The IFRS Interpretations Committee (Committee) received a submission regarding the requirement in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement that a forecast transaction must be ‘highly probable’ in order to qualify as a hedged item in a cash flow hedge relationship. In particular, the submitter describes a fact pattern in which a solar energy farm sells the energy it produces on the national energy market at the spot rate. Separately, the entity enters into a Load Following Swap with a third party to exchange variable market prices for electricity into fixed prices based on the actual volume of electricity produced by a solar energy farm. The entity designates the Load Following Swap as a hedging instrument in a cash flow hedge relationship, while designating its forecast sales of energy as the hedged items. According to the submitter, the nature of the Load Following Swap is such that the swap’s notional amount will always be based on the actual quantity of electricity that the entity sells on the national energy market.

The submission asked how an entity applies the highly probable requirement when the notional amount of the derivative designated as a hedging instrument (Load Following Swap) varies depending on the outcome of the hedged item. In addition, the submission asked whether, when assessing or measuring hedge effectiveness, the hedged item must be fixed (in volume terms) at the inception of the hedging
relationship, and whether the answers to these questions depend on whether the entity applies IAS 39 or IFRS 9.

3. In March 2018, the Committee published its tentative agenda decision. In that tentative agenda decision the Committee observed that, on the basis of the responses to outreach performed, the financial instrument described in the submission is not common. Therefore, the Committee observed it has not obtained evidence that the matter has widespread effect. Consequently, the Committee decided not to add the matter to its standard-setting agenda.

4. The objective of this paper is to:
   (a) analyse the comments received on the tentative agenda decision; and
   (b) ask the Committee if it agrees with our recommendation not to add the matter to its standard-setting agenda.

**Structure of the paper**

5. This paper includes:
   (a) Comment letters summary and staff analysis; and
   (b) Staff recommendation.

6. There are three appendices to this paper:
   (a) Appendix A – Proposed wording of the tentative agenda decision;
   (b) Appendix B – Relevant extracts from IAS 39 and IFRS 9; and
   (c) Appendix C – Comment letters.

**Comment letters summary and staff analysis**

7. We received five comment letters, reproduced in Appendix C to this paper.

8. Mazars, Petrobras and Organismo Italiano di Contabilità 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.
9. Deloitte agrees with the Committee’s decision not to add this matter to its standard-setting agenda. However, it asked the Committee to consider a broader question of whether, for a transaction to be highly probable, the transaction must be identified as a specified fixed amount.

10. PwC also agrees with the Committee’s decision not to add this matter to its standard-setting agenda. However, it observed that in some situations the uncertainty is over the magnitude of the forecast transaction, but not over whether the transaction will occur. In these situations, the highly probable requirement would be met provided the hedged item is designated in terms of all the output from the farm for a defined period that matches the life of the swap.

11. Further details about Deloitte’s and PwC’s comments, along with our analysis, are presented below.

**Highly probable requirement**

*Comments made by respondents*

12. Deloitte is concerned that the tentative agenda decision did not provide further guidance to preparers of financial statements and therefore could give rise to divergence in practice. Deloitte says there is a broader population of instruments with a contractual link to the transaction they are designed to hedge, which can become more common as markets develop. For example, deal contingent swaps that take effect only if a forecast business combination, with consideration denominated in a foreign currency, occurs. Hence, Deloitte asks the Committee to consider a broader question of whether, for a transaction to be highly probable, the transaction must be identified as a specified fixed amount.

13. PwC notes that, in the fact pattern described in the submission, variability in cash flows results from variability in the actual quantity of electricity produced by the underlying windfarm or solar energy farm (as well as from variability from the spot prices of electricity sold). PwC says, in practice, it is extremely unlikely that no electricity will be produced since this would require either no wind/no sun or a complete operational failure of the farm for the entire life of the swap. Hence, according to PwC, it is usually clear that some quantity of electricity is highly
probable – the uncertainty is over how much. In other words, the uncertainty is over the magnitude of the forecast transaction, but not over whether it will occur. PwC says that, provided the hedged item is designated in terms of all the output from the farm for a defined period that matches the life of the swap, the highly probable test will be met.

