
IFRS[®] Interpretations Committee meeting

Date **September 2023**
Project **Guarantee over a Derivative Contract (IFRS 9)**
Topic **Comment letters on tentative agenda decision**
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Introduction

1. The IFRS Interpretations Committee (Committee) published a tentative agenda decision in March 2023 in response to a submission asking whether, in applying IFRS 9 *Financial Instruments*, an entity accounts for a guarantee over a derivative contract as a financial guarantee contract or a derivative. Specifically, the submission asked about the accounting for the guarantee by the entity writing the guarantee (the issuer).
2. The objectives of this paper are to:
 - (a) summarise the submission and the Committee's previous discussion;
 - (b) analyse comments received on the tentative agenda decision, and
 - (c) ask the Committee whether it agrees with the staff recommendation to finalise the agenda decision.
3. This paper also includes [Appendix A—Proposed wording of the agenda decision](#).

Summary of the submission

4. The request described a guarantee written over a derivative contract between two third parties. Such a guarantee would reimburse the holder of the guarantee for the actual loss incurred—up to the close-out amount—in the event of default by the other party. The close-out amount is determined based on a valuation of the remaining contractual cash flows of the derivative prior to default.

5. Based on evidence gathered, the Committee concluded that the matter described in the request does not have widespread effects and it does not have (and nor is it expected to have) a material effect on those affected. Consequently, the Committee tentatively decided not to add a standard-setting project to the work plan.

Comment letter analysis

6. We received six comment letters on the tentative agenda decision by the comment letter deadline of which two are from large accounting firms, and the other four are from national standard-setters. These are reproduced in Agenda Paper 5A and are also available on our [website](#). At the date of posting this paper, no late comment letters were received.
7. All six respondents agree with the Committee's decision not to add a standard-setting project onto its work plan for the reasons set out in the tentative agenda decision.

Staff recommendation

8. Based on our analysis of the comment letter feedback, we recommend that the Committee finalise the tentative agenda decision as published in the IFRIC *Update* in March 2023. Appendix A to this paper sets out the proposed wording for the final agenda decision.

Question for the Committee

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

Appendix A—Proposed wording of the agenda decision

Guarantee over a Derivative Contract (IFRS 9 *Financial Instruments*)

The Committee received a request about whether, in applying IFRS 9, an entity accounts for a guarantee written over a derivative contract as a financial guarantee contract or a derivative.

The request described a guarantee written over a derivative contract between two third parties. Such a guarantee would reimburse the holder of the guarantee for the actual loss incurred—up to the close-out amount—in the event of default by the other party. The close-out amount is determined based on a valuation of the remaining contractual cash flows of the derivative prior to default.

Findings

Evidence gathered by the Committee indicated that the matters described in the request are not widespread, and that when the matters do arise, the amounts involved are not material.

Conclusion

Based on its findings, the Committee concluded that the matter described in the request does not have widespread effects and it does not have (and nor is it expected to have) a material effect on those affected. Consequently, the Committee {decided} not to add a standard-setting project to the work plan.