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International Accounting Standards Board
7 Westferry Circus
Canary Wharf
London E14 4HD
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Dear Board Members,

RESPONSE TO REQUEST FOR INFORMATION
POST-IMPLEMENTATION REVIEW: IFRS 9 *FINANCIAL INSTRUMENTS* - IMPAIRMENT ("RFI")

ISCA welcome and support IASB's initiative in subjecting various IFRSs to Post-Implementation Reviews (PIRs) and subsequently improving the IFRSs in response to feedback gathered during the PIRs.

For this PIR, ISCA sought views from its members through a two-month public consultation and from the ISCA Financial Reporting Committee which comprises experienced technical professionals from audit firms, preparers of financial statements and other stakeholders.

The introduction of a forward-looking expected credit loss (ECL) model has resulted in an earlier recognition of credit losses as compared to the incurred loss model under IAS 39. However, the adoption of ECL model has created its own complexity where significant judgment is required for the incorporation of forward-looking information and determination of significant increases in credit risks. Noting the many challenges faced by entities in measurement of ECL due to differences in credit risk management practices, we urge the Board to consider allowing more practical expedients where the focus should be on specific provisioning instead of general provisioning.

Our detailed comments to specific questions in the RFI are set out below.

RFI Question 1 - Impairment
Do the impairment requirements in IFRS 9 result in: **(a) more timely recognition of credit losses compared to IAS 39 and address the complexity caused by having multiple impairment models for financial instruments? Why or why not?** **(b) an entity providing useful information to users of financial statements about the effect of credit risk on the amount, timing and uncertainty of future cash flows? Why or why not?** Please provide information about the effects of the changes to the impairment requirements introduced by IFRS 9, including the ongoing costs and benefits of preparing, auditing, enforcing or using information about financial instruments. This question aims to help the IASB understand respondents' overall views and experiences relating to the IFRS 9 impairment requirements. Sections 2–9 seek more detailed information on specific requirements.

We agree that the impairment requirements in IFRS 9 have resulted in more timely recognition of credit losses under the expected credit loss (ECL) model, instead of having multiple impairment models in IAS 39. Notwithstanding so, we are of the view that the adoption of ECL model has brought about complexity on its own where significant judgment is involved in incorporating forward-looking information and determining significant increases in credit risks, depending on the sophistication of the respective ECL models adopted by entities. This would have resulted in reduced comparability and usefulness of information across entities, or even entities within the same industry.

We note that in practice, there is a wide spectrum of ECL models, ranging from advanced models used by financial institutions to simplified models used by non-financial institutions. This has added complexity where users of financial statements will need to have an adequate understanding of these ECL models before they can determine if the information is useful for their purposes.

We have received feedback that the ongoing costs remain high for advanced ECL models, with the need for review, update, support and backend testing of these models. This is especially so for financial institutions where significant resources are expended in the validation of the ECL models and determination of post-model adjustments so as to meet regulators' expectations. Hence, we suggest IASB to consider working with regulatory authorities for financial institutions such as the International Organization of Securities Commissions in possible alignments of the ECL model under IFRS 9 and those for regulatory purposes.

RFI Question 2 - The general approach to recognising expected credit losses	
(a)	**Are there fundamental questions (fatal flaws) about the general approach? If yes, what are those fundamental questions?** Please explain whether requiring entities to recognise at least 12-month expected credit losses throughout the life of the instrument and lifetime expected credit losses if there has been a significant increase in credit risk achieves the IASB's objective of entities providing useful information about changes in credit risk and resulting economic losses. If not, please explain what you think are the fundamental questions (fatal flaws) about the clarity and suitability of the core objectives or principles of the general approach.
(b)	**Are the costs of applying the general approach and auditing and enforcing its application significantly greater than expected? Are the benefits to users significantly lower than expected?** If, in your view, the ongoing costs of applying the general approach to particular financial instruments are significantly greater than expected or the benefits of the resulting information to users of financial statements are significantly lower than expected, please explain your cost–benefit assessment for those instruments.

