Hong Kong Institute of
Certified Public Accountants
香港會計師公會

<u>Our Ref.: C/FRSC</u>

Sent electronically through the IASB Website (www.ifrs.org)

26 Septemeber 2023

Dr Andreas Barckow
International Accounting Standards Board
Columbus Building
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Canary Wharf
London E14 4HD
United Kingdom

Dear Andreas,

IASB Request for Information
Post-implementation Review of IFRS 9 Financial Instruments
— Impairment

The Hong Kong Institute of Certified Public Accountants (HKICPA) is the only body authorised by law to set and promulgate standards relating to financial reporting, auditing, ethics and sustainability disclosures for professional accountants in Hong Kong. We are grateful for the opportunity to provide our comments on this Request for Information (RFI).

Overall, we consider that the use of the expected credit loss (ECL) model in IFRS 9 results in more timely recognition of credit losses and provides better information about an entity's ECL as compared to the incurred loss model in IAS 39 *Financial Instruments: Recognition and Measurement*. Nevertheless, we have identified application issues relating to certain aspects of the ECL requirements that warrant the IASB's further consideration. We provide detailed comments in the Appendix, and summarise our primary comments and recommendations below.

<u>Meaning of 'credit loss'</u>

In our submission to the IFRS Interpretations Committee (IC) tentative agenda decision *Lessor Forgiveness of Lease Payments (IFRS 9 and IFRS 16),* we expressed concerns over the unclear meaning of 'credit loss' for the purpose of ECL assessment. On the one hand, Appendix A of IFRS 9 defines a credit loss as '<u>all</u> cash shortfalls', which may imply that an entity should include all cash shortfalls in ECL measurement irrespective whether they are due to credit-related reasons. On the other hand, the objective and underlying concept of the ECL model (e.g. significant increase in credit risk, risk of default and credit impaired) seem to imply that the measurement of ECL should only be driven by credit-related factors.

Some respondents considered that the IFRS IC may have clarified this issue in its Agenda Decision (AD) *Lessor Forgiveness of Lease Payments (IFRS 9 and IFRS 16)* by concluding that the lessor, who voluntarily forgives certain lease payments due by the lessee, should include the anticipation of forgiving lease payments due into the measurement of ECL of the operating lease receivable to reflect 'all cash shortfalls'. However, other respondents considered that the AD has created further uncertainty about the boundaries of credit risk.

We considered that the meaning of 'credit loss' is not only fundamental to the ECL assessment but is also closely related to the issue of the boundaries between the requirements on modification of financial assets and ECL (see below). In light of the ongoing concern in the market, we recommend that the IASB undertake proper standard-setting activities to clarify the meaning of 'credit loss' in IFRS 9, i.e. whether it is based on an assessment of 'all cash shortfalls' or 'shortfalls as a result of an inability to pay'. We also recommend the IASB conduct a thorough review of IFRS 9 to ensure that the related concepts and terminologies applied in the ECL measurement align with the clarified meaning of 'credit loss' within the context of IFRS 9.

Interaction of the ECL requirements with the requirements on modification and derecognition in IFRS 9

IFRS 9 does not contain clear guidance on how the requirements for modification and ECL interact with each other. Specifically, following a modification that does not result in derecognition, it is unclear how an entity should account for the ECL and the effect of the modification. Questions arise as to whether certain losses should be treated as impairment losses, write-offs, or modification losses. The uncertainty about the boundaries between the requirements for modification and ECL is further exacerbated by the unclear meaning of 'credit loss' as mentioned above ('all cash shortfalls' or 'shortfalls as a result of an inability to pay').

In our submission to the IASB on *PIR of IFRS 9 – Classification and Measurement*, we expressed significant concerns regarding the modification requirements. Due to insufficient guidance in IFRS 9, different entities have developed varying accounting policies to assess whether a modification results in derecognition. The lack of clarity affects whether a modification would lead to derecognition of the original financial asset and recognition of a new one, resulting in a reset of initial credit risk and hence stage classification for ECL measurement. This is in contrast to cases where the modification does not result in derecognition, and the modified financial assets would be classified as stage 2 if the credit risk has increased significantly.

