

International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Re: Exposure Draft, Amendments to the Classification and Measurement of Financial Instruments

Dear Board Members:

This letter is the response of the [Canadian Accounting Standards Board](http://www.frascanada.ca) (AcSB) to the International Accounting Standards Board's (IASB) Exposure Draft, "Amendments to the Classification and Measurement of Financial Instruments", issued in March 2023.

Who we are

The AcSB is an independent body with the authority to establish accounting standards for use by all Canadian entities outside the public sector. We serve the public interest by establishing standards for financial reporting by all Canadian private sector entities and by contributing to the development of internationally accepted financial reporting standards.

Our process

This response letter represents the views of AcSB members and staff based on their knowledge and experience.

As part of our due process for this Exposure Draft, we also consulted with over 60 interested and affected parties across Canada, including discussions with our [IFRS® Accounting Standards Discussion Group](#), [User Advisory Committee](#), [Insurance Transition Resource Group](#) and other preparers from Canadian banking institutions. We took the results of these discussions into account when developing this letter.

Our views

We appreciate the opportunity to comment on this Exposure Draft and commend the IASB for issuing timely amendments to address feedback received as part of the IFRS 9 *Financial Instruments* classification and measurement post-implementation review.

Overall, we are broadly supportive of the amendments outlined in the Exposure Draft and think that they provide helpful clarifications for the application of IFRS 9, particularly for those financial instruments with more dynamic or complex terms (e.g., financial assets with ESG-linked features). However, we have several suggestions and considerations for the IASB on its proposals.

Derecognition of a financial liability using an electronic payment system

We strongly encourage the IASB to clarify or define what is meant by an electronic payment system. There are many different types of payments that exist worldwide, some of which include both manual and electronic components (e.g., payments by cheque or wire transfer). Further clarification on this matter

would help entities better ascertain which financial liabilities would qualify for derecognition prior to the settlement date and could reduce potential diversity in practice.

We also encourage the IASB to provide further flexibility on the criteria that an entity has “no ability to withdraw, stop or cancel the payment instruction” to derecognize a financial liability prior to the settlement date. For example, there may be instances when payment systems allow for cancellations only in specific circumstances, such as in cases of error or suspected fraud. The IASB should consider revising its amendments to allow flexibility in these and other similar types of situations.

During our outreach, we heard that it may be challenging for entities to apply the settlement date exemption for financial liabilities if the IASB is unable to reasonably expand the criteria above. If this is the case, the IASB should re-evaluate the benefits of permitting an exemption that may not be able to be widely or consistently applied.

Classification of financial assets

We are supportive of the amendments proposed by the IASB relating to the application of the solely payments of principal and interest (SPPI) requirement. However, the IASB is encouraged to provide further clarification on its proposals in paragraph IFRS 9.B4.1.8A regarding when a change in contractual cash flows is not aligned with the “direction and magnitude of the change in basic lending risks or costs.”

In particular, the IASB should clarify whether and how the concepts of direction and magnitude would apply to financial assets with ESG-linked features as it is unclear when changes in contractual cash flows and broader ESG-linked metrics would be directionally or proportionately misaligned. Further clarification on this matter would help to assist entities in evaluating whether financial assets with ESG-linked features meet the SPPI requirement.

Disclosures for financial instruments with contractual terms that could affect the timing or amount of contractual cash flows

We are supportive of the proposed disclosures and recognize the importance of providing decision-useful information to users. However, many preparers we consulted raised significant concerns regarding the broad scope of these disclosures, noting that this would create challenges in compiling and aggregating required information.

We strongly encourage the IASB to provide additional application or illustrative guidance to assist entities with disclosing the quantitative information required by paragraph IFRS 7.20B(b). This could help entities to reasonably disclose and aggregate required information and would reduce the risk of non-compliance or inconsistency in application.

Our responses to your questions

The [Appendix](#) to this letter responds to the questions posed in the Exposure Draft and expands on the points raised above.

We would be pleased to elaborate on our comments in more detail if you require. If so, please contact me or, alternatively, Katharine Christopoulos, Director, Accounting Standards (+1 416 204-3270 or kchristopoulos@acsbcanada.ca) or Andrew White, Associate Director, Accounting Standards (+1 416 204-3487 or awhite@acsbcanada.ca).