14. PwC says the fact pattern described in the submission would be different from other cases where there is significant uncertainty over whether the forecast transaction will occur at all, whilst its magnitude (if the transaction does occur) may be known or subject to little variability. To illustrate, PwC mentions a hedge of the foreign currency risk of a forecast business combination that may or may not happen. PwC says these forecast transactions raise a conceptually different question in particular in those cases where the occurrence of the transaction is not highly probable. PwC is of the view that, if hedge accounting were to be permitted for such transactions (ie transactions that are not highly probable), an amendment to IAS 39 / IFRS 9 would be required, removing the need for a hedged forecast transaction to be highly probable.

Staff analysis

15. As explained above, all five respondents agree with the Committee’s decision not to add this matter to its standard-setting agenda, since the derivative instrument described in the submission is not common and thus the matter is not widespread.

16. However, some comment letters have identified another question, which could have implications in practice. The question is related to how uncertainty over timing and magnitude would affect the highly probable assessment applying IAS 39 and IFRS 9.

17. The highly probable requirement is not a new concept introduced by IFRS 9; it has been carried forward unchanged from IAS 39.\(^1\) Furthermore, while the Board decided not to carry forward any of the hedge accounting related Implementation Guidance that accompanied IAS 39, paragraph BC6.95 of the Basis for Conclusions of IFRS 9

\(^1\) Paragraph 6.3.3 of IFRS 9 and paragraph 88(c) of IAS 39 state that a forecast transaction designated as a hedged item must be highly probable. More specifically, paragraph 6.3.3 of IFRS 9 states that ‘if a hedged item is a forecast transaction, that transaction must be highly probable’, whereas paragraph 88(c) of IAS 39 states that ‘a forecast transaction that is the subject of the hedge must be highly probable’.
emphasises that not carrying forward the Implementation Guidance did not mean that the Board had rejected that guidance.

18. Although IFRS 9 and IAS 39 do not specify a method for assessing whether a forecast transaction is highly probable, paragraph F.3.7 of the Implementation Guidance accompanying IAS 39 (see Appendix B) provides further guidance on how to interpret ‘highly probable’. In particular, in assessing the likelihood that a transaction will occur, it states that an entity should consider the following circumstances:

(a) the frequency of similar past transactions;
(b) the financial and operational ability of the entity to carry out the transaction;
(c) substantial commitments of resources to a particular activity (for example, a manufacturing facility that can be used in the short run only to process a particular type of commodity);
(d) the extent of loss or disruption of operations that could result if the transaction does not occur;
(e) the likelihood that transactions with substantially different characteristics might be used to achieve the same business purpose (for example, an entity that intends to raise cash may have several ways of doing so, ranging from a short-term bank loan to an offering of ordinary shares); and
(f) the entity's business plan.

The length of time until a forecast transaction is projected to occur is also a factor in determining probability. Other factors being equal, the more distant a forecast transaction is, the less likely it is that the transaction would be regarded as highly probable and the stronger the evidence that would be needed to support an assertion that it is highly probable.

For example, a transaction forecast to occur in five years may be less likely to occur than a transaction forecast to occur in one year. However, forecast interest payments for the next 20 years on variable rate debt would typically be highly probable if supported by an existing contractual obligation.
In addition, other factors being equal, the greater the physical quantity or future value of a forecast transaction in proportion to the entity’s transactions of the same nature, the less likely it is that the transaction would be regarded as highly probable and the stronger the evidence that would be required to support an assertion that it is highly probable. For example, less evidence generally would be needed to support forecast sales of 100,000 units in the next month than 950,000 units in that month when recent sales have averaged 950,000 units per month for the past three months.