We note that the IASB has added a standard-setting project to its research pipeline on *Amortised Cost Measurement*, which will consider the modification of financial instruments. In this regard, we strongly recommend the IASB include the interaction of the modification and ECL requirements within the scope of that project and commence the project as soon as practicable.

Accounting for financial guarantee contracts (FGCs)

FGCs are widely used financial instruments in Mainland China and Hong Kong. However, we noted several application issues relating to the accounting for FGCs and recommend that the IASB provide guidance or clarification on how the relevant requirements in IFRS 9 should be applied. These issues include:

- From the holder's perspective: There is a potential inconsistency between IFRS 9:B5.5.55 and the discussions by the IFRS Transition Resource Group for Impairment of Financial Instruments in terms of what 'integral' means when assessing whether cash flows from FGCs are integral to the contractual terms for ECL measurement. This raises concerns on how to appropriately perform the integral assessment, particularly when the FGC is not mentioned in the contractual terms or the FGC is obtained for a revolving pool of receivables.

- From the issuer's perspective: IFRS 9 does not provide application guidance on how the extant requirements for subsequent measurement in IFRS 9:4.2.1(c) are applied

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to FGCs with premiums received over time, leading to diversity in practice. In addition, questions have also been raised as to how the two amounts recognised under IFRS 9:4.2.1(c), namely the amortisation amount determined based on IFRS 15 and the ECL allowance, interact with each other and hence how they should be presented in the statement of profit or loss.

If you have any questions regarding the matters raised in this letter, please contact Carrie Lau (carrie@hkicpa.org.hk) or Kennis Lee (kennislee@hkicpa.org.hk), Associate Directors of the Standard Setting Department.

Sincerely,

Cecilia Kwei
Director of Standard Setting

Work undertaken by the HKICPA in forming its views:

The HKICPA:

(a) issued an Invitation to Comment on the RFI on 31 May 2023 to its members and other stakeholders;

(b) sought input from its Financial Instruments Advisory Panel, Small and Medium-sized Practitioners Committee and its Technical Issues Support Group, which mainly comprise technical and industry experts from large as well as small and medium accounting firms (collectively, Practitioners);

(c) held a public roundtable discussion for local stakeholders, including Practitioners and preparers from the banking industry on 14 August 2023;

(d) reviewed the findings from regulators' reports focusing on the impairment requirements in IFRS 9; and

(e) developed its views through its Financial Reporting Standards Committee, having reflected on its respondents' views. The Committee comprises preparer representatives from various industry sectors, regulators, as well as technical and industry experts from small, medium and large accounting firms.

Detailed comments on the IASB RFI

Impairment – overall (Sections 1 & 2 of the RFI)

1. We consider that the ECL model results in more timely recognition of credit losses and provides better information about an entity's credit losses as compared to the incurred loss model in IAS 39 *Financial Instruments: Recognition and Measurement.* We support the principle-based approach in IFRS 9 as such an approach provides flexibility to entities in conducting the ECL assessment based on their own credit risk management policies and practices.

Meaning of 'credit loss'

2. Nevertheless, our respondents expressed concerns over the unclear meaning of 'credit loss' for the purpose of ECL assessment within IFRS 9. On the one hand, Appendix A of IFRS 9 defines a credit loss as '<u>all</u> cash shortfalls'. Some respondents interpreted this as a requirement to include all cash shortfalls in ECL measurement irrespective whether they are due to credit-related reasons or not. On the other hand, the objective and underlying concept of the ECL model (e.g. significant increase in credit risk, risk of default and credit impaired) aim to capture changes in credit risk since the initial recognition of financial instruments. This implies that the measurement of ECL should only be driven by credit-related factors.

3. Some respondents considered that the IFRS Interpretations Committee may have clarified this issue by concluding in its agenda decision (AD) *Lessor Forgiveness of Lease Payments (IFRS 9 and IFRS 16)* that in the submitted fact pattern where the lessor <u>voluntarily</u> forgives certain lease payments due by the lessee, the lessor estimates the ECL on the operating lease receivable by measuring any credit loss to reflect 'all cash shortfalls' and such measurement includes the lessor considering its expectation of forgiving lease payments recognised as part of that receivable. Other respondents, however, considered that the AD has created further uncertainty about the boundaries of credit risk.

