

Amendments to the classification and measurement of financial instruments *(Effective 1 January 2026): Reminders and Practical Effects*

International Financial Reporting Bulletin

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Background

In 2022, the International Accounting Standards Board (IASB) carried out a post-implementation review (PIR) of the classification and measurement requirements in *IFRS 9 Financial Instruments* and related requirements in *IFRS 7 Financial Instruments: Disclosures*. After analysing the feedback, the IASB concluded that, in general, entities are able to apply the classification and measurement requirements of IFRS 9 consistently; however, clarification was needed on certain matters to improve the understandability of the requirements.

In September 2021, the IFRS Interpretations Committee (the Committee) issued a Tentative Agenda Decision (TAD) that addressed a request received about the recognition of cash received via an electronic transfer system as settlement for a financial asset. Some concerns were raised about the possible implications of the TAD, primarily on settlement of financial liabilities. Acknowledging these concerns, the IASB decided to propose amendments to the requirements in IFRS 9.

In March 2023, the IASB proposed narrow-scope amendments to IFRS 9 and IFRS 7 that address the above two matters i.e. areas requiring clarification, as identified from the feedback to the PIR, and concerns raised on the TAD on the recognition of cash received via an electronic transfer system as settlement for a financial asset.

STATUS

Final

EFFECTIVE DATE

Annual reporting periods beginning on or after 1 January 2026.

ACCOUNTING IMPACT

The Amendments clarify:

- ▶ the requirements related to the date of recognition and derecognition of financial assets and financial liabilities, with an exception for derecognition of financial liabilities settled via an electronic transfer
- ▶ the requirements for assessing contractual cash flow characteristics of financial assets, with additional guidance on assessment of contingent features
- ▶ characteristics of non-recourse loans and contractually linked instruments.

The Amendments also introduce additional disclosure requirements for equity instruments classified as FVOCI and for financial instruments with contingent features.

After analysing the feedback to the Exposure Draft and further deliberations, on 30 May 2024, the IASB issued Amendments to the Classification and Measurement of Financial Instruments – Amendments to IFRS 9 and IFRS 7 (the Amendments). The Amendments and other related documents may be accessed on the [project page](#) on the IFRS Foundation website.

This IFR Bulletin is an update to IFR Bulletin 2024/07, and includes several frequently asked questions on the practical effects of the Amendments.

The Amendments address the following areas:

AMENDMENTS RELATED TO:	
1	Derecognition of financial liabilities settled through electronic transfers
2	Classification of financial assets
	Elements of interest in a basic lending arrangement
	Contractual terms that change the timing or amount of contractual cash flows
	Financial assets with non-recourse features
	Investments in contractually linked instruments
3	Disclosures
	Investments in equity instruments designated at fair value through other comprehensive income
	Contractual terms that could change the timing or amount of contractual cash flows

Primarily to address financial assets with environmental, social and governance (ESG)-linked features.

Derecognition of financial liabilities

What is the issue?

In 2021, the IFRS Interpretations Committee (the Committee) received a request about the recognition of cash received via an electronic transfer system as settlement for a financial asset.

The fact pattern in the request described an electronic transfer system that has an automated settlement process that takes three working days to settle a cash transfer. All cash transfers made via the system are therefore settled (deposited in the recipient's bank account) two working days after they are initiated by the payer. An entity has a trade receivable with a customer. At the entity's reporting date, the customer has initiated a cash transfer via the electronic transfer system to settle the trade receivable. The entity receives the cash in its bank account two days after its reporting date. The question raised was whether the entity can derecognise the trade receivable and recognise cash on the date the cash transfer is initiated (its reporting date), rather than on the date the cash transfer is settled (after its reporting date).

The Committee concluded in its TAD that, applying IFRS 9, an entity:

- ▶ derecognises a trade receivable on the date when its contractual rights to the cash flows from the trade receivable expire; and
- ▶ recognises the cash (or other financial asset) received as settlement of that trade receivable on the same date.

Although most respondents to the TAD agreed with or did not disagree with the technical analysis in the TAD, a number of concerns were raised on other implications of the TAD, especially in the context of settlement of financial liabilities such as trade payables.

The main concerns raised included the following:

- ▶ Unintended possible consequences for other fact patterns such as accounting for settlement of trade payables and risk of inconsistent application to fact patterns beyond the one considered in the request.
- ▶ Disruption to long-standing accounting practices such as performing bank reconciliations and accounting for cheques when written or received.

- Changes in approach as a consequence of the agenda decision being costly and complex to apply due to required changes to systems, processes and internal controls and possible legal analysis required to determine when rights to cash flows expire.

Given these concerns, the IASB decided to propose amendments to the requirements of IFRS 9 before considering whether to finalise the agenda decision.

What do the Amendments require?

Prior to the Amendments, IFRS 9 did not explicitly specify whether an entity is required to apply trade date accounting or settlement date accounting when recognising or derecognising a financial asset or a financial liability, except for regular way purchase or sale of assets. In the Exposure Draft, the IASB had proposed to clarify that entities are required to apply settlement date accounting when recognising or derecognising a financial asset or a financial liability. However, to avoid the risk of unintended consequences for the initial recognition and derecognition of financial assets, in the final Amendments, the IASB decided to refer to 'settlement date' only in the context of the derecognition of financial liabilities.

The Amendments add paragraph B3.1.2A to IFRS 9 that introduces the requirements related to the date of initial recognition or derecognition for financial assets and financial liabilities.

The following table summarises the requirements:

	Financial assets	Financial liabilities	
		Other than those being settled in cash using an electronic payment system	Liabilities being settled in cash using an electronic payment system
Recognition (except for regular way purchase or sale)	On the date on which the entity becomes party to the contractual provisions of the instrument		
Derecognition	On the date on which the contractual rights to the cash flows expire or the asset is transferred	Settlement date (*)	Option to deem to be discharged before the settlement date if the specific criteria are met (IFRS 9.B3.3.8) (**)

(*) the date on which the liability is extinguished because the obligation specified in the contract is discharged or cancelled or expires or the liability otherwise qualifies for derecognition

(**) to be applied to all settlements made through the same electronic payment system.

Thus, all financial assets and liabilities are required to be recognised on the date on which the entity becomes party to the contractual provisions of the instrument.

A financial asset is required to be derecognised on the date on which the contractual rights to the cash flows expire or the asset is transferred.

Financial liabilities, other than those to be settled in cash using an electronic payment system, are required to be derecognised on the settlement date.

Derecognition of financial liabilities to be settled in cash using an electronic payment system:

For a financial liability (or part of a financial liability) settled in cash using an electronic payment system, the Amendments introduce paragraph B3.3.8 that permits an entity to deem the financial liability (or part of it) to be discharged before the settlement date. This option is available if, and only if, the entity has initiated a payment instruction that resulted in:

- the entity having no practical ability to withdraw, stop or cancel the payment instruction;
- the entity having no practical ability to access the cash to be used for settlement as a result of the payment instruction; and
- the settlement risk associated with the electronic payment system being insignificant.

If an entity elects to apply this option, it is required to apply it to all settlements made through the same electronic payment system.

What is meant by insignificant settlement risk?

The Amendments clarify that settlement risk associated with an electronic payment system is insignificant if:

- ▶ the completion of the payment instruction follows a standard administrative process; and
- ▶ the time between (i) and (ii) below is short:
 - i. the entity ceasing to have the practical ability to withdraw, stop or cancel the payment instruction and to access the cash to be used for settlement as a result of the payment instruction (i.e. the point in time when criteria (a) and (b) specified above are met); and
 - ii. the cash being delivered to the counterparty.

If completion of the payment instruction were subject to the entity's ability to deliver cash on the settlement date, the settlement risk would not be insignificant.

Corresponding credit entry when a financial liability is derecognised applying IFRS 9.B3.3.8:

As noted by the IASB in the Basis for Conclusions (BC3.61), by deeming the liability to be discharged by applying the option in IFRS 9.B3.3.8, an entity also deems its right to the cash used to discharge the liability to be expired once it loses the practical ability to access that cash.

Therefore, the entity would derecognise the corresponding cash when the liability is deemed to be discharged.

Key points to note:

- The accounting policy election to deem a financial liability to be discharged before the settlement date applies **only to financial liabilities** settled in cash using an electronic payment system.
- A similar accounting policy election is **not available for financial assets**.
- This accounting policy election is **not available for other modes of settling financial liabilities** such as **cheques, debit/ credit cards**.



Why is the proposed amendment restricted to financial liabilities to be settled in cash using an electronic payment system?

The IASB has noted in the Basis for Conclusions (BC3.55) that electronic payment systems establish a controlled environment for cash transfers so that the risk of the cash not being delivered to the creditor is minimal (or de minimis). The IASB further observes that, for other payment methods, such as cheques, completion of the payment remains subject to settlement risk that is more than insignificant until the cash is delivered (that is, transferred from the payer's account). As a result, the IASB decided not to expand the scope of the requirements beyond electronic payment systems for derecognition of financial liabilities.

