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International Accounting Standards Board
Columbus Building
7 Westferry Circus
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London E14 4HD
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Dear IASB Members,

Re: Post-implementation Review – IFRS 9 *Financial Instruments*—Impairment (IASB/RFI/2023/1)

This letter is the response of the Canadian Accounting Standards Board (AcSB) to the International Accounting Standards Board's (IASB) Request for Information, "Post-Implementation Review – IFRS 9 *Financial Instruments*—Impairment" issued in May 2023.

Our process

This letter represents the views of AcSB members and staff based on their knowledge and experience. As part of our due process for this Request for Information, we consulted with over 85 interested and affected parties across Canada. This included discussions with our User Advisory Committee, IFRS® Accounting Standards Discussion Group and Academic Advisory Committee, preparers from Canadian banking institutions and Crown corporations, the federal regulator for financial institutions, and broader public outreach. Through these discussions, we heard from users, preparers, practitioners, academics and regulators. We took their feedback into account when developing this letter.

Our view

The AcSB continues to support post-implementation reviews and welcomes the opportunity to comment on the post-implementation review of the impairment requirements in IFRS 9. We think that conducting a post-implementation review of an IFRS Accounting Standard is important to fully understand whether a Standard, or in this case, parts of a Standard, are performing as intended in practice and whether the information provided to users of financial statements is decision useful.

Overall, we think that the impairment requirements in IFRS 9 are working as intended. They result in more timely recognition of credit losses compared to IAS 39 *Financial Instruments: Recognition and Measurement*. They also result in an entity providing more useful information to financial statement users about the effects of credit risk on the amount, timing and uncertainty of future cash flows.

Moving to a forward-looking expected credit loss (ECL) model under IFRS 9 from an incurred loss model under IAS 39 created additional costs and complexity for preparers. Some aspects of the IFRS 9 impairment requirements require significant judgment to apply, such as assessing whether there has been a significant increase in credit risk since initial recognition ("SICR"). Nevertheless, we think the requirements for assessing SICR achieve an adequate balance between being principle-based to adapt to different facts and circumstances and providing sufficient guidance to ensure consistent application.

Definition of credit loss

We think that the definition of a credit loss under IFRS 9 is too broad. The current definition encompasses all cash shortfalls, including those which are commercial in nature and those which are due to the credit risk or financial condition of a borrower/lessee. It would not be appropriate to recognize a credit loss if the circumstances leading to a cash shortfall are not related to a credit event (for example, when an entity offers a cash discount to a customer with a strong financial position in order to retain their business). We recommend that the IASB explore this issue further and consider solutions such as adding Application Guidance. This could help entities in determining what types of cash shortfalls are the result of a credit event.

Interactions with other requirements

We encourage the IASB to consider how the fair value requirements under IFRS 3 *Business Combinations* interact with the requirement to recognize ECL on acquired assets under IFRS 9. For instance, an acquirer could obtain control of a business with an existing loan portfolio measured at amortized cost and subject to the impairment requirements of IFRS 9. These financial assets will initially be measured at fair value by the acquirer upon acquisition under IFRS 3. ECL will also subsequently be recognized on day 1 on the same financial assets in accordance with IFRS 9. We question whether the recognition of ECL on these financial assets is necessary since they have already been measured at fair value. This fair value measurement would already consider the risk of credit loss. We recommend that the IASB conduct activities to explore this issue further and also consider the findings of the FASB project related to this topic.

Application issues and the need for clarification

The objective-based disclosure requirements in IFRS 7 *Financial Instruments: Disclosures* are clear. However, users are not receiving enough information to understand the factors involved in assessing SICR and the significant estimates involved in measuring ECL. For example, a common area of concern among users is the determination of post-model adjustments or management overlays.

In practice, some entities estimate ECL using a combination of (1) model-based estimates and (2) post-model adjustments or management overlays. We identified confusion as to how the requirements in IFRS 9 and IFRS 7 apply to these different components of the ECL estimate. In some cases, such as in periods of increased economic uncertainty, model-based estimates alone may not be sufficient to meet the impairment requirements in IFRS 9. In these scenarios, a post-model adjustment or management overlay may need to be applied to a model-based estimate in order to bring the total estimate to an amount that faithfully represents the 12-month or lifetime ECL. We recommend that the IASB clarify that these components together comprise the ECL estimate and thus are subject to the same requirements under IFRS 9 and IFRS 7. We heard that entities often apply these requirements more robustly to model-based estimates than to post-model adjustments or management overlays.