The boundaries of credit risk, if determined based on all cash shortfalls, may be much broader than those currently interpreted by many preparers and practitioners. For example, a bank offers prepayable fixed rate loans to borrowers. In the event

of a decline in market interest rates, according to the contractual terms, the borrowers have the right to prepay and then apply for new loans from the same bank or other banks to obtain a lower interest rate. Historical experience suggests that instead of prepaying the loans, a portion of the borrowers may renegotiate interest rate terms that the bank is expecting to accept. The requirement to reflect ‘all cash shortfalls’ may suggest that the anticipated modification which is driven by changes in market interest rates should be factored into the ECL measurement and that the impact of expected losses on future interest would be captured in the ECL. The same consideration may also apply to prepayable prime-based lending, which is commonly used in mortgage loan products in Hong Kong. Hence, the meaning of ‘credit loss’ is particularly important, considering the volatility of interest rates under the current market condition.

4. We acknowledge the concerns raised by the respondents. The meaning of ‘credit loss’ is not only fundamental to the ECL assessment but is also closely related to the issue regarding the boundaries between the requirements on modification of financial assets and ECL (see detailed comments in Section 7 below). In light of the ongoing concern in the market, we recommend that the IASB undertake proper standard-setting activities to clarify the meaning of ‘credit loss’ in IFRS 9, i.e. whether it is based on an assessment of ‘all cash shortfalls’ or ‘shortfalls as a result of an inability to pay’. We also recommend that the IASB conduct a thorough review of IFRS 9 to revisit the related concepts and terminologies applied in the ECL measurement to ensure that they align with the clarified meaning of ‘credit loss’ within the context of IFRS 9.

Measuring expected credit losses (Section 4 of the RFI)

A. Financial guarantee contracts (FGC)

5. We and our respondents noted that the use of credit enhancements and financial guarantee contracts are common in Mainland China and Hong Kong. However, practical challenges were noted when applying the relevant requirements in IFRS 9 to these financial instruments.

(a) From the holder’s perspective

The ECL model requires an entity to consider cash flows from credit enhancements that are ‘integral’ to the contractual terms. Respondents from accounting firms noted that IFRS 9:B5.5.55 explains ‘integral’ as being part of contractual terms and not recognised separately by the entity. However, the December 2015 IFRS Transition Resource Group for Impairment of Financial Instruments (ITG) meeting summary states that the ‘integral’ assessment should not be limited to those that are explicitly part of the contractual terms. This potential inconsistency in terms of what ‘integral’ means therefore raises concerns on how to appropriately perform the integral assessment, in particular, when the FGC is not mentioned in the contractual terms of the loans, and this gives rise to diversity in practice.

In light of the above, we recommend that the IASB address the market concerns by providing clarification on how to determine whether the relevant cash flows of a FGC are ‘integral to the contractual terms’, such that those cash flows constitute part of the ECL measurement of the financial assets. In particular, we recommend that the IASB provide guidance on applying the

integral assessment to the following situations, which are commonly encountered in today's economic environment:

(i) In the case of credit protection purchased for a given loan at the same time and in contemplation of the lending as part of an entity's credit risk management policy (i.e. not due to legal requirements or contractual terms), whether such credit protection should be considered 'integral' to the loan.

(ii) In the case of a FGC obtained for a revolving pool of trade receivables with limits on coverage, how should an entity determine: (1) whether such a FGC is 'integral' to the trade receivables (if it is not part of the contractual terms), and (2) which trade receivables in the pool would qualify for including the effect of the FGC for ECL assessment purposes (e.g. only those trade receivables that were recognised at the point in time when the FGC was entered into or all trade receivables existing at the reporting date that are covered by the FGC).

