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International Accounting Standards Board
7 Westferry Circus, Canary Wharf
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27 July 2023

RE: IASB ED/2023/2 Amendments to the Classification and Measurement of Financial Instruments (Proposed amendments to IFRS 9 and IFRS 7)

Dear Mr Barckow,

We are pleased to have the opportunity to provide our comments on the IASB ED/2023/2 Amendments to the Classification and Measurement of Financial Instruments (Proposed amendments to IFRS 9 and IFRS 7), issued by the IASB on March 2023 (the 'ED').

We welcome the ED and in particular the proposed amendments to the Solely Payments of Principal and Interest general requirements (SPPI-test). We believe that these proposals represent an important step to help entities in applying the SPPI-test requirements in particular to the financial assets with ESG-features and in providing more relevant information about these type of financial instruments to the users of the financial statements. Considering the relevance and the increase of the financial assets with ESG-features we suggest to the IASB to prioritize the finalization of these proposals over the others. However, in the finalization of the amendments we would like to suggest to the IASB to:

- Reconsider the scope of the disclosure proposed. We observe that the proposed disclosure may result in significant operational challenges and implementation costs because it requires providing quantitative information about all financial instruments (including financial liabilities and loans with covenants) that contain a contingent event specific to the debtor. In our view, the IASB should limit the proposed disclosures only to financial assets with ESG-features.
- Eliminate the concept of "magnitude" in the last sentence of the paragraph B4.1.8 A. This concept, without any further guidance, could generate application uncertainties and legal disputes. For example, it is not clear whether an increase of 50 basis points of the interest rate of a loan, due to the failure of an ESG target, is aligned in term of "magnitude" with the change in the basic lending risks or costs. This assessment in our view would be too judgmental. In addition, we observe that the concept of "magnitude" seems to be unnecessary considering that IFRS 9 B4.1.9 already includes the concept of *leverage*. Finally, the concept of "magnitude" seems to contradict the requirement in paragraph B 4.1.8A of the ED to focus on "what" is being compensated for, rather than "how much" compensation an entity receives.
- Clarify the meaning of "contingent event specific to the debtor". For example, it is not clear whether the debtor is only the single legal entity or it could be also the entire group (e.g. Entity A, which belongs to the Group X, subscribes a loan with an interest rate that increases if the Group X fails an ESG KPI, in this case it is not clear whether the contingent event is

specific to the debtor in the separate financial statements of Entity A). This element of contingency may affect the calculation of the EIR in applying the amortized cost method. The IASB may consider this within its project on Amortised Cost and Effective Interest Rate.

In addition, we have observed that the amendment may give rise to different interpretations, mainly related to which ESG risks meet the concept of *basic lending risks or costs*. This aspect may be clarified by the IASB in the re-deliberation phase. Furthermore, the IASB should evaluate the impacts of the amendment within the effect analysis.

Moreover, we would like to highlight the inconsistency between the IASB's decision not to require the *recycling* to profit or loss of the fair value accumulated in OCI, when an entity disposes an equity instrument designated at OCI, and the proposed amendments to IFRS 7 to require entities to disclose additional information about the fair value accumulated in OCI. If the IASB consider relevant to the users the distinction between changes in FV related to investment disposed during the year and changes in FV related to investments still held by entities at the end of the year, this information should arise from the PL.

At last, in relation to the amendments on the Derecognition of a financial liability settled through electronic transfer, we observe that the settlement date is described in the paragraph B.3.1.6 as "the date that an asset is delivered to or by an entity" and not the date the liability is discharged. Therefore, we suggest to amend that paragraph in order to clarify how the settlement date accounting applies to a financial liability.

Yours sincerely,

Michele Pizzo
(President of the IIC Board of Directors)

