.
AUTORITÉ 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° 61

Paris, May 22nd , 2017

Mrs Sue Lloyd
IFRS Interpretations Committee
30 Cannon Street

LONDON EC4M 6XH
U.K.

March 2017- IFRS IC Rejection – IFRS 9 Financial Instruments – Modifications or exchanges of financial liabilities that do not result in derecognition

Dear Mrs Lloyd,

I am writing on behalf of the Autorité des Normes Comptables (ANC) to express our views on the above-mentioned IFRS IC tentative rejection published in March 2017 IFRIC Update "*IFRS 9 Financial Instruments – Modifications or exchanges of financial liabilities that do not result in derecognition".* This letter sets out the most critical comments raised by interested stakeholders involved in ANC's due process.

ANC does not support the tentative agenda decision to reject a request raising conceptual and practical issues and therefore asks IASB to consider issuing an authoritative position.

Current understanding in France is different from IFRS-IC tentative conclusion

With regards to changes in estimated future cash flows of a financial liabilities, the common understanding and practice of IAS 39 in France is that two situations have to be dealt with differently: adjustments resulting from renegotiations of financial liabilities are amortised over the remaining term of the liability (IAS 39.AG62); whereas changes in estimates of cash flows with no change of the contractual terms are recognised in profit or loss (IAS 39.AG 8).

The common understanding is that upon transition to the new standard, "*IASB decided to retain almost all of the existing requirements for the classification and measurement of financial liabilities*" (IFRS 9 BC 4.51). Indeed, both AG (application guidance) in IAS 39 have been carried forward in similar terms into the new IFRS 9 standard (IFRS 9 § B5.4.6 for IAS 39.AG 8 and IFRS 9 § B3.3.6 for IAS 39.AG 62). While IFRS 9 (§ B5.4.6) explicitly applies to changes in estimates of future cash flows within the frame of the contract, it is unclear whether it also addresses changes in estimated cash flows resulting from a modification of the contractual terms of a liability. Therefore, it was unclear whether the two distinct accounting treatments would still be applicable under IFRS 9. In our view, in the absence of authoritative guidance, both approaches are acceptable.

New provisions have been introduced with IFRS 9 § 5.4.3 on the accounting treatment of financial assets, where any change in the "*contractual cash flows of a financial asset […] renegotiated or otherwise modified*" (absent derecognition) shall be recognised as "*a modification gain or loss in profit or loss*". This statement confirms the distinction between changes in cash flows resulting from a change in contractual terms (such as renegotiation or exchange) (addressed in § 5.4.3) and changes in estimates (dealt with IFRS 9 § B5.4.6) even if both accounting treatments are finally the same (immediate recognition in profit or loss). In addition, IFRS 9 § 5.4.3 only applies to financial assets and there is no such provisions for financial liabilities. This may support the understanding that issues and accounting treatments of modification of cash flows on the asset side could differ from those on the liability side.

The proposed change is worth an interpretation or an amendment

Based on the above, ANC does not share the view expressed by the Interpretation Committee that:

- the requirements in B5.4.6 (adjustment through P&L) "*apply to all revisions of estimated payments and receipts, including changes in cash flows arising from modifications or exchanges of financial liabilities*"; and
- the conclusion on the liability treatment has to be "*consistent with the requirements in § 5.4.3 relating to […] financial assets*". Even if both financial assets and financial liabilities are measured at amortised cost, provisions in the standard regarding impairment, derecognition or changes without derecognition are currently different and may not lead to the same conclusion. Moreover, there are situations where immediate recognition of a contract renegotiation (absent derecognition) may not faithfully depict the substance of the transaction.

Therefore ANC does not concur with IASB considering that *"the principles and requirements in IFRS 9 provide an adequate basis to enable an entity to account for modifications and exchanges of financial liabilities that do not result in derecognition"*. A mere rejection notice is not sufficient and ANC concurs with IFRS IC's initial suggestion to issue a draft interpretation or encourages IASB issuing a clarification (narrow scope) amendment.

ANC's constituents were unaware that applying IFRS 9 for the first time would be such a change to their current practice and understanding of the accounting treatment to modifications and exchanges of financial liabilities. In ANC's view, using a webcast or any other non-authoritative guidance to present the IFRS IC position is not the most appropriate tool to deal with such a complex and unexpected issue. The absence of transition provisions is especially a matter of concern. A full retrospective application may prove complex (the retrospective application of derecognition tests on successive modifications could lead to very different conclusions).

We share the concern expressed by the IASB that the due process applicable to an amendment or an interpretation may unfortunately be incompatible with the effective date of IFRS 9 (i.e. 1 January 2018). Since a retrospective application would already apply on 1st January 2017, the effect of a rejection are however already incompatible. We therefore believe that the conceptual and implementation concerns are such, that only a proper due process involving all constituents can appropriately address this issue. Another approach could be to wait for the IFRS 9 post-implementation review.

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

Yours sincerely,

Patrick de Cambourg