We are not aware of any fatal flaws about the general approach to recognition of ECL. As shared in our response to Question 1, the costs related to its application and auditing continue to be material to both preparers and auditors where additional review and validation work are required with the use of forward-looking information, especially for advanced models. However, it is not clear if the benefits outweigh the costs. Therefore, we urge the Board to consider undertaking a study which entails comparisons of ECL provisions under IAS 39 and IFRS 9 against the costs incurred during the transition. This may provide a clearer picture on the costs and benefits of IFRS 9.

RFI Question 3 - Determining significant increases in credit risk	
(a)	**Are there fundamental questions (fatal flaws) about the assessment of significant increases in credit risk? If yes, what are those fundamental questions?** Please explain whether the principle-based approach of assessing significant increases in credit risk achieves the IASB's objective of recognising lifetime expected credit losses on all financial instruments for which there has been a significant increase in credit risk since initial recognition. If not, please explain what you think are the fundamental questions (fatal flaws) about the clarity and suitability of the core objectives or principles of the assessment of significant increases in credit risk.
(b)	**Can the assessment of significant increases in credit risk be applied consistently? Why or why not?**

Please explain whether the requirements provide an adequate basis for entities to apply the assessment consistently to all financial instruments within the scope of impairment requirements in IFRS 9.

If diversity in application exists for particular financial instruments or fact patterns, please explain and provide supporting evidence about how pervasive that diversity is and explain what causes it. Please also explain how the diversity affects entities' financial statements and the usefulness of the resulting information to users of financial statements.

If you have identified diversity in application of the assessment, please provide your suggestions for resolving that diversity.

In responding to (a) and (b), please include information about applying judgement in determining significant increases in credit risk (see Spotlight 3).

The determination of significant increases in credit risk (SICR), being a principle-based approach will require the exercise of judgment on the timing and amount of lifetime ECL provisions. Correspondingly, the application of the assessment would likely be varied in practice across different products and entities. For example, the deterioration of credit rating is listed as one possible indicator of SICR in IFRS 9 paragraph B5.5.17. Entities would need to determine the extent of deterioration in credit ratings in assessing whether a financial asset should be downgraded from Stage 1 to Stage 2 or Stage 3. Therefore, it will be fairly subjective and challenging for entities to apply such requirements consistently, given the judgment involved.

In addition, we note that users of financial statements would tend to focus on whether the financial assets are subjected to general provision (Stage 1 and 2 ECL) or specific provision (Stage 3 ECL) instead of differentiating between Stages 1 and 2. As such, some may view that the differentiation between Stages 1 and 2 may not be meaningful.

RFI Question 4 - Measuring expected credit losses

(a) Are there fundamental questions (fatal flaws) about requirements for measuring expected credit losses? If yes, what are those fundamental questions?

Please explain whether the requirements for measuring expected credit losses achieve the IASB's objective of providing users of financial statements with useful information about the amount, timing and uncertainty of an entity's future cash flows. If not, please explain what you think are the fundamental questions (fatal flaws) about the clarity and suitability of the core objectives or principles of the measurement requirements.

(b) Can the measurement requirements be applied consistently? Why or why not?

Please explain whether the requirements provide an adequate basis for entities to measure expected credit losses consistently for all financial instruments within the scope of impairment requirements in IFRS 9.

If diversity in application exists for particular financial instruments or fact patterns, please explain and provide supporting evidence about how pervasive that diversity is and explain what causes it. Please also explain how the diversity affects entities' financial statements and the usefulness of the resulting information to users of financial statements.

If you have identified diversity in application of the requirements, please provide your suggestions for resolving that diversity.

In responding to (a) and (b), please include information about forward-looking scenarios (see Spotlight 4.1), post-model adjustments or management overlays (see Spotlight 4.2) and off-balance-sheet exposures (see Spotlight 4.3), as relevant.

We are not aware of any fatal flaws in the requirements for measuring ECL. However, the measurement of ECL is a very judgmental process with diversity in the application of the requirements. This may result in a lack of comparability between entities in the same industry or even for an entity period on period.

