STAFF PAPER

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Project	TLTRO III Transactions (IFRS 9 and IAS 20)	
Paper topic	Comment letters on tentative agenda decision	
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Introduction

1. In June 2021, the IFRS Interpretations Committee (Committee) published a tentative agenda decision in response to a request about accounting for the European Central Bank (ECB)'s Targeted Longer-Term Refinancing Operations (TLTRO). These operations provide financing to banks with the objective of stimulating lending to the bank's customers. The amount that banks can borrow through the programme and the interest rate applicable to each TLTRO tranche is linked to the volume and amount of loans made to non-financial corporations and households.

2. The submitter identified diversity in the application of the requirements in IFRS 9 *Financial Instruments* and IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* in relation to the accounting for TLTRO transactions by banks. The request asked:

   (a) whether the TLTRO III tranches represent loans with a below-market interest rate and, if so, whether the borrowing bank is required to apply IFRS 9 or IAS 20 to account for the benefit of the below-market interest rate;

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(b) if the bank applies IAS 20 to account for the benefit of the below-market interest rate:

i. how it assesses in which period(s) it recognises that benefit; and

ii. whether, for the purpose of presentation, the bank adds the amount of the benefit to the carrying amount of the TLTRO liability;

(c) how the bank calculates the applicable effective interest rate;

(d) whether the bank applies paragraph B5.4.6 of IFRS 9 to account for changes in estimated cash flows resulting from the revised assessment of whether the conditions attached to the liability have been met; and

(e) how the bank accounts for changes in cash flows related to the prior period that result from the bank's lending behaviour or from changes the ECB makes to the TLTRO III conditions.

3. In analysing the submission, the Committee observed that IFRS 9 is the starting point for the borrowing bank to determine its accounting for TLTRO III transactions because each financial liability arising from the bank's participation in a TLTRO III tranche is within the scope of IFRS 9.

4. With respect to whether the TLTRO III tranches contain a government grant as defined in IAS 20, the Committee observed the following:

(a) TLTRO III tranches would contain a government grant in the scope of IAS 20 only if it were determined that:

(i) the ECB meets the definition of government in IAS 20;

(ii) the interest rate charged on the TLTRO III tranches is a below-market interest rate; and

(iii) the TLTRO III transactions with the ECB are distinguishable from the borrowing bank's normal trading transactions.

(b) making the determinations in (a) require judgement based on the specific facts and circumstances and, therefore, the Committee is not in a position to conclude on whether the TLTRO III tranches contain a government grant in the scope of IAS 20.

(c) judgement may also be required to identify the related costs, if any, for which the grants are intended to compensate.

5. The Committee concluded that if the TLTRO III tranches contain a government grant in the scope of IAS 20, the requirements in IAS 20 provide an adequate basis for the bank to determine how to account for that government grant.

6. With respect to calculating the effective interest rate for a TLTRO III tranche on initial recognition, the Committee noted that a question arises as to what to consider in estimating the expected future cash flows and, specifically, whether the expected future cash flows reflect an assessment of whether the bank will satisfy the conditions attached to the liability.

7. The Committee noted that paragraph B5.4.5 of IFRS 9 applies to floating-rate financial liabilities, ie to a financial instrument with variable contractual cash flows—which can periodically be adjusted to reflect movements in the market rates of interest.

8. The Committee also observed that a floating-rate financial instrument may consist of a variable interest rate element, which is reset to reflect movements in the market rates of interest plus or minus other elements, which are fixed and therefore not reset to reflect movements in the market rates of interest

9. The Committee also considered the application of paragraph B5.4.6 of IFRS 9 to financial liabilities and concluded that the application of paragraph B5.4.6 depends on a bank's estimate of expected future cash flows in calculating the effective interest rate on initial recognition of the financial liability. This is because, applying paragraph B5.4.6, the original effective interest rate is used to discount the revised estimated contractual cash flows.