A history of having designated hedges of forecast transactions and then determining that the forecast transactions are no longer expected to occur would call into question both an entity’s ability to predict forecast transactions accurately and the propriety of using hedge accounting in the future for similar forecast transactions.

19. In addition, in documenting when a forecast transaction is expected to occur, paragraph F.3.11 of the Implementation Guidance accompanying IAS 39 states that:

   [...] an entity is not required to predict and document the exact date a forecast transaction is expected to occur. However, it is required to identify and document the time period during which the forecast transaction is expected to occur within a reasonably specific and generally narrow range of time from a most probable date, as a basis for assessing hedge effectiveness.

20. Based on the above, when assessing the likelihood that a transaction will occur, an entity considers uncertainty over both the magnitude and timing of a forecast transaction. For example, an entity takes into account the magnitude of the forecast transaction when considering the frequency of similar past transactions, the financial and operational ability of the entity to carry out the transaction, the entity’s business plan and the proportion to the entity’s transactions of the same nature. In addition, because timing also affects the determination of probability, paragraphs F.3.7 and F.3.11 of the Implementation Guidance accompanying IAS 39 states that an entity considers the length of time until a forecast transaction is projected to occur.
21. Furthermore, the staff highlight that a specific contractual term of a specific hedging instrument (e.g., a derivative notional amount that varies depending on the outcome of the hedged item) does not affect the assessment of whether a forecast transaction is highly probable. As stated in paragraph 6.3.3 of IFRS 9, the highly probable requirement is applicable to forecast transactions designated as hedged items. Therefore, the staff is of the view that the specific characteristics of a hedging instrument does not affect the assessment of whether the forecast transaction is highly probable. The staff note that this specifically addresses the assessment of whether a forecast transaction is highly probable; it does not address other hedge accounting requirements, such as the assessment of hedge effectiveness.

22. Finally, in identifying a forecast transaction, paragraph F.3.10 of the Implementation Guidance accompanying IAS 39 states that:

   The hedged forecast transaction must be identified and documented with sufficient specificity so that when the transaction occurs, it is clear whether the transaction is or is not the hedged transaction. Therefore, a forecast transaction may be identified as the sale of the first 15,000 units of a specific product during a specified three-month period, but it could not be identified as the last 15,000 units of that product sold during a three-month period because the last 15,000 units cannot be identified when they are sold. For the same reason, a forecast transaction cannot be specified solely as a percentage of sales or purchases during a period.

23. Based on the above, when an entity designs a forecast transaction in a hedge accounting relationship, the entity must identify and document a forecast transaction with sufficient specificity so that when the transaction occurs, the entity is able to determine whether the transaction is the hedged transaction. Also based on the Implementation Guidance reproduced in paragraph 22 of this paper, a forecast transaction cannot be specified solely as a percentage of sales or purchases (i.e., 100% of the sales during a period), because that would lack the required specificity.

24. The staff highlight that the conclusions discussed in this paper apply equally to both IAS 39 and IFRS 9 for the reasons as noted in paragraph 17 of this paper. To avoid
potential diversity in practice from developing, we recommend updating the tentative agenda decision in this respect.

Staff recommendation

25. Based on our analysis, we recommend updating the tentative agenda decision published in IFRIC Update in March 2018. Although developed in response to comments received, the new content proposed for inclusion in the agenda decision addresses a broader matter than that originally discussed in the tentative agenda decision published in March 2018. Consequently, we recommend publishing a new tentative agenda decision to provide stakeholders with an opportunity to comment on that broader matter. Appendix A to this paper sets out the proposed wording of the new tentative agenda decision.

Question for the Committee

1. Does the Committee have any comments on the proposed wording of the new tentative agenda decision set out in Appendix A to this paper?
Appendix A — Proposed wording of the tentative agenda decision

A1. We propose the following wording for the tentative agenda decision, which is unchanged from the tentative agenda decision published in IFRIC Update in March 2018, except to include new wording in response to the comment letters received (the new wording is underlined).

