January 25, 2022

IFRS Foundation
7 West ferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Colleagues,

The Saudi Organization for Chartered and Professional Accountants (SOCPA) appreciates the efforts of the IASB and welcomes the opportunity to comment on the ***Request for Information, Post-implementation Review: IFRS 9 Financial Instruments- Classification and Measurement.***

Comments received from preparers indicate that changes to an entity business model no longer can be considered rare as experience indicates it is a common occurrence resulting from many changes to the global economy and challenges arising from COVID-19. Accordingly, IFRS 9 should be more flexible and be able to reflect the impact of changes to the global economy. This flexibility can be achieved by allowing for more lenient reclassification options for financial instruments under specific conditions.

There is a need for additional application guidance to address characteristics of certain instruments such as SPPI assessment on sustainability linked loans, contractual and non-contractual features of Islamic financing products, how to define and measure interest in a government-imposed measures. Instruments with ESG features may trigger classification of the financial asset at FVTPL, should they fail the SPPI test. The classification of these instruments as FVTPL may not reflect the nature, timing and underlying objectives of the instruments, and cost and complexities of application of fair value accounting may outweigh the benefit. SOCPA also requests that the term "interest" be defined broadly giving due reference to features in Islamic financing. Further, to enhance application guidance by providing illustrations of products that do not meet the definition of basic lending arrangements, giving due reference to features of Islamic financing.

Regarding the irrevocable option to present fair value changes of equity investments in OCI, most preparers did not have any significant impact on their investment strategy as a result of the introduction of irrevocable option to present fair value changes in OCI other than the inability to reclassify gains or losses upon derecognition. Based on feedback received from SOCPA's outreach to financial institutions, we recommend that the framework allow for gains and losses to be recycled through profit and loss with inclusion of an appropriate impairment model.

The requirements for modification of contractual cash flows for financial assets became very prominent during COVID-19 pandemic where national regulators announced debt modifications by way of deferrals for affected borrowers. The lack of a clear definition of "substantial modification" leads to difficulty when considering derecognition for lenders. Based on information received from preparers, many lenders have used a 10% threshold provided for borrowers as the quantitative threshold for evaluation of derecognition criteria for financial assets,

Saudi Organization for Chartered and Professional Accountants
P.O.Box:22646 Riyadh 11416
920009493
www.socpa.org.sa
Info@socpa.org.sa
الهيئة السعـودية للمراجعين والمحاسـبين
صندوق البريد: ٢٢٦٤٦ الرياض ١١٤١٦
٩٢٠٠٠٩٤٩٣

whilst some of preparers have developed their own accounting policies in the absence of clear guidance.

The full details of our responses to the questions included in the ED are attached in the Appendix to this letter.

Please feel free to contact Dr. Abdulrahman Alrazeen at (razeena@socpa.org.sa) for any clarification or further information.

Sincerely,

Dr. Ahmad Almeghames
SOCPA Chief Executive Officer

Saudi Organization for Chartered and Professional Accountants
P.O.Box:22646 Riyadh 11416
920009493

www.socpa.org.sa
Info@socpa.org.sa

الهيئة السعودية للمراجعين والمحاسبين
صندوق البريد: ٢٢٦٤٦ الرياض ١١٤١٦
٩٢٠٠٠٩٤٩٣

Appendix
Post-implementation Review: IFRS 9 Financial Instruments - Classification and Measurement

Question 1 — Classification and measurement

Do the classification and measurement requirements in IFRS 9:

(a) enable an entity to align the measurement of financial assets with the cash flow characteristics of the assets and how the entity expects to manage them? Why or why not?

(b) result in an entity providing useful information to the users of the financial statements about the amount, timing and uncertainty of future cash flows? Why or why not?

Please provide information about the effects of the classification and measurement changes introduced by IFRS 9, including the ongoing costs and benefits in preparing, auditing, enforcing or using information about financial instruments.

This question aims to help the Board understand respondents' overall views and experiences relating to the IFRS 9 classification and measurement requirements. Sections 2–8 seek more detailed information on the specific requirements.