(b) From the issuer's perspective

(i) Multiple respondents from accounting firms shared the same observation, as described in Spotlight 4.3 of the RFI, stating that IFRS 9 does not provide application guidance on how the extant requirements for subsequent measurement are applied to FGCs in cases where premiums are received over the life of the guarantees, rather than upfront in full on initial recognition. Due to the lack of guidance, there is diversity in practice on how entities account for FGCs with premiums received over time, which result in different accounting outcomes.

- Some entities present their FGCs issued on a gross basis (i.e. recognising a receivable for future premiums not yet due and a corresponding FGC liability), which produces a similar outcome for FGCs for which the full premium is received upfront. The FGC liability is initially recognised at fair value based on the discounted amount of future premiums not yet due. No 'Day 2' loss would be recognised as the FGC liability is generally higher than the ECL allowance.

- Other issuers of FGCs do not recognise a receivable for future premiums not yet due. The FGC liability is measured and recognised at transaction price (i.e. zero) on initial recognition. After initial recognition, a 'Day 2' loss is recognised when applying the 'higher of' accounting in IFRS 9:4.2.1(c), given that the ECL amount would always be higher than the initial zero FGC liability.

(ii) These respondents also commented that there is no relevant guidance in IFRS 9 on how the two amounts recognised under IFRS 9:4.2.1(c), namely the amortisation amount determined based on IFRS 15 and the ECL allowance, interact with each other and hence how those amounts should be presented in the statement of profit or loss. Respondents noted that at least one accounting firm publication states that there is an accounting policy choice on this matter. Therefore, they suggested that the IASB provide guidance on this area to improve consistency in market practice.

We noted that FGCs with premiums received over time is becoming prevalent and their potential impact could be material on entities whose primary business is to issue financial guarantees. In addition, the adoption of different accounting

practices may undermine the comparability of financial statements among entities. In light of these considerations, we recommend that the IASB provide relevant application guidance on the subsequent accounting for FGCs with premiums received over time, accompanied by illustrative examples on the presentation of the amortisation amount determined under IFRS 15 and the ECL allowance in the statement of profit or loss.

B. Loan commitments

6. A respondent from the banking industry highlighted that there are differing views in the market regarding whether the term 'commitments' referred to in IFRS 9:5.5.20 has the same meaning as 'loan commitments' in IFRS 9:5.5.6. Specifically, IFRS 9:5.5.6 refers to irrevocable loan commitments, whereas IFRS 9:5.5.20 does not explicitly refer to 'loan commitments' but instead explains the conditions under which entities can apply the exception in that paragraph. As a result, some entities may have interpreted the scope of IFRS 9:5.5.20 more broadly, including other facilities that are not irrevocable loan commitments.

7. For example, uncommitted overdraft facilities are generally not considered as irrevocable loan commitments under IFRS 9:5.5.6 as the facilities can be terminated at any time, with or without notice to customers. However, in practice, customers usually have some discretion to use the facility, and banks generally extend credit under those facilities for commercial reasons. The ability of the banks to cancel the facilities, in some cases at any time including at point when the prospective borrower has requested drawdown under the facility, may not limit the bank's exposure to credit losses to the contractual notice period, if any. Therefore, some entities consider that IFRS 9:5.5.20 could be applicable to uncommitted overdraft facilities based on a similar rationale as discussed in BC5.254-BC5.261.

8. To address any potential diversity in practice, we recommend that the IASB clarify the scope of IFRS 9:5.5.20 commitments, particularly the interplay between IFRS 9:5.5.6 and IFRS 9:5.5.20 and the applicability of the exception in IFRS 9:5.5.20 to uncommitted overdraft facilities.

C. Forward-looking information

Multiple forward-looking scenarios

9. Several respondents shared similar observations, as outlined in Spotlight 4.1 of the RFI, about the diversity in the number of forward-looking scenarios entities identified, the variable considered and the weightings attached to particular scenarios. Some of them considered that the diversity in application arises due to the specific circumstances of each entity. Others noted that entities may not be clear as to what they need to achieve with multiple scenarios.