<table>
<thead>
<tr>
<th>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</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Committee received a request regarding the requirement in IFRS 9 and IAS 39 that a forecast transaction must be ‘highly probable’ in order to qualify as a hedged item in a cash flow hedge relationship. The request asked how an entity applies that requirement when the notional amount of the derivative designated as a hedging instrument (‘Load Following Swap’) varies depending on the outcome of the hedged item. In addition, the request asked whether, when assessing or measuring hedge effectiveness, the hedged item must be fixed (in volume terms) at the inception of the hedging relationship, and whether the answers to these questions depend on whether the entity applies IAS 39 or IFRS 9.</td>
</tr>
<tr>
<td>On the basis of the responses to outreach performed on the request and the comment letters received, 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 or is expected to have a material effect on those affected.</td>
</tr>
<tr>
<td>In addition, the comment letters identified another question in respect of how uncertainty over the timing and magnitude of a forecast transaction affects the ‘highly probable’ assessment applying IAS 39 and IFRS 9. The Committee observed that, when assessing the likelihood that a transaction will occur, paragraph F.3.7 of the Implementation Guidance accompanying IAS 39 states that an entity considers uncertainty over both the timing and magnitude of a forecast transaction. The Committee also observed that the terms of a hedging instrument do not affect the assessment of whether a forecast transaction is highly probable.</td>
</tr>
</tbody>
</table>
The Committee concluded that the requirements in IAS 39 and IFRS 9 provide an adequate basis for an entity to determine whether a forecast transaction is highly probable.

Consequently, the Committee [decided] not to add this matter to its standard-setting agenda.
Appendix B — Relevant extracts from IAS 39 and IFRS 9

B1. Paragraph F.3.7 of the Implementation Guidance accompanying IAS 39 states:

F.3.7 Hedge accounting: forecast transaction

For cash flow hedges, a forecast transaction that is subject to a hedge must be ‘highly probable’. How should the term ‘highly probable’ be interpreted?

The term ‘highly probable’ indicates a much greater likelihood of happening than the term ‘more likely than not’. An assessment of the likelihood that a forecast transaction will take place is not based solely on management’s intentions because intentions are not verifiable. A transaction’s probability should be supported by observable facts and the attendant circumstances.

In assessing the likelihood that a transaction will occur, an entity should consider the following circumstances:

(a) the frequency of similar past transactions;

(b) the financial and operational ability of the entity to carry out the transaction;

(c) substantial commitments of resources to a particular activity (for example, a manufacturing facility that can be used in the short run only to process a particular type of commodity);

(d) the extent of loss or disruption of operations that could result if the transaction does not occur;

(e) the likelihood that transactions with substantially different characteristics might be used to achieve the same business purpose (for example, an entity that intends to raise cash may have several ways of doing so, ranging from a short-term bank loan to an offering of ordinary shares); and

(f) the entity’s business plan.

The length of time until a forecast transaction is projected to occur is also a factor in determining probability. Other factors being equal, the more distant a forecast transaction is, the less likely it is that the transaction would be regarded as highly
probable and the stronger the evidence that would be needed to support an assertion that it is highly probable.

For example, a transaction forecast to occur in five years may be less likely to occur than a transaction forecast to occur in one year. However, forecast interest payments for the next 20 years on variable rate debt would typically be highly probable if supported by an existing contractual obligation.

In addition, other factors being equal, the greater the physical quantity or future value of a forecast transaction in proportion to the entity's transactions of the same nature, the less likely it is that the transaction would be regarded as highly probable and the stronger the evidence that would be required to support an assertion that it is highly probable. For example, less evidence generally would be needed to support forecast sales of 100,000 units in the next month than 950,000 units in that month when recent sales have averaged 950,000 units per month for the past three months.

A history of having designated hedges of forecast transactions and then determining that the forecast transactions are no longer expected to occur would call into question both an entity's ability to predict forecast transactions accurately and the propriety of using hedge accounting in the future for similar forecast transactions.