SOCPA Comments:

(a) SOCPA believes IFRS 9 requires an entity to align the classification and measurement of financial instruments of the entity by the way in which the entity manages its assets or liabilities and specific cash flow characteristics of the instrument. This has led to a more principle-based classification requirement under IFRS 9 than the previous requirements of IAS 39.

Based on feedback received from our outreach to banks and other financial entities in Saudi Arabia, the classification and measurement requirements introduced by IFRS 9 had an insignificant effect on the financial statements of entities.

The significant portion of financial instruments issued by the financial entities represented transactions under traditional banking business i.e. loans and advances, customer deposits etc. which were measured at amortized cost under IAS 39 and continued to be measured at amortized cost under IFRS 9.

However, in our view, additional application guidance should be issued to specifically address the characteristics of certain instruments which have come into use in recent times. Some of these instruments / characteristics are:

- SPPI assessment on sustainability linked loans

Saudi Organization for Chartered and Professional Accountants
P.O.Box:22646 Riyadh 11416
920009493
www.socpa.org.sa
Info@socpa.org.sa
الهيئة السعـــودية للمراجعين والمحاســبين
صندوق البريد: ٢٢٦٤٦ الرياض ١١٤١٦
٩٢٠٠٠٩٤٩٣

- contractual and non-contractual features of Islamic financing products (Contractual terms vs regulatory and market practice)
- How to define and measure interest in a government-imposed measure

(b) SOCPA believes IFRS 9 provides useful information to the users of the financial statements about the amount, timing and uncertainty of future cash flows. However, as discussed in question (a) above, more detailed application guidance should be issued to address recent developments and related challenges.

Question 2 — Business model for managing financial assets

(a) Is the business model assessment working as the Board intended? Why or why not?

Please explain whether requiring entities to classify and measure financial assets based on the business model assessment achieves the Board's objective of entities providing users of financial statements with useful information about how an entity manages its financial assets to generate cash flows.

(b) Can the business model assessment be applied consistently? Why or why not?

Please explain whether the distinction between the different business models in IFRS 9 is clear and whether the application guidance on the evidence an entity considers in determining the business model is sufficient.

If diversity in practice exists, please explain how pervasive the diversity is and its effect on entities' financial statements.

(c) Are there any unexpected effects arising from the business model assessment?

How significant are these effects? Please explain the costs and benefits of the business model assessment, considering any financial reporting or operational effects for preparers of financial statements, users of financial statements, auditors or regulators.

In responding to (a) – (c), please include information about reclassification of financial assets (see Spotlight 2).

SOCPA Comments:

(a) SOCPA is of the view that classification and measurement of financial assets based on the business model assessment provides users of financial statements with useful information about how an entity manages its financial assets to generate cash flows and achieves the financial statements objectives.
(b) SOCPA believes that the business model assessment can be applied consistently. However, we have received comments from preparers relating to the following aspects of business model assessments:

Saudi Organization for Chartered and Professional Accountants
P.O.Box:22646 Riyadh 11416
920009493
www.socpa.org.sa
Info@socpa.org.sa
الهيئة السعودية للمراجعين والمحاسبين
صندوق البريد: ٢٢٦٤٦ الرياض ١١٤١٦
٩٢٠٠٠٩٤٩٣

- Frequent business model changes due to COVID-19
- Guidelines on infrequent and/or immaterial sales on portfolios classified as amortized costs.

Frequent business model changes due to COVID-19

The reclassification of financial assets is required if, and only if, the objective of the entity's business model for managing those financial assets changes. Such changes are expected to be very infrequent and are determined by the entity's senior management as a result of external or internal changes. These changes have to be significant to the entity's operations and demonstrable to external parties. Accordingly, a change in the objective of an entity's business model will occur only when an entity either begins or ceases to carry out an activity that is significant to its operations - e.g. when the entity has acquired, disposed of or terminated a business line. [IFRS 9.B4.4.1, BC4.115-BC4.116].