Our responses to your questions

The Appendix to this letter responds to the questions posed in the Request for Information 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 email kchristopoulos@acsbcanada.ca), Shalini Gupta, Principal, Accounting Standards (+1 647 956-6628 or sgupta@acsbcanada.ca), or Eric English, Principal, Accounting Standards (+1 647 264-8277 or eenglish@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—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.

1. Overall, the impairment requirements in IFRS 9 result in more timely recognition of credit losses compared to IAS 39. They also result in an entity providing more useful information to financial statement users about the effects of credit risk on the amount, timing and uncertainty of future cash flows.

2. In recent years, there were large movements in credit loss provisions. Many entities recorded large provisions at the outset of the COVID-19 pandemic, followed by large reversals in subsequent periods. However, we think these movements reflect the challenges associated with developing forward-looking estimates in periods of increased economic uncertainty. For example, we heard in our outreach that many entities were not able to predict the nature and extent of government support measures during the pandemic. As such, these movements are not indicative of fatal flaws in the requirements. Moreover, we heard from financial statement users that these results under the IFRS 9 expected credit loss (ECL) model provide more useful information than the "too little, too late" impairments recognized under the IAS 39 incurred loss model.

3. The impairment requirements in IFRS 9 continue to be complex, albeit in a different way than IAS 39. In particular, having a single impairment model (under IFRS 9) is less complex than having multiple impairment models (under IAS 39). However, the IFRS 9 model is complex. For example, we heard from preparers and practitioners that there is considerable complexity involved in assessing significant increases in credit risk since initial recognition ("SICR") and measuring ECL. This includes preparing complex calculations and scenario analyses and determining weightings. Complexity has also increased from an audit perspective, especially as it relates to auditing forward-looking information. However, we recognize that complexity is inherent in developing any forward-looking estimate. We also heard from regulators and others that the complexity in the IFRS 9 impairment requirements is commensurate with the risk associated with a transaction.

4. We heard from preparers that with this additional complexity, entities of all sizes incurred considerable implementation costs. This included investments in new systems, which was particularly costly for non-financial institutions and smaller entities that had to build or outsource their systems. One benefit of this investment was that these systems introduced more structure and control to entities' credit loss provisioning processes. Nevertheless, ongoing maintenance costs continue to be high for some entities given the complexity of the ECL model. Thus, the IASB should be aware that any changes to the requirements could cause disruption that could be costly, especially for smaller entities.

Question 2—The general approach to recognizing 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.

5. The general approach provides an adequate basis for entities to be able to provide useful information about changes in credit risk and resulting economic losses. We have not identified any fatal flaws with the general approach.

6. The assessment of SICR is core to the general approach, as it determines movements from recognizing 12-month ECL (Stage 1) to lifetime ECL (Stages 2 and 3). During our outreach, we heard from preparers and practitioners that the costs of implementing an approach to assess SICR were very high, including costs to initially align this with internal risk management processes. Nevertheless, they think recognizing lifetime ECL on all performing loans (thereby skipping the SICR assessment) would not provide useful information to financial statement users. Thus, preparers and practitioners continue to support the general approach, including the three-stage model. For many entities, these costs were more pronounced during the initial implementation phase than on an ongoing basis. In practice, the rebuttable presumptions and low credit risk simplification have also helped to reduce costs and complexity, especially for smaller entities. Should the IASB decide to change the requirements in the future, it could be quite costly for entities to revise their approaches.

7. During our outreach, we heard from financial statement users that disclosures provided by entities on SICR were not sufficient. This is discussed further in our response to Question 9 below.

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.

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(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).

8. The requirements for assessing SICR achieve an adequate balance between:
    a. keeping the requirements principle-based to adapt to different facts and circumstances; and
    b. providing sufficient guidance to ensure consistent application.

9. During our outreach, we heard from preparers that the IFRS 9 requirements related to assessing SICR represented a major change from existing internal risk management processes. Entities have since incurred significant costs to better align their risk management processes and educate financial statement users. In addition, we heard from practitioners and regulators that the high degree of judgment involved in assessing SICR makes it difficult to apply consistently in practice. This can also make it difficult for financial statement users to compare SICR/staging between entities, especially since we heard from users that SICR disclosures are often insufficient (see our responses to Questions 2 and 9). However, these inconsistencies can reflect differences in entities' facts and circumstances (e.g., product mix and jurisdictional differences).

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.

10. The requirements provide an adequate basis for entities to measure ECL consistently and to provide useful information about the amount, timing and uncertainty of their future cash flows. However, we identified that there is confusion in practice as to how these requirements apply to different components of the ECL estimate, being (1) model-based estimates and (2) post-model adjustments or management overlays.[1] In addition, we heard from financial statement users that entities do not always disclose sufficient information for users to be able to understand the latter component.