B2. Paragraph F.3.10 of the Implementation Guidance accompanying IAS 39 states:

F.3.10 Hedge accounting: identification of hedged forecast transaction

Can a forecast transaction be identified as the purchase or sale of the last 15,000 units of a product in a specified period or as a percentage of purchases or sales during a specified period?

No. The hedged forecast transaction must be identified and documented with sufficient specificity so that when the transaction occurs, it is clear whether the transaction is or is not the hedged transaction. Therefore, a forecast transaction may be identified as the sale of the first 15,000 units of a specific
product during a specified three-month period, but it could not be identified as the last 15,000 units of that product sold during a three-month period because the last 15,000 units cannot be identified when they are sold. For the same reason, a forecast transaction cannot be specified solely as a percentage of sales or purchases during a period.

B3. Paragraph F.3.11 of the Implementation Guidance accompanying IAS 39 states:

F.3.11 Cash flow hedge: documentation of timing of forecast transaction

For a hedge of a forecast transaction, should the documentation of the hedge relationship that is established at inception of the hedge identify the date when, or time period in which, the forecast transaction is expected to occur?

Yes. To qualify for hedge accounting, the hedge must relate to a specific identified and designated risk (IAS 39.AG110) and it must be possible to measure its effectiveness reliably (IAS 39.88(d)). Also, the hedged forecast transaction must be highly probable (IAS 39.88(c)). To meet these criteria, an entity is not required to predict and document the exact date a forecast transaction is expected to occur. However, it is required to identify and document the time period during which the forecast transaction is expected to occur within a reasonably specific and generally narrow range of time from a most probable date, as a basis for assessing hedge effectiveness. To determine that the hedge will be highly effective in accordance with IAS 39.88(d), it is necessary to ensure that changes in the fair value of the expected cash flows are offset by changes in the fair value of the hedging instrument and this test may be met only if the timing of the cash flows occur within close proximity to each other. If the forecast transaction is no longer expected to occur, hedge accounting is discontinued in accordance with IAS 39.101(c).
B4. Paragraph 72 of IAS 39 states:

This Standard does not restrict the circumstances in which a derivative may be designated as a hedging instrument provided the conditions in paragraph 88 are met, except for some written options (see Appendix A paragraph AG94). […]

B5. Paragraph 78 of IAS 39 states:

A hedged item can be a recognised asset or liability, an unrecognised firm commitment, a highly probable forecast transaction or a net investment in a foreign operation.

B6. Paragraph 88 of IAS 39 states:

A hedging relationship qualifies for hedge accounting under paragraphs 89–102 if, and only if, all the following conditions are met.

[…] 

(c) For cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss.

B7. Paragraph 6.3.3 of IFRS 9 states:

If a hedged item is a forecast transaction (or a component thereof), that transaction must be highly probable.
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: Hedge accounting with load following swaps

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 application of the ‘highly probable’ criterion for cash flow hedge accounting applies to a hedge relationship in which the notional amount of the hedging instrument (a ‘load following swap’) varies depending on the outcome of the hedged transaction.

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.

Load following swaps in particular may not be in common use across the world (although they are increasingly common in certain industries in certain jurisdictions), but there is a broader population of instruments with a contractual link to the transaction they are designed to hedge (for example, deal contingent swaps that take effect only if an uncertain transaction occurs). Such instruments are common when hedging the foreign currency risk of a forecast business combination with consideration denominated in a foreign currency. These can only be expected to become more common as markets develop, as by avoiding any potential mismatch between, for example, the notional of a derivative and the notional of a hedged transaction that can be subject to change they can be (economically) very attractive hedging instruments for risks such as the price of crops harvested in the future (so, for which the volume is inherently uncertain).

