# STAFF PAPER

March 2016

## IFRS Interpretations Committee Meeting

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| **Project** | **IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement*—Derecognition of modified financial assets** |
| Paper topic | Comment Letter Analysis and Finalisation of Agenda Decision |



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## Introduction

1. In November 2015, the IFRS Interpretations Committee ('the Interpretations Committee') discussed whether it should progress it's consideration of a potential project to clarify the requirements in IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement* regarding when a modification or exchange of a financial asset results in the original asset being derecognised.[1]

2. More specifically, the Interpretations Committee considered:

   (a) relevant background information pertaining to the issue, including the derecognition requirements within IAS 39 and IFRS 9, specific derecognition issues already considered by the Interpretations Committee, the IASB/ FASB joint derecognition project and a summary of the requests for clearer requirements in this area;

   (b) an initial analysis prepared by the staff, which set out some of the key technical considerations that might arise when defining a narrow-scope project on the derecognition of modified or exchanged financial assets; and

[1] See Agenda Paper 4 discussed at the November 2015 Interpretations Committee meeting.

(c) a summary of the informal feedback received from individual members of the International Accounting Standards Board (the 'Board') regarding whether to take on such a project if a sufficiently narrow-scope issue were to be identified.

3. The background information highlighted that the issue of derecognition, and more specifically the issue of derecognition within the context of modified financial assets, is a complex matter that has been discussed on a number of occasions in the past and pre-dates current IFRS Standards. The analysis of technical considerations also highlighted that it may be difficult to develop requirements within a narrow-scope project. In addition, the informal feedback received from individual Board members indicated that there was little appetite to take on such a project. Consequently, the staff recommended that the Interpretations Committee should not pursue this issue at this time.

4. Because of the broad nature of the issue, the Interpretations Committee determined that it could not be resolved through an Interpretation and, instead, would require an amendment to the Standards. Having considered the staff analysis and informal feedback received, the Interpretations Committee decided, at that time, not to progress further consideration of such a project.[2]

## Purpose of the paper

5. The purpose of this paper is to:

(a) provide a summary of the comments received on the tentative agenda decision;

(b) set out our analysis of the comments received; and

(c) set out a staff recommendation on whether to finalise the agenda decision.

[2] The tentative agenda decision can be found in the *IFRIC Update* of November 2015 and is also reproduced in Appendix A.

## Summary of comment letters

6. The comment period for the tentative agenda decision ended on 21 January 2016. We received six comment letters, which are reproduced in Appendix B to this paper. The following is a breakdown of comment letters received:

   (a) three accounting firms— KPMG, Deloitte and Mazars;

   (b) two accounting standard-setters—Accounting Standards Board of Japan (ASBJ) and the Accounting Standards Committee of Germany (ASCG); and

   (c) one securities regulator—ESMA.

7. In summary, all of the respondents agreed that the issue was too broad to be resolved through an Interpretation. However:

   (a) five of the six respondents requested that the matter should be addressed by the Board (see paragraphs 8-10); and

   (b) the remaining respondent requested that the Interpretations Committee should specifically consider issuing guidance on a related matter regarding the interaction between modified financial assets and the solely payments of principal and interest ('SPPI') analysis required by IFRS 9 (see paragraphs 11-13).[3]

### *Requests for the Board to address the issue of when a modification or exchange of a financial asset results in the original asset being derecognised*

8. With respect to those respondents who suggested that the matter should be addressed by the Board, views were mixed regarding the most appropriate way forward and included the following:

[3] The SPPI analysis is referred to in paragraphs 4.1.2(b) and 4.1.2A(b) of IFRS 9 within the context of the classification of financial assets. It relates to the analysis of whether the contractual terms of a financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(a) the matter should be taken onto the Board's agenda as a medium- to long-term project. One respondent suggested that it would first be necessary to establish appropriate and robust concepts regarding derecognition, building upon the outcome of the Board's deliberations on the recent Exposure Draft *Conceptual Framework for Financial Reporting* (ED/2015/3);

(b) the Board should deliberate clarifications in this area and potentially task the Interpretations Committee with developing a range of proposals; and

(c) the matter should be addressed by the Board by way of an amendment to IFRS 9.

9. In addition, one of those respondents pointed out that they had suggested that this matter be added to the Board's active research agenda as part of their response to the 2015 Agenda Consultation.