10. We noted that the ITG December 2015 meeting summary provides useful guidance on formulating and incorporating multiple forward-looking scenarios in measuring ECL. Specifically, the meeting summary has highlighted the importance of using multiple scenarios as the use of a single scenario would not achieve the objective of getting an unbiased and probability-weighted ECL amount as required by IFRS 9:5.5.17(a). This is particularly relevant when there is non-linear relationship between different forward-looking scenarios and their associated credit losses. Accordingly, we recommend that the IASB incorporate the relevant discussions and conclusions from the ITG into the Implementation Guidance or Basis for Conclusions of IFRS 9.

Meaning of 'undue cost or effort'

11. IFRS 9:5.5.17(c) requires an entity to measure ECL based on reasonable and supportable forward-looking information that is available without 'undue cost or effort'. Respondents from small and medium-sized accounting firms considered that there is a lack of guidance on what constitutes 'undue cost or effort' in IFRS 9. Hence, it is often challenging for audit practitioners to assess whether entities have obtained sufficient forward-looking information for ECL measurement. In particular, the consideration for assessing 'undue cost or effort' could vary significantly among entities of different sizes (e.g. listed entities versus SMEs).

12. We acknowledge the concerns raised by our respondents regarding the practical challenges in assessing the extent of forward-looking information needed for ECL measurement. We also consider that entities should exercise judgement when applying the requirements in IFRS 9:5.5.17(c), and such judgement may vary among entities based on their own circumstances. To help entities of different sizes in assessing whether the forward-looking information is available without undue cost or effort, we recommend that the IASB provide guidance on the principle of 'undue cost or effort' with reference to the relevant guidance in IFRS for SMEs Accounting Standard, such as consideration of the entity's specific circumstances and management's judgement of the costs and benefits from applying that requirement.

D. Timing of recognition of ECL

13. We noted that there is an inconsistency between 5.5.3 and Example 14 of the Implementation Guidance (IE88) of IFRS 9 regarding the timing of recognition of ECL. According to IFRS 9:5.5.3, an entity is required to recognise ECL at the first reporting date. However, Example 14 in IE 88 of IFRS 9 shows that 12-month ECL is recognised as a 'Day 1' loss upon the initial recognition of a financial asset. This issue was discussed at the ITG April 2015 meeting, but no consensus was reached.

14. Considering that the timing of ECL measurement on 'Day 1' versus the first reporting date could impact (i) the effect from foreign currency translation if the financial asset is denominated in a foreign currency; and (ii) disclosures relating to ECL measurement, we recommend that the IASB provide relevant guidance to resolve the inconsistency between 5.5.3 and Example 14 of the Implementation Guidance (IE88) of IFRS 9 and clarify the timing of ECL recognition.

E. Intercompany receivables and trade receivables without significant financing component

15. There are recurring concerns raised by our respondents about the measurement of ECL for intercompany receivables given that these receivables are typically interest-free and repayable on demand, resulting in a zero effective interest rate (EIR). The same issue also appears in measuring the ECL of trade receivables without significant financing component for which the balances are initially recognised at transaction price as required by IFRS 9:5.1.3. The zero EIR poses problem in measuring the ECL for these financial assets, particularly in the event of delayed payment where the zero EIR does not reflect the time value of money.

16. We observed that interest-free intercompany receivables that are repayable on demand and trade receivables without significant component are widespread in Hong Kong. The determination of EIR for these financial assets is fundamental to

the amortised cost measurement. Therefore, in our previous submission to the IASB regarding the PIR of IFRS 9 − *Classification and Measurement*[1], we suggested that the IASB provide guidance to address the abovementioned issues. Given the prevalence of such financial assets and the fact that the IASB has added a project on *Amortised Cost Measurement* in its research pipeline, we recommend that the IASB commence the project as soon as practicable to address these issues.

Purchased or originated credit-impaired (POCI) financial assets (Section 6 of the RFI)

17. Our respondents generally considered that the requirements for POCI financial assets have been applied consistently.

18. Nevertheless, diversity in practice exists among entities regarding the presentation of favourable changes in the ECL of a POCI financial asset in the statement of financial position in subsequent reporting periods. Specifically, the issue arises when the favourable changes exceed the loss allowance estimated at initial recognition. Some entities choose to adjust the changes directly to the gross carrying amount, while others recognise a negative loss allowance (with the gross carrying amount unaffected).