Yours truly,



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About the Canadian Accounting Standards Board

We are an independent body with the legal authority to establish accounting standards for use by all Canadian publicly accountable enterprises, private enterprises, not-for-profit organizations and pension plans in the private sector. We are comprised of a full-time Chair and volunteer members from a variety of backgrounds, including financial statement users, preparers, auditors and academics; a full-time staff complement supports our work.

Our standards

We have adopted IFRS® Accounting Standards as issued by the IASB for publicly accountable enterprises. Canadian securities legislation permits the use of U.S. GAAP in place of IFRS Accounting Standards in certain circumstances. We support a shared goal among global standard setters of high-quality accounting standards that result in comparable financial reporting outcomes regardless of the GAAP framework applied.

We developed separate sets of accounting standards for private enterprises, not-for-profit organizations and pension plans. Pension plans are required to use the applicable set of standards. Private enterprises and not-for-profit organizations can elect to apply either the set of standards developed for them, or IFRS Accounting Standards as applied by publicly accountable enterprises.

Our role vis-à-vis IFRS Accounting Standards

Our responsibility to establish Canadian GAAP necessitates an endorsement process for IFRS Accounting Standards. We evaluate and rely on the integrity of the IASB's due process as a whole, and monitor its application in practice. In addition, we perform our own due process activities for each new or amended IFRS Accounting Standard to ensure that the standard is appropriate for application in Canada. We reach out to Canadians on the IASB's proposals to understand and consider their views before deciding whether to endorse a final IFRS Accounting Standard. A final standard is available for use in Canada only after we have endorsed it as Canadian GAAP.

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 derecognize a financial liability that is settled using an electronic payment system although cash has yet to be delivered by the entity.

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?

1. We conceptually support the IASB's proposal to clarify the use of settlement date accounting and agree that introducing an exemption for financial liabilities to respond to feedback received from the September 2021 IFRIC [tentative agenda decision](#) is a reasonable approach. However, we have several application concerns and suggestions for the IASB which are outlined below.

Provide a definition for electronic payment system

2. We strongly encourage the IASB to clarify or define what is meant by an electronic payment system. Certain forms of payments include both manual and electronic components, which could create confusion among entities in determining which types of payments qualify for the proposed exemption.
3. For example, while cheques are a paper-based form of payment, they may be deposited by entities online or using electronic banking systems. Similarly, payments made by direct debit or wire transfer may involve manual processes to set-up payments but are ultimately processed using electronic means. Further clarification on this matter would help entities better ascertain which types of payments would qualify as an electronic payment system and could reduce the risk of inconsistent application in practice.
4. A common definition of an electronic payment system is a system that allows an entity or individual to conduct online transactions which eliminates the need for cash or cheques. This understanding could be a helpful starting point for the introduction a more formal definition by the IASB to ensure that its proposed exemption is applied consistently.

Provide further flexibility on the criteria that an entity has "no ability to withdraw, stop or cancel the payment instruction"

5. We encourage the IASB to provide further flexibility on its proposed criteria that an entity has "no ability to withdraw, stop or cancel the payment instrument" to derecognize a financial liability prior to the settlement date.
6. There may be instances where payment systems allow for cancellations only in specific circumstances, such in cases of error or suspected fraud. The IASB should allow for further flexibility in these situations as the ability to cancel is narrow and only relevant if the established conditions are met. For example, in the case of an ability to cancel due to error, an entity is only able to cancel its payment transaction if they make an error – if they do not make an error, while they may have a theoretical ability to cancel, they do not have a practical ability to cancel as they do not meet the established conditions.
7. To help achieve this additional flexibility, the IASB should consider updating its proposed criteria from "no ability to withdraw, stop or cancel the payment instruction" to "no practical ability to withdraw, stop or cancel the payment instruction". We think that this would provide additional flexibility for entities to

reasonably meet the proposed exemption and is consistent with terminology used by the IASB in paragraph IFRS 9.B3.3.8(b).