10. In summary, the following points were raised by respondents in support of the Board addressing this matter:

(a) neither IAS 39 nor IFRS 9 include requirements that are sufficient regarding the modification of financial assets, which leads to a risk of divergence in accounting practice. For example, there is a perceived lack of clarity regarding whether the requirements for derecognition of financial liabilities should be applied by analogy to modifications of financial assets;

(b) the modification of financial assets is already an issue that arises in practice and the Interpretations Committee's previous discussions in this area illustrate the need for the Board to review the accounting requirements for derecognition of financial assets in order to promote consistency of application;

(c) as a result of the current economic environment, for example, low interest rates and the increased regulatory focus on forbearance, the frequency of transactions of this nature is likely to increase; and

(d) this issue is likely to become more important in the future, because under IFRS 9:

(i) there is an interaction between the requirements on accounting for modifications of financial assets that do not result in derecognition and the impairment requirements regarding the assessment of significant increases in credit risk; and

(ii) it is not clear how the SPPI analysis interacts with modified financial assets (similar to the point noted in paragraph 7(b) of this paper).

### *Request for the Interpretations Committee to consider issuing guidance related to the interaction between modified financial assets and the SPPI analysis*

11. With respect to the respondent who suggested that the Interpretations Committee should consider issuing guidance on how the SPPI analysis interacts with modified financial assets, they noted that in their view, because IFRS 9 requires an entity to perform the SPPI analysis only upon initial recognition, this could give rise to structuring opportunities in particular cases. For example, if a financial asset initially met the SPPI criteria but was subsequently modified (but not derecognised) by the introduction of a non-SPPI feature, then such a financial asset would not be accounted for at fair value through profit and loss. This is because there is no requirement within IFRS 9 to reassess the SPPI analysis upon such a modification.

12. This respondent observed that in accordance with IAS 39, entities would have been required to apply IFRIC 9 *Reassessment of Embedded Derivatives* in such circumstances and suggested that the Interpretations Committee should consider issuing similar requirements regarding a reassessment of the SPPI analysis.

13. As noted in paragraph 10(d)(ii) of this paper, one other respondent also made reference to the interaction between the SPPI analysis and modified financial assets but, in contrast to the views expressed above, that respondent commented that there was a perceived lack of clarity in this area. However, they did not elaborate as to why

they considered this to be the case nor did they suggest that the Interpretations Committee consider issuing specific guidance on this matter.

## Staff analysis of comment letters

14. Although all of the respondents agreed with the Interpretations Committee's view that this issue was too broad to address by way of an Interpretation, we note that most of the respondents asked the Board to address this matter.

15. In addition, we observe that one respondent suggested that the Interpretations Committee should take specific action regarding a related matter pertaining to the interaction between modified financial assets and the SPPI analysis.

16. We set out our analysis of this feedback as follows:

    (a) in paragraphs 17-22, we consider respondents' requests for the Board to address the issue of when a modification or exchange of a financial asset results in the original asset being derecognised; and

    (b) in paragraphs 23-25, we consider the specific request for the Interpretations Committee to consider issuing guidance regarding a related matter pertaining to the interaction between modified financial assets and the SPPI analysis.

### *Requests for the Board to address the issue of when a modification or exchange of a financial asset results in the original asset being derecognised*

17. We first note that for the purposes of the analysis contained within Agenda Paper 4 presented at the November 2015 Interpretations Committee meeting ('Agenda Paper 4'), we sought the informal views of individual Board members regarding taking on a project about the derecognition of modified financial assets. As part of that process, we provided those Board members with relevant background information including a summary of the reasons behind the requests for clearer requirements in this area, and a

summary of some of the key technical considerations that might arise when considering such a project (see paragraphs 29-32 and 40-52 of Agenda Paper 4).

18. Having considered this information, we observe that the Board members consulted were of the view that it would be better not to take on a project about the derecognition of modified financial assets at this time (see paragraph 35 of Agenda Paper 4).

19. Consequently, we think that it is important to establish whether any new information has come to light as a result of the feedback received on the tentative agenda decision which might be relevant to the Board's considerations regarding whether to take on such a project.

