Appendix B – Copies of comments letters

Deloitte Touche Tohmatsu Limited
2 New Street Square
London
EC4A 3BZ

Phone: +44 (0)20 7936 3000
Fax: +44 (0)20 7583 1198
www.deloitte.com/about

Direct phone: +44 20 7007 0884
vepoole@deloitte.co.uk

29 January 2018

Sue Lloyd
Chair
IFRS Interpretations Committee
30 Cannon Street
London
United Kingdom
EC4M 6XH

Dear Ms Lloyd

Tentative agenda decision – IFRS 9 *Financial Instruments* and IAS 1 *Presentation of Financial Statements*: Presentation of interest revenue for particular financial instruments

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the November IFRIC Update of the tentative decision not to take onto the Committee's agenda the request for clarification on whether the requirements of paragraph 82(a) of IAS 1 (as amended on publication of IFRS 9) affects the presentation of fair value gains and losses on derivative instruments that are not part of a designated and effective hedging relationships.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda for the reasons set out in the tentative agenda decision.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely

Veronica Poole
Global IFRS Leader

KPMG IFRG Limited
15 Canada Square
London E14 5GL
United Kingdom

Tel +44 (0) 20 7694 8871
chris.spall@kpmgifrg.com

Ms Sue Lloyd
International Accounting Standards Board
1st Floor
30 Cannon Street
London
EC4M 6XH

Our ref CS/288

25 January 2018

Dear Ms Lloyd

Tentative agenda decision: Presentation of interest revenue for particular financial instruments (IFRS 9 *Financial Instruments* and IAS 1 *Presentation of Financial Statements*)

We appreciate the opportunity to comment on the IFRS Interpretations Committee's (the Committee) tentative agenda decision *Presentation of interest revenue for particular financial instruments (IFRS 9 Financial Instruments and IAS 1 Presentation of Financial Statements)* (IFRIC Update November 2017). We have consulted with, and this letter represents the views of, the KPMG network.

The original submission related to the effect of paragraph 82(a) of IAS 1 on the presentation of 'interest' income and expense from trading derivatives separately from other fair value gains and losses. We do not believe that the tentative agenda decision effectively addresses that question. Addionally, we believe that the tentative agenda decision instead provides inappropriately restrictive guidance regarding the presentation of interest revenue from non-derivative financial assets.

Non-derivative financial assets

We disagree with the Committee's tentative conclusion that the separate presentation required by IAS 1.82(a) can apply only to those financial assets that are subsequently measured at amortised cost or fair value through other comprehensive income (FVOCI). We believe that an entity is not precluded from presenting interest revenue as 'interest revenue calculated using the effective interest method' for non-derivative financial assets measured at fair value through profit or loss (FVTPL) if:

— the entity calculates the interest revenue using the 'effective interest method' (EIM) as described in IFRS 9, and

— either the financial asset meets the SPPI criterion or, if not, calculation and presentation of interest revenue is appropriate in the context of the economic characteristics of the asset.

This is because:

— IFRS 7.B5(e) (under both IAS 39 and IFRS 9), which requires disclosure of whether the net gains or net losses on items at FVTPL include interest or dividend income, suggests that presentation of interest revenue from financial assets measured at FVTPL is acceptable.

— While the definition of EIM and related terms in Appendix A of IFRS 9 are used (and are required to be used) for assets measured at amortised cost or at FVOCI, neither IFRS 9 nor IAS 1 precludes an entity from using the same concept to calculate and present interest revenue for particular non-derivative financial assets measured at FVTPL.

— IAS 1.82(a) refers to interest revenue calculated using the EIM, but it does not state that this calculation must have been required by IFRS 9.

— Although the definition of EIM and related definitions are primarily relevant for instruments measured at amortised cost and FVOCI, they are given in Appendix A of IFRS 9 – i.e. they are not part of the amortised cost and FVOCI measurement chapters in IFRS 9, suggesting they could be applied in other cases.