Some respondents to the Exposure Draft of the amendments suggested that a similar exception should be extended to derecognition of financial assets. However, the IASB decided against it. The IASB has noted in the Basis for Conclusions (BC3.58-59) that derecognition of a financial asset is based on the expiry of the right to receive cash (or another financial asset) and not the rights or obligations of the counterparty. When a creditor receives notification that a debtor has submitted a payment instruction, the creditor does not obtain the practical ability to access the cash. That occurs only when the cash is delivered to the creditor's account. Therefore, the IASB concluded that a debtor meeting the criterion in IFRS 9.B3.3.8 does not justify the derecognition of a financial asset by the creditor before the settlement date.

Practical implications of the Amendments

- ▶ Entities may need to change their existing accounting practices for derecognition of financial assets such as trade receivable and recognition of cash received via modes of payments such as electronic transfers, cheques or debit/ credit cards.
- ▶ Entities may also need to change their existing accounting practices for derecognition of financial liabilities such as trade payables and derecognition of cash paid via modes of payment such as cheques, debit/credit cards or electronic transfers that do not meet the specified criteria for applying the exception in IFRS 9.B3.3.8.
- ▶ Entities intending to apply the exception in IFRS 9.B3.3.8 to derecognition of financial liabilities need to evaluate the electronic payment systems involved to assess whether they meet the specified criteria. This may involve extensive operational and legal analysis, especially for entities operating in multiple jurisdictions.
- ▶ If an entity/a group of entities elects to apply the exception in IFRS 9.B3.3.8, it may lead to inconsistencies in intercompany balances, as the derecognition exception applies to financial liabilities but not to financial assets. Further adjustments to intercompany balances may be required for elimination of intra-group balances in consolidation.

BDO Comment

The practical implications of the amendments may be most significant for entities that settle financial liabilities using: (1) cheques; (2) electronic payment systems that do not meet the criteria in IFRS 9.B3.3.8.

For cheques, the amendments indirectly clarify that the payer has not settled the financial liability until the cheque clears, meaning the longstanding accounting practice of deducting outstanding cheques from cash and derecognising the associated financial liability, such as trade payables, will have to be revisited.

For electronic payment systems, certain systems will not meet the criteria in IFRS 9.B3.3.8 when the payment instruction is transmitted. For example, if the payer is able to cancel the instruction within the first 48 hours. Therefore, such payments will not result in the derecognition of the associate financial liability and cash.

The following are several frequently asked questions (FAQ) that address the effect of the Amendments on the derecognition of financial assets and financial liabilities:

FAQ 1 - ACCOUNTING FOR CHEQUES

Question (a): Cheques received in realisation of a financial asset

When is an entity required to derecognise the financial asset – on the date of receipt of the cheque or on the date the cheque is cleared and the funds are deposited in the recipient's bank account?

Answer (a)

IFRS 9.3.1.2A requires a financial asset to be derecognised on the date on which the contractual rights to the cash flows expire or the asset is transferred.

In case of cheques received in settlement of a financial asset (e.g. trade receivables, loans receivables, etc.), the contractual rights to the cash flows of the financial asset expire when the cheque is cleared and the funds are received in the recipient's bank account. Therefore, the financial asset is required to be derecognised on that date and not on the date of receipt of the cheque.

At times, entities receive cheques at the point of sale of goods or services. In such cases, the entity is required to recognise a trade receivable at the point of sale. The entity would be required to derecognise the trade receivable and recognise cash only when the cheque is cleared and funds are deposited in its bank account.

Question (b): Cheques issued in settlement of a financial liability

When is an entity required to derecognise the financial liability – on the date of issuance of the cheque or on the date the cheque is cleared and the funds are deposited in the recipient's bank account?

Answer (b)

IFRS 9.3.1.2A requires an entity to derecognise a financial liability on the settlement date, which is the date on which the liability is extinguished or the liability otherwise qualifies for derecognition. The election to derecognise a financial liability before the settlement date in accordance with the requirements of IFRS 9.B3.3.8 does not apply to cheque payments.

FAQ 1 - ACCOUNTING FOR CHEQUES

Therefore, in case of cheques issued to settle a financial liability (e.g. trade payables, loans payable, etc.), the entity is required to derecognise the financial liability on the date the cheque is cleared and the funds are deposited in the recipient's bank account and not on the date of issuance of the cheques.

Similar to trade receivables, entities may issue cheques at the time of purchase of goods or services. The entity is required to recognise a trade payable for the purchase consideration at the time of purchase. The entity would derecognise the trade payable and the corresponding cash only when the cheque is cleared and funds are deposited in the recipient's bank account.

FAQ 2 - APPLICABILITY OF THE EXCEPTION IN IFRS 9.B3.3.8 TO BANK OVERDRAFTS

Question:

Does the exception in IFRS 9.B3.3.8 apply to payments made from a bank overdraft account?

Answer:

The exception in IFRS 9.B3.3.8 applies when an entity settles a financial liability 'in cash' using an electronic payment system. Therefore, a question arises whether the exception applies when the payment is made from an overdraft account.

The IASB has noted in the Basis for Conclusions (BC3.50) that 'cash' as it is used in IFRS 9.B3.3.8, has the same meaning as used throughout IFRS 9 and IAS 32 Financial Instruments: Presentation. The IASB has not added any further explanation about 'cash'.

In our view, the reference in IFRS 9.B3.3.8 to settlement of financial liabilities 'in cash' is meant to refer to settlement 'in cash' as opposed to 'in kind' or 'in exchange of any other financial asset'. IFRS 9.B3.3.8 does not refer to settlement of financial liabilities 'from cash', which would have meant settlement of financial liability from a particular source of payment i.e. a positive bank balance.

Therefore, in our view, the exception in IFRS 9.B3.3.8 applies to payments made using an electronic payment system from a bank overdraft if the payment amount is within the available overdraft limit as at the time the exception requirements are met.

FAQ 3 - APPLICATION OF THE EXCEPTION IN IFRS 9.B3.3.8 TO FINANCIAL ASSETS BY ANALOGY

Question:

The exception in IFRS 9.B3.3.8 to the settlement date derecognition requirement is available only for financial liabilities. Can an entity apply the exception to financial assets by analogy?

Answer:

No.

IFRS 9.B3.1.2A specifically requires entities to derecognise financial assets on the date on which the contractual rights to the cash flows expire or the asset is transferred.

The IASB has noted in the Basis for Conclusions (BC3.58-59) that derecognition of a financial asset is based on the expiry of the right to receive cash (or another financial asset) and not the rights or obligations of the counterparty. When a creditor receives notification that a debtor has submitted a payment instruction, the creditor does not obtain the practical ability to access the cash. That occurs only when the cash is delivered to the creditor's account. Therefore, the IASB decided against extending the exception to financial assets.

FAQ 4 - EFFECT OF THE AMENDMENTS ON THE STATEMENT OF FINANCIAL POSITION AND THE STATEMENT OF CASH FLOWS WHEN THE COMPARATIVES ARE NOT RESTATED

Question:

Fact pattern:

- ▶ Entity A initially applies the Amendments on 1 January 2026. Entity A elects not to restate the comparatives on the initial application of the Amendments.
- ▶ Prior to the application of the Amendments, for financial liabilities settled by issuance of cheques, Entity A followed the accounting policy of derecognising financial liabilities at the time of issue of cheques. After the application of the Amendments, Entity A is required to derecognise financial liabilities when the cheque is cleared and the funds are deposited in the recipient's bank account.
- ▶ Entity A's bank balance on 1 January 2025 is CU100. On 30 December 2025, Entity A issues a cheque of CU30 to settle a trade payable. The cheque clears on 3 January 2026. Assume that there are no other bank transactions during 2025 and 2026.
- ▶ The balance of Entity A's trade payables as at 31 December 2025 (prior to issuance of the above cheque) is CU80. Assume there are no other transactions affecting trade payables during 2026.

What will be the effect of the Amendments on the presentation of trade payables and cash and cash equivalents in the statement of financial position and on the statement of cash flows respectively for the annual reporting period ended 31 December 2026?

Answer:

I. Accounting entry on 30 December 2025:

On 30 December 2025 (i.e. prior to the initial application of the Amendments), Entity A records the following entry to derecognise the trade payables on the issuance of the cheque:

Trade payable	DR	CU30	
Cash and cash equivalents	CR		CU30

Therefore, the balances reported in the financial statements for the annual reporting period ended 31 December 2025 are:

Trade payable	CU50(CR)
Cash and cash equivalents	CU70(DR)

II. Initial application of the Amendments on 1 January 2026:

On 1 January 2026, on the initial application of the Amendments, Entity A reverses the entry in #I above to again recognise the trade payables and cash and cash equivalents of CU30.

On 3 January 2026, when the cheque is cleared, Entity A derecognises the trade payables and cash and cash equivalents of CU30.

III. Effect on the statement of financial position and statement of cash flows for the annual reporting period ending 31 December 2026:

Entity A has elected not to restate the comparatives on the initial application of the Amendments in the financial statements for the annual reporting ending 31 December 2026. Therefore, the amounts presented in the statement of financial position for trade payables and cash and cash equivalents for the comparative period, i.e. as at 31 December 2025, remain at CU50(CR) and CU70(DR).

