

STAFF PAPER

September 2018

IFRS Interpretations Committee Meeting

Project	IFRS 9—Classification of a particular type of dual currency bond		
Paper topic	Agenda decision to finalise		
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Objective

1. This paper considers feedback on the IFRS Interpretations Committee's (Committee) tentative agenda decision on IFRS 9 *Financial Instruments*—Classification of a particular type of dual currency bond. The paper:
 - (a) analyses comments received on the tentative agenda decision, and
 - (b) asks the Committee if it agrees with the staff recommendation to finalise the agenda decision.

Introduction

2. The Committee received a submission about how a holder would classify a particular financial asset applying IFRS 9. The submitter described a 'dual currency bond' with a par amount denominated in one currency and fixed interest coupon payments denominated in another currency. The fixed interest payments are paid annually and the par amount is repaid at a stated maturity date. The submitter asked whether such a financial instrument has contractual cash flows that are solely payments of principal

and interest on the principal amount outstanding (SPPI) applying paragraphs 4.1.2(b) and 4.1.2A(b) of IFRS 9.

3. On the basis of the responses to outreach performed on the submission, the Committee observed that the financial instrument described in the submission is not common. Therefore, the Committee concluded that it has not obtained evidence that the matter has widespread effect.
4. Consequently, the Committee tentatively decided not to add this matter to its standard-setting agenda.

Comment letter analysis and staff analysis

5. We received six comment letters on the tentative agenda decision, reproduced in Appendix B to this paper.
6. Petrobras, Mazars and the Organismo Italiano di Contabilità (OIC) agree with the Committee's decision not to add the matter to its standard-setting agenda for the reasons outlined in the tentative agenda decision.
7. The Accounting Standards Board of Japan (ASBJ), Deloitte and the Accounting Standards Committee of Germany (ASCG) agree with the Committee's tentative decision not to add the matter to its standard-setting agenda. Nonetheless, those respondents disagree with the Committee's decision not to provide further guidance on, or analysis of, the matter.
8. Respondents' comments, together with our analysis, are presented below.

Committee's tentative decision not to analyse the financial instrument described in the submission

Respondents' feedback

9. The ASCG agrees with the Committee's observation that the financial instrument described in the submission is not common and that the related matter is not widespread. The ASCG also notes that dual currency bonds are of limited relevance in its jurisdiction. However, in its view, the submission raises a fundamental question related to how an entity classifies and measures financial instruments. Therefore, the

ASCG says it would be helpful if the Committee were to analyse the specific instrument and explained how an entity would apply the requirements in IFRS 9.

10. Deloitte says the tentative agenda decision provides no guidance to preparers of financial statements and could give rise to diversity in practice. This respondent says there is a variety of instruments that have (or could have) cash flows denominated in different currencies and suggests that the Committee provide some guidance on how the requirements in paragraph B4.1.8 of IFRS 9 apply to such instruments¹. Deloitte says that such guidance could be limited to the example that was previously included in paragraph AG33(c) of IAS 39 *Financial Instruments: Recognition and Measurement*.² In Deloitte's view, if the Committee were to provide a view on whether that 'basic' financial instrument meets the SPPI condition, then that conclusion would clarify, or at least inform, the analysis of more complex financial instruments.

Staff analysis

11. As explained in Agenda Paper 8 for the March 2018 Committee meeting, the responses to our outreach request indicate that the financial instrument described in the submission is not common. Therefore, in its tentative agenda decision, the Committee noted that it has not obtained evidence that the matter has widespread effect and, consequently, the Committee tentatively decided not to add this matter to its standard-setting agenda. None of the respondents to the tentative agenda decision disagree with the Committee's conclusion that the instrument is not common or that the matter does not have widespread effect.
12. In addition, the instrument described in the submission is very specific. As the Committee discussed at its March 2018 meeting, there are risks to providing answers in agenda decisions to highly-specific fact patterns. The main risk is that stakeholders

¹ Paragraph B4.1.8 of IFRS 9 requires an entity to assess whether contractual cash flows are solely payments of principal and interest on the principal amount outstanding for the currency in which the financial asset is denominated.