The following are examples of judgmental areas in the measurement of ECL model:

1. Number and selection of macroeconomic variables and scenarios, including weightages applied to each scenario
2. Frequency of updating scenarios
3. Underlying risk models used (if any)
4. Type of Basel risk models being leveraged (advanced internal rating based, standardised etc)
5. Management overlays to cater for system deficiencies or variables not captured in the data inputs, or to meet regulators' expectations.

We note that the most challenging aspect of measuring ECL is the need to consider multiple scenarios, especially so during the transition period due to a lack of guidance in IFRS 9. During the transition period, references were drawn from the discussions of the IFRS Transition Resource Group (TRG) for Impairment of Financial Instruments. Hence, we suggest the Board to consider codifying the conclusions from past TRG discussions on topics such as multiple scenarios and importance of considering non-linearities into IFRS 9 itself.

In addition, more guidance in terms of educational or best practice materials are needed for non-financial institutions to reduce the diversity in practice. For example, non-financial institutions generally face challenges in the sourcing of information as data points for their ECL models. Also, there is a tendency to default to Gross Domestic Product, being the most readily available information, for forward-looking scenarios which may not always be appropriate for all cases.

For entities preparing separate financial statements, the key challenge lies in measuring ECL for material inter-companies' or related parties' balances but in practice, the credit ratings of inter-companies or related parties may be difficult to obtain, especially if they are private entities. Hence, reliance is usually placed on their parents' credit ratings or standings for loans instead which may not be appropriate. More guidance would be helpful to these entities in the application of the requirements in practice. In addition, with the implementation of IFRS 17 *Insurance Contracts*, many entities may switch to IFRS 9 to account for intra-group financial guarantee contracts. It will be helpful to provide guidance or exemptions and practical expedients for such contracts since these are eliminated at group.

For the use of post-model adjustments or management overlays, additional guidance should be incorporated into IFRS 9, specifically on the related disclosures required to be made for such adjustments to the ECL model to help users to better understand these adjustments or overlays and for comparability purposes.

RFI Question 7 - Application of the impairment requirements in IFRS 9 with other requirements
Is it clear how to apply the impairment requirements in IFRS 9 with other requirements in IFRS 9 or with the requirements in other IFRS Accounting Standards? If not, why not? If there are specific questions about how to apply the impairment requirements alongside other requirements, please explain what causes the ambiguity and how that ambiguity affects entities' financial statements and the usefulness of the resulting information to users of financial statements. Please describe the fact pattern and: (a) indicate the requirements in IFRS 9 or in other IFRS Accounting Standards to which your comments relate; (b) explain the effects of applying the requirements (for example, the quantitative effect on an entity's financial statements or an operational effect); (c) explain how pervasive the fact pattern is; and (d) support your feedback with evidence. In responding to this question, please include information about matters described in this section of the document.

IFRS 9 paragraph 5.5.1 requires an entity to recognise a loss allowance for ECL on a financial asset that is measured in accordance with paragraphs 4.1.2 or 4.1.2A, a lease receivable, a contract asset or a loan commitment and a financial guarantee contract to which the impairment requirements apply in accordance with paragraphs 2.1(g), 4.2.1(c) or 4.2.1(d). In addition, expected credit losses are defined in IFRS 9 Appendix A as the weighted average of credit losses with the respective risks of a default occurring as the weights; while credit loss is defined as the difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (i.e., all cash shortfalls), discounted at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

We note that an IFRIC Agenda Decision (AD) *Lessor Forgiveness of Lease Payments* dated October 2022 has created further uncertainty about the boundaries of credit risk. In the fact pattern submitted in the AD, the lessor voluntarily forgives a number of lease payments for the lessee, following the closure of its retail store in compliance with government restrictions. IFRIC has concluded that the lessor should apply the impairment requirements in IFRS 9 to the operating lease receivable and measures ECL on the lease receivable to reflect all cash shortfalls, before the lease concession was granted by the lessor, including its expectations of forgiving lease payments recognised as part of that receivable. After the rent concession is granted, the lessor is to apply IFRS 9's derecognition requirements for the lease receivable and IFRS 16 *Leases* to future lease payments under the lease.

