Grupo Latinoamericano
de Emisores de Normas
de Información Financiera

Group of Latin American
Accounting Standard Setters

Brasília, 25 September 2023

IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London

RE: Request for Information—Post-implementation Review IFRS 9 *Financial Instruments* - Impairment

Dear Board Members

The "Group of Latin American Accounting Standard Setters"[1] – GLASS welcomes the opportunity to respond to the Request for Information—Post-implementation Review of IFRS 9 *Financial Instruments - Impairment (*the *Project)*.

Due process

The discussions regarding the Project were held within a specified Technical Working Group (TWG) created in June 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

Firstly, we would like to congratulate the Board for continuing the post-implementation review process of IFRS 9. We understand this is the second phase of the review, with a third phase to come. We consider it of great interest to analyze whether the objectives of this standard regarding impairment are being met and if the incurred costs are balanced with the benefits received, from the perspectives of preparers, regulators and auditors. It is also an opportunity to rectify or clarify those comments that the participants brought to our attention.

In general, GLASS agrees that there is a more timely recognition of credit losses and that more useful information is provided to the users of financial statements; however, there are some comments, mainly regarding the overall approach to measuring expected credit losses and determining significant increase in credit risk, which are mentioned below.

As a general comment, we recommend adding more examples or even providing guidance for a better understanding of the measurement of expected credit losses, including some of the models that are considered appropriate, and if deemed necessary, specifying that they would not be the only applicable ones.

[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), Panama, Paraguay, Peru (Board), Uruguay (Board) y Venezuela (Board).

Specific comments

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

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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GLASS Comment Letter on the Post-implementation Review of IFRS 9 *Financial Instruments* - Impairment

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.

GLASS agrees that the impairment requirements of IFRS 9 result in more timely recognition of credit losses as compared to IAS 39, adequately address the difficulties of applying different impairment models for financial instruments, and that with such measures the entity manages to provide more useful information to users of financial statements about credit risk and the uncertainty of future cash flows.

Question 2—The general approach to recognising 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.

GLASS observed that, for the most part, there are no fundamental questions about the general approach to recognizing expected credit losses, the benefits are not less than expected and for the majority the costs are not greater than expected. In opinion of some of its members:

- They believe that implementation is not easy for most preparers and reviewers of entities, since a specialist is required for its measurement and review. They suggest that the IASB provide specific guidance relating to the determination of the probability of default and significant increases in credit risk.

- Costs remain high because the models require constant perfection due to continuous changes, for example, in the economic environment or by the hiring of specialists.

- The financial sector of the different Latin American countries have not fully adopted IFRS 9 standards. Local regulators use the Basel regulations and continue to base their models on the probability of default, without taking into account factors that could affect the future. Additionally, in some cases the use of internal models is allowed; however, the remainder use specific methodologies that allow them to maintain consistency and uniformity between entities in the sector.

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. **(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).

Based on the majority of the responses obtained, GLASS believes that there are no fundamental questions regarding the determination of significant increases in credit risk and its evaluation can be applied consistently. However, a minority consider that the high degree of professional judgement required for the determination of significant increases in credit risk can lead to the same debtor being classified differently by different creditors, and therefore, the information provided is not comparable between entities, and sometimes the result may not be consistent even with the risk management point of view.

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.

GLASS observed that according to one half of the participants, the following items could represent possible fundamental questions about requirements for measuring expected credit losses:

- *Use of models*: Some mention that they agree with the use of internal models, while others prefer to standardize or that the standard include a greater definition regarding the determination of the variables to be considered or the models, as a result of which they suggest including some acceptable models for the determination of the probability of default, although restrictions on the application of the model in a generalized manner should be included.

- *Debtor information*: Obtaining information from the debtor to determine the increase in credit risk in advance is normally confidential information, unless it is already public or evidenced when there are already defaults;

- *Macroeconomic variables*: The inconsistent consideration can cause provisions to be more volatile; and

- *Future scenarios*: Difficulties with the determination of the projection of future scenarios, suggesting guidance on the variables that should be considered in their projections, including examples for a better understanding.

The aforementioned items were contributions primarily from entities not belonging to the financial sector since entities belonging to the financial sector have their own standardized methodologies for determining expected credit losses.

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.

GLASS observed strong acceptance of the simplified approach among preparers, regulators and auditors, who do not believe there are fundamental questions in this regard and that it is possible to reduce the costs and complexity of impairment requirements, without evidence of sacrificing the quality of financial information.

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.

GLASS has not become aware that the requirements cannot be applied consistently and do not faithfully reflect the economic substance of the transactions.

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. In responding to this question, please include information about matters described in this section of the document.

GLASS believes that it is clear how to apply impairment requirements with other requirements for the majority of its users

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?

According to the information collected, GLASS believes that the costs were not greater than expected nor were the benefits lower than expected when applying the transition requirements as well as to audit and enforce its application.

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.

GLASS believes there are no fundamental questions and that the costs were not greater than expected nor the benefits lower than expected regarding the disclosure requirements in IFRS 7 for credit risk.

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?

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the Post-implementation Review of IFRS 9 *Financial Instruments* - Impairment

Regarding both questions, GLASS received the following concerns:

1. In accordance with IFRS 9, for purchased or originated credit-impaired financial assets, the entity shall apply the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition; however, we suggest specifying that the accrual of interest should only be recognized when the future flows to be recovered can be reliably projected.

2. We recommend additional implementation guidance and examples, for example, in determining macroeconomic variables, disclosures, treatment of collateral and guarantees.

3. We recommend including guidance with respect to the characteristics of acceptable models to determine the probability of default, for example, Markov chains and Pluto-Tasche chains, among others.

4. Treatment for transactions with related parties, for example, related investment funds in which the entity invests, or accounts receivable.

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