20. In this regard, we observe that most of the reasons cited by respondents in support of the Board addressing this issue (see paragraph 9 of this paper) were already included in paragraphs 31-32 of Agenda Paper 4; for example, the lack of specific requirements within IAS 39 and IFRS 9 (which gives rise to potential diversity in practice), the fact that this issue is likely to increase in frequency because of current economic conditions and the interaction between modified financial assets and the new impairment requirements of IFRS 9.

21. Regarding the lack of specific requirements within IAS 39 and IFRS 9, we note that one respondent raised the specific question of whether the requirements for derecognition of financial liabilities should be applied by analogy to modifications of financial assets. With respect to this matter we note that:

    (a) in September 2012 the Interpretations Committee previously discussed analogising to the requirements for modified financial liabilities within the specific context of Greek Government Bonds[4] and this point was also included as part of the background information provided in Agenda Paper 4; and

[4] See *IFRIC Update*—September 2012.

(b) paragraphs 47-49 of Agenda Paper 4 highlighted that determining how a substantial modification of a financial asset might be determined (including whether the requirements relating to the modification of financial liabilities could be used/ adapted) would require detailed consideration and would be one of the main areas that any potential project addressing the modification of financial assets would need to address.

22. Consequently, based on our analysis above, we do not think that the comment letters provide any new information for the Board to consider in determining whether to undertake a project about the derecognition of modified financial assets.

### *Request for the Interpretations Committee to consider issuing guidance related to the interaction between modified financial assets and the SPPI analysis*

23. We have considered the suggestion made by one respondent that the Interpretations Committee should consider issuing guidance on a related matter pertaining to the interaction between modified financial assets and the SPPI analysis.

24. Although we note that this issue was not identified in Agenda Paper 4, we would point out that:

(a) this issue relates to the ongoing accounting treatment of a modified financial asset and does not directly relate to the issue of when a modification or exchange of a financial asset results in derecognition of that asset. Consequently, we note that this is separate to the request to clarify when a modification or exchange of a financial asset results in derecognition; and

(b) the respondent does not seem to question the requirements of IFRS 9 with respect to this matter[5] but rather expresses a concern regarding whether the application of these requirements would give rise to structuring opportunities. Consequently, we observe that this matter would not be

[5] As noted in paragraph 10(d)(ii) of this paper, one other respondent also makes reference to the interaction between the SPPI analysis and modified financial assets but, in contrast, notes that the requirements are unclear. However, this respondent does not elaborate as to why they considered this to be the case and consequently we have not addressed this point further.

resolved through an Interpretation but would instead require an amendment to the Standards.[6]

25. Consequently, although we acknowledge that this is new information, we do not consider it to be directly relevant to the Board's decision regarding whether to take on a project about the derecognition of modified financial assets.

## Staff recommendation

26. As highlighted in paragraph 3 of this paper, the issue of derecognition, and more specifically the issue of derecognition within the context of modified financial assets, is a complex and long-standing issue. In addition, the Board members consulted for the purposes of the November 2015 IFRIC meeting expressed little appetite to take on a project about the derecognition of modified financial assets.

27. As set out in our analysis in paragraphs 17-25 of this paper, we do not consider that the comment letters provide any new information that would be directly relevant to the Board's consideration of whether to undertake a project about the derecognition of modified financial assets. However, we note that the Board's consideration of this matter will be subject to the outcome of the 2015 Agenda Consultation.

28. Consequently, we recommend that the tentative agenda decision should be finalised with only a few suggested editorial changes. We have reflected these changes as a mark-up to the published tentative agenda decision in Appendix A (A1). We have also included a clean version of the final proposed agenda decision wording in Appendix A (A2).

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[6] We note that IFRIC 9 was issued as a result of uncertainty over particular aspects of IAS 39 relating to the reassessment of embedded derivatives (see paragraph BC2 of IFRIC 9). In contrast, there would not appear to be any such uncertainty regarding the SPPI requirements of IFRS 9.

## Question for the Interpretations Committee

| Question for the IFRS Interpretations Committee |
|---|
| Does the Interpretations Committee agree with the staff recommendation to finalise the agenda decision? |

# Appendix A—Agenda decision

A1. We propose the following wording for the final agenda decision, which is marked from the tentative agenda decision. The proposed changes are strictly editorial. New text is underlined and deleted text is struck through.

**IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement*—Derecognition of modified financial assets**

The Interpretations Committee discussed whether to progress a potential narrow-scope project to clarify the ~~guidance~~ requirements in IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement* about when a modification or exchange of financial assets results in the derecognition of the original asset.

