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Mr. Andreas Barckow
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Re: PiR – IFRS 9 *Financial Instruments*

Classification and Measurement

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Contact: Phillip Liriano

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Dear Andreas,

EFFAS' Commission on Financial Reporting ("Commission", "we") would like to share with you its views on the IASB Request for Information on *PiR IFRS 9 Classification and Measurement*.

EFFAS continues to support IASB's high quality documents and reiterates the need to continue preparing documents with clarity, direct terminology and limiting cross-documents references. Specific examples are always a helpful addition.

Following the revision and discussion of the Request for Information, the Commission would like to address the following points.

1.- Classification and Measurement

We agree that most companies mainly financial institutions classify and measure financial instruments, particularly traditional bank lending at amortized cost following IFRS 9. The Commission continues to support this approach particularly for financial assets not held for sale.

From a user's perspective, classification and measurement provides information that is useful to assess primarily the amounts and timing of future cash flows. Also, we think that disclosures should be clear regarding the period and how the standard has been applied by the entity.

2.- Business model form managing financial assets

The Commission considers that the evaluation of the business model of an entity generally provides useful information about the use of financial instruments. Additionally, we consider it useful that a business model provides the level of aggregation of how a company manages groups of financial assets to achieve a business objective, as noted in page 11.

We agree moreover that entities do not change business models regularly, on the contrary they rarely do. We will support IASB views -as noted in Spotlight 2 -reclassification, page 11- ...that changes in the classification and measurement of financial assets after initial recognition can make financial statements more difficult to understand, particularly when comparing information form period to period.

3.- Contractual cash flow characteristics: financial instruments with sustainability linked-features

The Commission considers that financial instruments with contractual cash flows applying the SPPI requirement provide useful information for users about the amount, timing, and uncertainty of future cash flow and should continue to be measured at amortized costs. We also agree that fair value should be considered the most appropriate measurement basis when a financial asset originates cash flows that are not only payments of principal and interest. From this perspective IFRS 9 provides useful information for users.

Regarding financial instruments with contractual cash flows linked to ESG features if the interest rate on the loan is adjusted because certain ESG investments or criteria have not been met, and there is a penalization implying an adjustment in the interest rate, the loan could in our view remain at amortized cost. If, however, a different type of penalization becomes applicable, we think the measurement basis should be adjusted to fair value.

The commission agrees with the Board that information should be provided, and guidelines could be introduced, to understand the requirements for contractually linked instruments and their application. Changes in the features of the initial contract, i.e., interest rate adjustments due to changes to comply with certain sustainability criteria or KPIs should in any case be disclosed (e.g., in the notes) to understand the requirements for contractually linked instruments and their application.

4- Equity instrument and other comprehensive income

We think that preparers should be addressing most of these points.

For users, the key point is that if realized gains or losses are not reflected in the profit and loss statement the performance of the equity portfolio might remain undisclosed as equity. This will make it difficult to understand how equity has evolved over the period despite the statement of changes in equity and it will not contribute to the principle of good financial reporting.

5.- Financial liabilities and own credit

The commission agrees with the current approach to liabilities and own credit and believes that no changes should be introduced to this approach. Most liabilities should be measured at amortized costs while liabilities that are held-for-sale should continue to be measured at fair value.

6.- Modification to contractual cashflows

No specific comments.

7.- Amortized cost and the effective interest method

We consider that the effective interest rate method, as depicted in the PiR page 22, provides useful information for users. Moreover, we are also aware that the continuous evolution and development of new financial instruments with different structures, i.e., premiums, costs, etc., can make the consistent application of the effective interest rate difficult.

In this regard, we would like to point out that as an increasing number of financial instruments incorporate ESG conditions that might affect the future contractual interest cashflows, entities should disclose the specific changes and adjust KPIs as needed.

8.- Transition

No further comments

9.- Other matters

The Commission considers that the information provided by the reporting standards is very useful and believes that the benefit of their implementation outweighs the cost. The consistent monitoring of the implementation of the standards is key for their proper application (preparers) and usefulness (users). Given the scope of the projects undertaken by the IASB, we consider that at this point the completion of some of the ongoing projects should be a priority.

The commission encourages the IASB to continue reviewing the standards to improve their application and monitoring their proper implementation.

If you would like to further discuss the views expressed in this letter, please contact us.

Javier de Frutos, Chairman
On behalf of EFFAS Commission on Financial Reporting

EFFAS was established in 1962 as an association for nationally based investment professionals in Europe. Headquartered in Frankfurt am Main, EFFAS comprises 15-member organizations representing more than 16,000 investment professionals. The Commission on Financial Reporting is a standing commission of EFFAS aiming at proposing and commenting on financial issues from an analyst standpoint. CFR members are Javier de Frutos (Chairman, IEAF-Spain), Jacques de Greling (Vice-Chairman- SFAF, France), Friedrich Spandl (ÖVFA, Austria), Henning Strom (NFF, Norway), Serge Pattyn (BVFA/ABAF, Belgium) Luca D'Onofrio (AIAF, Italy), Dr. Carsten Zielke (DVFA, Germany) and Andreas Schenone (SFAA, Switzerland).