Derivative instruments

The tentative agenda decision states that the Committee did not consider any other presentation requirements in IAS 1 or broader matters related to the presentation of other 'interest' amounts in the statement of comprehensive income. There is currently diversity in practice regarding the presentation of accrued coupons on derivatives that are not designated as hedging instruments as 'interest' income or expense. The original submission related to this matter and we recommend that the Committee address it effectively.

Except for derivatives designated as hedging instruments (or, as an alternative, where a non-derivative financial asset is designated as at FVTPL to eliminate or reduce an accounting mismatch), we believe that it is inappropriate to present (separately from other changes in fair value) accruals on interest rate derivatives as interest revenue or in a similarly labelled line item (such as 'other interest income'), for the following reasons:

— These accruals are not calculated using the EIM so cannot be described as interest revenue calculated using the EIM.

— The interest accrual on a derivative is not a return on any actual principal amount invested (i.e. it is different from the return on an investment in a non-derivative) – it is just the result of applying a formula to a 'notional' principal amount and is not similar to applying the EIM.

— This is supported by the IASB's observation in IFRS 9.B4.1.9 that cash flows on derivatives do not have the economic characteristics of interest.

— IFRS 9 requires the total fair value gain or loss on a derivative to be included in profit or loss – there is nothing in IFRS for these cases that would support a split between an interest accrual and other fair value gains or losses or saying that the resulting line items and sub-totals are made up of amounts recognised and measured in accordance with IFRS (see IAS 1.85A(a)).

— An entity applying this approach effectively aims to achieve a presentation for net interest income similar to applying hedge accounting. This should not be possible unless the entity does apply hedge accounting or uses the fair value option designation as an alternative to hedge accounting.

The tentative agenda decision would merely clarify that an entity could not include these interest accruals in 'interest revenue calculated using the EIM' under IAS 1.82(a). We believe that an entity also should not be able to present them in an adjacent 'interest' line item. Such an outcome is discussed in the submission. We believe that a narrow decision regarding only the new words/requirements added to IAS 1.82(a) would not address the underlying issue and the current diversity would continue, although perhaps in a slightly different form.

We recommend adding a narrow-scope project to the Committee's agenda or extending the tentative agenda decision to address this issue.

Other matter

The tentative agenda decision refers to 'the requirement in paragraph 82(a) of IAS 1 to present separately an interest revenue line item calculated using the EIM'. IAS 1.82(a) requires such interest revenue to be presented separately. However, it does not state that a separate line item must be used. We believe that separate presentation of such interest revenue may be achieved in other ways (e.g. parenthetically to a broader revenue line item). Consequently, we recommend amending the wording in the tentative agenda decision so that it does not imply that a separate line item is required for interest revenue calculated using the EIM.

Please contact Chris Spall on +44 (0)20 7694 8871 if you wish to discuss any of the issues raised in this letter.

Yours sincerely

KPMG IFRG Limited

KPMG IFRG Limited

cc Reinhard Dotzlaw, KPMG IFRG Limited

Deutsches Rechnungslegungs Standards Committee e.V.

Accounting Standards Committee of Germany

DRSC

ASCG • Zimmerstr. 30 • 10969 Berlin

Sue Lloyd
Chair of the IFRS Interpretations Committee
30 Cannon Street
London EC4M 6XH

United Kingdom

IFRS Technical Committee
Phone: +49 (0)30 206412-12
E-Mail: info@drsc.de

Berlin, 19 January 2018

Dear Sue,

IFRS IC's tentative agenda decisions in its November 2017 meeting

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on the tentative agenda decisions taken by the IFRS Interpretations Committee (IFRS IC) and published in the November 2017 *IFRIC Update*.

We agree with all three decisions as regards the consequence of not taking those issues onto the agenda as well as the rationale. However, we have some comments on the two IFRS 15 issues that we would like to share with you and that you may find helpful in finalising the agenda decisions.

