and that the financial asset may meet the SPPI criteria even if the contingent event relates not only to the issuer of the debt, but to the consolidated group that includes the issuer.

We observe that the last sentence of proposed IFRS 9:B4.1.10A requires that "the resulting contractual cash flows must represent neither an investment in the debtor nor an exposure to the performance of specified assets (see also paragraphs B4.1.15–B4.1.16)." We find this sentence ambiguous. It is unclear how the *resulting* cash flows can ever represent an investment (as opposed to a return on investment), and what the term "investment" is meant to encompass since any capital transaction might be deemed an investment, regardless of whether it is in the form of an equity or a debt instrument. Given "investment" is a critical feature in the proposed assessment of whether a financial asset meets the SPPI criteria, we believe that the sentence should be amended to provide a more accurate description of the contractual cash flows that would not meet the SPPI criteria. We also note that the sentence should also refer to IFRS 9:B4.1.16A and B4.1.17A. Hence, we suggest the following changes:

> "the resulting contractual cash flows must represent neither an ~~investment in the debtor~~ <u>exposure that goes beyond a basic lending arrangement, e.g. cash flows directly linked to the financial performance of the debtor,</u> nor ~~an exposure~~ to the performance of specified assets (see also paragraphs B4.1.15– ~~B4.1.16~~ <u>B4.1.17A</u>)."

Whereas traditionally ESG-linked interest cash flows were generally determined solely based on the performance of the entity, we have observed the emergence of contingent interest payments determined based on a relative grading of the debtor compared to a group of peers We consider that it is reasonable that such relative ratings may meet the criteria of being specific to the debtor, as they reflect the debtor's

specific circumstances relative to the circumstances of others. We believe the final amendments would benefit from being clear in this respect.

Finally, we disagree with the statement in proposed in IFRS 9:B4.1.8A that “[t]he assessment of interest focuses on what an entity is being compensated for, rather than how much compensation an entity receives.” While we acknowledge that similar language is already used IFRS 9:BC4.182(b), this is done to clarify that the magnitude of an element of interest does not need to be assessed as long as the element represents only consideration for basic lending risks, costs and a profit margin. For example, the magnitude of a credit spread does not need to be separately assessed as long as it relates to the credit risk underlying the instrument (the “what”). While it may be unnecessary to assess the magnitude of fixed elements of interest, IFRS 9:B4.1.9 requires an assessment of leverage in variable elements, which inevitably requires an assessment not only of the “what” but also of the “how much”. This requirement is acknowledged in proposed IFRS 9:BC52 which explains that an entity is required to assess whether a *change* in contractual cash flows is directionally consistent as well as proportionate to a change in basic lending risks or cost. Hence, in our view, the variability of the contractual cash flows (i.e. “how much”) cannot be ignored given the requirement in IFRS 9 to consider whether a loan contains leverage. We therefore propose that the words quoted above from IFRS 9:B4.1.8A should be deleted because they do not apply in the context of the variable compensation addressed in the amendments. These words also contradict the end of IFRS 9:B4.1.8A, which refers to the magnitude of the change as further explained in IFRS 9:BC52.

Question 3—Classification of financial assets—financial assets with non-recourse features

The draft amendments to paragraph B4.1.16 of IFRS 9 and the proposed addition of paragraph B4.1.16A enhance the description of the term ‘non-recourse’.

Paragraph B4.1.17A of the draft amendments to IFRS 9 provides examples of the factors that an entity may need to consider when assessing the contractual cash flow characteristics of financial assets with non-recourse features.

Paragraphs BC73–BC79 of the Basis for Conclusions explain the IASB’s rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree, please explain what aspect of the proposals you disagree with. What would you suggest instead and why?

We support the amendments to IFRS 9:B4.1.16, B4.1.16A and B4.1.17A and the associated paragraphs in the Basis for Conclusions.

Question 4—Classification of financial assets—contractually linked instruments

The draft amendments to paragraphs B4.1.20–B4.1.21 of IFRS 9, and the proposed addition of paragraph B4.1.20A, clarify the description of transactions containing multiple contractually linked instruments that are in the scope of paragraphs B4.1.21– B4.1.26 of IFRS 9.

The draft amendments to paragraph B4.1.23 clarify that the reference to instruments in the underlying pool can include financial instruments that are not within the scope of the classification requirements of IFRS 9.

Paragraphs BC80–BC93 of the Basis for Conclusions explain the IASB’s rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree, please explain what aspect of the proposals you disagree with. What would you suggest instead and why?

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We support the changes proposed to IFRS 9:B4.1.20.

However, we do not support the addition of IFRS 9:B4.1.20A. This paragraph introduces an exception to the application of the contractually linked instrument (CLI) requirements on the basis that the entity that transferred the assets to the special purpose entity (SPE) also purchased the junior debt instruments from the SPE. Since the CLIs are issued by the SPE, we believe that all investors (including the transferor) need to assess whether their investment meets the SPPI criteria, regardless of whether the investors purchased the CLIs at issuance or subsequently. Accordingly, we suggest that IFRS 9:B4.1.20A should not be added to IFRS 9.

Should the IASB proceed with the proposed amendments as drafted, we are also concerned that interpretative questions may arise. In particular, if, as proposed in IFRS 9:B4.1.20A, the accounting for the senior debt instruments depends on whether the junior debt instruments are purchased by the transferor, questions will arise as to whether the holder of senior debt instruments is required to reassess the classification of its investments if the transferor sells its junior debt instruments. If classification is not reassessed, it could lead to structuring opportunities (e.g. the transferor initially purchases the junior notes only to sell them shortly afterwards). On the other hand, if a reassessment is required, this may lead to practical application issues as the holders of senior debt instruments may not be aware if/when the junior debt instruments are sold to a third party. Further questions may arise on the extent to which the exception in IFRS 9:B4.1.20A applies. For example, would the exception apply if the junior debt instruments are purchased by an affiliate of the transferor at origination? Or, given that paragraph IFRS 9:B4.1.20A refers to a "single creditor", does the exception apply when multiple creditors purchase the senior debt instruments at issuance or subsequently?

