IASB finalises amendments regarding the classification and measurement of financial instruments

30 May 2024

The International Accounting Standards Board (IASB) has issued 'Amendments to the Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7)' to address matters identified during the post-implementation review of the classification and measurement requirements of IFRS 9 'Financial Instruments'. The amendments are effective for reporting periods beginning on or after 1 January 2026.

Background

In 2022, the IASB concluded its post-implementation review of the classification and measurement requirements of IFRS 9 *Financial Instruments*. In general, the IASB found that preparers can apply the requirements consistently. However, the IASB identified some requirements that would benefit from clarification to improve their understandability.

The IASB believed that two of the matters should be addressed quickly and other matters, although of a lower priority, would also benefit from being addressed together with these issues. The IASB came to the conclusion that it would be most efficient for stakeholders if the IASB issued all amendments at the same time. The amendments issued today finalise the proposals in the March 2023 exposure draft.

Changes

The amendments in *Amendments to the Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7)* are:

- **Derecognition of a financial liability settled through electronic transfer:** The amendments to the application guidance of IFRS 9 permit an entity to deem a financial liability (or part of it) that will be settled in cash using an electronic payment system to be discharged before the settlement date if specified criteria are met. An entity that elects to apply the derecognition option would be required to apply it to all settlements made through the same electronic payment system.
- **Classification of financial assets:**
  - *Contractual terms that are consistent with a basic lending arrangement.* The amendments to the application guidance of IFRS 9 provide guidance on how an entity can assess whether contractual cash flows of a financial asset are consistent with a basic lending arrangement. To illustrate the changes to the application guidance, the amendments add 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.
  - *Assets with non-recourse features.* The amendments enhance the description of the term ‘non-recourse’. Under the amendments, a financial asset has non-re-

course features if an entity's ultimate right to receive cash flows is contractually limited to the cash flows generated by specified assets.
    - *Contractually linked instruments.* The amendments clarify the characteristics of contractually linked instruments that distinguish them from other transactions. The amendments also note that not all transactions with multiple debt instruments meet the criteria of transactions with multiple contractually linked instruments and provide an example. In addition, the amendments clarify that the reference to instruments in the underlying pool can include financial instruments that are not within the scope of the classification requirements.
- **Disclosures:**
    - *Investments in equity instruments designated at fair value through other comprehensive income.* The requirements in IFRS 7 are amended for disclosures that an entity provides in respect of these investments. In particular, an entity would be required to disclose the fair value gain or loss presented in other comprehensive income during the period, showing separately the fair value gain or loss that relates to investments derecognised in the period and the fair value gain or loss that relates to investments held at the end of the period.
    - *Contractual terms that could change the timing or amount of contractual cash flows.* The amendments require the disclosure of contractual terms that could change the timing or amount of contractual cash flows on the occurrence (or non-occurrence) of a contingent event that does not relate directly to changes in a basic lending risks and costs. The requirements 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.

The amendments also include amendments to IFRS 19 *Subsidiaries without Public Accountability: Disclosures*, which limit the disclosure requirements for qualifying subsidiaries

Effective date and transition

The amendments are effective for annual reporting periods beginning on or after 1 January 2026. Earlier application of either all the amendments at the same time or only the amendments to the classification of financial assets is permitted.

An entity is required to apply the amendments retrospectively. An entity is not required to restate prior periods to reflect the application of the amendments, but may do so if, and only if, it is possible to do so without the use of hindsight.

Dissenting opinion

One Board member disagrees with the effective date of the amendments to IFRS 9 relating to the date of initial recognition or derecognition of financial assets or financial liabilities and, therefore, dissented from the issuance of the amendments.

Additional information

Please click for:

- IASB press release (link to IFRS Foundation website)

- Our IAS Plus project page on Classification and measurement of financial instruments