Therefore, please find some specific comments in the appendix to this letter. If you would like to discuss our views further, please do not hesitate to contact Jan-Velten Große (grosse@drsc.de) or me.

Yours sincerely,

Andreas Barckow

President

Contact:
Zimmerstr. 30 ·D-10969 Berlin ·
(via Markgrafenstr.19a)
Phone: +49 (0)30 206412-0
Fax: +49 (0)30 206412-15
E-Mail: info@drsc.de

Bank Details:
Deutsche Bank Berlin
IBAN-Nr.
DE26 1007 0000 0070 0781 00
BIC (Swift-Code)
DEUTDEBBXXX

Register of Associations:
District Court Berlin-Charlottenburg, VR 18526 Nz
President:
Prof. Dr. Andreas Barckow
Executive Director:
Prof. Dr. Sven Morich

Appendix – Comments on the tentative agenda decisions

IFRS 15 – Revenue recognition in a real estate contract that includes transfer of land
IFRS 15 – Right to payment for performance completed to date

Our following comments relate equally to both decisions.

Whilst we agree with both decisions and the respective conclusions, we acknowledge that both conclusions are very detailed and specific to the fact pattern. In particular, the conclusions are very much depending on assumptions and features that are an integral part of the fact pattern described.

This is certainly desirable at a first glance. However, given many other similar (but not identical) fact patterns in reality, it seems unclear whether and to what extent these conclusions could be applied to other fact pattern by analogy. In other words, assessing which of the details in each fact pattern are decisive to (which detail of) the respective conclusions could be challenging.

One way of dealing with this constraint would be to design an answer that allows for being applied to many other (and less specific) fact patterns. Otherwise, such queries could give the impression that the submissions raised are not relevant to a broad number of jurisdictions and constituencies. This impression should be avoided, as this would run counter one of the submission criteria. If the Committee wanted to provide a more nuanced answer, it could provide variations of the fact pattern from which constituents are able to see the tipping point of an answer.

Liberté • Égalité • Fraternité
RÉPUBLIQUE FRANÇAISE

AUTORITE DES NORMES COMPTABLES
5, PLACE DES VINS DE FRANCE
75573 PARIS CÉDEX 12
Phone (+ 33 1) 53.44.28 53
Internet http://www.anc.gouv.fr/
Mel patrick.de-cambourg@anc.gouv.fr

Chairman

PDC N° 7

Paris, the 29th of January 2018

Mrs Lloyd
IFRS Interpretations Committee
30 Cannon Street
LONDON EC4M 6XH
United Kingdom

November 2017 – IFRS-IC tentative agenda decisions

Dear Mrs Lloyd,

I am writing on behalf of the Autorité des Normes Comptables (ANC) to express our views on the IFRS-IC tentative decisions published in the November 2017 IFRIC Update. This letter sets out the most critical comments raised by interested stakeholders involved in ANC's due process.

IFRS 9 Financial instruments and IAS 1 Presentation of financial statements – Presentation of interest revenue for particular financial instruments

ANC appreciates that the tentative decision aims at providing a mere clarification of the definition of the requirements in IAS 1.82(a). On the verge of implementing IFRS 9 it is utmost important not to create disruptions in the implementation process that has been put in place over the last months (or years). ANC therefore supports the decision and especially the possible consideration of the effect of a qualifying hedging relationship in that line item,.

ANC notes that the proposed definition of "revenue calculated using the effective interest method" mainly depends on the accounting treatment of the financial instrument instead of the very nature of the revenue. We see no conceptual reason to exclude from that line item incurred interests from plain vanilla bonds (or other simple non-SPPI debt instruments) that are booked at fair value through P&L, as long as their interest revenue can be isolated. IFRS 7.B5(e) indeed indicates that interest income may be isolated even when coming from financial instruments at fair value through profit or loss.

ANC is therefore of the view that such interest revenue shall not be prohibited or prescribed in the IAS 1.82(a) line item, but should remain possible when relevant. Many French constituents have already organised their information process based on that larger definition of interest revenue and changing the presentation now would induce significant costs.