8. Many preparers and practitioners that we consulted with also indicated that, without further flexibility, it would be challenging to apply the proposed exemption. Different payment systems and jurisdictions may have different rules regarding how and when payments can be cancelled, which could require entities to conduct an extensive review of underlying legal or contractual terms. Others indicated that it would be difficult to irrefutably demonstrate that they did not have any ability to cancel electronic payments once submitted.
9. We encourage the IASB to conduct further outreach and research to determine whether existing electronic payment systems can meet its proposed criteria. If the IASB is unable to reasonably expand its criteria regarding the cancellation of payments, we would question the benefit of introducing an exemption that may not be able to be widely or consistently applied.

Provide further clarification on payments made using the same electronic payment system

10. Further clarity would also be beneficial on the IASB's requirement to apply the proposed exemption to all payments made through the same electronic payment system. Notably, entities may be unclear on what constitutes the "same" system. For example, complexities could arise in assessing payments with different characteristics that are processed using the same banking institution, or similar categories of payments (e.g., wire transfers or e-transfers) that are processed using different banking institutions. The IASB should provide further clarification in this area to ensure that preparers and auditors are able to appropriately apply and evaluate compliance with its proposals.
11. Alternatively, if entities choose to apply the proposed exemption, the IASB could consider requiring entities to apply the exemption to all payments made using an electronic payment system that qualify under its proposed criteria. This approach would allow for application consistency between different systems with similar characteristics and would eliminate the need for the IASB to clarify how the "same" system should be interpreted.

Establish a reasonable transition period

12. As outlined above, we note that the IASB's proposed amendments seek to clarify the use of settlement date accounting for financial assets and liabilities in addition to proposing an exemption for financial liabilities settled using an electronic payment system.¹
13. We understand that it is currently common practice in Canada for entities to derecognize trade receivables and payables using trade date accounting. As a result, the proposed amendments could create costly and significant changes for entities who will need to update their accounting systems and bank reconciliation processes to reflect settlement date accounting. The proposed amendments could also create complexities for auditors, who will be required to obtain an understanding of their clients' payment systems when assessing the derecognition of financial liabilities.
14. Cheques are also still widely used for payments in Canada, particularly among smaller entities. Assuming that cheques are not considered an electronic payment system, this would only serve to magnify the impacts of the proposed amendments among Canadian entities.
15. Considering these impacts, we encourage the IASB to provide sufficient time for entities to assess and implement these proposals when establishing a transition date. This will ensure that entities, as well as their auditors, have time to adequately implement and evaluate the shift to settlement date accounting.

¹ The requirement to use settlement date accounting does not apply to the regular way purchase or sale of financial assets as described in paragraph IFRS 9.3.1.2.

Enhance documentation in the Basis for Conclusions

16. We encourage the IASB to provide further clarity in its Basis for Conclusions on why the policy choice to use settlement date or trade date accounting available for the regular way purchase or sale of financial assets would not apply more broadly to the recognition and derecognition of other financial assets and liabilities.
17. While the IASB has outlined its rationale for its proposals in this document, this analysis would provide further technical context to support the IASB's proposed course of action and could mitigate additional conceptual questions from preparers and practitioners.

Question 2 – Classification of financial assets – contractual terms that are consistent with a basic lending arrangement

Paragraph 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.

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

18. We agree with the proposals outlined by the IASB regarding the assessment of contractual cash flows. Notably, we think that these clarifications provide helpful and needed guidance for entities to assess whether financial assets with contractual terms that could change the timing or amount of future cash flows (e.g., financial assets with ESG-linked features) meet the SPPI requirement.
19. To further clarify and refine its proposals, we have some considerations and suggestions for the IASB which are outlined below.

Provide further clarification on the “direction and magnitude of the change in basic lending risks or costs”

20. We encourage the IASB to provide further clarification on its proposals in paragraph IFRS 9.B4.1.8A regarding when a change in contractual cash flows is not aligned with the “direction and magnitude of the change in basic lending risks or costs.”
21. We note that an example is included in the Basis for Conclusions relating to the directionality of credit risk and interest rate that illustrates when these movements would not be consistent with a basic lending arrangement. We recommend that this example be brought directly into the standard for further prominence and clarity. The IASB should also consider including an additional example directly in the standard to articulate when the magnitude of changes in contractual cash flows would violate the SPPI requirement.
22. We also think that it is unclear how an entity should interpret the direction and magnitude assessment for a financial asset with ESG-linked features. While this may be more obvious for basic lending risks or costs described in paragraph IFRS 9.B4.1.7A, entities may be less clear on when and how

changes in contractual cash flows and broader ESG-linked metrics would be directionally or proportionately misaligned.