Comments received from preparers indicate that changes to an entities business model no longer can be considered as rare or a one-off event if experience indicates it is a common occurrence which resulted from the many changes to the global economy and challenges arising from COVID-19 pandemic. Accordingly, IFRS 9 should be more flexible and be able to reflect the impact of changes to the global economy. This flexibility can be achieved by allowing for more lenient reclassification options for financial instruments under specific conditions. As long as a full disclosure is made in the financial statements, comparability will not be compromised.

The examples provided for circumstances that represent a change in business model and circumstances that do not represent a change in business model can be widened and additional circumstances could be included as part of the application guidance.

Guidelines on infrequent and/or immaterial sales of portfolios classified as amortized costs

IFRS 9 does not contain guidance on how to assess whether sales are 'insignificant individually and in aggregate'. It appears that an entity should assess the significance of the amount of sales by comparing the portion sold with the overall size of the portfolio subject to the business model assessment, rather than by comparing it with certain other measures, such as the total assets in the entity's statement of financial position.

Although we understand that IFRS is principle based, we believe in this case defining the frequency/immateriality and providing at least indicative guidance is very important so that it is not left for judgement, as this could result in inconsistent application of business model. This would be in line with other standards such as IAS 28 – *Investments in Associates and Joint Ventures*, which states "If an entity holds, directly or indirectly (e.g. through subsidiaries), 20 per cent or more of the voting power of the investee, it is presumed that the entity has significant influence". Therefore, we suggest specifying a limit and providing additional guidance in this regard to increase consistency in the application.

Saudi Organization for Chartered and Professional Accountants
P.O.Box:22646 Riyadh 11416
920009493
www.socpa.org.sa
Info@socpa.org.sa
الهيئة السعودية للمراجعين والمحاسبين
صندوق البريد: ٢٢٦٤٦ الرياض ١١٤١٦
٩٢٠٠٠٩٤٩٣

Question 3 — Contractual cash flow characteristics

(a) Is the cash flow characteristics assessment working as the Board intended? Why or why not?

Please explain whether requiring entities to classify and measure a financial asset considering the asset's cash flow characteristics achieves the Board's objective of entities providing users of financial statements with useful information about the amount, timing and uncertainty of future cash flows.

If, in your view, useful information could be provided about a financial asset with cash flows that are not SPPI applying IFRS 9 (that is, an asset that is required to be measured at fair value through profit or loss applying IFRS 9) by applying a different measurement approach (that is, using amortised cost or fair value through OCI) please explain:

(i) why the asset is required to be measured at fair value through profit or loss (that is, why, applying IFRS 9, the entity concludes that the asset has cash flows that are not SPPI).

(ii) which measurement approach you think could provide useful information about the asset and why, including an explanation of how that approach would apply. For example, please explain how you would apply the amortised cost measurement requirements to the asset (in particular, if cash flows are subject to variability other than credit risk). (See Section 7 for more questions about applying the effective interest method.)

(b) Can the cash flow characteristics assessment be applied consistently? Why or why not?

Please explain whether the requirements are clear and comprehensive enough to enable the assessment to be applied in a consistent manner to all financial assets within the scope of IFRS 9 (including financial assets with new product features such as sustainability-linked features).

If diversity in practice exists, please explain how pervasive the diversity is and its effect on entities' financial statements.

(c) Are there any unexpected effects arising from the cash flow characteristics assessment? How significant are these effects?

Please explain the costs and benefits of the contractual cash flow assessment, considering any financial reporting effects or operational effects for preparers of financial statements, users of financial statements, auditors or regulators.

In responding to (a)–(c), please include information about financial instruments with sustainability-linked features (see Spotlight 3.1) and contractually linked instruments (see Spotlight 3.2).

SOCPA Comments:

SOCPA is of the view that SPPI test provides users of financial statements with useful information about the amount, timing and uncertainty of future cash flows. However, SPPI test for following specific instruments requires re-evaluation and needs additional application guidance.

<u>Financial instruments with ESG features</u>

Volumes of sustainable financing arrangements and financial instruments with ESG features are expected to increase in the future and most lending arrangements will be based on the ESG principles. It is our understanding, instruments with ESG features may trigger the classification of the financial asset at fair value through profit or loss, should they fail the SPPI test.