We therefore encourage reviewing the relevance of the requirement of IAS 1.82(a). It is even more necessary as IFRS 9 has also amended IFRS 7.20(b) which requires disclosing the same detailed items either in the statement of comprehensive income or in the notes. We therefore advocate for maintaining the optional terms of IFRS 7 when applying the IAS 1.82(a) requirements, disclosing the information either in the statement of comprehensive income or in the notes. Furthermore, IFRS 7.20(b) requires to disclose information on both interest revenue and charges. Based on their practice of Asset-Liability-Management, financial institutions consider that it is more relevant to provide both revenue and charges than only interest revenue. Moreover, a too narrow-defined item may require additional line items in order to complete the interest revenue line, the relevance of which is questionable. Finally, multiplying such detailed information in the P&L may obscure the presentation of performance. Such an issue could usefully be reconsidered in the light of the current project on Better Communication.

General comment on – IFRS 15 decisions on Revenue from Contracts with Customers - Revenue recognition in a real estate contract that includes the transfer of land & Right to payment for performance completed to date

As a general comment, ANC considers that, when dealing with highly specific cases, the fact pattern discriminating criterion should be clearly articulated with the standard and specified in order to circumvent the risk, for some stakeholders, of analogizing the conclusion reached (which is based on "specific circumstances") to more widespread circumstances with some unintended consequences.

IFRS 15 Revenue from Contracts with Customers – Revenue recognition in a real estate contract that includes the transfer of land

The IFRS-IC Agenda Decision mostly relies on the "*transformative relationship*" criterion mentioned in the basis for conclusion (IFRS15.BC116K) to conclude that there is one performance obligation in accordance with IFRS 15.27. In ANC's view, as the "*transformative relationship*" criterion is only part of the basis for conclusion and is not part of IFRS 15 standard, the IFRS-IC agenda rejection should first specify why IFRS 15 criteria are not conclusive in this issue when aiming at determining the number of performance obligations. In addition, if the "*transformative relationship*" is a key criterion when analysing an IFRS 15 case, it probably needs to be included and clarified in the standard. Finally, IFRS 15.BC116K[1] refers to that "*transformative relationship*" criterion without providing a clear definition of it nor explicitly describing how to use it.

The Agenda decision is duly asking whether there exists a "*transformative relationship between the transfer of the land and the construction of the building*". But it also implicitly states that it is equivalent ("*in other words*") as asking whether "*the entity's performance in constructing the building would have been different had the customer already purchased the land from another party and vice-versa*".

[1] "*The boards observed that rather than considering whether one item, by its nature, depends on the other (ie whether two items have a functional relationship), an entity evaluates whether there is a transformative relationship between the two items in the process of fulfilling the contract*"

In ANC's view, the fact that the entity has purchased the land from another party may be a useful indicator but would not be sufficient to conclude whether a transformative relationship exists since:

- IFRS 15 Illustrative Examples show that the number of performance obligations does not depend on the number of parties the entity has contracted with;
- Other criteria may prove a transformative relationship.

As regard the need to examine if the performance would have been different if the entity had already purchased the good or service from another party and vice-versa

ANC understands from IFRS 15 Illustrative Examples (software for instance) that determining the number of obligation performances does not depend on the number of parties the entity has contracted with.

For instance, in Example 10.B (IFRS 15.IE 54-58), it is evidenced that contracting with several providers is not a discriminating criteria permitting to conclude that performance obligations are distinct. ANC understand from this example that the other criteria and factors provided in IFRS 15.27 and IFRS 15.29 need to be analysed and taken into consideration. Indications that need to be analysed are for instance as follows:

a) to which extent the good (software) is customised and modified by the service provider (IFRS 15.29a)?
b) in the context of the contract, does the promise transfer a good separately identifiable from the service (applying the IFRS 15.27.b criterion based on IFRS 15.29 factors)?