19. Although this is solely a presentation issue and does not affect the carrying amount of the POCI financial assets in the statement of financial position, our respondents considered that loss allowance could be an important piece of information for analysis or decision-making (e.g. as a KPI) for those entities where POCI lending was part of their ordinary activities. Hence, we recommend that the IASB clarify the presentation to ensure consistency.

Application of the impairment requirements in IFRS 9 with other requirements (Section 7 of the RFI)

A. Modification of financial assets

20. Our respondents (including respondents from the banking industry) expressed siginificant concerns about the boundaries of modification of financial assets versus ECL as outlined in the RFI. We noted that Example 11 in IE66 to 73 of IFRS 9 demonstrates a two-step approach to accounting for ECL and the effect of a modification where the modification following the financial difficulty of the borrower does not result in the derecognition of a financial asset. The lender first recognises a modification gain or loss in profit or loss based on the modified contractual cash flows (without taking expected cash shortfalls into account) and makes a corresponding adjustment to the gross carrying amount. The lender then remeasures the loss allowance on the modified financial asset and recognises an impairment loss due to a significant increase in credit risk. We also noted that BC5.241 of IFRS 9 states that 'if credit losses are crystallised by a modification, an entity should recognise a reduction in the gross carrying amount'. However, our respondents considered that it is not clear what a 'crystallisation of credit losses' means, and the reference to modification in the same sentence begs the question of whether a credit loss or a modification loss should be recognised first in such an instance when read with Example 11 mentioned above.

[1] See paragraph 19(d) of the HKICPA's submission to the IASB on *PIR of IFRS 9 – Classification and Measurement*.

21. The uncertainty about the boundaries between the requirements for modification of financial assets and ECL is further exacerbated by:
    (a) the unclear meaning of 'credit loss' in IFRS 9 as mentioned in Sections 1 & 2 above (i.e. 'all cash shortfalls' or 'shortfalls due to an inability to pay'); and

    (b) no clear guidance of whether an entity should conduct an ECL assessment immediately before a modification. Given the credit risk management policies and the internal controls that an entity has to go through before finalising a modification agreement, it is likely that the effect of the modified contractual terms (assuming credit loss means all cash shortfalls) would be reflected in the impairment losses if an ECL assessment is required immediately before a modification. Write-off is another possible outcome of such an assessment.

22. In addition, due to insufficient guidance on the modification requirements, respondents from the banking industry observed that entities have developed their own accounting policies to assess whether a modification results in the derecognition of a financial asset. These differing accounting policies impact the stage classification and consequently, the measurement of ECL. For example, in the case of a modified financial asset that is derecognised by an entity, a new financial asset is recognised by the entity at the date of modification. The entity resets the date of initial recognition and classifies the new financial asset as stage 1 (unless it is credit-impaired), measuring the loss allowance at an amount equal to 12-month ECL under IFRS 9:B5.5.26. For the same modified financial asset, another entity may consider that such a modification does not lead to derecognition but determine that a significant increase in credit risk has occurred based on its accounting policy and therefore classify the modified financial asset as stage 2, resulting in the recognition of lifetime ECL.

23. Another similar example relates to credit facilities. We observed that different banks have different accounting policies concerning modification requirements. This affects whether the revision in the terms and conditions of a credit facility (e.g. credit limit or credit period) would lead to the derecognition of the original credit facility and recognition of a new credit facility, resulting in a reset of the stage classification for credit risk assessment. This is in contrast to cases where the modification does not lead to derecognition but the credit risk of the credit facility has increased significantly, and the modified financial instrument will be classified as stage 2 for ECL measurement.