23. To alleviate any confusion on application of its amendments, we encourage the IASB to:
- i) clarify whether this principal directly applies to changes in contractual cash flows related to ESG-linked metrics; and
 - ii) provide further guidance on how this should be evaluated in practice, provided this principal does directly apply to ESG-linked metrics. For example, to do this, the IASB could expand its first proposed example to elaborate on how the movements in interest rate based on a debtor's greenhouse gas emissions are consistent with the direction and magnitude of the change in basic lending risks or costs.
24. We think that these clarifications will allow for a more consistent application and interpretation of the IASB's proposed amendments.

Provide further clarification on "an exposure to the performance of specified assets"

25. We encourage the IASB to clarify its guidance in paragraph IFRS 9.B4.1.10A that the contractual cash flows of a financial asset must not represent "an exposure to the performance of specified assets" to meet the SPPI requirement.
26. In certain financial assets with ESG-linked features, some metrics may be linked to the building of specific assets (e.g., green facilities) or be reliant on the greenhouse gas emissions of underlying assets. While these types of metrics could be viewed as an exposure to the performance of specified assets, they relate solely to an asset's sustainability performance as opposed to an asset's financial performance.
27. The IASB is encouraged to clarify its intent regarding how this exposure should be interpreted to provide further clarity when applying and assessing these amendments. If the IASB's intent is to limit this exposure only to the financial performance of specified assets, we recommend that this be explicitly stated in the standard.

Provide additional examples beyond financial assets with climate-related features

28. The IASB should consider including examples of those financial assets with contingent events that could change the timing or amount of future cash flows, but do not have ESG-linked features. For example, this could include financial assets with interest rates that fluctuate based on a debtor's credit rating or other similar characteristics.
29. It may also be helpful for the IASB to include additional examples of financial assets with ESG-linked features beyond just climate. Among others, this could include financial assets with interest rates that fluctuate based on social metrics or targets, such as an entity's gender or ethnic diversity.
30. Our discussions with preparers indicated that the inclusion of additional examples would provide helpful context upon application of these proposals. This could also help to increase the relevance and applicability of the standard as more complex and varied types of financial instruments are introduced.

Provide further specificity over non-genuine contractual terms

31. We encourage the IASB to provide further specificity over what is considered a non-genuine contractual term as described in paragraph IFRS 9.B4.1.18.
32. In its proposed amendments, the IASB has clarified that entities shall consider all contingent events in the SPPI assessment irrespective of their probability of occurrence, except for non-genuine contractual terms. Additional clarity on what constitutes a non-genuine contractual term could assist

entities in applying judgment to determine whether a contingent event is “extremely rare, highly abnormal and very unlikely to occur” and therefore disregarded from the SPPI assessment.

33. For example, the IASB could consider including additional application guidance or examples of these types of circumstances to assist entities in applying and interpreting these amendments.

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

The draft amendments to paragraph B4.1.16 of IFRS 9 and 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.

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

34. We agree with the proposed amendments to paragraph B4.1.16 and addition of paragraph B4.1.16A to enhance the description of the term “non-recourse”.
35. However, we encourage the IASB to clarify its guidance in paragraph IFRS 9.B4.1.17A regarding when an entity should consider factors such as the legal and capital structure of the debtor. While it may be presumed that the situations described in subparagraph a) and b) would be an indicator that a non-recourse financial asset could meet the SPPI requirement, it is recommended that this be stated more explicitly in the standard for additional clarity and ease of application.

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.

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

36. We agree with the proposals for contractually linked instruments and think that they provide helpful clarifications for entities to better distinguish between contractually linked instruments and non-recourse financial assets.
37. However, our discussions with Canadian banking institutions highlighted that there may be circumstances where the most senior tranche of a contractually linked instrument has a similar risk exposure as a non-recourse financial asset, but results in a different classification in the financial statements due to differences in the SPPI assessment. This is driven by the requirement in paragraph IFRS 9.B4.1.23 to assess the underlying pool of financial instruments in a contractually linked

instrument for contractual cash flows that are SPPI. The IASB may want to consider whether any further amendments to this guidance are needed to ensure that economically similar financial instruments are classified consistently in the financial statements.