Conversely Example 10.A evidences that contracting with one provider to perform different services may lead to the conclusion that separate performance obligations exist even though there is only one contractor.

Therefore, referring in the agenda decision to the fact that the customer has purchased from different parties (or not) the different components is not, in ANC's view, sufficient to conclude on the number of performance obligations. ANC believes that the analysis should focus on identifying the intrinsic nature of the relationship between the different goods and services to determine if a transformative relationship exists.

As regard the strict definition of a "transformative relationship"

ANC believes that one could understand from BC 116K that building the foundations into the land transforms the land and the link between the land and the on-going work exceeds the definition of a functional relationship. In our view, when the relationship is a functional relationship the work already performed by the contractor building the site could be easily removed or modified, and would have no added value.

In the issue presented in the agenda decision, shall the contractor need to be changed during the construction process the new contractor would not remove the work already done and would probably continue constructing on the existing foundations. If, for any reason, the work done by the first contractor had to be removed or significantly modified (for instance to change the final use of the land), additional removal works would be required and the cost of the construction would be significantly modified.

Therefore in ANC’s view, it could mean that the construction has a transformative effect on the nature of the land and vice-versa and that a transformative relationship may exist.

Please do not hesitate to contact us should you want to discuss any aspect of our letter.

Yours sincerely,

Patrick de Cambourg

FÉDÉRATION
BANCAIRE
FRANÇAISE

Banking supervision
And Accounting issues Unit

The Director

Paris, January 29th 2018

Dear Mrs Lloyd,

The French Banking Federation (FBF) would like to take the opportunity to comment on the IFRS – IC tentative decision published in the November 2017 IFRIC Update regarding more specifically the presentation of interest revenue for particular financial instruments.

The FBF appreciates that the tentative decision aims at providing a clarification of the requirements in IAS 1.82(a).

However, we have some concerns regarding the wording of the agenda decision that we would like to bring to your attention.

IFRS 9 *Financial Instruments* has amended the paragraph 82(a) of IAS 1 adding a line on the face of the statement of profit or loss to present separately interest revenue calculated using the effective interest method. However, no basis for conclusions explain how the IASB reached this conclusion so as to understand the rationale of the amendment related to the interest revenue presentation.

And the question is raised all the more that IFRS 9 has also amended the paragraph 20[1] of IFRS 7 which requires disclosing, either in the statement of comprehensive income or in the notes, total interest revenue and interest expense calculated using the effective interest method.

As a matter of fact, IAS 1 contradicts IFRS 7 and we question why IAS 1 should prevail over IFRS 7. We therefore advocate for maintaining the optional terms of IFRS 7 when applying the IAS 1.82(a) requirements, disclosing the information either in the statement of comprehensive income or in the notes.

Mrs Sue LLOYD
IFRS Interpretation Committee
30 Cannon Street
London, EC4M 6XH United Kingdom

[1] Cf. Annex

Moreover, the amendment that IFRS 9 made to paragraph 82(a) of IAS 1 requires to present separately in the P&L a line item for interest revenue calculated using the effective interest method and, does not have such requirements for interest expenses. As far as the banking sector is concerned, the presentation of revenues as well as expenses of interests at the same level is more relevant to present the net interest margin – an essential component of banks' performance - in banks' financial statements in a manner that faithfully portrays their activities. It is worth noting that, on the same matter, IFRS 7.20(1) applies the same logic when requiring to disclose interest revenue and interest expense calculated using the effective interest method at the same level (i.e. either in the statement of comprehensive income or in the notes).
Besides, we believe that it should be clarified that accrued and realised interests on hedging derivative instruments can be presented on this line (IAS 1.82(a)). Under current banks' practice – already admitted under IAS 39 *Financial Instruments Recognition and measurement* – interests on derivative instruments that are part of a designated and effective hedging relationship are presented within the same interest line as interests on the related hedged financial instruments. The relevance and the usefulness of financial information could be questioned if these two types of interests were presented separately.
In addition, a separate presentation of these interests raises a cost benefit issue as it could imply to reshape operational processing chains and to review structural IT choices at a time when IFRS 9 has just entered into force.