If an entity does not restate prior periods, IFRS 9.7.2.48 requires the entity to recognise the effect of initially applying the Amendments as an adjustment to the opening balance of financial assets and financial liabilities and the cumulative effect, if any, as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application.

FAQ 4 - EFFECT OF THE AMENDMENTS ON THE STATEMENT OF FINANCIAL POSITION AND THE STATEMENT OF CASH FLOWS WHEN THE COMPARATIVES ARE NOT RESTATED

As Entity A has elected not to restate prior periods, there will be a difference in the closing balance of cash and cash equivalents as at 31 December 2025 and the adjusted opening balance after the initial application of the Amendments as at 1 January 2026. A reconciliation of these balances needs to be presented in the statement of cash flows.

The following is an illustration of the reconciliation:

Extract of the statement of cash flows for the year ended 31 December 2026

	2026	2025
	(CU)	(CU)
Net increase/ (decrease) in cash and cash equivalents (*)	(30)	(30)
Cash and cash equivalents at the beginning of the year, prior to adjustment for the initial application of the amendments to IFRS 9	70	
Adjustment on the initial application of the amendments to IFRS 9	30	
Cash and cash equivalents at the beginning of the year	100	100
Cash and cash equivalents at the end of the year	70	70

() There are no other bank transactions in 2025 and 2026 except the payment of CU30 to settle a trade payable. Since Entity A has elected not to restate the comparatives, issuance of a cheque of CU30 on 30 December 2025 results in a decrease in cash and cash equivalents in the year ended 31 December 2025. Entity A adopts the Amendments on 1 January 2026. Because of the entries in #II above, the trade payable and cash and cash equivalents are again derecognised on 3 January 2026, resulting in a decrease in cash and cash equivalents of CU30 in 2026 also.*

Similar to cash and cash equivalents, there would be a difference in the closing balance of trade payables as at 31 December 2025 and the adjusted opening balance after the initial application of the Amendments as at 1 January 2026.

Since Entity A is not required to disclose the movement in trade payables during the year similar to a statement of cash flows, it is not required to disclose a reconciliation on the above lines for trade payables. Entity A may include a disclosure of the effect of the initial application of the Amendments on the opening balance of trade payables.

Entities that follow the indirect method for reporting cash flows from operating activities in accordance with the requirements of IAS 7 *Statement of Cash Flows* would need to present the movement in trade payables in the statement of cash flows. In this example, assuming there are no other transactions affecting trade payables, the movement in trade payables would be a reduction of CU30 in both 2025 and 2026.

BDO Comment

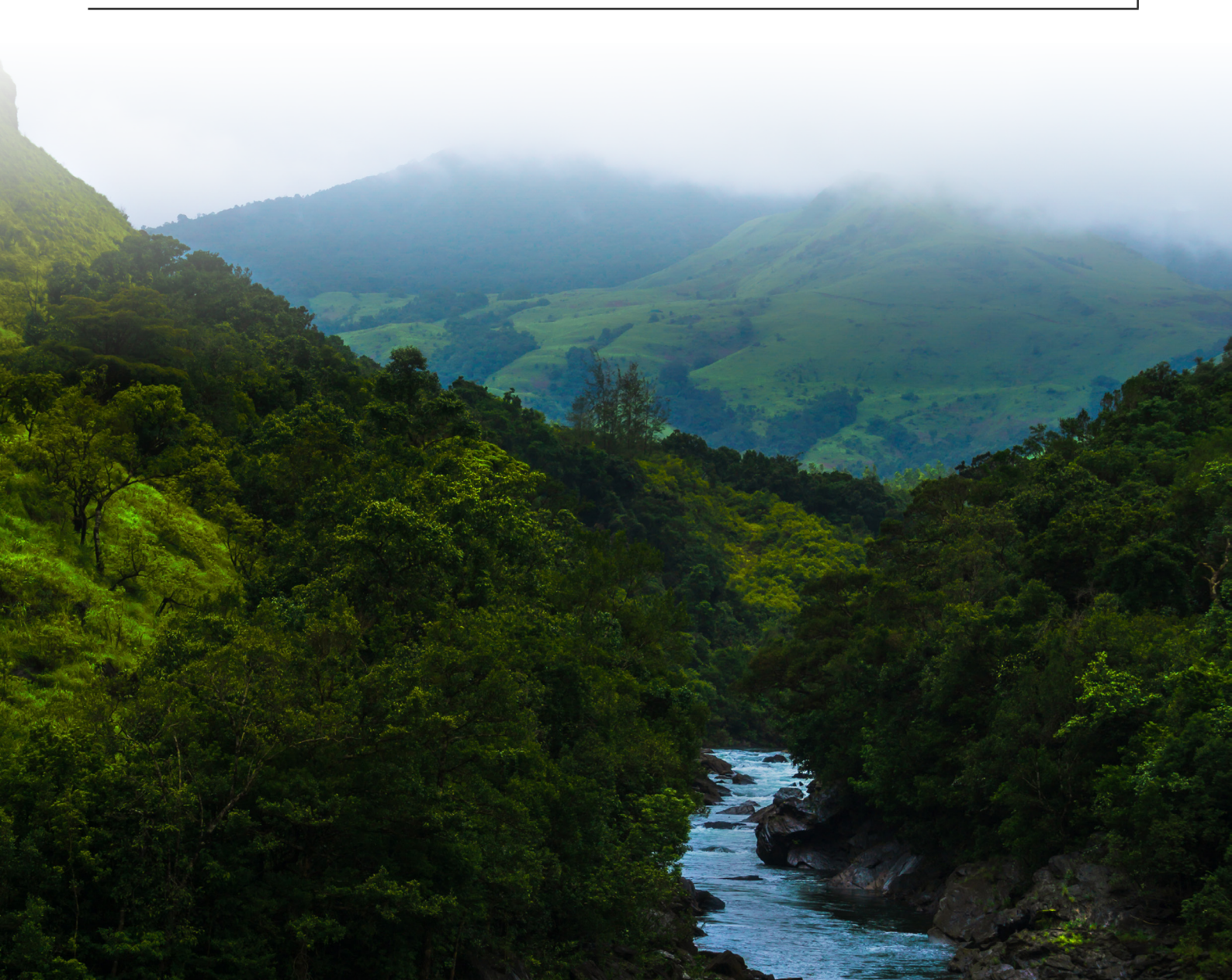
Electronic payments initiated but not settled at the reporting date and the exception in IFRS 9.B3.3.8 is not applied: Consideration of additional disclosures

There may be cases where an entity initiates electronic payments before the reporting date, but the payment is not settled by the reporting date and the entity elects not to apply the exception in IFRS 9.B3.3.8 despite the conditions for the exception being met.

In such cases, although the cash remains in the entity's bank account and is included in the balance of cash and cash equivalents at the reporting date, it is not available to the entity for use. Some respondents to the Exposure Draft expressed a concern about the users of financial statements being misled regarding the amount of cash held by the entity at the reporting date in these situations.

As noted by the IASB in the Basis for Conclusions (BC3.63), paragraph 48 of IAS 7 Statement of Cash Flows requires an entity to disclose the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the group. Paragraph 113(c) of IFRS 18 Presentation and Disclosure in Financial Statements and paragraph 112(c) of IAS 1 Presentation of Financial Statements require an entity to disclose information that is not presented in the primary financial statements but is necessary for an understanding of any of them.

Therefore, in the situations as above, the entity is required to consider additional disclosures in accordance with IAS 7.48, IAS 1 and IFRS 18.



Classification of financial assets – contractual terms that change the timing or amount of contractual cash flows

Background

Appendix B to IFRS 9 includes application guidance on assessing whether a financial asset's contractual cash flows are solely payments of principal and interest on the principal amount outstanding (SPPI). This assessment is important because if the instrument does not meet this 'SPPI test', then the instrument must be measured at fair value through profit or loss by the holder. Respondents to the PIR observed that it is challenging to apply the SPPI requirements to financial assets with features linked to Environmental, Social and Governance (ESG) factors or other similar features. For example, a bond where the interest rate changes in response to whether the issuer meets carbon emission reduction targets.

The IASB considered this feedback but decided against creating an exception for assets with ESG-linked features. Instead, the IASB has amended IFRS 9 to clarify the general SPPI principles by clarifying the requirements applicable to:

- ▶ Elements of interest in a basic lending arrangement; and
- ▶ Contractual terms that change the timing or amount of contractual cash flows.

Elements of interest in a basic lending arrangement

What is the issue?

IFRS 9.B4.1.7A states that (emphasis added):



*Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are consistent with a basic lending arrangement. In a basic lending arrangement, **consideration for the time value of money and credit risk** are typically the **most significant elements of interest**. However, in such an arrangement, interest can also include consideration for **other basic lending risks** (for example, liquidity risk) and costs (for example, administrative costs) associated with holding the financial asset for a particular period of time. In addition, interest can include a **profit margin** that is consistent with a basic lending arrangement...*

Applying these requirements to financial assets with ESG-linked features can be challenging. Consider the following example.