10. The Committee observed that the question as to what to consider in estimating the expected future cash flows and, specifically, whether the expected future cash flows reflect an assessment of whether the bank will satisfy the conditions attached to the liability is part of a broader matter, which it should not analyse solely in the context of TLTRO III tranches. The Committee is therefore of the view that this matter should be considered as part of the post-implementation review of the classification and

measurement requirements in IFRS 9, together with similar matters already identified in the first phase of that review.

11. Consequently, the Committee tentatively decided not to add a standard-setting project on these matters to the work plan and, instead, published the tentative agenda decision.

12. The objectives of this paper are to:

    (a) provide a summary and analyse comments on the tentative agenda decision (paragraphs 15 to 87) and

    (b) ask the Committee whether it agrees with our recommendation to finalise the agenda decision (paragraph 88).

13. Appendix A to this paper contains the proposed wording of the agenda decision.

14. Agenda Paper 5A for this meeting reproduces the comment letters.

Comment letter summary

15. We received 15 comment letters by the comment letter deadline. All comments received, including any late comment letters, are available on our website.[1] This agenda paper includes analysis of only the comment letters received by the comment letter deadline, which are reproduced in Agenda Paper 5A.

Comments related to IAS 20

16. With respect to whether TLTRO III tranches contain a government grant in the scope of IAS 20, some respondents largely supported the Committee's position in the tentative agenda decision (TAD). These respondents agreed with the Committee's conclusion that judgement is required based on facts and circumstances and the requirements in IAS 20 provide an adequate basis for an entity to determine how to account for the government grant if it concludes that there is a grant. A few of these respondents specifically agreed that the Committee is not in a position to conclude on

[1] At the date of posting this agenda paper, there were two late comment letters.

whether the ECB meets the definition of government in IAS 20 or should not be addressing such complex individual transactions.

17. However, some other respondents said to reduce diversity in the application of IFRS 9 and IAS 20, it would be helpful for the Committee to provide more clarity about the applicability of IAS 20 to TLTRO III transactions. In particular, they suggested further explanation of:

    (a) how to determine whether a central bank or other similar body meets the definition of government in IAS 20; and

    (b) whether the interest rates on TLTRO III loans represent a below-market rate.

18. Some respondents also questioned whether, and if so how, subsequent changes in cash flow estimates affect the identification and accounting for a government grant applying IAS 20. They were concerned about the application of paragraph 10A in isolation when conditions have to be met for an entity to be eligible for the below-market rate of interest, ie if contingent rates indexed to specific performance targets result in a grant with a variable amount. This is because they disagree with a reading of IAS 20 that implies an entity can identify and recognise a government grant associated with a loan at a below-market rate only at initial recognition of the loan.

Comments related to the effective interest method

19. With respect to the application of the effective interest method to TLTRO III transactions, most respondents said in order to determine the effective interest rate of a TLTRO III transaction, an entity needs to assess whether the instrument has a floating or fixed rate. In this regard, respondents said an entity has to take into consideration that:

    (a) the ECB is the market maker that can unilaterally change the rate or could have set an 'all-in' rate from the outset. As a consequence, the contractual provisions of the instrument or subsequent changes are not that relevant when assessing whether the instrument's contractual interest rate is a floating rate. They therefore consider the interest rate of a TLTRO III transaction to be a floating rate that is periodically reset to reflect movements in the market rate

of interest, changes of which an entity would account for applying paragraph B5.4.5 of IFRS 9.

(b) subsequent revisions of estimated contractual cash flows depend on an entity's assessment of meeting lending thresholds, which at least two respondents would account for applying paragraph B5.4.6 of IFRS 9. They said if the Committee did not specifically deal with how to treat these entity-specific changes in expectations, it would imply that there is room for interpretation.

20. Only a few respondents commented on how to treat conditions attached to the interest rate when determining the effective interest rate at initial recognition of the financial liability. Those respondents said an entity has to assess whether it will reach the lending threshold over the life the loan. However, they requested further clarity about how to consider such an assessment when determining the effective interest rate.