At least IFRS 7.B5(1) leaves entities some flexibility for the presentation of interests or dividends on items at fair value through profit or loss. Indeed, they can be included in the net gains or losses. This implies that these interests may not be included in the gains or losses on assets measured at FVTPL line and instead can be presented separately on another line of the statement of comprehensive income, such as an "interest income" type line (cf. also IFRS 7.BC34(1)).

For all these reasons we have some concerns regarding the wording of the agenda decision.

We believe that the debate related to the presentation of other "interest" amounts should be broadened in connection with the IASB projects "Better Communication in Financial Reporting" and "Primary Financial Statements". We, indeed, question the relevance to require presenting separately in the P&L a line item for interest income calculated using the effective interest method without introducing any possibility of judgement. For instance, interests received on non-SPPI debt instruments that are held within a held-to-collect (HTC) or held-to-collect-and-sale (HTCS) business model are part of the interest margin of the banking book for internal reporting and risk management purposes. This is also consistent with the recognition in the interest margin of the banking book of interests paid on liability instruments funding these assets. Therefore, a relevant presentation of the performance of the banking book for banks could include also interests on non-SPPI HTC or HTCS debt instruments whereas detailed interests revenues of each class of assets are presented in disclosures.

We would therefore ask the IFRIC / IASB to reconsider its agenda decision to introduce a notion of judgment to assess information to be disclosed in the notes or in the P&L.

We hope you find these comments useful and we would be pleased to provide any further information you might require.

Yours sincerely,

Bertrand Lussigny

Annex.

IFRS 7. 20 *An entity shall disclose the following items of income, expense, gains or losses* ***either in the statement of comprehensive income or in the notes****:*
(a) net gains or net losses on:

(i) financial assets or financial liabilities measured at fair value through profit or loss, showing separately those on financial assets or financial liabilities designated as such upon initial recognition or subsequently in accordance with paragraph 6.7.1 of IFRS 9, and those on financial assets or financial liabilities that are mandatorily measured at fair value through profit or loss in accordance with IFRS 9 (eg financial liabilities that meet the definition of held for trading in IFRS 9). For financial liabilities designated as at fair value through profit or loss, an entity shall show separately the amount of gain or loss recognised in other comprehensive income and the amount recognised in profit or loss.
(ii)-(iv) [deleted]
(v) financial liabilities measured at amortised cost.
(vi) financial assets measured at amortised cost.
(vii) investments in equity instruments designated at fair value through other comprehensive income in accordance with paragraph 5.7.5 of IFRS 9.
(viii) financial assets measured at fair value through other comprehensive income in accordance with paragraph 4.1.2A of IFRS 9, showing separately the amount of gain or loss recognised in other comprehensive income during the period and the amount reclassified upon derecognition from accumulated other comprehensive income to profit or loss for the period.
(b) ***total interest revenue and total interest expense (calculated using the effective interest method) for financial assets t****hat are measured at amortised cost or that are measured at fair value through other comprehensive income in accordance with paragraph 4.1.2A of IFRS 9 (showing these amounts separately);* ***or financial liabilities that are not measured at fair value through profit or loss.***
(c) fee income and expense (other than amounts included in determining the effective interest rate) arising from:

(i) financial assets and financial liabilities that are not at fair value through profit or loss; and
(ii) trust and other fiduciary activities that result in the holding or investing of assets on behalf of individuals, trusts, retirement benefit plans, and other institutions.