The classification of these instruments as FVTPL may not reflect the nature, timing and underlying objectives of the instruments, and cost and complexities of application of fair value accounting may outweigh the benefit and discourage investment activities of large investors of the investment market.

<u>Contractual and non-contractual features of Islamic financing products (Contractual terms vs regulatory and market practice)</u>

The Standard's requirements include two tests—the characteristics-of-the-instrument test (SPPI) and the business-model test. The characteristics test limits application of amortised cost to instruments with terms of a basic lending arrangement, including the collection of principal and compensation for the time value of money and other basic lending risks. Even if the business-model test is satisfied, if the instrument fails the characteristics test (Solely payments of principal and interest) then the instrument would not qualify for amortised-cost measurement. The references to 'principal and interest' are pervasive in IFRS 9's classification system and in IFRS Standards generally. However, Shariah-compliant instruments do not include interest. The notion of 'principal and interest' in IFRS 9 derives from an analysis of the contractual features of a financial instrument—specifically those features inherent in a basic lending agreement such as credit and time value along with other factors and a profit margin that is consistent with a basic lending arrangement.

Islamic financial instruments do not include interest on money. Instead, a financier earns returns from trade-based and other permitted transactions, which broadly include:

- mark-up in purchase and sale contracts with deferred payment;
- profit-share in ventures and other partnership-like contracts;
- rent in lease contracts— (Outside scope of IFRS 9);
- fee from agency contracts; and
- profit, profit-share, rent or fee from undivided pro rata ownership contracts—broadly known as Sukuk.

Many preparers have reasoned that the economic substance of many contracts used in Islamic finance is a collection of fixed or determinable contractual cash flows. They conclude that such contracts do qualify for measurement at amortised cost under IFRS

Saudi Organization for Chartered and Professional Accountants
P.O.Box:22646 Riyadh 11416
920009493
www.socpa.org.sa
Info@socpa.org.sa
الهيئة السعودية للمراجعين والمحاسبين
صندوق البريد: ٢٢٦٤٦ الرياض ١١٤١٦
٩٢٠٠٠٩٤٩٣

9. For example, returns on instruments based on purchase-and-sale and lease contracts are usually determined with reference to the bank's cost of funds with, perhaps, an adjustment for the customer's credit profile.

Some reason that an instrument based on a venture or partnership may also qualify for amortised cost measurement, even though the legal form of returns does not satisfy the definition of 'interest' in paragraph 4.1.3 of IFRS 9. Those who hold this view reason that in some cases the contractual cash flows to the holder of the asset are consistent with compensation for passage of time and with a 'basic lending-type' instrument.

In our view, many of the contracts in Islamic finance meet the criteria in IFRS 9 for classification and measurement at amortised cost. However, a thorough analysis and understanding of the contract terms, rather than their mere form, is critical to reaching that conclusion. The restrictions in IFRS 9 are explicit about contract provisions that introduce factors other than those found in a basic lending arrangement and would disqualify the contract from amortised cost classification.

In light of the above, we request that the term "interest" be defined broadly giving due reference to some of the features in Islamic financing. Further, to enhance the application guidance by providing illustrations of products that do not meet the definition of basic lending arrangements, giving due reference to features of Islamic financing.

Question 4 — Equity instruments and other comprehensive income

(a) Is the option to present fair value changes on investments in equity instruments in OCI working as the Board intended? Why or why not?

Please explain whether the information about investments in equity instruments prepared applying IFRS 9 is useful to users of financial statements (considering both (i) equity instruments measured at fair value through profit and loss; and (ii) equity instruments to which the OCI presentation option has been applied).

For equity instruments to which the OCI presentation option has been applied, please explain whether information about those investments is useful considering the types of investments for which the Board intended the option to apply, the prohibition from recycling gains and losses on disposal and the disclosures required by IFRS 7.

(b) For what equity instruments do entities elect to present fair value changes in OCI?

Please explain the characteristics of these equity instruments, an entity's reason for choosing to use the option for those instruments, and what proportion of the entity's equity investment portfolio comprises those instruments.