Many Interpretations Committee members observed that, in their experience, the circumstances in which an entity should derecognise financial assets that have been modified or exchanged ~~should be derecognised~~ is an issue that arises in practice. However, because of the broad nature of the issue, the Interpretations Committee noted that~~, because of the broad nature of the issue,~~ it could not be resolved through an Interpretation and~~,~~ instead~~,~~ would require an amendment to the Standards. Consequently, the Interpretations Committee ~~[~~decided~~]~~ not to progress further consideration of such a project at this time.

A2. We propose the following wording for the final agenda decision.

**IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement*—Derecognition of modified financial assets**

The Interpretations Committee discussed whether to progress a potential narrow-scope project to clarify the requirements in IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement* about when a modification or exchange of financial assets results in the derecognition of the original asset.

Many Interpretations Committee members observed that, in their experience, the circumstances in which an entity should derecognise financial assets that have been modified or exchanged is an issue that arises in practice. However, because of the broad nature of the issue, the Interpretations Committee noted that it could not be resolved through an Interpretation and instead would require an amendment to the Standards. Consequently, the Interpretations Committee decided not to progress further consideration of such a project at this time.

# Appendix B—Comment Letters received

esma European Securities and Markets Authority

**The Chair**

Date: 25 January 2016
ESMA/2016/93

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

**Ref: The IFRS Interpretations Committee's tentative agenda decision on IFRS 9 and IAS 39 - Derecognition of modified financial assets**

Dear Mr Upton,

The European Securities and Markets Authority (ESMA) thanks you for the opportunity to respond to the IFRS Interpretations Committee's (IFRS IC) publication in the November 2015 IFRIC Update of the tentative agenda decision related to the application of IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement.* We are pleased to provide you with the following comments with the aim of improving the consistent application and enforceability of IFRSs.

ESMA has considered the IFRS IC's tentative decision not to progress with a potential narrow-scope project to clarify the guidance in IFRS 9 and IAS 39 about when a modification or exchange of financial assets results in the derecognition of the original asset. We noted that, because of the broad nature of the issue, the IFRS IC concluded that it could not be resolved through an Interpretation and instead would require an amendment to the Standards.

As ESMA pointed out on several occasions[1], IAS 39 and IFRS 9 do not provide sufficient guidance on accounting for the exchange or modification of financial assets. Although ESMA understands that the issue is complex and may be too broad to be resolved through an Interpretation, we are of the view that more guidance is necessary in order to avoid diversity in accounting for this type of transactions, especially in relation to equity instruments.

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[1] E.g.Letter to the IFRS IC: The IFRS IC's tentative agenda decision on IAS 39 Financial Instruments: Recognition and Measurement – Holder's accounting for exchange of equity instruments, ESMA, October 2014, ESMA/2014/1211

As exemplified by the issues related to the accounting for Greek sovereign debt[2], this type of transactions can have a significant impact on a number of entities and their reported financial performance.

Furthermore, due to the current economic environment, it can be expected that other significant transactions that include modification of financial assets will occur in the near future, thus increasing the risks that divergent accounting practices become prevalent in different jurisdictions.

Therefore, in order to promote consistent application of IFRS and to set standards that are enforceable, and in line with ESMA's response to the IASB's 2015 Agenda Consultation,[3] ESMA urges the IFRS IC to recommend to the Board to add this project to its active research agenda in the medium to long-term.

We would be happy to discuss these issues further with you.

Yours sincerely,

Steven Maijoor

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[2] Letter to the IFRS IC: Accounting exposure to Greek souvereign debt, ESMA, April 2012, ESMA/2012/248

[3] Letter to the IASB: ESMA response to the IASB's Request for Views: 2015 Agenda Consultation, December 2015, ESMA, ESMA/2015/1740

Deutsches Rechnungslegungs Standards Committee e.V.

Accounting Standards Committee of Germany

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**IFRS Technical Committee**

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Berlin, 19 January 2016

Dear Wayne,

**IFRS IC's tentative agenda decisions in its November 2015 meeting**

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on several tentative agenda decisions taken by the IFRS IC, as published in the November 2015 *IFRIC Update*. Please find our detailed 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 or me.

