Grupo Latinoamericano
de Emisores de Normas
de Información Financiera

Group of Latin American
Accounting Standard Setters

IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London

RE: Exposure Draft IASB/ED/2023/2 - *Amendments to the Classification and Measurement of Financial Instruments - Proposed amendments to IFRS 9 and IFRS 7*

Dear Board Members

The "Group of Latin American Accounting Standard Setters"[1] – GLASS welcomes the opportunity to comment on Exposure Draft IASB/ED/2023/2 - *Amendments to the Classification and Measurement of Financial Instruments - Proposed amendments to IFRS 9 and IFRS 7* (the "ED").

Due process

The discussions regarding the ED were held within a specified Technical Working Group (TWG) created in April 2023. All country-members had the opportunity to appoint at least one member to participate in this TWG. Each standard setter represented in the TWG undertook different tasks in their respective countries (e.g., surveys, internal working groups). All results were summarized, and this summary was the platform for the TWG discussion process.

The TWG discussed the different points of view included in the summary during several conference calls. In those calls the TWG developed a final document on the basis of the agreed-upon responses and the technical points of view of its members. Finally, the TWG document was submitted to and approved by the GLASS Board.

Overall Comments

First of all, we would like to congratulate the Board on the excellent results of the Post-implementation Review (PIR) of IFRS 9, *Financial Instruments*. In general, the results demonstrate that the classification and measurement requirements can be applied consistently and, as a result, provide useful information to users; however, it was observed that some issues should be clarified to improve their understanding.

In general, GLASS agrees with the proposed amendments to clarify the issues identified to improve their understandability.

The only additional general comments we have are: (1) we recommend additional examples to clearly demonstrate the application of the clarifications; and (2) we recommend including some additional definitions in the Glossary of terms.

Specific comments

Attached please find our specific responses to the questions presented in the ED.

[1] The overall objective of the Group of Latin American Accounting Standard Setters (GLASS) is to present technical contributions with respect to all Exposure Drafts, Requests for Information and Discussion Papers issued by the IASB and ISSB. Therefore, GLASS aims to have a single regional voice before the IASB and ISSB. GLASS is constituted by: Argentina (Board), Bolivia, Brazil (Chairman), Chile (Board), Colombia (Vice Chairman), Costa Rica (Board), Dominican Republic, Ecuador, Guatemala, Honduras, Mexico (Board), Panamá, Paraguay, Perú (Board), Uruguay (Board) y Venezuela (Board).

Contact

If you have any questions about our comments, please contact glenif@glenif.org.

Sincerely yours,

José Luiz Ribeiro de Carvalho
Chairman of the Group of Latin American Accounting Standard Setters (GLASS)

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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 derecognise a financial liability that is settled using an electronic payment system although cash has yet to be delivered by the entity. Paragraphs BC5–BC38 of the Basis for Conclusions explain the IASB's rationale for this proposal. 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?

GLASS agrees to allow the entity to derecognise the financial liability when it is settled using an electronic payment system if it meets the established requirements, even when the counterparty has not received the cash. The above, considering:

1. that the operating risk is not significant because the resources will be transferred in the short term;

2. the high security of electronic payment systems that guarantee that in most cases the transfer will be carried out correctly; and

3. that it is provided as an optional treatment.

Nevertheless, there was some minority concerns about this modification due to:

1. considering that the obligation is not released; and

2. the asymmetry with the derecognition requirements for financial assets.

About the last point we agree that the entity´s accounting does not depend on what the counterparty does, but rather the information that the entity has at the date of the presentation of the information must be evaluated, as mentioned in the Basis for Conclusions.

Additionally, we suggest the following:

1. Request disclosure of the use of the option for derecognition of the financial liability settled by electronic transfer, in order to provide information to the user of financial information;

2. Paragraph B3.3.8 of the ED establishes "… an entity is permitted to deem a financial liability … if, the entity has <u>initiated</u> the payment instruction and …"; we suggest changing "initiated" to "executed" here and in paragraph B3.3.9.

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

Paragraphs 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.

Paragraphs BC39–BC72 of the Basis for Conclusions explain the IASB's rationale for these proposals.

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

GLASS agrees with the amendments made because they provide clarity for the classification of financial instruments with contingent event clauses, and the examples provided are clear; however, we suggest adding more examples whose classification may be uncertain due to the conditions of variability in the cash flows; for example, if the cash flows are linked to an inflation adjustment clause, they are considered to be solely payments of principal and interest on the principal amount outstanding, even though the contingent event is not specific to the debtor, as paragraph required by B4.1.10A.

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

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

Paragraphs BC73–BC79 of the Basis for Conclusions explain the IASB's rationale for these proposals.

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

GLASS believes that the amendments improve the description of the term "non-recourse' and that the examples provided of the factors that an entity may need to consider when assessing the contractual characteristics of the cash flow of financial assets with non-recourse features help in the evaluation with respect to whether they are solely payments of principal and interest.

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. Paragraphs BC80–BC93 of the Basis for Conclusions explain the IASB's rationale for these proposals. Do you agree with these proposals? Why or why not? If you disagree, please explain what aspect of the proposals you disagree with. What would you suggest instead and why?

GLASS agrees with the proposed amendments; however, there is still confusion about the "contractually linked instruments" and their distinction with respect to "non-recourse"; therefore, we suggest including its definition in the Glossary of terms and expand the explanation of the differences between these financial instruments.

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. Paragraphs BC94–BC97 of the Basis for Conclusions explain the IASB's rationale for these proposals. Do you agree with these proposals? Why or why not? If you disagree, please explain what aspect of the proposals you disagree with. What would you suggest instead and why?

GLASS agrees with the required disclosure of the fair value adjustments that are presented in other comprehensive income. However, there is concern from a member country regarding the modification of paragraph 11A, subparagraph c), considering that in their country there are various entities that have capital investments that are measured at fair value and that are managed individually; in that country, they consider that presenting or disclosing an aggregate fair value would limit the user from making adequate decisions, since the net effect of the fair value could be subsidizing negative results of certain investments.

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 amortised cost or fair value through other comprehensive income and each class of financial liability measured at amortised cost (paragraph 20C). Paragraphs BC98–BC104 of the Basis for Conclusions explain the IASB's rationale for this proposal. Do you agree with this proposal? Why or why not? If you disagree, please explain what aspect of the proposal you disagree with. What would you suggest instead and why?

GLASS agrees with the disclosure requirements related to financial instruments whose cash flows or timing could change due to a contingent event; however, there is a minority position that expressed its concern regarding:

1. the cost-benefit of the required disclosure when projecting future cash flows is required upon the occurrence of a contingent event linked to the financial instrument; as a result, it suggests such disclosure be subject to the materiality of the operation; and

2. that the fact of providing the information that may or may not occur could be confusing for the user of the information, for which reason it suggests eliminating the requirement.

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. Paragraphs BC105–BC107 of the Basis for Conclusions explain the IASB's rationale for these proposals. Do you agree with these proposals? Why or why not? If you disagree, please explain what aspect of the proposals you disagree with. What would you suggest instead and why?

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GLASS agrees with the proposals for the transition. We believe the required disclosure for those financial assets that changed measurement category is especially important to understand the changes in the financial information. With respect to not requiring the restatement of prior periods and recognizing possible differences in retained earnings, we believe this could make it easier to implement the changes.

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