

# Amendments to the Classification and Measurement of Financial Instruments

## Executive Summary

The International Accounting Standards Board (IASB) has issued amendments to IFRS 9 *Financial Instruments* and some amendments have also been made to IFRS 7 *Financial Instruments: Disclosures*, following a post-implementation review (PIR) of IFRS 9. The amendments also include consequential changes to IFRS 19 *Subsidiaries without Public Accountability: Disclosures* to reflect the amendments made to IFRS 7.



## Background

The IASB's PIR of the classification and measurement requirements in IFRS 9 and the related requirements in IFRS 7 concluded that overall, the requirements set out in these two standards can be applied consistently and they also provide useful information to users of the financial statements. However, the PIR process did reveal some areas that could be improved and they included:

- accounting for the settlement of a financial asset or liability using an electronic payment system, and
- applying the requirements for assessing contractual cash flow characteristics to financial assets with features related to environmental, social, and governance (ESG) matters.

To address these matters and to improve clarity and understanding, the IASB has issued some amendments to the classification and measurement of financial instruments to promote consistency.



## The Amendments

### Derecognition of financial instruments when an electronic payment system is used

New guidance has been added to IFRS 9 to specifically address when a financial liability should be derecognised when it is settled by electronic payment. Previously, an entity was required to wait until the settlement date of the transaction to discharge the liability, but the new guidance allows for the liability to be discharged before the settlement date if:

- the payment cannot be withdrawn, stopped or cancelled
- the entity no longer has the practical ability to access the cash, and
- settlement risk associated with the electronic payment system is insignificant.

### Classification of financial assets

*Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding*

IFRS 9 has always required an entity to consider the characteristics of its contractual cash flows to appropriately classify a financial asset. The amendments provide some additional guidance to help an entity assess whether the contractual cash flows of a financial asset are consistent with a basic lending arrangement. Given the importance of this determination, new guidance has been provided, including examples of contractual cash flows that are solely payments of principal and interest on the principal outstanding, to ascertain whether or not the arrangements would be consistent with a basic lending arrangement.

IFRS 9 also describes certain situations where financial assets may have contractual cash flows that are described as principal and interest, but the payments made do not actually represent a basic lending arrangement. This may be the case if a financial asset has non-recourse features. The amendments to IFRS 9 provide a clearer definition of a non-recourse feature, which is now outlined as a financial asset where the entity's ultimate right to receive cash flows is contractually limited to the cash flows generated by specified assets.



## The Amendments

### *Contractually linked instruments*

IFRS 9 has also been updated to provide additional guidance to clarify the characteristics of contractually linked instruments as well as the definition of the underlying pool used to assess whether a transaction contains contractually linked instruments. The amendments also specify that transactions that contain multiple debt instruments are not automatically contracts with multiple contractually linked instruments, and so they must be carefully assessed before a final determination is made.

### **IFRS 7: Disclosures**

#### *Investments in equity instruments designated at fair value through other comprehensive income*

The amendments to IFRS 7 add new required disclosures for any investments in equity instruments designated at fair value through other comprehensive income. These include disclosures of the fair value gain or loss presented in other comprehensive income for the period, showing separately the fair value gain or loss related to investments derecognized or held, as well as the transfer of cumulative gain or loss within equity related to derecognized investments

#### *Contractual terms that could change the amount of contractual cash flow based on contingent events*

IFRS 7 has been amended to require additional new disclosures for each class of financial asset measured at amortized cost or fair value through other comprehensive income, as well as financial liabilities measured at amortized cost. When there are contractual terms that could change the contractual cash flows based on the outcome of a contingent event not directly related to basic lending risk, an entity must now disclose certain information surrounding the related contingent event as well as possible changes to cash flows and the gross carrying value and amortized cost of the related financial asset or liability. These new disclosures are also now reflected in IFRS 19.



## Effective date

The amendments are effective from annual reporting periods beginning on or after 1 January 2026. Early adoption of the Standard is permitted, with a choice to either apply all amendments at the same time and disclose that fact or to apply only the amendments to the Application Guidance sections for the earlier period and disclose that fact.

An entity is required to apply these amendments retrospectively. However, an entity is not required to restate prior periods to reflect the application of the amendments unless it can clearly demonstrate that hindsight has not been used to make those changes.

## Our thoughts

We were pleased to see the IASB taking on board many of the comments submitted to it during the PIR process on IFRS 9 and responding to them in a timely way. One of the goals of the IASB in making these amendments was to reduce diversity in practice, and we believe this will happen.

The guidance set out in these amendments for preparers on the derecognition of financial liabilities settled through electronic transfer will be helpful. So will the amendments clarifying how to assess the contractual cash flows characteristics of financial assets when ESG-linked features are present, when non-recourse features exist and when contractually linked arrangements are in place. For investors the additional disclosure requirements now reflected in IFRS 7, to deal with both financial equity investments designated at fair value through other comprehensive income and financial instruments with contractual terms that could change the timing or amount of contractual cash flows on the occurrence (or non-occurrence) of a contingent event, will be insightful.

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