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.

38. We agree with the proposed disclosures for equity instruments designated at fair value through other comprehensive income (OCI). Notably, we think that the requirement to disclose an aggregate fair value rather than the fair value of each instrument is reasonable and continues to provide decision-useful information to users.
39. However, more broadly, our consultations with Canadian insurers have continued to raise significant concerns surrounding the recycling prohibition for equity instruments designated at fair value through OCI. We encourage the IASB to continue to engage in discussions with insurers and users as this industry finalizes its implementation of IFRS 9 to ascertain whether the recycling prohibition results in the provision of decision-useful information.

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 amortized cost or fair value through other comprehensive income and each class of financial liability measured at amortized cost (paragraph 20C).

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?

40. We agree with the proposed disclosures for financial instruments with contractual terms that could change the timing or amount of future cash flows based on a contingent event. Many users we consulted expressed a desire for additional information on these types of financial instruments, including financial liabilities with debt covenants, financial assets with credit-related contingencies and financial assets with ESG-linked features. In particular, users highlighted the importance of understanding the quantitative range of interest rate outcomes on financial liabilities (debt agreements) that are material to an entity. We think that the proposed disclosures help to provide users with additional transparency surrounding possible changes to an entity's future cash flows and overall financial position.

41. However, many preparers we consulted expressed significant concerns with the broad scope of the proposed disclosures. For example, Canadian banking institutions indicated that, as-written, the proposed disclosures would scope-in a vast majority of their loan portfolios. This could create serious challenges in compiling and aggregating required quantitative information in a meaningful way.
42. We are concerned that the challenges raised by preparers could lead to instances of non-compliance or diversity in the quality of information provided. To address this, we strongly encourage the IASB to provide additional application or illustrative guidance to demonstrate how the required quantitative information in paragraph IFRS 7.20B(b) could be aggregated. In doing so, the IASB should carefully consider the trade-off between providing decision-useful information to users and the costs to preparers in compiling and disclosing this information.
43. As an alternative, the IASB may explore whether the scope of the proposed disclosures could be narrowed to better account for the costs of providing this information. For example, the IASB could consider the merits of limiting required disclosures to information that is provided internally to an entity's key management personnel. This approach is used for certain liquidity risk disclosures in paragraph IFRS 7.B10A and could help to focus the proposed disclosures on the most relevant and significant areas of possible changes to future contractual cash flows.
44. Other considerations for the IASB related to the proposed disclosures are outlined below:

Additional information that would be decision-useful to users

45. Some users have suggested that additional disclosures regarding how entities are progressing against contractually specified metrics and targets would provide useful information. This could deliver further insight in determining the likelihood of an entity meeting contractually specified thresholds for increases or decreases in interest rate and would help to give users greater clarity over future cash flows.
46. While we recognize that this information would be useful, similar challenges regarding scope and aggregation could apply as we have outlined above. The IASB should carefully consider these opposing factors when determining whether any further disclosures would be beneficial.

Connectivity between the financial statements and sustainability-related financial disclosures

47. More broadly, the IASB, working together with the International Sustainability Standards Board (ISSB), should consider whether additional disclosures would be beneficial in financial or sustainability reporting regarding how ESG-linked features on specific financial assets align with an entity's broader sustainability-related goals and disclosures. This type of information could enhance connectivity between the financial statements and required disclosures in IFRS S1 – *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 – *Climate-related Disclosures*.

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.

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

48. We do not have concerns with the proposed transition requirements and note that these are broadly consistent with transition requirements used upon initial application of the classification and measurement guidance in IFRS 9.
49. However, as outlined in our response to Question 1, many entities currently use trade date accounting for the derecognition of financial assets and liabilities and would be required to apply settlement date accounting upon adoption of these amendments. If these entities apply the amendments retrospectively without restatement, it is unclear how corresponding adjustments to the cash balance should be presented in the Statement of Cash Flows. The IASB may want to consider providing additional transition guidance in these cases to enhance comparability between entities.