Example

Entity A purchases green bonds of Entity B. The bonds carry a coupon of 4% per annum. If Entity B fails to meet a specified reduction in greenhouse gas emissions in a reporting period, the coupon is increased to 5% per annum. The market rate of interest on a similar loan without the ESG-linked feature is 4.1% per annum.

In this case, it is challenging to determine whether the changing interest rate is consistent with a basic lending arrangement i.e. whether the incremental interest of 1% is consideration for elements of interest in a basic lending arrangement such as for time value of money, credit risk, liquidity risk, etc. or for some other factor.

What do the Amendments require?

In order to assist entities assess whether the interest in an arrangement is consistent with a basic lending arrangement, the Amendments have added paragraph B4.1.8A that clarifies that:

- ▶ *The assessment of interest focuses on what an entity is being compensated for, rather than how much compensation an entity receives.*

Prior to the Amendments, the Basis for Conclusion to IFRS 9 (BC4.182(b)) noted that the assessment of interest focuses on *what* the entity is being compensated for (i.e. whether the entity is receiving consideration for basic lending risks, costs and a profit margin or is being compensated for something else), instead of *how much* the entity receives for a particular element. For example, different entities may price the credit risk element differently.

The IASB decided to incorporate this principle into the application guidance.

- ▶ *The amount of compensation an entity receives may indicate that the entity is being compensated for something other than basic lending risks and costs.*
- ▶ *Contractual cash flows are inconsistent with a basic lending arrangement if they are indexed to a variable that is not a basic lending risk or cost (for example, the value of equity instruments or the price of a commodity) or if they represent a share of the debtor's revenue or profit, even if such contractual terms are common in the market in which the entity operates.*

Contractual terms that change the timing or amount of contractual cash flows

Sometimes a financial asset contains a contractual term that could change the timing or amount of contractual cash flows. For example, a financial asset that can be prepaid before maturity. In such cases, IFRS 9.B4.1.10 requires the entity to determine whether the contractual cash flows that could arise over the life of the instrument due to that contractual term are SPPI. To make this determination, the entity must assess the contractual cash flows that could arise both before, and after, the change in contractual cash flows.

The entity may also need to assess the nature of any contingent event (i.e. the trigger) that would change the timing or amount of the contractual cash flows. For example, consider a financial instrument with an interest rate that is reset to a higher rate if the debtor misses a particular number of payments. The contractual cash flows for this instrument are more likely to be SPPI than for a financial instrument with an interest rate that reset based on equity index level.

What is the issue?

- ▶ The feedback to the PIR suggested that, from the example in IFRS 9.B4.1.10, entities might infer that, for cash flows to be SPPI, the nature of any contingent event must be associated with one of the elements of interest specified in IFRS 9.B4.1.7A.

IFRS 9.B4.1.10 states that '*while the nature of the contingent event in itself is not a determinative factor in assessing whether the contractual cash flows are solely payments of principal and interest, it may be an indicator*'. However, IFRS 9.B4.1.10 does not provide any requirements or clarifications on when the contractual cash flows may be SPPI if the nature of the contingent event is not related directly to changes in basic lending risks and costs. This assessment is particularly critical in case of instruments with ESG-linked or similar features, where the contractual cash flows change in response to factors that may not be directly related to basic lending risks and costs e.g. changes in carbon emissions of the issuing entity.

- ▶ When developing IFRS 9, some respondents suggested that a contingent feature should not affect the classification and measurement of a financial asset if the likelihood is remote that the future event will occur. However, the IASB rejected this approach. The IASB concluded that an entity is not permitted to take into account the probability that the future event will occur, unless the contingent feature is not genuine (Basis for Conclusions to IFRS 9 – BC186 and BC189). However, this principle was not explicitly incorporated in IFRS 9.

What do the Amendments require?

To address the above issues, the IASB has amended paragraph B4.1.10 and added paragraph B4.1.10A. These amendments require the following:

- ▶ To determine whether the contractual cash flows that could arise over the life of the instrument are SPPI, the entity is required to assess the contractual cash flows that could arise both before, and after, the change in contractual cash flows, **irrespective of the probability of the change in contractual cash flows occurring** (IFRS 9.B4.1.10).

- If the contingent feature gives rise to contractual cash flows that are consistent with a basic lending arrangement both before and after the change in contractual cash flows, but the nature of the contingent event itself does not relate directly to changes in basic lending risks and costs:
- The contractual cash flows are SPPI if, and only if, in all contractually possible scenarios, the contractual cash flows would *not be significantly different* from the contractual cash flows on a financial instrument with identical contractual terms, but without such a contingent feature.

This assessment may be qualitative or quantitative.

BDO Comment

Assessment of 'significantly different'

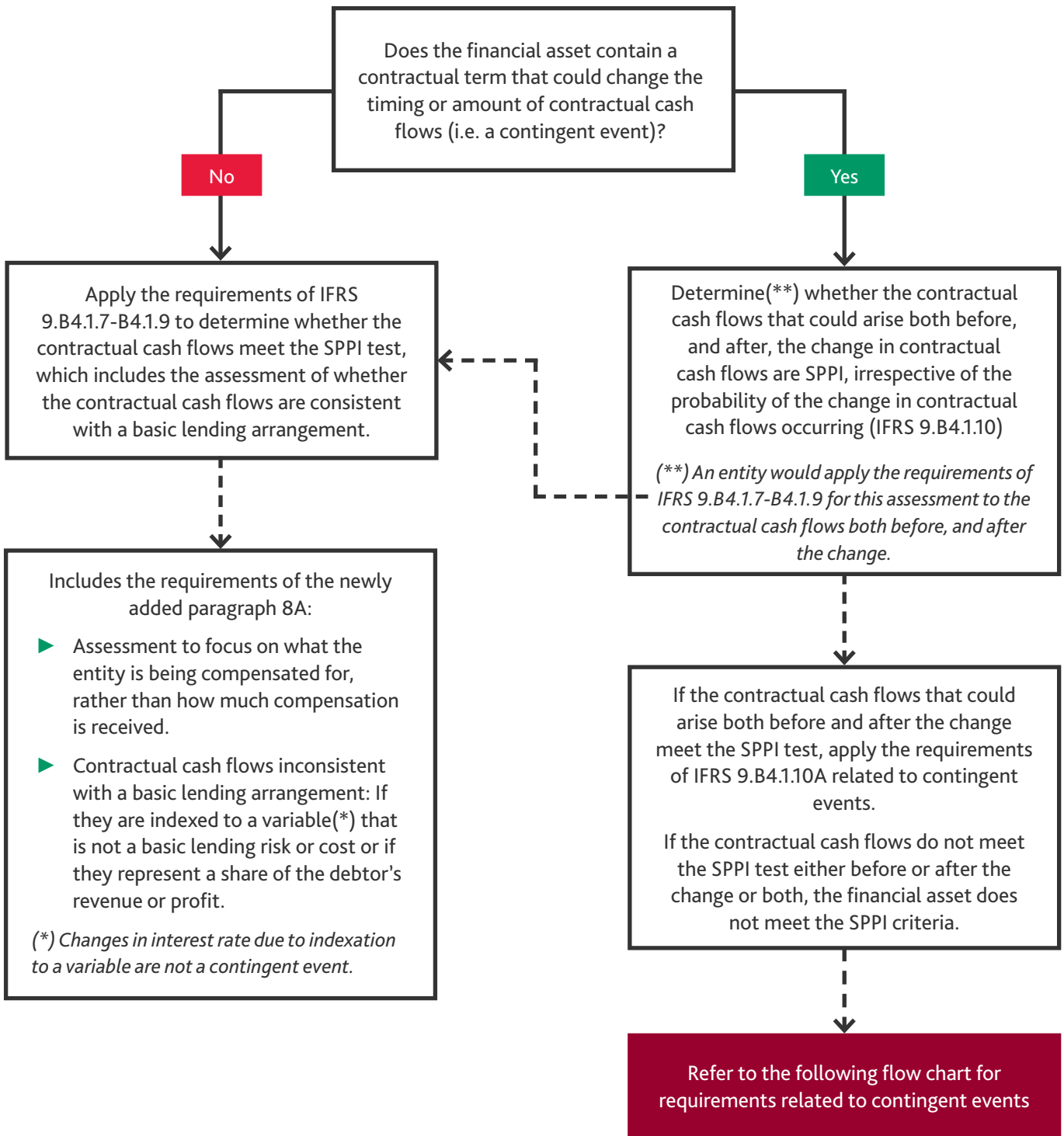
IFRS 9 does not specify a quantitative threshold for 'significantly different'. Assessment of 'significantly different' may involve judgement.

The Amendments permit an entity to carry out a qualitative assessment. The Basis for Conclusions (BC4.274) gives an example of qualitative assessment considering the specific characteristics of the economic environment, such as the level of interest rates.