11. The use of post-model adjustments or management overlays does not imply that there are fatal flaws in the requirements. Rather, they may be used to overcome the limitations of entities' statistical models. During our outreach, we heard that these models often rely heavily on historical information to forecast future economic conditions. In recent periods of increased economic uncertainty, historical information was not a strong indicator of the economic outlook. For example, these models were not able to predict the nature and extent of government support measures during the pandemic.

12. In such times, model-based estimates alone may not be sufficient to meet the IFRS 9 impairment requirements. A post-model adjustment or management overlay may need to be applied to a model-based estimate in order to bring the total estimate to an amount that faithfully represents the 12-month or lifetime ECL. As such, all components of the ECL estimate should be considered part of an overall assessment and be subject to the same disclosure requirements.

13. We think this is consistent with the existing requirements of IFRS 9 and IFRS 7. For example:

    a. Paragraph IFRS 9.5.5.17(c) requires entities to measure ECL in a way that reflects "reasonable *and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.*" If an entity's model-based estimate only reflects past events and current conditions, but forecasts of future economic conditions are available, then we think post-model adjustments or management overlays would be needed to meet paragraph IFRS 9.5.5.17(c).

    b. Paragraph IFRS 7.35B(b) requires entities to disclose "*quantitative and qualitative information that allows users of financial statements to evaluate the amounts in the financial statements arising from expected credit losses, including changes in the amount of expected credit losses and the reasons for those changes.*" Since both model-based estimates and post-model adjustments or management overlays are "amounts in the financial statements arising from ECL," we think the disclosure requirements apply equally to them.

14. During our outreach, we identified that entities are not applying these requirements consistently to all components of their ECL estimates. Oftentimes, they are applied more robustly to model-based estimates than to post-model adjustments or management overlays, even though both components are together necessary to derive the total ECL estimate.

15. We recommend that the IASB clarify the variety of ways in which ECL may be determined through Application Guidance. Currently, paragraph IFRS 9.BC5.265 explains that an entity can use a variety of techniques to meet the objective of an expected value for credit losses without requiring detailed statistical models. It would be helpful for the IASB to specify that from time-to-time, entities may need to apply post-model adjustments or management overlays in order to meet that objective. It could also be helpful to specify that the IFRS 9 and IFRS 7 requirements apply equally to all components of the ECL estimate, whether derived from statistical models, post-model adjustments or management overlays, a combination of these methods, or other applicable approaches. See further

[1] As defined in the Request for Information, the term 'post-model adjustments or management overlays' refers to all model overlays, management overlays, model overrides or other adjustments made to model output when existing models do not adequately reflect risks and uncertainties.

discussion on disclosures around post-model adjustments and management overlays in our response to Question 9 below.

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.

16. The simplified approach achieves the IASB's objective of reducing the costs and complexities of applying IFRS 9 impairment requirements to trade receivables and contract assets. It also provides sufficient information for users to identify the effects of credit risk on the amount, timing and uncertainty of cash flows for these types of assets.

17. Furthermore, it is not necessary for entities to perform an assessment of SICR on trade receivables and contract assets as they have a lower degree of complexity. These instruments typically have shorter maturity schedules when compared to riskier financial assets (such as a bond with a 20-year amortization for example). As such, useful information can be derived for users with a less robust process which helps entities to save costs.

18. During our outreach activities, preparers and practitioners agreed that the simplified approach reduces the costs and complexities of applying IFRS 9 impairment requirements for entities with less complex financial assets. These types of entities would have incurred significant upfront and ongoing costs to develop processes to assess SICR which would not have resulted in more useful information. Thus, preparers and practitioners were supportive of the simplified approach. It was noted by some practitioners however that entities in the business of leasing do not use the simplified approach and instead choose to apply the general approach.

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.

19. The requirements in IFRS 9 for purchased or originated credit-impaired financial assets are clear and can be applied consistently. The accounting outcomes faithfully reflect the underlying economic substance of these transactions. Preparers and practitioners that we consulted did not identify any challenges in applying this approach or raise any issues with the resulting accounting outcomes.

20. Additionally, the FASB has issued an exposure draft of Proposed Accounting Standards Update, *Financial Instruments—Credit Losses (Topic 326): Purchased Financial Assets*. The objective of this project is to consider (1) expanding the scope of the purchased credit deteriorated (PCD) accounting model to all loans acquired in a business combination and (2) modifying the presentation of expected credit losses for acquired financial assets. We encourage the IASB to consider the findings of the FASB while assessing feedback received on the approach for purchased or originated credit-impaired assets.

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.

Definition of a Credit Loss under IFRS 9

21. We think that the definition of a credit loss under IFRS 9 is too broad. IFRS 9 defines a credit loss as "*The difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (i.e., all cash shortfalls), discounted at the original effective interest rate…*".