(c) Are there any unexpected effects arising from the option to present fair value changes on investments in equity instruments in OCI? How significant are these effects?

Saudi Organization for Chartered and Professional Accountants
P.O.Box:22646 Riyadh 11416
920009493
www.socpa.org.sa
Info@socpa.org.sa
الهيئة السعـودية للمراجعين والمحاسـبين
صندوق البريد: ٢٢٦٤٦ الرياض ١١٤١٦
٩٢٠٠٠٩٤٩٣

Please explain whether the requirements introduced by IFRS 9 had any effects on entities' investment decisions. If yes, why, how and to what extent? Please provide any available evidence supporting your response which will enable the Board to understand the context and significance of the effects.

In responding to (a) – (c), please include information about **recycling of gains and losses** (see Spotlight 4).

SOCPA Comments:

(a) SOCPA believes that the irrevocable option to present fair value changes of equity investments in other comprehensive income ("OCI") is functioning as intended.

The recognition of fair value changes in OCI for equity investments, held other than for value increases or for cash distributions, allows an entity to provide relevant information to the users of the financial statements without misrepresenting the financial performance of the entity.

The disclosure of those investments along with the reasons for such election also provides relevant information to the users about these specific investments.

Based on feedback received from our outreach to banks and other financial entities in Saudi Arabia, some respondents also believe that the prohibition from recycling gains and losses on investments in equity investments held at FVOCI results in a more accurate income statement for banks.

Some preparers responded that not permitting recycling of realized gains on equity instruments has created a concern. The IASB should reconsider the restriction on not permitting recycling of equity gains and losses within IFRS 9, testing whether the Conceptual Framework would justify the recycling of FVOCI gains and losses on such instruments once these are realized. If recycling was to be reintroduced, the IASB should also consider the features of a robust impairment model, including the reversal of impairment losses.

In summary, SOCPA recommends that the framework allow for gains and losses (on the above instruments once they are realized) to be recycled through profit and loss with the inclusion of an appropriate impairment model.

(b) Certain entities hold certain equity securities as:

- strategic investments; and

- investments acquired in prior periods against the settlement of loans and advances.

Saudi Organization for Chartered and Professional Accountants
P.O.Box:22646 Riyadh 11416
920009493
www.socpa.org.sa
Info@socpa.org.sa
الهيئة السعـودية للمراجعين والمحاسـبين
صندوق البريد: ٢٢٦٤٦ الرياض ١١٤١٦
٩٢٠٠٠٩٤٩٣

Both these types of securities are not 'held-for-trading' and are held predominantly for reasons other than for generating investment returns. Accordingly, the fair value changes in these securities do not represent the effect of entity's performance.

Therefore, at initial recognition, an irrevocable option to present fair value changes in OCI has been elected for these securities.

(c) Based on feedback from our outreach to banks and other financial entities in Saudi Arabia, most preparers did not have any significant impact on their investment strategy as a result of introduction of irrevocable option to present fair value changes in OCI other than the inability to reclassify gains or losses upon derecognition of the investment.

Question 5 — Financial liabilities and own credit

(a) Are the requirements for presenting the effects of own credit in OCI working as the Board intended? Why or why not?

Please explain whether the requirements, including the related disclosure requirements, achieved the Board's objective, in particular, whether the requirements capture the appropriate population of financial liabilities.

(b) Are there any other matters relating to financial liabilities that you think the Board should consider as part of this post-implementation review (apart from modifications, which are discussed in Section 6)?

Please explain the matter and why it relates to the assessments the Board makes in a post-implementation review.

SOCPA Comments:

Based on feedback from our outreach to banks and other financial entities in Saudi Arabia, most of the preparers welcomed the requirement of IFRS 9 to present the changes in fair value as a result of variation in own credit risk in OCI as opposed to recognition in income statement under IAS 39. This requirement allows an entity to present results in a more logical manner and diminishes the chances of earnings management by the entities compared to provisions under IAS 39, where gains were reflected in the income statement when an entity's own credit risk deteriorated.

Question 6 — Modifications to contractual cash flows

(a) Are the requirements for modifications to contractual cash flows working as the Board intended? Why or why not?