We are of the view that IASB should clarify whether and how the term "all cash shortfalls" used to define credit loss should be interpreted within the scope of concessions from the lender due to financial difficulties of the borrower as this would have wider implications beyond lease receivables and may affect the existing practices for financial assets. In addition, the interaction between modification, impairment and derecognition requirements needs clarification in terms of the order of application.

RFI Question 8—Transition
Were the costs of applying the transition requirements and auditing and enforcing their application significantly greater than expected? Were the benefits to users significantly lower than expected? Please explain whether the combination of the relief from restating comparative information and the requirement for transition disclosures achieved an appropriate balance between reducing costs for preparers of financial statements and providing useful information to users of financial statements. Please explain any unexpected effects or challenges preparers of financial statements faced applying the impairment requirements retrospectively. How were those challenges overcome?

We note the relief from restating comparative information for the adoption of IFRS 9 was helpful in aiding entities in their transition to IFRS 9. However, this has resulted in lack of comparability for the year of transition. In addition, the disclosure of the expected impact on the impairment of financial instruments might not have provided useful information, considering the sensitivity involved in such disclosures.

RFI Question 9 - Credit risk disclosures
(a) **Are there fundamental questions (fatal flaws) about the disclosure requirements in IFRS 7 for credit risk? If yes, what are those fundamental questions?** Please explain whether the combination of disclosure objectives and minimum disclosure requirements for credit risk achieves an appropriate balance between users of financial statements receiving: (i) comparable information—that is, the same requirements apply to all entities so that users receive comparable information about the risks to which entities are exposed; and

(ii) relevant information—that is, the disclosures provided depend on the extent of an entity's use of financial instruments and the extent to which it assumes associated risks.

If an appropriate balance is not achieved, please explain what you think are the fundamental questions (fatal flaws) about the clarity and suitability of the core objectives or principles of the disclosure requirements.

(b) Are the costs of applying these disclosure requirements and auditing and enforcing their application significantly greater than expected? Are the benefits to users significantly lower than expected?

If, in your view, the ongoing costs of providing specific credit risk disclosures are significantly greater than expected or the benefits of the resulting information to users of financial statements are significantly lower than expected, please explain your cost–benefit assessment for those disclosures. Please provide your suggestions for resolving the matter you have identified.

If, in your view, the IASB should add specific disclosure requirements for credit risk, please describe those requirements and explain how they will provide useful information to users of financial statements.

Please also explain whether entities' credit risk disclosures are compatible with digital reporting, specifically whether users of financial statements can effectively extract, compare and analyse credit risk information digitally.

We have not identified any fatal flaws in the disclosure requirements in IFRS 7 for credit risk. However, IFRS 7 does not require the disclosure of sensitivity analyses for credit risks. We note that some entities do disclose sensitivity analyses in accordance with IAS 1 paragraph 125 for disclosure of sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Such disclosures of sensitivity analyses may provide useful information to the users when marginal changes in the estimates used in their ECL model can result in a wide range of ECL. Therefore, we suggest the Board to consider the inclusion of sensitivity analyses for credit risks under IFRS 7 with due consideration of the complexity of the ECL measurement and the related estimation uncertainty. For example, exemption may be given to entities using simplified ECL models in their credit loss provisioning, such as non-financial institutions with limited exposures to credit risk. In addition, where sensitivity analyses are provided, qualitative information should be provided to explain the use of quantitative data as well as any limitations of the techniques used to disclose sensitivity information.

Should you require any further clarification, please feel free to contact Ms Felicia Tay at felicia.tay@isca.org.sg or Ms Jezz Chew at jezz.chew@isca.org.sg.

Yours faithfully,

Mr Wai Geat, KANG
Divisional Director
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