We believe the basis for determining the highly probable criteria in the case where the notional of the hedging instrument may vary, which examples include load following swaps and deal-contingent forwards, would benefit from clarification. Rather than the focus on one example over the other, the Committee could consider the simpler question of whether for a transaction to be highly probable it must be identified as a specified fixed amount. We believe guidance on how (if at all) the hedge accounting requirements of IFRS 9 cater for such a hedge designation is necessary to help guide practice in this developing area.

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
Dear Sue

Tentative agenda decision – IFRS 9 Financial Instruments and IAS 39 Financial Instruments recognition and measurement: Hedge accounting with load following swaps

We are commenting on the above tentative agenda decision, published in the March 2018 edition of IFRIC Update, on behalf of PricewaterhouseCoopers.

The tentative decision states that the IC observed that the financial instrument described in the request is not common, and that the IC has not obtained evidence that the matter has widespread effect. Consequently, the Committee [decided] not to add this matter to its standard-setting agenda.

We agree with the IC’s observation that the fact pattern described in the request (a hedge of output from a wind or solar farm with a Load Following Swap) is currently not common. However, we are aware that some have commented that the submission raises broader questions that apply in a wider range of situations and have suggested it could be useful for the IC to address these broader matters. We address this suggestion below.

First we note that the ‘highly probable’ criterion for a forecast transaction to qualify as the subject of a cash flow hedge is not a new concept introduced by IFRS 9. Rather, this criterion is already required by para 88(c) of IAS 39 and has been carried forward into IFRS 9 unchanged. Hence, unlike some other questions that the IC has been asked to address, the issues raised in the submission do not arise from the adoption of new requirements.

In the fact pattern presented in the submission, variability in cash flows results from variability in the actual quantity of electricity produced by the underlying windfarm or solar energy farm (as well as from variability from the spot prices of electricity sold). In practice, it is extremely unlikely that no electricity will be produced since this would require either no wind/no sun or a complete operational failure of the farm for the entire life of the swap (that is usually many years). Hence, it is usually clear that some quantity of electricity is highly probable — the uncertainty is over how much. Put another way, the uncertainty is over the magnitude of the forecast transaction, but not over whether it will occur. Provided the hedged item is designated in terms of all of the output from the farm for a defined period that matches the life of the swap, the highly probable test will be met.

We think this fact pattern is different from other cases we have seen where the underlying of a derivative mirrors the transaction being hedged. In these other cases there may be significant uncertainty over whether the forecast transaction will occur at all, whilst its magnitude (if it does
occur) may be known or subject to little variability – i.e. the outcome is ‘all or nothing’. Two examples of this type of transaction are

- a hedge of the foreign currency risk of a forecast business combination that may or may not happen; and
- a hedge of the foreign currency risk of forecast cash inflows from a construction or supply contract that the entity is bidding for, given that the bid may be won or lost.

Entities may hedge such transactions with ‘deal contingent’ derivatives that cease to exist if the hedged transaction does not materialise (e.g. if the hedged business combination does not happen or the entity loses its bid for the hedged contract). We believe these forecast transactions raise a conceptually different question in particular in those cases where the occurrence of the transaction is not highly probable. While the hedging instrument is a near perfect hedge of the entity's exposure to the hedged risk we believe an amendment to the standard would be required, removing the need for a hedged forecast transaction to be highly probable, if hedge accounting were to be permitted for such transactions. This would be a fundamental change to IAS 39/IFRS 9 that we think is beyond the remit of the Interpretations Committee.

For the reasons set out above we therefore agree with the Interpretations Committee’s decision not to add this issue onto its agenda.

If you have any questions in relation to this letter please do not hesitate to contact Henry Daubeney, PwC Head of Reporting and Chief Accountant (+44 7841 569635), or Sandra Thompson (+44 7921 106900).

Yours sincerely

[Signature]

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

Subject: Tentative agenda decision – Hedge accounting with load following swaps (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 - Application of the highly probable requirement when a specific derivative is designated as a hedging instrument. 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
Dear Sue,

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

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 2


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

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