Please explain what changes you consider to be modifications of a financial asset for the purpose of applying paragraph 5.4.3 of IFRS 9 and as a modification of a financial liability

Saudi Organization for Chartered and Professional Accountants
P.O.Box:22646 Riyadh 11416
920009493
www.socpa.org.sa
Info@socpa.org.sa
الهيئة السعودية للمراجعين والمحاسبين
صندوق البريد: ٢٢٦٤٦ الرياض ١١٤١٦
٩٢٠٠٠٩٤٩٣

for the purpose of applying paragraph 3.3.2 of IFRS 9. Does the application of those paragraphs, and the disclosure requirements related to modifications, result in useful information for users of financial statements?

(b) Can the requirements for modifications to contractual cash flows be applied consistently? Why or why not?

Please explain whether the requirements enable entities to assess in a consistent manner whether a financial asset or a financial liability is modified and whether a modification results in derecognition. Have the requirements been applied differently to financial assets and financial liabilities?

If diversity in practice exists, please explain how pervasive the diversity is and its effects on entities' financial statements.

SOCPA Comments:

(a) The requirements for modification of contractual cash flows for financial assets became very prominent during COVID-19 pandemic where national regulators announced the debt modifications by the way of deferrals for affected borrowers. Further, as a result of other debt restructuring arrangements introduced by the financial institutions as a response to the challenges faced due to pandemic, we have witnessed a large number of modifications to contractual cash flows.

The lack of a clear definition of "substantial modification" leads to difficulty when considering de-recognition for the lenders. It is believed that there is a variation in practice and further clarity would be useful. The trigger of a derecognition is only defined for financial liabilities in paragraph 3.3.2 of IFRS 9 as a "substantial modification of the terms of an existing financial liability". Based on the information we received, many lenders have used a 10% threshold provided for borrowers as the quantitative threshold for the evaluation of derecognition criteria for financial assets, whilst some of the preparers have developed their own accounting policies in the absence of clear guidance in the standard.

(b) As mentioned in answer to 6 (a) above, there is a lack of guidance regarding modification and de-recognition of financial assets and therefore the guidance for financial liabilities is often applied by analogy which could lead to a variation in practice.

The disclosure for modification of financial assets along with the amortized cost presents useful information to the users of the financial statements.

Question 7 — Amortised cost and the effective interest method

(a) Is the effective interest method working as the Board intended? Why or why not?

Saudi Organization for Chartered and Professional Accountants
P.O.Box:22646 Riyadh 11416
920009493
www.socpa.org.sa
Info@socpa.org.sa
الهيئة السعودية للمراجعين والمحاسبين
صندوق البريد: ٢٢٦٤٦ الرياض ١١٤١٦
٩٢٠٠٠٩٤٩٣

Please explain whether applying the requirements results in useful information for users of financial statements about the amount, timing and uncertainty of future cash flows of the financial instruments that are measured applying the effective interest method.

(b) Can the effective interest method be applied consistently? Why or why not?

Please explain the types of changes in contractual cash flows for which entities apply paragraph B5.4.5 of IFRS 9 or paragraph B5.4.6 of IFRS 9 (the 'catch-up adjustment') and whether there is diversity in practice in determining when those paragraphs apply.

Please also explain the line item in profit or loss in which the catch-up adjustments are presented and how significant these adjustments typically are.

If diversity in practice exists, please explain how pervasive the diversity is and its effect on entities' financial statements.

In responding to questions (a)–(b), please include information about **interest rates subject to conditions and estimating future cash flows** (see Spotlight 7).

SOCPA Comments:

(a) The effective interest method for calculation of amortized cost is working as intended. The Effective Interest Rate ("EIR") is calculated at initial recognition of financial instruments.

Most of the arrangements entered into by banks are traditional in nature, where generally gross carrying amount is considered to be the fair value of the instrument, adjusted for transaction costs and fees that are integral part of EIR. Due to the operational complexities, some preparers have applied alternative methods such as straight-line amortization of the fee income. However, the value of the EIR method is minimized as the contractual interest rate along with the straight-line amortization of those fees integral to yield generally results in an outcome materially similar to the EIR method with less effort.

