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Mr Andreas Barckow
Chairman
International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD

Re: Request for Information – Post-implementation Review – IFRS 9 Financial Instruments:

Classification and Measurement

Dear Mr Barckow,

On behalf of RSM International Limited, a worldwide network of independent audit, tax and consulting firms, we are pleased to comment on the IASB's Request for Information on its post-implementation review of IFRS 9 Financial Instruments: Classification and Measurement.

In our experience, the classification and measurement requirements in IFRS 9 generally work well and for financial assets are now more closely aligned with the commercial rationale for entities holding such instruments.

Two areas where we do see challenges are the definition of a 'derivative' and the reclassification requirements in IFRS 9.

Whilst the classification and measurement of financial liabilities was not amended by IFRS 9, we would welcome some consideration of the definition of a 'derivative' in IFRS 9 as set out in the Appendix to this letter.

The conditions for reclassification of financial assets can result in some continuing fair value measurement due to contractual terms at inception that have since expired. We expand on this in the Appendix to this letter.

Should you wish to discuss any matters included in this letter please contact Gary Stevenson (+852 2583 1220) or me (+44 (0)207 601 1842).

Yours faithfully,

Marion Hannon

Global Leader, Quality & Risk

RSM International

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Appendix 1

Question 5 – Financial liabilities and own credit

(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)?

The exclusion of 'a non-financial variable specific to a party to the contract' from the definition of a derivative is subject to different interpretations depending on whether this part of the definition is considered to be limited to, or broader than, insurance contracts.

Such matters arise most often in the consideration of embedded derivatives within lending arrangements. We consider the significance of the lack of comparability arising from the current 'accounting policy' choice approach may increase with the rise in sustainability linked loans.

There is also a lack of clarity whether 'non-financial' includes amount included or derived from an entity's financial statements.

We would request the IASB include guidance and/or illustrative examples of common underlying that meet or fail to meet the definition of 'a non-financial variable specific to a party to the contract.'

Relevant IFRS Extracts:

IFRS 9 – Appendix A, Definition of 'derivative' – A financial instrument or other contract within the scope of this Standard with all three of the following characteristics… (a) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying')…

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?

Whilst we would not be supportive of numerous reclassifications of a financial instruments, we do see some merit in reclassifications when the business model remains unchanged but terms pertinent to the classification and measurement have expired.

For example, where a contingent prepayment option is the only reason an instrument fails the cash flow test at inception and that option expires before the end of the instrument's term. As at the point the option expires the business model and remaining cash flows would meet the amortised cost measurement criteria. In such circumstances the additional credit risk assessment required to fair value the instrument would not be comparable with an instrument which has the same remaining cash flows but without the contingent prepayment option at inception. We recognise that the pricing of these instruments at inception would differ, but question whether different measurement is justified once the remaining cash flows are the same.

A requirement to reclassify where all terms that fail the contractual cash flow test at inception have expired would address this and would be a one-directional reclassification from fair value to amortised cost measurement. Any gain or loss on reclassification could then be accounted for in-line with the current reclassification requirements in IFRS 9.

Relevant IFRS Extracts:

IFRS 9.4.4.1 When, and only when, an entity changes its business model for managing financial assets it shall reclassify all affected financial assets.

IFRS 9.4.4.2 An entity shall not reclassify any financial liability.

IFRS 9.5.6.3 If an entity reclassifies a financial asset out of the fair value through profit or loss measurement category and into the amortised cost measurement category, its fair value at the reclassification date becomes its new gross carrying amount.

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