Yours sincerely,

*Andreas Barckow*
President

## Appendix A – Comments on tentative agenda decisions

### *IAS 39/IFRS 9 – Derecognition of modified financial assets*

We consider the decision being inappropriate given that there is an issue in practice. While the IFRS IC take the view that it is not appropriate to progress with the issue "at this time" and that it cannot be resolved "through an interpretation", we point to the fact that there are other means to address an issue, even in case it is a broad one. We suggest the IASB take action and deliberate a clarification as to how and when to derecognise modified financial assets and potentially charge the IFRS IC in developing respective proposals. Otherwise, we clearly see the danger that other parties, esp. out of the regulatory domain, will take the lack of clarity as a reason to develop second level GAAP.

### *IAS 39/IFRS 9 – Determining hedge effectiveness for net investment hedges*

We agree with the decision.

### *IAS 20 – Accounting for recoverable cash payments*

Generally, we are not convinced that the rationale for clarifying whether and how IAS 20 applies, i.e. whether there is a government grant (thus P/L recognition) or a forgivable loan (thus liability recognition), is appropriate. As per the IFRIC Update, many Committee members thought that the definition of a forgivable loan might be fulfilled, while the (full) Interpretations Committee clearly observed that there is a financial liability, which is contradictory in itself. Rather, fulfilling the definition of a forgivable loan is a necessary (but not sufficient) condition for recognising a financial liability.

In particular, we object to the finding that the arrangement described is a financial liability. Taking into account the (few) details given we would have concluded that fulfilling the conditions for a repayment is at the very discretion of the entity having received the cash payment; hence, there is clearly no financial liability.

Accounting Standards Board of Japan (ASBJ)

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29 January 2016

Mr. Wayne Upton
Chairman
IFRS Interpretations Committee
30 Cannon Street
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**Re: Comment on the tentative agenda decision on IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement* – Derecognition of modified financial assets**

1. The Accounting Standards Board of Japan (the "ASBJ" or "we") welcomes the opportunity to provide comments on the IFRS Interpretation Committee's (the "Committee") tentative agenda decision on IFRS 9 *Financial Instruments*/IAS 39 *Financial Instruments: Recognition and Measurement* - Derecognition of modified financial assets in the IFRIC Update in November 2015.

2. We agree with the Committee's decision not to add this issue to its agenda because it is too broad for the Committee to address within the confines of existing IFRSs.

3. At the same time however, the deliberation by the Committee thus far has shown that there is a clear need for the IASB to comprehensively review the accounting requirements for derecognition of financial assets. Through the discussion with our constituents, we have also been informed that they are not just important for financial statements of financial institutions but for those of non-financial entities.

4. Having regard to the circumstances, we think that it is at least undesirable if the IASB leaves the lack of clarify and consistency unaddressed.

5. We also think that the success of a comprehensive review of the accounting requirements for derecognition of financial assets (including derecognition of modified financial assets) would be challenging until when the IASB develops appropriate and robust concepts regarding derecogntion. We note that the IASB's Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting* (the

"ED") discussed the purposes and approaches of derecognition. Yet, we found that the discussion of derecognition in the ED was not sufficiently robust; thus, in our comment letter to the ED, we encouraged the IASB to carry on the work so as to develop clearer concepts.

6. We expect that the IASB's ongoing deliberation regarding a review of the *Conceptual Framework* (particularly, with regard to derecognition) will shine a light on how to tackle this challenging issue. Therefore, we believe that the IASB should address this issue as a medium- to long-term project building upon the outcome from the deliberation of the *Conceptual Framework*, and that the Committee should recommend the IASB to do so.

7. We hope that our comment will be helpful for the Committee's and the IASB's consideration in the future. If you have any questions, please feel free to contact us.

Yours sincerely,

Tomo Sekiguchi

Tomo Sekiguchi

Board Member of the ASBJ

Chairman of the Technical Committee for IFRS Implementation in the ASBJ

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Wayne Upton
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18 January 2016

Dear Mr Upton

**Tentative agenda decision – IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement*: Derecognition of modified financial assets**

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 a potential narrow-scope project to clarify the circumstances in which a modification or exchange of financial assets results in derecognition of the original asset.

