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Reference: Request for Information – Exposure Draft – Amendments to the Classification and Measurement of Financial Instruments.

The Comitê de Pronunciamentos Contábeis - CPC (Brazilian Accounting Pronouncements Committee)[1] welcomes the opportunity to respond to the Exposure Draft 2023/2 entitled as: Amendments to the Classification and Measurement of Financial Instruments.

We are a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidance for Brazilian companies.

We agree with the proposed changes and inform that we do not expect any impacts in the Brazilian jurisdiction.

If you have any questions about our comments, please do not hesitate to contact us at operacoes@cpc.org.br.

Yours sincerely,

Rogério Lopes Mota
Chair of International Affairs
Comitê de Pronunciamentos Contábeis (CPC)

[1]The Brazilian Accounting Pronouncements Committee (CPC) is a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidances for Brazilian companies. Our members are nominated by the following entities: ABRASCA (Brazilian Listed Companies Association), APIMEC (National Association of Capital Market Investment Professionals and Analysts), B3 (Brazilian Stock Exchange and Mercantile & Future Exchange), CFC (Federal Accounting Council), FIPECAFI (Financial and Accounting Research Institute Foundation) and IBRACON (Brazilian Institute of Independent Auditors).

Responses for ED's Questions

Question 1—Derecognition of a financial liability settled through electronic transfer
Paragraph B3.3.8 of the draft amendments to IFRS 9 proposes that, when specified criteria are met, an entity would be permitted to derecognise a financial liability that is settled using an electronic payment system although cash has yet to be delivered by the entity. Paragraphs BC5–BC38 of the Basis for Conclusions explain the IASB's rationale for this proposal. Do you agree with this proposal? If you disagree, please explain what aspect of the proposal you disagree with. What would you suggest instead and why?

CPC's answer: Prior to a response by the CPC, it is important to verify the attributes that need further detailing so that the rationale set by the IASB be clearer as regards the application of the concepts of trade date and settlement date accounting to the financial liability figures.

The proposal made by the Board through the Exposure Draft (ED) states the following:

	Date of initial recognition or derecognition
B3.1.2A	When recognising or derecognising a financial asset or financial liability, an entity shall apply settlement date accounting (see paragraph B3.1.6) unless paragraph B3.1.3 applies or an entity elects to apply paragraph B3.3.8.

Additionally, the basis for conclusion of the ED points to the following reasons for the item above:

BC10	Except for a regular way purchase or sale of financial assets, IFRS 9 requires an entity to apply settlement date accounting when recognising or derecognising financial assets or financial liabilities. Those recognition and

BC11	However, despite the fact that the PIR had concluded that the recognition and derecognition requirements in IFRS 9 generally work well, the IASB acknowledged the diversity in practice that stakeholders identified, especially in the context of the settlement of financial liabilities. The IASB therefore decided: (a) to clarify that an entity is required to use settlement date accounting when recognising or derecognising financial assets and financial liabilities (unless paragraph B3.1.3 of IFRS 9 applies); and

However, paragraph B32 of the Guidance on Implementing IFRS 9 mentions that the concepts of trade date and settlement date accounting do not apply to financial liabilities, as shown below:

B.32 Recognition and derecognition of financial liabilities using trade date or settlement date accounting

IFRS 9 has special rules about recognition and derecognition of financial assets using trade date or settlement date accounting. Do these rules apply to transactions in financial instruments that are classified as financial liabilities, such as transactions in deposit liabilities and trading liabilities?

No. IFRS 9 does not contain any specific requirements about trade date accounting and settlement date accounting in the case of transactions in financial instruments that are classified as financial liabilities. Therefore, the general recognition and derecognition requirements in paragraphs 3.1.1 and 3.3.1 of IFRS 9 apply. Paragraph 3.1.1 of IFRS 9 states that financial liabilities are recognised on the date the entity 'becomes a party to the contractual provisions of the instrument'. Such contracts generally are not recognised unless one of the parties has performed or the contract is a derivative contract not exempted from the scope of IFRS 9. Paragraph 3.3.1 of IFRS 9 specifies that financial liabilities are derecognised only when they are extinguished, ie when the obligation specified in the contract is discharged or cancelled or expires.