To avoid the interpretative issues noted above, should the IASB proceed with the proposed exception to CLI, we suggest that to be eligible for the exception the transferor of the financial assets that holds the junior notes should be prohibited under the arrangement from selling the junior notes. Consequently, any owner of the senior notes (whether the notes were purchased at issuance or subsequently) would be able to apply the CLI exception without consideration of whether, and how, their accounting may change based on the actions of a third party.

Question 5—Disclosures—investments in equity instruments designated at fair value through other comprehensive income

For investments in equity instruments for which subsequent changes in fair value are presented in other comprehensive income, the Exposure Draft proposes amendments to:

(a) paragraph 11A(c) of IFRS 7 to require disclosure of an aggregate fair value of equity instruments rather than the fair value of each instrument at the end of the reporting period; and

(b) paragraph 11A(f) of IFRS 7 to require an entity to disclose the changes in fair value presented in other comprehensive income during the period.

Paragraphs BC94–BC97 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree, please explain what aspect of the proposals you disagree with. What would you suggest instead and why?

We support the proposal that the disclosure of the fair value of equity instruments designated as at fair value through other comprehensive income (FVTOCI) should be provided on an aggregate basis rather than separately for each designated equity instrument.

Given the prohibition from reclassifying to profit or loss the fair value gains and losses on designated equity instruments, we support the proposal that an entity should disclose separately the change in fair value that relates to equity instruments derecognised from the amount that relates to instruments that continue to be recognised.

Question 6—Disclosures—contractual terms that could change the timing or amount of contractual cash flows

Paragraph 20B of the draft amendments to IFRS 7 proposes disclosure requirements for contractual terms that could change the timing or amount of contractual cash flows on the occurrence (or non-occurrence) of a contingent event. The proposed requirements would apply to each class of financial asset measured at amortised cost or fair value through other comprehensive income and each class of financial liability measured at amortised cost (paragraph 20C).

Paragraphs BC98–BC104 of the Basis for Conclusions explain the IASB's rationale for this proposal.

Do you agree with this proposal? Why or why not? If you disagree, please explain what aspect of the proposal you disagree with. What would you suggest instead and why?

Given the broadening of the scope of debt instruments that will be measured at an amount other than fair value through profit or loss (FVTPL) as a result of the amendments proposed in the ED, we agree that there is a need for additional disclosure in respect of certain debt instruments measured at amortised cost or FVTOCI. However, as drafted, IFRS 7:20B would include a far broader subset of debt instruments than those affected by the amendments. Indeed, to some degree, the timing or amount of the contractual cash flows of nearly all debt instruments may vary based on an event that is specific to the debtor. For example, this is the case for debt instruments with an issuer call option (since the contingent event, the debtor calling the instrument, is specific to the debtor) and debt instruments that are subject to early repayment if there is a breach of covenant (the breach of covenant being a contingent event that is specific to the debtor).

We do not believe the IASB intends for IFRS 7:20B to capture such a broad scope of instruments, particularly given that the disclosures proposed in IFRS 7:20B are similar to those introduced in IAS 1:76ZA(a) by the amendments to IAS 1 *Non-current Liabilities with Covenants* issued in October 2022. We propose, therefore, that the scope of the proposed IFRS 7:20B should exclude contingent events where the event is the exercise by the entity of its unilateral right to repay the debt early or the early repayment of debt triggered by a failure of the debtor to comply with conditions specified in the loan arrangement, such as covenants.

We also note that IFRS 7:20B(c) would require the disclosure of the amortised cost of financial liabilities. We believe that this would be relevant if the liability is wholly measured at amortised cost. However, in many cases, the contingent feature is an embedded derivative bifurcated from the financial liability and measured at FVTPL. Therefore, we propose that the scope should be amended to exclude financial liabilities and, for the above reasons, apply only to financial assets to which IFRS 9:B4.1.10A has been applied.

In addition, it should be clarified that the information required by IFRS 7:20B should be provided for each class of financial assets. This clarification would permit the elimination of IFRS 7:20C which provides only limited guidance beyond what is already described in IFRS 7:B1-B3.

In addition, consistent with our response to Question 1, we believe that IFRS 7:B5 should be amended to refer to the alternative accounting treatment introduced in IFRS 9:B3.3.8. We believe this would be

appropriate and consistent with the fact IFRS 7:B5(c) already includes the accounting policy choice between trade and settlement date accounting for purchases and sales of financial assets.

Question 7—Transition

Paragraphs 7.2.47–7.2.49 of the draft amendments to IFRS 9 would require an entity to apply the amendments retrospectively, but not to restate comparative information. The amendments also propose that an entity be required to disclose information about financial assets that changed measurement category as a result of applying these amendments.

Paragraphs BC105–BC107 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree, please explain what aspect of the proposals you disagree with. What would you suggest instead and why?

We are generally supportive of the proposed approach to transition. However, we are aware of the demand for early adoption of the amendments to the SPPI criteria. Given these amendments are independent from the other amendments to IFRS 9, we believe it would be appropriate to provide entities the option to apply the amendments to the SPPI criteria (and associated disclosures in IFRS 7) in advance of the adoption of the remainder of the amendments. This approach would be particularly helpful in addressing issues currently faced by lenders and investors with material ESG-linked debt portfolios.