22. This definition encompasses all cash shortfalls, including those which are commercial in nature and those which are due to the credit risk or financial condition of a borrower/lessee. We think that it is not appropriate recognize a credit loss if the circumstances leading to a cash shortfall are not related to a credit event.

23. During our outreach discussions, preparers and practitioners described fact patterns in which a cash shortfall can occur for commercial reasons. For example, a customer with low credit risk and a strong financial position may be offered a discount by an entity as an incentive to retain their business. There has been no change in the customer's credit risk since the inception of the contract and the discount is not related to an inability to pay the original consideration. However, we think that under current IFRS 9 guidance, this would meet the definition of a credit loss.

24. Additionally, the IFRS Interpretations Committee (Committee) finalized an agenda decision in September 2022, *Lessor Forgiveness of Lease Payments (IFRS 9 Financial Instruments and IFRS 16 Leases).* This agenda decision describes a fact pattern in which a rent concession is agreed by a lessor and a lessee on the date the rent concession is granted. Referring to the definition of a credit loss under IFRS 9, the Committee determined that "*The lessor estimates expected credit losses on the operating lease receivable by measuring any credit loss to reflect 'all cash shortfalls.'*"

25. We recommend that the IASB explore this issue further and consider solutions such as adding Application Guidance. This could help entities in determining what types of cash shortfalls are the result of a credit event.

Interactions with IFRS 3

26. We encourage the IASB to consider how the fair value requirements under IFRS 3 interact with the requirement to recognize ECL on acquired assets under IFRS 9.

27. Preparers and practitioners we consulted noted a fact pattern in which an entity will purchase a business containing financial assets subject to the impairment requirements under IFRS 9. For example, an acquirer could obtain control of a business with an existing loan portfolio measured at amortized cost. These financial assets will initially be measured at fair value by the acquirer upon acquisition under IFRS 3. ECL will also subsequently be recognized on day 1 on the same financial assets in accordance with IFRS 9. We question whether it is necessary to recognize ECL on these financial assets since they have already been measured at fair value which considers the risk of credit loss (see also our response to Question 6 in which we have discussed the approach to purchased or originated credit-impaired financial assets).

28. We recommend that the IASB conduct activities to explore this issue further. Additionally, the FASB has issued an exposure draft of Proposed Accounting Standards Update, *Financial Instruments—Credit Losses (Topic 326): Purchased Financial Assets*. The objective of this project is to consider (1) expanding the scope of the purchased credit deteriorated (PCD) accounting model to all loans acquired in a business combination and (2) modifying the presentation of expected credit losses for acquired financial assets. We encourage the IASB to consider the findings of the FASB as part of their activities when further exploring this issue.

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?

29. The relief provided as part of the transition requirements for the IFRS 9 impairment approach worked as intended. The transition requirements helped to reduce the costs and complexities of transitioning to the IFRS 9 impairment requirements.

30. Preparers and practitioners that we consulted noted that the relief from providing comparative information and the practical expedients to assessing SICR both helped to reduce cost and complexity. Additionally, the length of the transition period allowed financial statement preparers sufficient time to ensure that adequate internal processes and systems were in place to meet the requirements.

31. Despite the transition reliefs provided, there were still significant costs associated with the retrospective application of the IFRS 9 impairment requirements. This was due to a large amount of data collection and work effort to restate opening balances. Preparers noted that there was a large amount of upfront work to align existing internal risk management processes with processes required to assess SICR (this was also discussed as part of Question 2 above) and measure ECL.

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. **(b) 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.

32. The objective-based disclosure requirements in IFRS 7 are clear. However, in practice credit risk disclosures are not providing financial statement users with enough comparable or relevant information. Specifically, users need more information to understand what factors an entity considers when assessing SICR for financial assets and measuring their ECL.

33. Users noted that there is insufficient information in entities' credit risk disclosures to understand the components of their ECL measurement models. This includes model-based estimates and post-model adjustments or management overlays. In practice not all of these components are subject to the same disclosure requirements. Post-model adjustments or management overlays are not disclosed in the same detail as statistical models that are based off observable market data (see also Question 4 in which we have discussed the application of post-model adjustments or management overlays as part of the measurement of ECL).

34. We recommend that the IASB clarify that these components together comprise the ECL estimate and thus are subject to the same requirements under IFRS 9 and IFRS 7. We heard that entities often apply these requirements more robustly to model-based estimates than to post-model adjustments or management overlays.

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?**

35. We have not identified additional matters we think the IASB should examine as part of this post-implementation review or in relation to future standard-setting projects.