Whilst we agree that the issue is broad and, as such, potentially inappropriate for a narrow-scope interpretation we do believe that standard-setting activity is required in this area as it is an issue that arises frequently in practice and is likely to attract more attention in the future due to, for example, regulatory focus on forbearance. In the absence of guidance, diverse practices are likely to evolve. In particular, it is unclear whether the requirements for derecognition of financial liabilities should be applied by analogy to modifications of financial assets and whether a modification that affects the 'solely payments of principal and interest' test should be treated differently from one that does not.

As a result, we believe that this issue should be referred to the IASB for comprehensive consideration.

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

MAZARS

Mr. Wayne Upton

IFRS Interpretation Committee
30 Cannon Street
London EC4M 6XH
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Paris, January 29, 2016

**RE: IFRS Interpretations Committee tentative agenda decisions, November 2015**

Dear Wayne,

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

We have gathered all our comments as appendices to this letter. Should you prefer us to prepare separate comment letter for each tentative agenda decision, please let us know.

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

Best regards,

Michel Barbet-Massin
*Head of Financial Reporting*
*Technical Support*

Edouard Fossat
*Deputy Head of Financial Reporting*
*Technical Support*

## Appendix 1

**IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement—Derecognition of modified financial assets (Agenda Paper 4)**

We agree with the IFRS IC decision not to re-open the derecognition analysis for modified financial assets, which is a complex issue and would indeed have to be treated via an amendment to IAS 39 / IFRS 9 rather than by means of an interpretation.

However, we note that the Agenda Paper 4 does not mention at all another major related issue, the SPPI analysis of modified financial assets.
Given the current low interest rate environment, modifications / renegotiations of loans are very common. When conducting their IFRS 9 impacts studies, banks and other financial institutions are already questioning how the SPPI analysis should be carried out for modified loans.

Our understanding of IFRS 9 as finalized in July 2014 is that the SPPI analysis is done only upon the initial recognition of a given financial asset and that the initial conclusion is not reassessed at a later date (paragraph 4.4.1 of IFRS 9 requires subsequent reclassification only in case of a change in the business model for managing the asset).
If the contractual cash flows of this asset are subsequently modified and the modification is not considered as a derecognition event (i.e. the "initial" asset is maintained), it is likely that most preparers will consider that the standard is clear and will not reassess the SPPI criterion on the modification date.
We are concerned that this could give rise to structuring opportunities. For example, a non SPPI clause could be introduced after the initial recognition of a loan without such loan being accounted for at fair value through profit or loss, the default treatment for non SPPI instruments under IFRS 9.

Under IAS 39, modified assets analysis has been helpfully clarified by the interpretation IFRIC 9 "*Reassessment of Embedded Derivatives*" which requires that embedded derivatives be reassessed whenever there is a significant change in contractual cash flows:

> 7A The assessment whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative on reclassification of a financial asset out of the fair value through profit or loss category in accordance with paragraph 7 shall be made on the basis of the circumstances that existed on the later date of:
>
> (a) when the entity first became a party to the contract; and
>
> (b) a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

We would like to suggest the Interpretations Committee to consider the possibility of issuing similar guidance for reassessing the SPPI criterion under IFRS 9.

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Our ref MV/288
Contact Mark Vaessen

20 January 2016

Dear Mr Upton

**Tentative agenda decision: *IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement—Derecognition of modified financial assets***

We appreciate the opportunity to comment on the above IFRS Interpretations Committee (the Committee) tentative agenda decision included in the November 2015 IFRIC Update. We have consulted with, and this letter represents the views of, the KPMG network.

We agree with the tentative agenda decision that the issue as to when a modification or exchange of financial assets results in derecognition of the original asset (together with initial recognition of the modified instrument as a new and different asset) is an issue that has a broad nature and could not be resolved through an Interpretation.

As members of the Committee observed, it is an issue that arises in practice. Indeed, this issue has been a contentious area for some years and has been discussed by the Committee in every year from 2012 to 2015. Moreover, we expect that IFRS 9 will make this issue more important because of its interaction with the new guidance on accounting for modifications that do not result in derecognition and the new impairment requirements based on assessing increases in credit risk since initial recognition.

Therefore, we do not agree with the Committee's tentative decision not to progress further consideration of this issue at this time. Instead, we believe that the Committee should refer the issue to the IASB with a recommendation that it be addressed through an amendment to IFRS 9.

Please contact Mark Vaessen or 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 LLP (Canada)