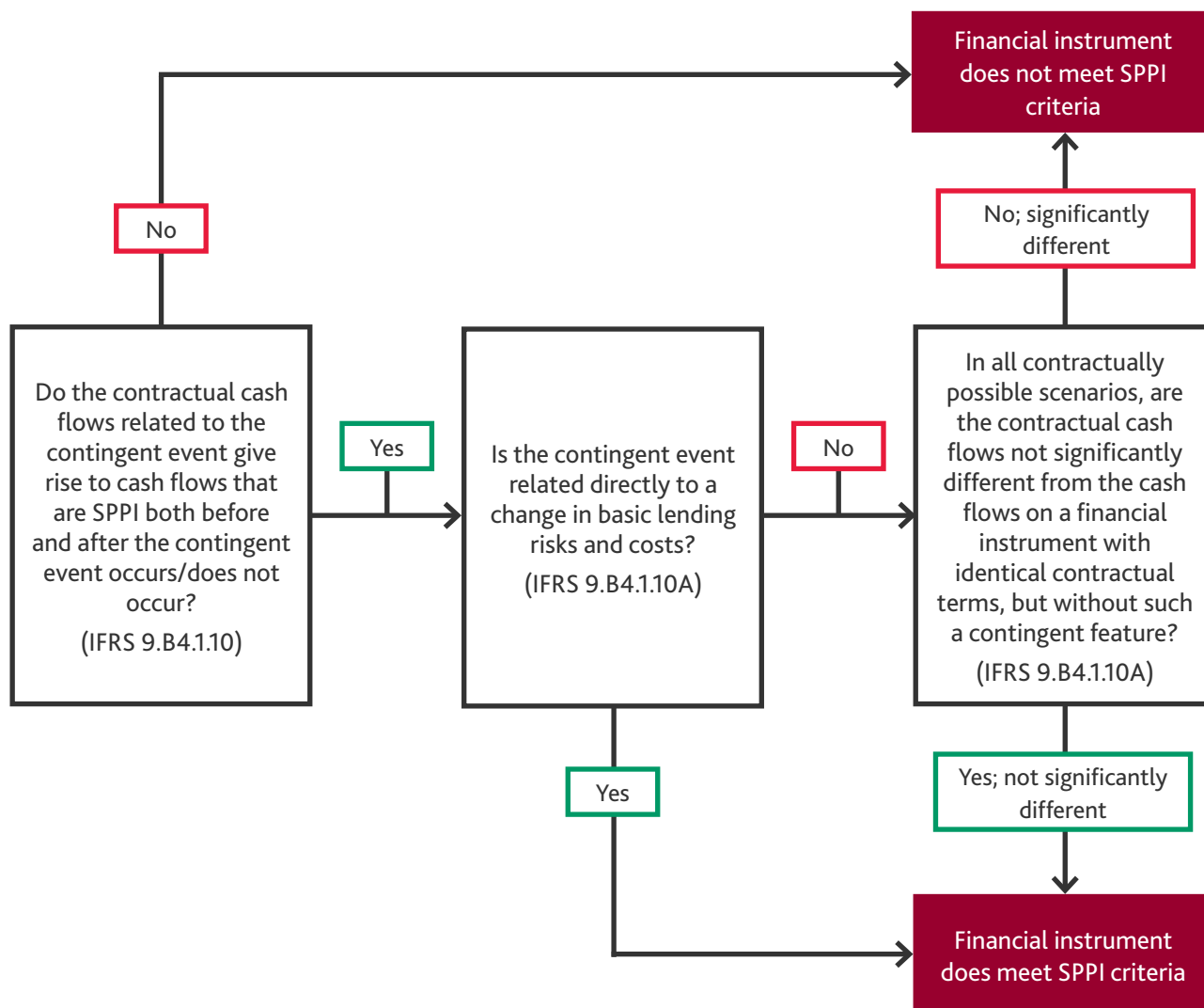
Entities should consider whether the disclosures related to judgements in accordance with IAS 1.122 or paragraph 27G of IAS 8 Basis of Preparation of Financial Statements are required.



The following flow chart summarises the applicability of different paragraphs of IFRS 9 for assessing whether the contractual cash flows meet the SPPI test depending on whether the contractual cash flows change as a result of a contingent event:



The following flow chart summarises the requirements related to contingent events:

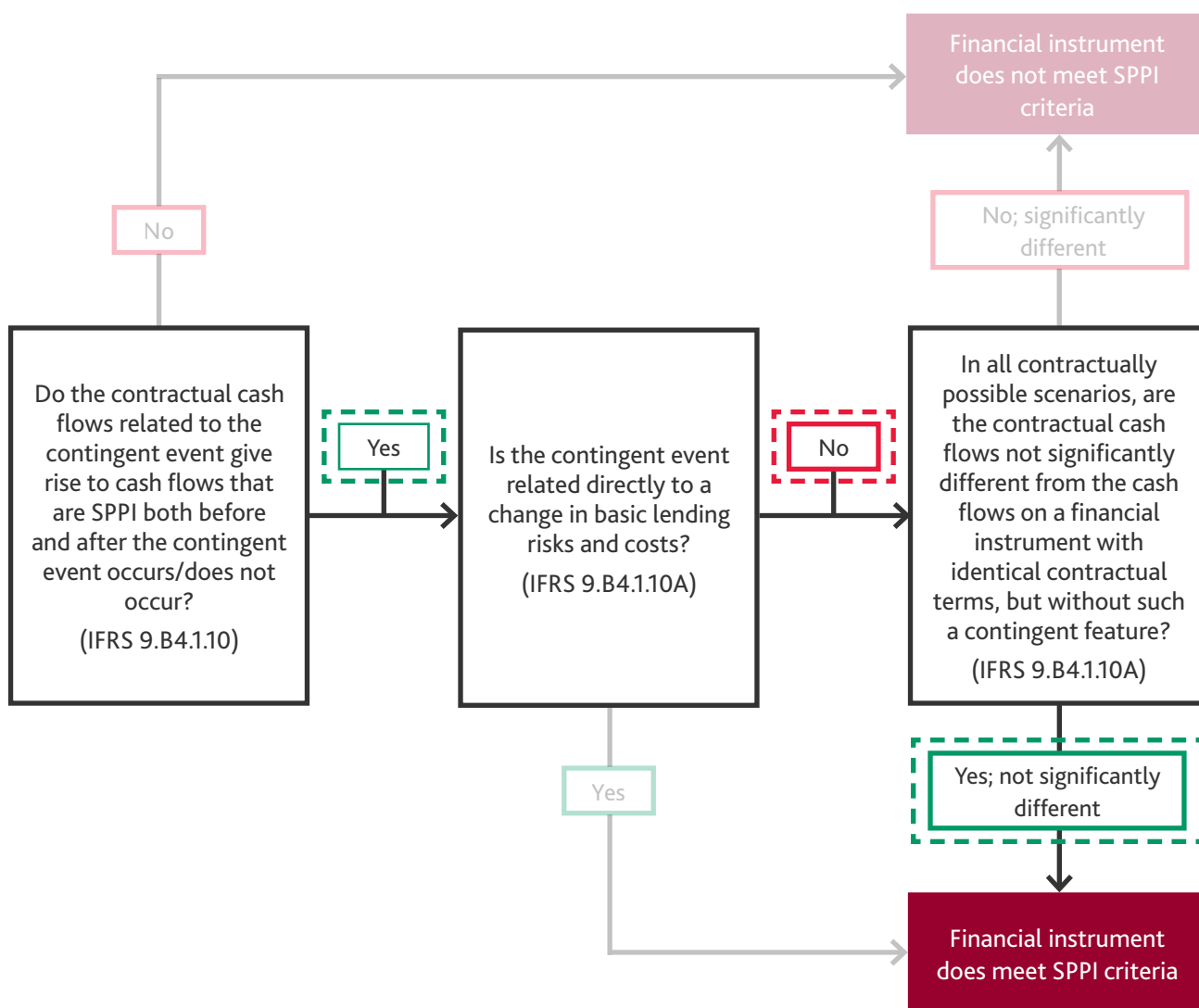


The Amendments include the following two examples to illustrate the application of the requirements:

Example 1:

INSTRUMENT	ANALYSIS
<p>Instrument EA is a loan with an interest rate that is adjusted every reporting period by a fixed number of basis points if the debtor achieves a contractually specified reduction in carbon emissions during the preceding reporting period.</p> <p>The maximum possible cumulative adjustments would not significantly change the interest rate on the loan.</p>	<p>If the contingent event of achieving the carbon emissions target occurs, the interest rate is adjusted by a fixed number of basis points, resulting in contractual cash flows that are consistent with a basic lending arrangement. Only because the nature of the contingent event itself does not relate directly to changes in basic lending risks and costs, the entity needs further assessment to determine whether the cash flows on the financial asset are solely payments of principal and interest.</p> <p>The contractual cash flows would not be significantly different from the contractual cash flows on a financial instrument with identical contractual terms, but without the contingent feature linked to carbon emissions. Any adjustments over the life of the instrument would not result in contractual cash flows that are significantly different, therefore, the loan has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.</p>

The analysis of the above instrument using the flow chart is as below:



Example 2:

INSTRUMENT	ANALYSIS
The instrument is a loan with an interest rate that is adjusted every reporting period to track the movements in a market-determined carbon price index during the preceding reporting period.	The contractual cash flows are indexed to a variable (the carbon price index), which is not a basic lending risk or cost. The contractual cash flows are therefore inconsistent with a basic lending arrangement and are not solely payments of principal and interest on the principal amount outstanding. (IFRS 9.B4.1.8A)

In this example, there is no contingent event the occurrence (or non-occurrence) of which may result in a change in the timing or amount of contractual cash flows. Indexation of interest rate to a market variable is not a contingent event. Therefore, the entity assesses whether the contractual cash flows meet the SPPI test applying the requirements of IFRS 9.B4.1.7-9, including the requirements of the newly added paragraph 8A. The requirements of IFRS 9.B4.1.10-10A do not apply in this case as the instrument does not contain contractual terms that change the timing or amount of contractual cash flows.