² Paragraph AG33(c) of IAS 39 says that an embedded foreign currency derivative that provides a stream of principal or interest payments that are denominated in a foreign currency and is embedded in a host debt instrument (eg a dual currency bond) is closely related to the host debt instrument. Such a derivative is not separated from the host instrument applying IAS 39 because IAS 21 *The Effects of Changes in Foreign Exchange Rates* requires foreign currency gains and losses on monetary items to be recognised in profit or loss.

might inappropriately analogise to the conclusion when the facts are similar but not the same. There is also the risk that, in appearing to be open to answering highly-specific questions, the Committee might inadvertently undermine the appropriate use of judgement that is required when applying the principles-based framework of IFRS Standards. The Committee might also appear open to acting like a technical enquiry helpdesk. Furthermore, if the answer very much depends on the particular facts and circumstances, then there may be little benefit for IFRS stakeholders around the world in the Committee providing answers. For these reasons, the Committee generally does not provide answers in agenda decisions to highly-specific fact patterns. Having considered these factors, we think the risks of providing an answer in an agenda decision to the very specific financial instrument described in the submission outweigh any benefit of doing so, particularly because the comment letters on the tentative agenda decision confirm the Committee's conclusion that the instrument is not common and that the matter does not have widespread effect.

13. Finally, we think that analysing how paragraph B4.1.8 of IFRS 9 applies to a variety of instruments that have (or could have) cash flows denominated in different currencies is a broader matter than the question submitted to the Committee. We are unaware that the application of paragraph B4.1.8 is causing problems in the implementation of IFRS 9.
14. Consequently, we recommend the Committee not make any changes to the tentative agenda decision in response to the comments raised about the level of analysis provided.

Expanding the scope of the tentative agenda decision

Respondent's feedback

15. The ASBJ agrees that the Committee should not address how a holder would classify the particular financial instrument described in the submission. However, in the ASBJ's view, this query could be viewed as relating to a broader matter of determining the appropriate unit of account for the purposes of applying the SPPI condition. The ASBJ says this broader matter would not be limited only to a particular type of dual currency bond but would apply to all financial assets.

16. Nevertheless, the ASBJ says it does not have information to determine whether this broader matter is a significant matter in practice. Accordingly, the ASBJ suggests that the Board or the Committee conduct further outreach to assess whether further standard-setting activity is necessary. The ASBJ acknowledges that addressing the appropriate unit of account for the purposes of applying the SPPI condition is likely to go beyond the remit of the Committee and, thus, should instead be considered by the Board.

Staff analysis

17. The ASBJ asks the Committee to consider a matter that is different from the matter described in the submission and addressed in the tentative agenda decision. That is, the ASBJ requests consideration of the appropriate unit of account for the purposes of applying the SPPI condition, which is a much broader matter than the specific query submitted to the Committee.
18. In addition, we are unaware that determining the appropriate unit of account for the purposes of applying the SPPI condition is causing problems in the implementation of IFRS 9. Indeed, the ASBJ acknowledges that it does not have information that indicates this is a significant matter in practice.
19. Consequently, we think the Committee should not address this broader matter as part of the agenda decision. We recommend the Committee does not make any changes to the wording of the tentative agenda decision in this regard.

Committee’s approach in responding to questions

Respondents’ feedback

20. The ASBJ mentions concerns in its jurisdiction about the difference between the level of detail in the Committee’s tentative agenda decision on this matter and the level of detail in the three agenda decisions that were finalised at the March 2018 Committee meeting on IFRS 15 *Revenue from Contracts with Customers*. In the ASBJ’s view, if the Committee decides to include detailed analyses in its agenda decisions, then it should explain why such detail is provided. The ASCG also notes the difference in

the staff's analysis and recommendation on this matter and on the three agenda decisions on IFRS 15.

Staff analysis

21. At its meeting in March 2018 the Committee discussed feedback received on three tentative agenda decisions related to the application of IFRS 15 to different contracts for the sale of real estate. A number of respondents to those tentative agenda decisions had raised concerns about the Committee providing technical responses to highly-specific fact patterns submitted to it. In Agenda Paper 2B for that meeting³, the staff summarised those concerns and explained the approach for responding to questions submitted to the Committee. In that paper, the staff contrasted the three questions on the application of paragraph 35 of IFRS 15 to real estate contracts and the question on the application of IFRS 9 to dual currency bonds. As explained in more detail in that agenda paper (and as described in paragraph 12 of this paper), the Committee generally does not provide answers to highly-specific fact patterns. However, at times it might be necessary for the Committee to go further than is typically the case in order to help stakeholders obtain a common understanding of the requirements and their application. For example, in the case of the IFRS 15 questions, we were aware that some of the matters described in the submissions were causing disruption in the implementation and application of IFRS 15. Consequently, in March 2018 we recommended that the Committee help resolve such disruption using an agenda decision. But, as discussed earlier in this agenda paper, we have no evidence of such disruption in the case of applying IFRS 9 to dual currency bonds.
22. At its March 2018 meeting, the Committee discussed its approach in responding to questions submitted to it, including those that involve highly-specific fact patterns, and agreed with the analysis in Agenda Paper 2B. This approach was also discussed with the Board who were supportive of the Committee's approach. In addition, this approach was presented to the IFRS Foundation Due Process Oversight Committee at its meeting in June 2018. During that meeting, it was noted that answering fact-specific questions would be expected to occur infrequently.

