

# EFRAG

## Activities of interest for risk managers and IFRS 9 ECL

The Impact of the pandemic on the IFRS9 Framework  
AIFIRM

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Chiara Del Prete

*Chairwoman EFRAG Financial Reporting Technical Expert Group  
Acting Chair EFRAG Sustainability Reporting Technical Expert Group  
Chair of International Forum of Accounting Standard Setters*



# DISCLAIMER

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# EFRAG: General presentation

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## General presentation

EFRAG – European Financial Reporting Advisory Group

Private not-for-profit established in 2001

Encouraged by the EC to serve the public interest

Member organisations: European stakeholders  
and National Organisations and Civil Society Organisations

Has two pillars:

- A Financial Reporting Pillar
- A Sustainability Reporting Pillar

# EFRAG role in Financial and in Sustainability Reporting

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## Mission statement

To serve the European public interest in both financial reporting and sustainability reporting by developing and promoting European views in the field of corporate reporting and by developing draft EU Sustainability Reporting Standards.

## Financial reporting

- Ensures that the European views are properly considered in the IASB's standard-setting process and in related international debates
- To provide advice to the EC on whether new or revised IFRS Standards meet the criteria in the IAS Regulation for endorsement for use in the EU, including European public good

## Sustainability reporting

- Provides technical advice to the European Commission in the form of draft EU Sustainability Reporting Standards accompanied by bases of conclusions and cost benefit analysis including impact analysis.

# EFRAG Exposure Drafts of ESRS: first set in consultation until 8 August

## Cross-cutting Exposure Drafts

- ESRS 1 General principles
- ESRS 2 General, strategy, governance and materiality assessment

## Topical standards - Environment

- ESRS E1 Climate change
- ESRS E2 Pollution
- ESRS E3 Water and marine resources
- ESRS E4 Biodiversity
- ESRS E5 Resource use and circular economy

## Topical standards - Social

- ESRS S1 Own workforce
- ESRS S2 Workers in the value chain
- ESRS S3 Affected communities
- ESRS S4 Consumers & end-users

## Topical standards - Governance

- ESRS G1 Governance, risk management and internal control
- ESRS G2 Business conduct

COVER NOTE FOR PUBLIC CONSULTATION

## DRAFT EUROPEAN SUSTAINABILITY REPORTING STANDARDS

April 2022



Open for comments until 8 August 2022

PTF-ESRS  
Public Consultation on European Sustainability Reporting Standards

EFRAG

Comments by 8 August – link to the survey available at [www.efrag.org](http://www.efrag.org)



# Financial reporting projects

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# Post Implementation Review of IFRS 9 Financial Instruments

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## Classification and Measurement

- IASB in process of analysing feedback received
- EFRAG FCL 28 Jan 2022
- Special issue: financial instruments with ESG features

## Expected credit losses

- In preparation
- EFRAG in process of collecting issues
- IASB RFI planned Q4 2022

## General hedge accounting

- Planned

# PIR IFRS 9 – Classification and Measurement

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## Update on aligning ESG features with SPPI –criterion

Considerations of IASB staff – March – April 2022

- No specific solution for ESG features – solution to remain principles based
- Standard-setting needed:
  - Adding application guidance with regards to basic lending agreements
  - Clarify whether variability from contractual terms changing time and amount of contractual cash flows are consistent with SPPI
  - Consider how disclosure requirements of IFRS 7 would apply
- ESG features often not meant to compensate lender for taking risks, rather they are used as an incentive to the borrower
  - If contractual cash flows resulting from ESG features do not create compensation for ESG risks, the cash flows could be not inconsistent with a basic lending arrangement
  - If the ESG features introduce exposure to ESG risks, or compensation for taking such risk > measurement at fair value through profit or loss

# Financial Instruments With Characteristics Of Equity (FICE)

## EFRAG FCL ON 2018 DP FICE

- Did not support the IASB’s proposals for classification and suggested focusing on targeted improvements to IAS 32
- Also suggested that the IASB pursues improvements to disclosures

## NEW OBJECTIVE OF THE PROJECT

- Improve information provided in the financial statements about financial instruments issued
- Address known practice issues applying IAS 32 without fundamentally rewriting it

| Q4 2019             | Q2 2020  | Q1 2021                                    | Q2 2021                          | Q3 2021 to date   | TBD            |
|---------------------|--|--|----------------------------------|---|----------------|
| Project plan agreed | Fixed-for-fixed condition discussion concluded | ‘Perpetual instruments’ discussion started | Disclosures discussion concluded | Contingent settlement provisions, the effect of law and shareholders discretion | Exposure Draft |

# IAS 1 Non-current Liabilities with Covenants

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## Project scope

- The IASB's exposure draft (ED) on Non-current Liabilities with Covenants intends to improve the guidance on how to classify a liability as either current or non-current when the entity has to comply with a covenant after the reporting period end.
- The ED proposes amendments to IAS 1 for separate presentation of such liabilities, a classification where complying with conditions after the reporting period end would not affect whether the right to defer settlement exists at the end of the reporting period; and additional disclosures.