IFRS 7.B5 - *Paragraph 21 requires disclosure of the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements. For financial instruments, such disclosure may include:*
[...]
(e) how net gains or net losses on each category of financial instrument are determined (see paragraph 20(a)), for example, whether the net gains or net losses on items at fair value through profit or loss include interest or dividend income

IFRS 7 - BC34 *- Some entities include interest and dividend income in gains and losses on financial assets and financial liabilities measured at fair value through profit or loss and others do not. To assist users in comparing income arising from financial instruments across different entities, the Board decided that an entity should disclose how the income statement amounts are determined. For example, an entity should disclose whether net gains and losses on financial assets or financial liabilities measured at fair value through profit or loss include interest and dividend income (see Appendix B, paragraph B5(e)).*

MAZARS

Mrs Sue Lloyd

IFRS Interpretations Committee
30 Cannon Street
London EC4M 6XH
United Kingdom

Paris, January 31, 2018

Tentative Agenda Decisions – IFRIC Update November 2017

Dear Sue,

MAZARS is pleased to comment on the various IFRS Interpretations Committee tentative agenda decisions published in the November 2017 IFRIC Update.

We have gathered all our comments as appendices to this letter, which can be read separately and are meant to be self-explanatory. Knowing that the Committee will discuss all IFRS 15 Real Estate issues at its March 2018 meeting, we take the opportunity of this letter to provide comments on the September 2017 related Tentative Agenda Decision.

As a general comment, we would like to draw your attention (see Appendix 2) that, by providing conclusions to highly specific cases, the Committee takes the risk of creating a rule-based environment for IFRSs implementation. Indeed, the conclusions reached may be analogized by stakeholders to different situations without them being able to identify the key factors leading to the conclusion and whether the differences in the facts and circumstances should lead to a different conclusion. For this reason, we strongly believe that the Committee's Agenda Decisions should only develop a guidance on how to use the provisions in the standard and recall the relevant paragraphs, including BC, to help the stakeholders building a rationale to the conclusion, rather than providing a final conclusion on the specific situation described in the submission.

Should you have any questions regarding our comments on the various tentative agenda decisions, please do not hesitate to contact Michel Barbet-Massin (+33 1 49 97 62 27) or Edouard Fossat (+33 1 49 97 65 92).

Yours faithfully

Michel Barbet-Massin **Edouard Fossat**

Financial Reporting Technical Support
61 rue Henri Regnault - 92075 Paris La Défense Cedex
Tél : +33 (0)1 49 97 60 00 - Fax : +33 (0)1 49 97 60 01 - www.mazars.fr

MAZARS

Appendix 1

Presentation of Interest Revenue for Particular Financial Instruments (IFRS 9 Financial Instruments and IAS 1 Presentation of Financial Statements)—Agenda Paper 3

Overall, we agree with the tentative IFRS IC answer to the submission that accrued and realised interest on derivative instruments that are not part of a designated and effective hedging relationship, should **not** be presented within the separate line "Interest revenue calculated using the effective interest method" in the statement of profit or loss (new line introduced by IAS 1 § 82(a) as amended by IFRS 9).

We welcome and agree with the attention paid by the Committee to the specific consequences of hedge accounting. Indeed, we are convinced that effective hedging relationships should be appropriately reflected in the financial statements and the statement of comprehensive income in particular. We therefore consider relevant to present the effect of the hedging relationship within the line item impacted by the hedged exposure. We would simply recommend the Board clarifying the wording used in the tentative agenda decision as the use of the term "subject to" might be misinterpreted. We would suggest replacing "subject to" by "including" in the final agenda decision.

We also note that, in its tentative agenda decision, the Committee went beyond the initial submission on the accounting presentation of Trading derivatives and proposed to clarify that the requirement in paragraph 82(a) of IAS 1 to present separately an interest revenue line item calculated using the effective interest method applies only to those assets that are subsequently measured at amortised cost or fair value through other comprehensive income.

We understand the rationale of the Committee decision and the link that is made between the effective interest rate method and the classification of financial instruments. However, we would like to draw the attention of the Committee to the following points:

- We note that a relevant and detailed information is already required by IFRS 7 § 20(b): **IFRS 7 § 20(b):** *"An entity shall disclose the following items of income, expense, gains or losses either in the statement of comprehensive income or in the notes: [...] b) total interest revenue and total interest expense calculated using the effective interest method) for financial assets that are measured at amortised cost or that are measured at fair value through other comprehensive income in accordance with paragraph 4.1.2A of IFRS 9 (showing these amounts separately); or financial liabilities that are not measured at fair value through profit or loss"*.