³ This paper can be accessed [here](#).

24. We think the Committee has thoroughly considered its approach to answering questions submitted to it, including those that involve highly-specific fact patterns. Respondents have not provided any new information beyond that considered by the Committee when reaching its tentative agenda decision. Consequently, we recommend that the Committee not make any changes to the wording of the tentative agenda decision in response to the comments about the differing level of detail in the Committee’s tentative agenda decision on this matter and the level of detail in the three agenda decisions on IFRS 15 finalised in March 2018.

Staff recommendation

25. On the basis of our analysis, we recommend that the Committee finalise the tentative agenda decision as published in the March 2018 IFRIC Update. Appendix A to this paper sets out the proposed wording for the final agenda decision.

Question for the Committee
Does the Committee agree with the staff recommendation to finalise the agenda decision set out in Appendix A to this paper?

Appendix A—Proposed wording of the agenda decision

- A1. We propose the following wording for the final agenda decision (deleted text is struck through)—there is no change to the wording of the tentative agenda decision.

IFRS 9 *Financial Instruments* — Classification of a particular type of dual currency bond

The Committee received a request about how a holder would classify a particular financial asset applying IFRS 9. The submitter described a ‘dual currency bond’ with a par amount denominated in one currency and fixed interest coupon payments denominated in another currency. The fixed interest payments are paid annually and the par amount is repaid at a stated maturity date. The submitter asked whether such a financial instrument has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding applying paragraphs 4.1.2(b) and 4.1.2A(b) of IFRS 9.

On the basis of the responses to outreach performed on the request, the Committee observed that the financial instrument described in the request is not common. Therefore, the Committee has not obtained evidence that the matter has widespread effect.

Consequently, the Committee ~~decided~~ not to add this matter to its standard-setting agenda.

Appendix B—Comment letters received

8 May 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*: Classification of a particular type of dual currency bond

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the March IFRIC Update of the tentative decision not to take onto the Committee's agenda the request for clarification on the classification by a holder of a 'dual currency bond' with a par amount denominated in one currency and fixed interest coupon payments denominated in another.

We accept the Interpretations Committee's decision not to add this item onto its agenda, but are concerned that a statement only that "the financial instrument described in the request is not common" provides no guidance to preparers of financial statements and could give rise to divergence in practice.

There is a variety of instruments in existence that have (or could have) cash flows denominated in different currencies and we believe that some guidance on how the basic requirement of IFRS 9:B4.1.8 to assess contractual cash flows "for the currency in which the financial asset is denominated" should be applied to such instruments would be helpful as IFRS 9 becomes effective.

Guidance could be limited to the example that was previously included in IAS 39:AG33(c) of a non-prepayable dual currency bond for which the principal is denominated in one currency and interest payments in another. Should the Committee take the view that this most basic of dual-currency bonds fails the criteria of a return solely of interest and interest on the principal outstanding (SPPI), this would also clarify the treatment for bonds with complex terms, whereas a view that such an instrument passes SPPI would at least provide guidance on that fact pattern and allow preparers to apply judgement to more complex instruments.

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



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Sue Lloyd
Chair of the IFRS Interpretations Committee
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IFRS Technical Committee

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Berlin, 17 May 2018

Dear Sue,

IFRS IC's tentative agenda decisions in its March 2018 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 March 2018 *IFRIC Update*.

We agree with all four final agenda decisions. In respect of the tentative agenda decisions, we do not agree with the reasons behind one of these. Also, we have some comments on one of the other matters.

Please find our 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 (groesse@drsc.de) or me.