21. Most respondents implicitly agreed that the methodology applied at initial recognition is relevant for subsequent measurement.

22. Further details about the matters raised by respondents, together with our analysis, are presented below.

Staff Analysis

23. We have separately analysed comments related to the application of:

(a) IAS 20 to TLTRO III tranches (paragraphs 24 to 58); and

(b) the effective interest method (paragraphs 59 to 87).

Application of IAS 20

Clarity about the applicability of IAS 20

Respondents' comments

24. Some respondents (ESMA, IOSCO, David Hardidge, KPMG, EY) asked the Committee to explain or describe the factors that are relevant to determining whether a central bank or other similar body meets the definition of government in IAS 20 (paragraph 28 of this paper reproduces that definition). Without doing so, they said

differences in accounting practice will continue and entities could come to different conclusions as to whether the ECB is, or is not, government (as defined in IAS 20). Some of these respondents said there is a single set of specific facts available to all banks to assess whether the ECB is government (as defined in IAS 20).

25. In addition, EY said the interpretation of 'similar bodies' is of great importance, not just within the context of TLTRO III. They said in many cases, widespread efforts to provide economic and fiscal support—whether to combat the effects of the COVID-19 pandemic or for other reasons—are co-ordinated by public agencies that act on behalf of government in distributing funding (eg international agencies that are not politically controlled by a single government). If the Committee concludes that it is unable to provide clarity about how to determine which 'similar bodies' are regarded as government, EY suggested that the Board address it. However, given the current volume of support measures internationally and locally, it would be helpful for the Committee to address the matter sooner than would be the case if deferred to a potential standard-setting project.

26. IOSCO said, in its view, the Committee should conclude on whether the interest rates on TLTRO III loans represent a below-market rate. On the one hand, some of their members said the ECB uses the TLTRO programme as part of its monetary policy objectives to set market rates and makes the same arrangements available to all qualifying institutions. Thus, because the ECB is the market-maker with respect to these arrangements, those members are of the view that the arrangements do not include below-market rates of interest as per IAS 20. Meanwhile, other members are of the view that the interest rate on TLTRO loans represents a below-market rate of interest when considering the adjustments for meeting specified lending thresholds and the basis points reduction linked to the Covid-19 pandemic. IOSCO members suggested that the Committee provide explanatory material on how to evaluate whether central bank programmes constitute below-market rates.

27. The Accounting Standards Board of the Institute of Chartered Accountants of India (the ICAI) said the TAD provides no clear conclusion on how the applicable principles and requirements in IFRS 9 and IAS 20 apply to TLTRO III transactions.

They said differences in accounting would be reduced if the TAD were to conclude on the applicability of IAS 20 to TLTRO III transactions.

Staff analysis

28. IAS 20 defines government as referring to 'government, government agencies and similar bodies whether local, national or international'. It contains no further requirements on the meaning of these terms. The Committee is therefore not in a position to provide further explanatory material that would go beyond its mandate in responding to questions about the application of the Standards. Agenda decisions include explanatory material that explains how the applicable principles and requirements in IFRS Standards apply to the transaction or fact pattern described in the agenda decision. Explanatory material cannot add or change requirements in IFRS Standards.

29. IAS 20 was originally issued in April 1983 with minor consequential amendments made by other IFRS Standards since then. Entities have therefore been applying judgement for many years in determining whether they have received a government grant, including determining whether the counterparty is government (as defined in IAS 20) and whether transactions are in the scope of the Standard.

30. As discussed by the Committee in June 2021, for TLTRO III tranches to contain a government grant within the scope of IAS 20, the following conditions apply:

    (a) it would need to be determined that the ECB meets the definition of government in IAS 20;

    (b) the interest rate charged on the TLTRO III tranches would need to be determined to be a below-market interest rate; and

    (c) TLTRO III transactions with the ECB would need to be distinguishable from the normal trading transactions of the entity.