Consider another example where, Entity X invests in a bond issued by Entity Y that bears interest at 5% per annum. The contractual terms of the bond provide that if Entity Y breaches a specified CO2 emissions limit, the interest rate will be changed to a variable rate that tracks the movements in a market-determined carbon price index.

In this example, the contingent event is Entity Y breaching the CO2 emissions limit. Entity X is required to assess whether the contractual cash flows both before and after the contingent event meet the SPPI test. The contractual cash flows before the contingent event meet the SPPI test, as the instrument bears a fixed interest rate of 5%, but the contractual cash flows after the contingent event are indexed to a variable which is not a basic lending risk or cost and therefore, do not meet the SPPI test. Therefore, the instrument as a whole does not meet the SPPI test.

FAQ 5 - RETROSPECTIVE APPLICATION OF THE AMENDMENTS – ACCOUNTING ENTRIES IN CASE OF CHANGE IN THE MEASUREMENT CATEGORY

The Amendments are required to be applied retrospectively, in accordance with IAS 8. An entity is not required to restate prior periods. An entity is permitted to restate prior periods, if and only if, it is possible to do so without the use of hindsight.

Refer to section 'Effective date and Transition' below on transition requirements for more details.

As a result of retrospective application, the measurement category of financial assets may change.

The accounting entries to be recorded in case of change in measurement category of financial assets on the initial application of the Amendments would be as below:

Change in measurement category from amortised cost to fair value through profit or loss (FVTPL):

On 1 January 20X2 (prior to the initial application of the Amendments), Entity A purchases green bonds issued by Entity B. Applying the requirements of IFRS 9 at the time of purchase, Entity A classifies the bonds as subsequently measured at amortised cost.

Entity A initially applies the Amendments for the annual reporting period beginning 1 January 20X5. On initial application of the Amendments, Entity A assesses that the bonds do not meet the SPPI test, applying the requirements of the Amendments. Therefore, the bond is required to be measured at fair value through profit or loss (FVTPL).

Accounting for the change in measurement category:

Assume that the amortised cost of the bonds as at 31 December 20X4 is CU95. Assume that the fair value of the bonds as at 1 January 20X5, i.e. the date of initial application of the Amendments, is CU98. Assume that Entity A elects not to restate prior periods.

Entity A recognises an increase in the opening carrying amount of the bond of CU3, with a corresponding increase in the opening balance of retained earnings as at 1 January 20X5.

Change in measurement category from fair value through profit or loss (FVTPL) to amortised cost:

On 1 January 20X1 (prior to the initial application of the Amendments), Entity C purchases ESG-linked bonds issued by Entity D. Applying the requirements of IFRS 9 at the time of purchase, Entity A classifies the bonds as subsequently measured at FVTPL.

Entity C initially applies the Amendments for the annual reporting period beginning 1 January 20X5. Entity C assesses that the bonds meet the SPPI test after the application of the Amendments and the bond is required to be measured at amortised cost.

Accounting for the change in measurement category:

Assume that the fair value of the bonds as at 31 December 20X4 is CU102. Assume that Entity C elects not to restate prior periods.

Entity C would be required to determine the amortised cost as at 1 January 20X5 as if the instrument was classified as at amortised cost from initial recognition. Entity C is not permitted to use hindsight while determining this amortised cost. Assume that the amortised cost as at 1 January 20X5 determined in this way is CU97.

Entity C recognises a decrease in the opening carrying amount of the bond of CU5, with a corresponding decrease in the opening balance of retained earnings as at 1 January 20X5.

FAQ 6 - USE OF HINDSIGHT IN THE ASSESSMENT OF CLASSIFICATION OF A FINANCIAL ASSET**Question:**

Can an entity use hindsight in the assessment of classification of a financial asset on the initial application of the Amendments?

Answer:

No.

The Amendments require retrospective application in accordance with the requirements of IAS 8. IAS 8.53 prohibits the use of hindsight when applying a new accounting policy to a prior period.

The following example illustrates the use of hindsight in the assessment of classification of a financial asset.

Fact pattern:

On 1 January 20X1, Entity A purchases an ESG-linked bond of Entity B. The bond carries an interest rate of 8% per annum and is repayable in full after 10 years. The bond contains a term that for the initial period of 3 years, if Entity B breaches a specified greenhouse gas (GHG) emissions target, the interest rate for the subsequent one year will be increased to 10% per annum. This condition will be tested every year for the first three years. The interest rate for the fourth year will be set based on whether Entity B meets the GHG target for year three. From year five onwards, the condition of GHG target will not be applicable and the interest rate remains at 8% per annum. The interest rate on a similar loan, but without the ESG feature is 8.5%.

Entity B is a vehicle manufacturer. In 20X0, it began a major upgrade to its manufacturing facilities to reduce the GHG emissions. The upgrade was expected to take 3 years to complete. During this period, if Entity B had breached the GHG emissions limits set by the government in its jurisdiction, it would have been subject to significant penalties. After the upgrade of its manufacturing facilities, it was expected that Entity B's GHG emissions would be significantly below the norms set by the government.

During the period the upgrade was in progress, Entity B did not breach the GHG limits. Therefore, the interest rate on the bonds remained at 8% during the first four years.

Entity A adopted the Amendments from annual reporting period beginning on 1 January 20X6.

Analysis:

Prior to the application of the Amendments:

At the time of initial recognition of the bonds, Entity A assessed that the increase in interest rate on account of breach of GHG limits reflected the increased credit risk of Entity B due to the significant penalties applicable on the breach. Therefore, Entity A concluded that the bonds met the SPPI test and classified the bonds as at amortised cost.

On the initial application of the Amendments:

Entity A assesses that the contractual cash flows both before and after the contingent event are SPPI as the interest rate in both cases is a fixed rate. However, the nature of the contingent event, i.e. the breach of GHG limits, is not directly related to changes in basic lending risks and costs.

IFRS 9.B4.1.10A requires Entity A to assess whether, in all contractually possible scenarios, the contractual cash flows would not be significantly different from the contractual cash flows on a financial instrument with identical contractual terms, but without the contingent feature.

Entity A assesses that the interest rate of 8.5% per annum on a similar loan but without the contingent feature is not significantly different from the interest rate of 8% per annum charged on the bond in case the GHG limits are met.

Entity A is also required to assess whether the interest rate of 8.5% per annum is significantly different from the interest rate of 10% per annum that would be charged in case of a breach of GHG limits.

Entity A is not permitted to disregard the contractually possible scenario of breach of GHG limits and the resulting increase in interest rate to 10% per annum on the ground that the contingent event did not occur and at the time of initial application of the Amendments, the contractual provision of contingent event was no longer applicable. Such an assessment would result in the use of hindsight.

FAQ 6 - USE OF HINDSIGHT IN THE ASSESSMENT OF CLASSIFICATION OF A FINANCIAL ASSET

If Entity A assesses that the interest rate of 8.5% per annum is significantly different from the interest rate of 10% per annum to be charged in case of a breach of GHG limits, the bond would not meet the SPPI test and would be required to be measured at fair value through profit or loss.

FAQ 7 - EFFECT OF THE AMENDMENTS ON SUBSEQUENT MEASUREMENT**Question:**

Do the Amendments affect subsequent measurement of financial assets, particularly with respect to the requirements of IFRS 9.B5.4.5 and IFRS 9.B5.4.6 for periodic re-estimation of cash flows for floating rate financial assets and revision of estimates of payments or receipts respectively?

Answer:

No.

The Amendments do not affect the subsequent measurement of financial assets.

Classification of financial assets – financial assets with non-recourse features**How do non-recourse features affect the classification of financial assets?**

IFRS 9.B4.1.15 addresses situations where a financial asset has contractual cash flows that are described as principal and interest, but those cash flows do not represent the payment of principal and interest on the principal amount outstanding. This may be the case if the financial asset represents an investment in particular assets or cash flows.

An example of the situation described in IFRS 9.B4.1.15 would be a financial asset with 'non-recourse' features.

'Non-recourse features' refers to the absence of liability on the part of a debtor beyond specified assets.

For example, a bank provides a loan to Entity A for the construction of a commercial office building. The repayment amounts are limited to the rental income that Entity A earns from letting out the commercial units in the building once it is constructed. In this case, the bank does not have a recourse to other assets of Entity A for the repayment of the loan.

The existence of a non-recourse provision does not in itself preclude a financial asset from meeting the SPPI test. However, non-recourse features may indicate an investment in particular assets or cash flows and therefore, the contractual cash flows may not meet the SPPI test. IFRS 9.B4.1.17 requires the creditor to 'look through to' the particular underlying assets or cash flows to determine whether the contractual cash flows of the financial asset being classified are SPPI.