## Project timeline

- In January 2020 amendments to IAS 1 Presentation of Financial Statements were issued that should clarify the requirements for classifying liabilities as current or non-current. Stakeholders informed the IFRS IC that it would be difficult to determine whether a 'the right to defer settlement' would exist at the reporting period end based on the guidance issued.
- In June 2021 the IASB tentatively decided to add a narrow-scope project to amend IAS 1. EFRAG published its Draft Comment Letter on the topic in January 2022 with a comment deadline 9 March 2022 and submitted its Final Comment Letter to the IASB on 29 March 2022.

# Supplier Finance Arrangements

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## Project scope

- The IASB's exposure draft (ED) on supplier finance arrangements intends to enhance the transparency of reporting for these arrangements by complementing existing the requirements in IFRS Standards
- The ED proposes amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures* to require entities to disclose additional information about these arrangements

## Project timeline

- In June 2021, the IASB tentatively decided to add a narrow-scope standard-setting project to address investor information needs related to supplier finance arrangements. The IASB published an ED on the project in November 2021
- EFRAG published its Draft Comment Letter on the topic in January 2022 with a comment deadline 9 March 2022
- EFRAG submitted its Final Comment Letter to the IASB on 29 March 2022

# Dynamic Risk Management (DRM)

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## Project scope and timeline

- The IASB is exploring whether it can develop an accounting model that will enable investors to understand a company's dynamic risk management and to evaluate the effectiveness of that risk management.
- Below is the IASB re-deliberation plan

| Topics  | Timeline       |
|---|----------------|
| Interaction between risk limits and target profile      | September 2021 |
| Designation of a proportion of prepayable assets        | November 2021  |
| Recognising changes in fair value of derivatives in OCI | Q2 2022        |
| Decide on project direction                             | Q2 2022        |



## IFRS 9 ECL – next steps

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# What is a Post Implementation Review (PIR)? Criteria

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A PIR is an opportunity for the IASB to assess the effect of the new requirements of a Standard on investors, companies and auditors

## Criteria to assess issues in a Post Implementation Review

- Are objectives of the standard met?
- Is information provided useful?
- Are costs as expected?
- Can standard be applied consistently?

## Steps in Post Implementation Review

- Identification and assessment of matters of issues to examine
- Publication of a Request for Information (RFI) gathering information on the issues identified
- IASB Board to consider comments from public consultation along with information gathered from any additional analysis
- Publication of a report and feedback statement summarising findings.

# PIR of IFRS 9 Expected Credit Losses

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EFRAG is seeking inputs to benefit the PIR process of the IASB



- EFRAG Secretariat holding outreach in April –July to identify issues
- Analysis of issues (against PIR criteria) and building the draft comment letter (DCL)
- Close interaction with IASB staff
- Respond to IASB RFI once issued – public consultation early 2023 (expectation)
- Assess comments received and submit final comment letter to IASB
- Follow-up on IASB assessments afterwards

## Initial feedback for IFRS 9 ECL PIR (1/2)

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- **Regulatory expectations vs what IFRS 9 requires**
  - Banks integrate regulatory requirements when applying IFRS 9
  - Does this “mix” enhance the relevance of the information?
- **Modifications in presence of forbearance**
  - Is the borderline between the two clear?
  - Differences in practice observed
- **Covid 19 provisions**
  - Many banks initially over-provisioned, then scaled back when government measures became effective
  - Do you think IFRS 9 has worked as intended in this case?

## Initial feedback for IFRS 9 ECL PIR (2/3)

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- **Staging analysis**
  - Not uncommon to find individual exposures in stage 1 and 2 simultaneously
  - Would a single name assessment be more representative of the credit risk related to particular financial instruments?
- **Significant increase in credit risk**
  - Top down approach being used often (use of overlays)
  - Is a bottom-up approach (assessing each single financial asset separately) preferable?



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THANK YOU



EFRAG  
Aisbl - ivzw  
35 Square de Meeüs  
B-1000 Brussel  
Tel. +32 (0)2 207 93 00  
[www.efrag.org](http://www.efrag.org)