24. In our submission to the IASB regarding the PIR of IFRS 9 *Classification and Measurement*[2], we expressed significant concerns about the insufficient guidance in IFRS 9 on determining when a modification leads to derecognition. This leads to various application questions including how to assess whether a modification is 'substantial' and when to use qualitative or quantitative indicators or both. IFRS 9:5.4.3 only refers to 'renegotiation or modification that does not result in derecognition' without providing any further guidance on how to perform the assessment. The feedback received in this RFI reaffirms the long-standing and widespread nature of these application issues in Hong Kong, and reinforces the crucial need for standard-setting activities to clarify the relevant requirements in IFRS 9. We believe that greater clarity regarding the interaction of the modification requirements with ECL measurement is necessary to ensure consistent application and comparability. As the requirements for modifications of financial instruments will be discussed in the IASB's *Amortised Cost Measurement* pipeline project, we

[2] See our comments on Question 6 "Modifications to contractual cash flows" in the HKICPA's submission to the IASB on *PIR of IFRS 9 – Classification and Measurement*.

strongly recommend the IASB include the interaction of the modification and ECL requirements within the scope of that project and commence the project as soon as practicable.

B. Recoveries of amounts previously written-off

25. Respondents expressed differing views on the presentation of recoveries of amounts previously written off, as IFRS Accounting Standards do not contain clear guidance on where such recoveries should be presented within the statement of profit or loss. Some accounting firms viewed the presentation of recoveries as an accounting policy choice, allowing entities to present them either as 'reversals of impairment' within the line item of 'impairment losses (including reversals of impairment losses or impairment gains)' under IAS 1.82(ba), or in a separate line item in the statement of profit or loss. However, other respondents believed that presenting such recoveries as 'reversals of impairment' is incompatible with a write-off which constitutes a derecognition event (IFRS 9:5.4.4). Overall, these respondents considered that IFRS 9 is not sufficiently clear as to the presentation of recoveries in the statement of profit or loss.

26. We acknowledge the concerns raised by the respondents. Inconsistent presentation could reduce the comparability of financial information, as the amounts relating to 'write-off losses' and 'impairment gains or losses' in the statement of profit or loss could play a crucial role in assisting stakeholders to assess the credit quality of an entity's financial assets and hence to make informed decisions. As such, we recommend the IASB provide more clarity and guidance in this area.

C. Recognition of ECL for trade receivables, contract assets and lease receivables

27. Our respondents raised an issue regarding the measurement of ECL for recognised receivables that arise from transactions in the scope of IFRS 15 or IFRS 16. IFRS 9 does not provide specific guidance on how to apply ECL requirements to contracts that have both recognised and unrecognised receivables. Consequently, questions arise as to how an entity distinguishes whether cash shortfalls are related to recognised or unrecognised receivables when measuring ECL, and whether cash shortfalls should be attributed entirely to recognised receivables or partially to unrecognised receivables. Our respondents considered that this issue could impact the ECL measurement for recognised receivables.

28. Considering the current challenging macroeconomic conditions, the recoverability of recognised receivables for long-term contracts and leasing arrangements has remained a matter of key concern for many entities, especially those engaging in long-term contracts, such as construction contracts, as well as lessors and property investment entities. These business sectors are prevalent in Hong Kong. We acknowledge the potential widespread impact of this application issue and believe that providing clarification by the IASB would be helpful.

Credit risk disclosures (Section 9 of the RFI)

29. Respondents have no significant concerns regarding the clarity and suitability of the core objectives and principles of the disclosure requirements. They considered that the current disclosure objectives and requirements are generally clear and provide granular credit risk information to users of financial statements.

30. Some respondents (including preparers from the banking industry) proposed adding the following items to enhance credit risk disclosures:
    (a) Provide appropriate disclosures about the use of multiple economic scenarios if the different scenarios could reasonably have a material impact on measuring ECL. This may include the number of scenarios applied and the weightings assigned to those scenarios.

    (b) Provide appropriate disclosures of management overlays, including the methodology applied and the quantitative amount impacting the loss allowance. Such disclosures could help users understand the subjectivity and assumptions involved in making those overlays when measuring ECL.

31. We noted that IFRS 7.35G requires entities to provide disclosures regarding the inputs, assumptions and estimation techniques used to apply the requirements in Section 5.5 of IFRS 9. We consider that the use of macroeconomic scenarios including the parameters applied, as well as post-model adjustments or management overlays, are examples of inputs and assumptions that entities may consider necessary to provide a more comprehensive understanding of management's estimation of ECL. Hence, we recommend the IASB incorporate these examples into IFRS 7.35G.

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