Furthermore, the concepts of trade date and settlement date accounting has not been applied by audit firms (see accounting manuals issued by such firms).

Finally, in 2006, the IASB staff prepared an Agenda Paper that addressed paragraph B.32 of the Guidance on Implementing IAS 39. In that document, the staff explicitly stated that trade date and settlement date accounting should not be applied to the recognition or derecognition of financial liabilities, as shown below:

15. Trade date and settlement date accounting, in the staff's view, does not follow the recognition and derecognition principles of IAS 39. Indeed, the staff believes that trade date and settlement date accounting are one-off special exemptions given to regular way purchases and sales of long positions.

B.32 of the Guidance on Implementing IAS 39

45. B.32 of the Guidance on Implementing IAS 39 addresses whether trade date and settlement date accounting can be applied to the recognition and derecognition of financial liabilities. B.32 says that they cannot - noting that IAS 39 does not contain any specific requirements about trade date accounting and settlement date accounting in the case of transactions in financial instruments that are classified as financial liabilities, and that the general recognition and derecognition requirements in IAS 39.14 and IAS 39.39 should apply.

In view of the aforementioned, the understanding presented by the ED does not seem to make sense vis-à-vis the wording in IAS 39, since, as the staff points out, trade date and settlement date accounting were exceptional treatments applied in accounting for regular way contracts, as follows:

> 27. AG 12 of IAS 39 states: 'A regular way purchase or sale gives rise to a fixed price commitment between trade date and settlement date that meets the definition of a derivative. However, because of the short duration of the commitment it is not recognised as a derivative financial instrument. Rather, this Standard provides for special accounting for such regular way contracts (i.e. trade date and settlement date accounting).'

AG12 of IAS 39 still exists in IFRS 9 and it is practically the same. In addition, the recognition principle for liabilities in IFRS 9 (3.1.1) is also the same as in IAS 39 (paragraph 14). Thus, if the staff's understanding about IAS 39 is correct, it is likely to apply also to IFRS 9.

In brief, the IASB's understanding in paragraph BC10 of the ED, i.e. that IFRS 9 requires the use of settlement date accounting for the recognition and derecognition of financial liabilities, does not seem to be in line with the publication above.

The CPC believes that it would be important that the IASB technical staff mentioned the publications and interpretation of IFRS used as a basis to conclude that the settlement date has been required for financial liabilities since the publication of IFRS 9.

In this context, the CPC believes that, before proposing an amendment to include financial liabilities in the definitions of trade date and settlement date accounting, it would be crucial to seek an empirical evidence of the results such inclusion could bring for practical purposes with organizations that report their financial statements using the IFRS, as well as to evaluate whether such amendment is in line with the way the IASB has interpreted the matter over the past few years.

Moreover, participants of the CPC technical groups pointed out that IASB would need to allocate resources to this discussion since in Brazil, for example, it would affect mainly international transactions and, thus, its application would be restricted, which shows that this matter does not seem to be an IFRS 9 issue globally. Contractual characteristics must be analyzed. One option would be to keep only that specific topic in IFRIC and not change IFRS 9.

Question 2—Classification of financial assets—contractual terms that are consistent with a basic lending arrangement
Paragraphs B4.1.8A and B4.1.10A of the draft amendments to IFRS 9 propose how an entity would be required to assess: (a) interest for the purposes of applying paragraph B4.1.7A; and (b) contractual terms that change the timing or amount of contractual cash flows for the purposes of applying paragraph B4.1.10. The draft amendments to paragraphs B4.1.13 and B4.1.14 of IFRS 9 propose additional examples of financial assets that have, or do not have, contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. Paragraphs BC39–BC72 of the Basis for Conclusions explain the IASB's rationale for these proposals. Do you agree with these proposals? Why or why not? If you disagree, please explain what aspect of the proposals you disagree with. What would you suggest instead and why?