What is the issue?

PIR participants asked the IASB to clarify the meaning of the term 'non-recourse' as it is used in IFRS 9.B4.1.16 and, particularly, the difference between financial assets with non-recourse features and financial assets for which a creditor's claim is secured by the assets pledged as collateral.

What do the Amendments require?

The IASB notes in the Basis for Conclusions to the Amendments (BC4.280) that 'non-recourse features' refers to the absence of liability on the part of a debtor beyond specified assets. In contrast, in the case of a collateralised loan, a creditor's claim is secured by the collateral only in the case of default. Throughout the life of such a collateralised loan, the creditor has recourse to the debtor for repayment of the loan.

BDO Comment

These amendments clarify the difference between a non-recourse loan and a collateralised loan. It appears that for a loan to be considered in accordance with the revised non-recourse requirements in IFRS 9, the limitation of the cash flows that the lender may obtain must be limited based on contractual terms, which may be established through a combination of contracts.

Entities that had assessed 'non-recourse' features based on economic limitations or implicit terms (i.e. 'in substance' non-recourse) prior to the application of the Amendments may need to reassess the existence of non-recourse features based on contractual terms.

The Amendments clarify the following with respect to non-recourse features:

- ▶ A financial asset has non-recourse features if an entity's ultimate right to receive cash flows is contractually limited to the cash flows generated by specified assets, i.e., the entity is primarily exposed to the specified assets' performance risk rather than the debtor's credit risk (IFRS 9.B4.1.16A).
- ▶ If a financial asset has non-recourse features, the creditor is required to 'look through' to the link between the particular underlying assets or cash flows and the contractual cash flows of the financial asset being classified. The creditor is required to consider how this link is affected by other contractual arrangements, such as subordinated debt or equity instruments issued by the debtor (IFRS 9.B4.1.17).

In the Basis for Conclusions to the Amendments (BC4.286), the IASB has noted that, for a financial asset to have non-recourse features, there has to be a contractual, rather than a purely economic, limitation on the creditor's rights to receive contractual cash flows. Such limitation can be established through a combination of contracts, such as in the case of a loan to a structured entity.

EXAMPLE 1 – PURCHASE OF CREDIT-IMPAIRED ASSETS

Prior to the application of the Amendments, Entity A purchases a portfolio of credit-impaired vehicle loans from Entity B. The loans are collateralised by the underlying vehicles. At the time of initial recognition of the portfolio, Entity A assesses that the portfolio is in-substance non-recourse because the financial assets are credit impaired and the loan can be recovered only by realising the collateral. Entity A assesses whether the contractual cash flows meet the SPPI test applying the requirements of IFRS 9.B4.1.15-17 as existed prior to the Amendments.

On the initial application of the Amendments, Entity A would be required to reassess the existence of non-recourse features. If the non-recourse terms are not contractually specified, but only structurally implied, the loan portfolio would not be considered to have non-recourse features (IFRS 9.BC4.286). In that case, Entity A would be required to apply the requirements of IFRS 9.B4.1.7-B4.1.9 to determine whether the contractual cash flows meet the SPPI test, which includes the assessment of whether the contractual cash flows are consistent with a basic lending arrangement.

EXAMPLE 2 – NON-RECOURSE FEATURE ESTABLISHED THROUGH A COMBINATION OF CONTRACTS

IFRS 9.BC4.286 clarifies that the limitation on the creditor's right to receive contractual cash flows can be established through a combination of contracts, such as in case of a loan to a structured entity.

For example, Entity X originates consumer loans. It transfers its portfolio of consumer loans to a special purpose entity, SPE Y. At the same time, SPE Y obtains funding from Entity Z and issues notes to Entity Z against the consumer loans transferred by Entity X.

SPE Y, as a result of a contractual arrangement, does not have recourse to the assets of Entity X. As a cumulative result of the two contractual arrangements - one between Entity X and SPE Y and another between SPE Y and Entity Z, Entity Z's right to receive contractual cash flows is limited to the portfolio of consumer loans transferred to SPE Y. Entity Z does not have recourse to any assets of Entity X.

Classification of financial assets – investments in contractually linked instruments

What is the issue?

In certain transactions, an issuer may prioritise payments to the holders of financial assets using multiple contractually linked instruments, known as tranches. In assessing whether investments in such instruments meet the SPPI requirement, IFRS 9 requires an entity to 'look through' until it can identify the underlying pool of financial instruments that are creating (instead of passing through) the cash flows. The entity is then required to assess, among other things, whether this underlying pool contains one or more instruments that have SPPI cash flows.

PIR participants asked the IASB to clarify the scope of the requirements in IFRS 9 related to contractually linked instruments to identify the instruments to which these requirements apply. Participants also asked whether financial instruments that are not entirely within the scope of IFRS 9 could meet the criteria for financial instruments in the underlying pool, as required by IFRS 9.B4.1.23. For example, cash flows arising from leases, which are not in the scope of IFRS 9.

What do the Amendments require?

Scope

The Amendments include the following clarifications on the characteristics of contractually linked instruments (CLI):

- ▶ the prioritisation of payments to the holders of these tranches is established through a waterfall payment structure; and
- ▶ that payment structure creates concentrations of credit risk and results in a disproportionate allocation of cash shortfalls from the underlying pool between the tranches.

The Amendments also clarify that in the case of CLI transactions, the contractual cash flows are assessed by the holders of a tranche applying the requirements of IFRS 9.B4.1.21-B4.1.26, instead of IFRS 9.B4.1.17.

BDO Comment

Enhanced credit protection

The clarification in IFRS 9.B4.1.20A related to arrangements providing enhanced credit protection to a creditor or a group of creditors is typically expected to apply when there are only two levels in the waterfall structure. When there are more than two levels (e.g. senior tranche, mezzanine tranche and equity tranche), the clarification in IFRS 9.B4.1.20A will not apply. Such arrangements would typically be considered contractually linked instruments.

Lending arrangements to provide enhanced credit protection:

Some lending arrangements are structured to provide enhanced credit protection to a creditor or a group of creditors. The Amendments clarify that the requirements for contractually linked instruments do not apply to such instruments. The contractual cash flows of such debt instruments shall be assessed by applying the requirements in IFRS 9.B4.1.7-B4.1.19.

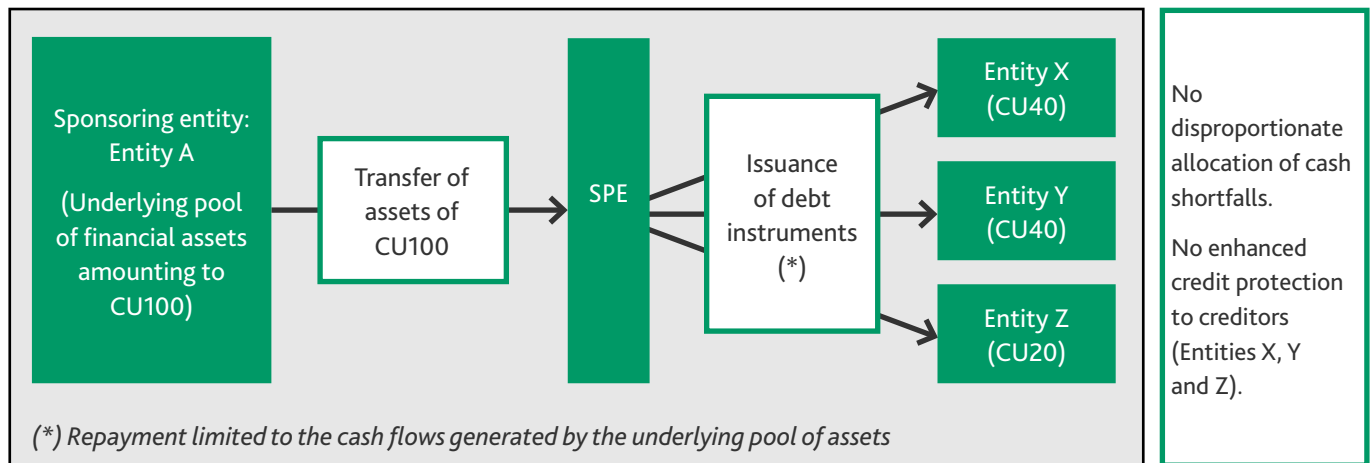
For example, Entity A has a pool of car loans amounting to CU100 million. In order to obtain funding against the pool of car loans, Entity A agrees to enter into a secured lending arrangement with Entity B. Under the arrangement, Entity A transfers the assets of CU100 million to a Special Purpose Entity (SPE). The SPE issues senior debt instruments of CU80 million to Entity B and junior debt instruments of CU20 million to Entity A. The arrangement restricts Entity A from selling the junior debt instruments unless the senior debt instruments are repaid. This arrangement may appear to have the characteristics of CLI. But the purpose of the arrangement is to provide enhanced credit protection to Entity B. Therefore, the contractual cash flows in this arrangement shall be assessed by applying the requirements in IFRS 9.B4.1.7-B4.1.19.

Why is the distinction between instruments with non-recourse features and contractually linked instruments important?