(b) The effective interest method can be applied consistently. The change in estimated cash flows occur mainly at the time of renegotiation and are considered as a modification of financial asset or financial liability.

Question 8 — Transition

(a) Did the transition requirements work as the Board intended? Why or why not?

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.

Saudi Organization for Chartered and Professional Accountants
P.O.Box:22646 Riyadh 11416
920009493
www.socpa.org.sa
Info@socpa.org.sa
الهيئة السعودية للمراجعين والمحاسبين
صندوق البريد: ٢٢٦٤٦ الرياض ١١٤١٦
٩٢٠٠٠٩٤٩٣

Please also explain whether, and for what requirements, the Board could have provided additional transition reliefs without significantly reducing the usefulness of information for users of financial statements.

(b) Were there any unexpected effects of, or challenges with, applying the transition requirements? Why or why not?

Please explain any unexpected effects or challenges preparers of financial statements faced applying the classification and measurement requirements retrospectively. How were those challenges overcome?

SOCPA Comments:

SOCPA is of the view that transition requirements work as the IASB intended. Many preparers have applied the adopted modified retrospective approach in implementation of IFRS 9 where comparative periods were not restated and differences between carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 were recognized in retained earnings and other reserves as of January 1, 2018. In our view, 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.

Question 9 — Other matters

(a) Are there any further matters that you think the Board should examine as part of the post-implementation review of the classification and measurement 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 the purpose of the post-implementation review, and the pervasiveness of any matter raised. Please provide examples and supporting evidence when relevant.

(b) Considering the Board's approach to developing IFRS 9 in general, do you have any views on lessons learned that could provide helpful input to the Board's future standard-setting projects?

SOCPA Comments:

(a) Interaction of IFRS 9 with IFRS 16:

It was noted that many financial institutions that were engaged in finance leasing activities offered debt moratoriums and other relief packages to borrowers (lessees) due to COVID-19. The accounting for the modification of lease contracts is primarily governed by IFRS 16.

Saudi Organization for Chartered and Professional Accountants
P.O.Box:22646 Riyadh 11416
920009493
www.socpa.org.sa
Info@socpa.org.sa
الهيئة السعـودية للمراجعين والمحاسبين
صندوق البريد: ٢٢٦٤٦ الرياض ١١٤١٦
٩٢٠٠٠٩٤٩٣

Paragraph 80 of IFRS 16 provides guidance for modification to a finance lease as follows.

"For a modification to a finance lease that is not accounted for as a separate lease, a lessor shall account for the modification as follows:

(a) if the lease would have been classified as an operating lease had the modification been in effect at the inception date, the lessor shall:

(i) account for the lease modification as a new lease from the effective date of the modification; and
(ii) measure the carrying amount of the underlying asset as the net investment in the lease immediately before the effective date of the lease modification.

(b) otherwise, the lessor shall apply the requirements of IFRS 9."

As per the above requirements, the contract modifications that fall under para 80 (b) of IFRS 16 should follow the requirements of IFRS 9 modifications to the contracts. The modification accounting under IFRS 9 refers to both derecognition of the contract due to re-negotiation and contract modifications that does not result in the derecognition.

However, the IFRS version with cross-references and other annotations provide reference only to IFRS 9, paragraph 5.4.3, requirements for modifications that does not result in the derecognition which makes principles between IFRS 9 and IFRS 16 inconsistent.

We recommend that the IASB consider these instances and address any inconsistencies and provide additional guidance on the modification accounting.

(b) SOCPA believes that the implementation of classification and measurement requirements has allowed banks to present more useful financial information to the users of the financial statements.

There are no further matters that, we believe that require analysis or change as part of the post-implementation review.

Saudi Organization for Chartered and Professional Accountants
P.O.Box:22646 Riyadh 11416
920009493
www.socpa.org.sa
Info@socpa.org.sa
الهيئة السعودية للمراجعين والمحاسبين
صندوق البريد: ٢٢٦٤٦ الرياض ١١٤١٦
٩٢٠٠٠٩٤٩٣