Yours sincerely,

Andreas Barckow

President

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Prof. Dr. Andreas Barckow
Executive Director:
Prof. Dr. Sven Morich

Appendix – Detailed Comments

Tentative decision on IFRS 9 – Classification of certain types of dual currency bonds

Whilst we agree with the decision not to add the issue to the agenda, we disagree with the stated reasons for rejecting the issue.

Firstly, we concur with the view that the instruments described are not common and that the issue is not widespread. Notwithstanding the fact that dual currency bonds are of limited relevance in our jurisdiction, we believe the question raised to be fundamental and affecting a main principle for classifying and measuring financial instruments that we think deserves a deeper analysis and an explanatory answer.

Against this background, we think it would be possible and helpful, if the IFRS IC analysed the specific instruments and at least pointed to how the principles and related requirements in IFRS 9 should be applied. For example, we would deem such instruments fulfilling the SPPI criterion, if the par amount was converted at the FX rate prevailing as at the conversion date (and not be contractually fixed upfront).

Secondly and more generally, we do not believe potential disruption in application to be a sufficient argument for not dealing with an issue (as cited in the respective Agenda Paper for the issue), if a clarification would come with the benefit of significantly reducing (potentially) inconsistent application. If such argument was deemed appropriate for IFRS 9 issues, we would question why the same rationale would not similarly apply to the three IFRS 15 issues the Committee did finally opine on, as IFRS 15 equally just entered into force.

Other matter: IAS 12 – Initial recognition exemption

Although we acknowledge that the discussion remains to be continued and research to be done, we like to express early our support for working towards an interpretation (or other means) to clarify IAS 12 application in this respect.

Even at this stage of discussion it seems sufficiently clear that the issue is relevant and widespread, as there are various kinds of contracts and fact patterns affected. Moreover, the question as to whether tax deductions are attributable to a contract, a (single) asset/liability, or rather to cash flows, and as to which consequences this may have for determining temporary differences, is fundamental within IAS 12. This already warrants further research and clarification.

If the Committee was to pursue the route of developing an interpretation or a minor amendment to the standard, we suggest considering whether other issues on IAS 12 raised with the Committee and also deserving clarification could be bundled together.

Rio de Janeiro, May 21, 2018

CONTRIB 0022/2018

Ms Lloyd
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Subject: Tentative agenda decision - Classification of a particular type of dual currency bond (IFRS 9)

Reference: IFRS 9 - Financial Instruments

Dear Ms Lloyd,

Petróleo Brasileiro S.A. - Petrobras welcomes the opportunity to comment on the IFRS Interpretations Committee's tentative agenda decision - IFRS 9 - Classification of a particular type of dual currency bond. We believe this is an important opportunity for all parties interested in the future of IFRS and we hope to contribute to the progress of the Board's activities.

We agree with the Interpretations Committee's decision not to add this item to its agenda.

If you have any questions in relation to the content of this letter please do not hesitate to contact us (contrib@petrobras.com.br).

Respectfully,

/s/Rodrigo Araujo Alves

Rodrigo Araujo Alves

Chief Accounting and Tax Officer

Mrs Sue Lloyd

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

Paris, May 28, 2018

Tentative Agenda Decisions – IFRIC Update March 2018

Dear Sue,

MAZARS is pleased to comment on the various IFRS Interpretations Committee tentative agenda decisions published in the March 2018 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.

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

Appendix 1

Classification of a particular type of dual currency bond (IFRS 9 Financial Instruments)—Agenda Paper 8

We agree with the tentative IFRS IC decision not to add this matter to its standard-setting agenda.

Appendix 2

Hedge accounting with load following swaps (IFRS 9 Financial Instruments and IAS 39 Financial Instruments – Recognition and Measurement)—Agenda Paper 9

We agree with the tentative IFRS IC decision not to add this matter to its standard-setting agenda.

Appendix 3

Classification of short-term loans and credit facilities (IAS 7 Statement of Cash Flows)—Agenda Paper 6

We agree with the decision made by the Committee not to add this matter to its standard-setting agenda. Nevertheless, we have some reservations regarding the emphasis given to the criterion “repayable on demand” in the Tentative Agenda Decision.

We agree that a banking arrangement that does not often fluctuate from being negative to positive, or that is negative most of the time, represents a form of financing rather than a cash management tool.

Under bank overdraft agreements, the balance of the bank account usually either fluctuate often from being positive to negative, or is negative only punctually. In that sense, those agreements are obviously an integral part of an entity’s cash management.