  We note that IFRS 7 has a different and more precise wording stating explicitly *"financial assets that are measured at amortised cost or that are measured at fair value through OCI"*, whereas IAS 1 limits its wording to *"revenue calculated using the effective interest rate method"*. The tentative decision of the Committee would have been the only interpretation possible had IAS 1 retained the same wording as IFRS 7, but as it is not the case, we are not sure that this interpretation of IAS 1 is the only one acceptable.

- There might be some non-derivative financial instruments (such as loans or bonds that do not pass the SPPI test of IFRS 9 because of a significant interest rate mismatch feature) managed within a Held-to-Collect, or Held-to-Collect-and-Sell business model for which preparers consider that presenting the interest revenue using the effective interest rate method separately from the rest of the change in fair value of such instruments provides a relevant information on their performance. They consider that it is more relevant to present jointly the interest revenue of assets that are managed together rather than to separate them on the basis of their accounting classification (which takes into account the SPPI test). Besides the information required by the presentation considered by the Committee will be in any case provided in the Notes through the above-mentioned requirements of IFRS 7.

We therefore encourage the Committee to carefully consider whether its interpretation of IAS 1 is the only one possible in order to leave to preparers the opportunity to present their performance in a way that is consistent with their business model, keeping in mind that IFRS will in any case require to present in the Notes the interest revenue by asset classification.

anan
ASSOCIATION OF NATIONAL ACCOUNTANTS OF NIGERIA
Founded in 1979 and chartered by Act No. 76 of 1993

248/250, Herbert Macaulay Street,
P.M.B. 1011,
Yaba, Lagos,
Nigeria.
Tel: 01-7642100, 7900926, 07038147508
Web Address: www.anan.org.ng
E-mail: info@anan.org.ng

Our Ref: **Your Ref:** **Date: January, 2018.**

Dear Sir,

COMMENTS ON TENTATIVE AGENDA DECISION AND COMMENT LETTERS - PRESENTATION OF INTEREST REVENUE FOR PARTICULAR FINANCIAL INSTRUMENTS

The Association of National Accountants of Nigeria is pleased to comment on the Tentative Agenda Decision and comment letters - Presentation of interest revenue for particular financial instruments.

Our Comments

The Association of National Accountants of Nigeria (ANAN) is pleased to state that in view of the fact that there are no much controversy on the issue of the presentation of interest revenue as contained in both IAS 1, IAS 39 under Financial Instruments, (Recognition and Measurement and IFRS 9), we agree that the matter for now does not seem to require standard setting agenda, to this end, we agree with the Board to step the request down.

ABOUT ANAN

Association of National Accountants of Nigeria (ANAN) is a statutorily recognized Professional Accountancy body in Nigeria. The body is charged among others, with the responsibility of advancing the science of accountancy.

The Association was founded on 1st January, 1979 and operates under the ANAN Act 76 of 1993(Cap A26 LFN 2004), working in the public interest. The Association regulates its practising and non-practising members, and is overseen by the Financial Reporting Council of Nigeria.

Active ANAN members are 20,049, who are either FCNA or CNA and are found in Business, Practice, Academic and Public Sector in all the States of Nigeria and Overseas. The members provide professional services to various users of accountancy services.

ANAN is a member of the International Federation of Accountants (IFAC), International Association for Accounting Education & Research (IAAER), The Pan African Federation of Accountants (PAFA), and Associate of Accountancy Bodies in West Africa (ABWA).

Yours faithfully,
ASSOCIATION OF NATIONAL ACCOUNTANTS OF NIGERIA

DR. SUNDAY A. EKUNE,*FCNA*
Registrar/Chief Executive