CPC's answer: The CPC agrees with this amendment proposal, mainly because such illustrations would allow for more objective assessments under the SSPI practical implementation.

Question 3—Classification of financial assets—financial assets with non-recourse features
The draft amendments to paragraph B4.1.16 of IFRS 9 and the proposed addition of paragraph B4.1.16A enhance the description of the term 'non-recourse'. Paragraph B4.1.17A of the draft amendments to IFRS 9 provides examples of the factors that an entity may need to consider when assessing the contractual cash flow characteristics of financial assets with non-recourse features. Paragraphs BC73–BC79 of the Basis for Conclusions explain the IASB's rationale for these proposals. Do you agree with these proposals? Why or why not? If you disagree, please explain what aspect of the proposals you disagree with. What would you suggest instead and why?

CPC's answer: Apparently, the IASB's definition of 'non-recourse' is not consistent with the technical literature; the CPC thus recommends a further conceptual review of the expression 'non-recourse'.

Question 4—Classification of financial assets—contractually linked instruments
The draft amendments to paragraphs B4.1.20–B4.1.21 of IFRS 9, and the proposed addition of paragraph B4.1.20A, clarify the description of transactions containing multiple contractually linked instruments that are in the scope of paragraphs B4.1.21–B4.1.26 of IFRS 9. The draft amendments to paragraph B4.1.23 clarify that the reference to instruments in the underlying pool can include financial instruments that are not within the scope of the classification requirements of IFRS 9. Paragraphs BC80–BC93 of the Basis for Conclusions explain the IASB's rationale for these proposals. Do you agree with these proposals? Why or why not? If you disagree, please explain what aspect of the proposals you disagree with. What would you suggest instead and why?

CPC's answer: It is important to revise the definition of 'non-recourse' as pointed out above.

Question 5—Disclosures—investments in equity instruments designated at fair value through other comprehensive income
For investments in equity instruments for which subsequent changes in fair value are presented in other comprehensive income, the Exposure Draft proposes amendments to: (a) paragraph 11A(c) of IFRS 7 to require disclosure of an aggregate fair value of equity instruments rather than the fair value of each instrument at the end of the reporting period; and (b) paragraph 11A(f) of IFRS 7 to require an entity to disclose the changes in fair value presented in other comprehensive income during the period. Paragraphs BC94–BC97 of the Basis for Conclusions explain the IASB's rationale for these proposals. Do you agree with these proposals? Why or why not? If you disagree, please explain what aspect of the proposals you disagree with. What would you suggest instead and why?

CPC's answer: The CPC agrees with this amendment proposal.

Question 6—Disclosures—contractual terms that could change the timing or amount of contractual cash flows
Paragraph 20B of the draft amendments to IFRS 7 proposes disclosure requirements for contractual terms that could change the timing or amount of contractual cash flows on the occurrence (or non-occurrence) of a contingent event. The proposed requirements would apply to each class of financial asset measured at amortised cost or fair value through other comprehensive income and each class of financial liability measured at amortised cost (paragraph 20C). Paragraphs BC98–BC104 of the Basis for Conclusions explain the IASB's rationale for this proposal. Do you agree with this proposal? Why or why not? If you disagree, please explain what aspect of the proposal you disagree with. What would you suggest instead and why?

***CPC's answer**:* The CPC agrees with this amendment proposal.

Question 7—Transition
Paragraphs 7.2.47–7.2.49 of the draft amendments to IFRS 9 would require an entity to apply the amendments retrospectively, but not to restate comparative information. The amendments also propose that an entity be required to disclose information about financial assets that changed measurement category as a result of applying these amendments. Paragraphs BC105–BC107 of the Basis for Conclusions explain the IASB's rationale for these proposals. Do you agree with these proposals? Why or why not? If you disagree, please explain what aspect of the proposals you disagree with. What would you suggest instead and why?

***CPC's answer**:* The CPC agrees with this amendment proposal.