These agreements usually provide the entity with an authorization for a negative balance, for a limited period. Usually, the balance can be negative only during a specified (short) period. But as long as the entity meets the specific conditions of the bank overdraft agreement, the bank cannot ask for immediate reimbursement of the negative balance. It can only ask for a reimbursement within a time limit corresponding to the maximum number of authorized consecutive days of negative balance. Although that period is usually short, we believe these agreement will not meet the “repayable on demand” criterion of IAS 7.8 if the IFRS Interpretations Committee confirms its Tentative Agenda Decision.

Indeed, under the fact pattern in the Agenda Decision, a short contractual notice period of 14 days prevents the credit facility from being “repayable on demand”, and the way it is drafted let us think that the answer would be the same with an even shorter notice period. We strongly believe that a short notice period should not prevent an agreement from being considered as “repayable on demand”, so that bank overdrafts that form integral part of an entity’s cash management can be considered as negative cash and cash equivalent.

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IFRS Interpretations Committee
30 Cannon Street
London EC4M 6XH
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ifric@ifrs.org

29 May 2018

Re: IFRS Interpretations Committee tentative agenda decisions published in the March 2018 IFRIC Update

Dear Ms Lloyd,

We are pleased to have the opportunity to provide our comments on the IFRS Interpretations Committee (“the Committee”) tentative agenda decisions included in the March 2018 IFRIC Update.

Our comments refer to the following issues:

- *IFRS 9 Financial Instruments — Classification of a particular type of dual currency bond (“Issue 1”);*
- *IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement — Application of the highly probable requirement when a specific derivative is designated as a hedging instrument (“Issue 2”);*
- *IAS 7 Cash Flow Statement – Classification of short-term loans and credit facilities (“Issue 3”).*

We support the approach followed by the Committee on Issue 1 and Issue 2. We agree with the Committee’s decision not to add these matters to its standard-setting agenda, because both issues are not widespread. As mentioned in our previous comment letters¹, we think that the Committee should not discuss the application of IFRS Standards to fact patterns that are not widespread.

With regard to the issue 3, we broadly agree with the technical analysis included in the tentative agenda decision. However, we think that this submission shows that the concept of “cash equivalents” is too judgmental and thus it might need some clarifications.

Should you need any further information, please do not hesitate to contact us.

Yours sincerely,
Angelo Casò
(Chairman)

¹ Please see our comment letters on the September 2017 IFRIC Update and the November 2017 IFRIC Update

22 May 2018

IFRS Interpretations Committee
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Comments on the Tentative Agenda Decision Relating to
IFRS 9 *Financial Instruments* —
Classification of a particular type of dual currency bond

1. The Accounting Standards Board of Japan (the “ASBJ” or “we”) welcomes the opportunity to comment on the IFRS Interpretation Committee’s (the “Committee”) tentative agenda decision relating to IFRS 9 *Financial Instruments* — Classification of a particular type of dual currency bond in the March 2018 IFRIC Update.
2. We support the Committee’s tentative agenda decision that the Committee should not add this issue to its standard-setting agenda when the issue is viewed as one limited to the classification of a particular type of dual currency bond, as described in the submission.
3. However, we are of the view that this issue could be viewed as one related to the determination of the unit of account for financial assets in assessing the SPPI criterion. Under this view, we think the scope of this would not be limited only to a particular type of dual currency bond but more broadly to financial assets.
4. Having said that, we do not have the information to determine whether the issue, viewed more broadly, is a significant issue. Accordingly, we recommend the IASB or the Committee conduct outreach from a wider perspective to assess whether or not the issue is significant enough to undertake further standard-setting activities.
5. When this issue is viewed as one related to the determination of the unit of account for financial assets in assessing the SPPI criterion, we are of the view that the issue

is likely to go beyond the scope to be covered by the Committee and thus should be considered by the IASB.

6. We also note that some concerns were raised in our jurisdiction regarding the difference between the level of detail in this tentative agenda decision and the level of detail in the three agenda decisions related to IFRS 15 that were finalised in the March 2018 IFRIC Update. Preparers noted that the contents in agenda decisions affect practice and, accordingly, if the Committee decides to include detailed analyses in agenda decision, sufficient explanation of why such detailed analyses were included should be provided.
7. We hope our comments are 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,

A handwritten signature in black ink, appearing to read 'Yukio Ono', with a stylized flourish at the end.

Yukio Ono
Chairman

Accounting Standards Board of Japan