Contractually linked instruments have non-recourse features. However, an important distinction between contractually linked instruments from financial assets with non-recourse features is the disproportionate allocation of cash shortfalls from the underlying pool between the holders of the tranches. IFRS 9 requires the holders of both financial assets with non-recourse features and CLI to 'look through to' the underlying pool of assets to determine whether the underlying pool of assets contains instruments with contractual cash flows that are SPPI. However, for contractually linked instruments, there are additional requirements that must be met for the instrument to meet the SPPI test.

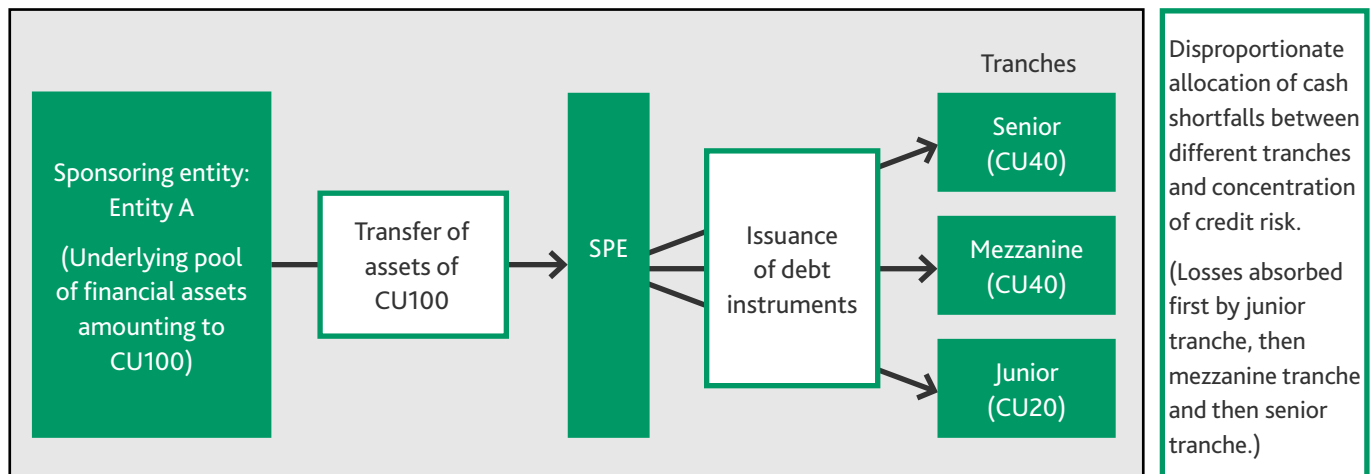
The following diagrams describe arrangements that may be instruments with non-recourse features, CLI or enhanced credit protection:

Arrangement I – Instruments with non-recourse features:



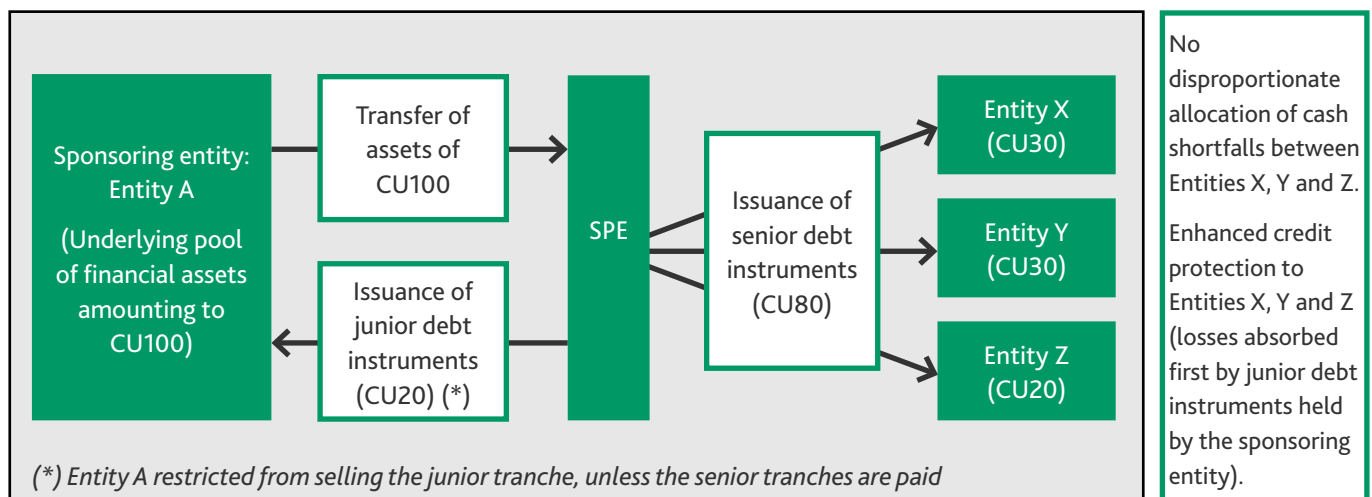
The contractual cash flows for the above arrangement (for debt instruments held) are assessed in accordance with IFRS 9.B4.1.17.

Arrangement II – Contractually linked instruments:



The contractual cash flows for the above arrangement (for debt instruments held) are assessed in accordance with IFRS B4.1.21-B4.1.26, instead of IFRS 9.B4.1.17.

Arrangement III – Instruments that provide enhanced credit protection to creditors:



The contractual cash flows for the above arrangement (for debt instruments held) are assessed in accordance with IFRS B4.1.7-B4.1.19, instead of IFRS B4.1.21-B4.1.26.

Composition of the underlying pool of financial instruments

In response to the feedback from the PIR, the Amendments clarify that financial instruments that are not within the scope of the classification requirements of IFRS 9, such as lease receivables, can be included in the underlying pool of financial instruments provided they have cash flows that are equivalent to SPPI cash flows.

Disclosures

Investments in equity instruments designated at fair value through other comprehensive income (OCI)

When an equity investment designated at fair value through OCI (FVOCI) is disposed of, IFRS 9 prohibits the entity from reclassifying the amounts accumulated in OCI to profit or loss. Some PIR participants noted that this treatment may not faithfully represent the performance of such investments upon disposal.

The IASB noted that neither IFRS 9 nor IFRS 7 distinguishes between 'realised' and 'unrealised' gains or losses, and that it had received no evidence as part of the PIR to support the contention that reclassification of amounts recognised and accumulated in OCI to profit or loss would necessarily result in users of financial statements receiving more or better information about realised gains than they do from existing requirements.

However, in response to the feedback, the IASB has amended IFRS 7 to require entities to disclose the fair value gain or loss on equity investments designated at FVOCI presented in OCI during the period, showing separately:

- ▶ the fair value gain or loss related to investments derecognised during the reporting period; and
- ▶ the fair value gain or loss related to investments held at the end of the reporting period.

The Amendments have amended IFRS 7.11A to require the above disclosure and the other existing disclosures to be disclosed for each class of investment.

The Amendments also require disclosure of any transfers of the cumulative gain or loss within equity during the reporting period related to the equity investments measured at FVOCI which were derecognised during that reporting period.

Contractual terms that could change the timing or amount of contractual cash flows

PIR participants noted that understanding the effect of contractual terms that could change the timing or amount of contractual cash flows is important to their analysis and assessment of an entity's future cash flows. Prior to the Amendments, IFRS 7 did not specifically require an entity to disclose the effect of contractual terms that could change the timing or amount of the contractual cash flows of these financial instruments.

The Amendments require entities to provide the following disclosures related to the effect of contractual terms that could change the amount of contractual cash flows based on the occurrence (or non-occurrence) of a contingent event that does not relate directly to changes in basic lending risks and costs:

- ▶ a qualitative description of the nature of the contingent event;
- ▶ quantitative information about the possible changes to contractual cash flows that could result from those contractual terms; and
- ▶ the gross carrying amount of financial assets and the amortised cost of financial liabilities subject to those contractual terms.

Effective date and transition

Effective date

The Amendments are effective for annual reporting periods beginning on or after 1 January 2026, with earlier application permitted.

The Amendments permit an entity to early adopt only the amendments related to the classification of financial assets and the related disclosures and apply the remaining amendments later. This would be particularly useful to entities that wish to apply the Amendments early for financial instruments with ESG-linked or similar features.

An entity is required to disclose the fact of early adoption.

It should be noted that in jurisdictions that require endorsement of IFRS Accounting Standards (e.g. the European Union), an entity would be able to apply the Amendments only after jurisdictional endorsement.

The Amendments were endorsed in the European Union (EU) on 27 May 2025, with an effective date of 1 January 2026.



Transition

The Amendments are required to be applied retrospectively, in accordance with the requirements of IAS 8. Restatement of prior periods is not required and is permitted only if it is possible to do so without the use of hindsight. If an entity does not restate prior periods, it is required to recognise the effect of initially applying the Amendments as an adjustment to the opening balance of financial assets and financial liabilities and the cumulative effect, if any, as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the date of initial application.

If the measurement category of a financial asset changes as a result of the application of the Amendments, the entity is required to disclose the measurement category and the carrying amount immediately before and immediately after the application of the Amendments.



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