31. The staff note that, for a loan to contain a government grant, *all* three conditions need to be satisfied. For example, if an entity determines that the interest rate on TLTRO III tranches is a market interest rate (or that the TLTRO III transactions are

not distinguishable from the entity's normal trading transactions), it would be irrelevant whether the ECB meets the definition of government in IAS 20.

32. The staff continue to be of the view that the Committee is not in a position to make the judgements required to determine whether the ECB meets the definition of government or whether the interest rate on the TLTRO III loans is below-market. In making these judgements, entities might consider a range of relevant facts and circumstances. For example, in determining whether the ECB meets the definition of government, an entity could consider the ECB's mandate, independence, accountability, governance and decision-making structures. Similarly, when determining whether the interest rate on an instrument is a market rate, the entity might consider the prevailing rate of interest for similar instruments (similar as to nature, credit rating, currency, term, type of interest rate and other factors). The staff would expect that, if the same set of facts and circumstances applies and is available to all eurozone financial institutions, entities applying their judgement appropriately would be expected to reach the same conclusions.

33. The staff therefore continue to agree with the Committee's conclusion that it is not in a position to conclude on whether TLTRO III tranches contain a government grant in the scope of IAS 20.

Recognition and measurement of a government grant

Respondents' comments

34. The accounting firms (PWC, Deloitte, KPMG and EY) disagree with a reading of IAS 20 that implies an entity recognises a government grant associated with a loan at a below-market rate only at initial recognition of the loan. They said the agenda decision would benefit from clarifying:

    (a) whether paragraph 10A of IAS 20 would permit an entity to recognise a grant at a later date when the requirements for initial recognition of a grant in paragraph 7 of IAS 20 are met (ie when reasonable assurance exists that the entity will meet the conditions attached to the grant and that the grant will be received);

    (b) that the identification of a government grant is not limited to initial recognition, especially when there is a modification of the TLTRO III terms

and conditions that does not lead to derecognition of drawn TLTRO III tranches;

(c) whether, and if so how, subsequent changes in cash flow estimates affect the identification and accounting for a government grant applying IAS 20; and

(d) that judgement is applied in determining the applicable paragraphs in IAS 20 for loans for which there is conditionality associated with the interest rate.

35. These respondents are concerned about the application of paragraph 10A in isolation or that the wording of the TAD may be read to imply that an entity cannot account for any government grant component identified after initial recognition of the loan applying IAS 20.

36. These respondents said the following with respect to the Committee's conclusions and wording in the TAD:

(a) the definition of a government grant in IAS 20 is not limited to amounts identified at initial recognition of a transaction; the transfer of resources may be in return for past or future compliance with certain conditions.

(b) an entity should subsequently update the measurement of a grant to include the full amount of the benefit it receives from the ECB.

(c) it can be argued that paragraph 10A of IAS 20 applies at a date after the loan is initially recognised, such as the date when the requirements for initial recognition of a grant (as required in paragraph 7 of IAS 20) are met.

(d) paragraph 10A of IAS 20 may be read to apply only to those loans for which, at initial recognition, there is certainty that the interest rate will be at a below market rate of interest.

(e) when there is conditionality associated with the interest rate, an entity could apply other paragraphs in IAS 20 to account for the grant component, for example the general requirements in paragraphs 3, 7, 12 and 20 of IAS 20.

(f) the probability of whether an institution will (or will not) meet the lending conditions in the TLTRO III scheme is an integral part of the fair value calculation.

(g) if an entity does not initially have reasonable assurance that it will comply with the conditions, it is unclear how the entity treats the difference between the fair value of the loan and the cash received for it at initial recognition and subsequently.

(h) when a government changes the terms and conditions of a loan issued at a market rate to an instrument that will bear interest at a below-market rate contingent upon the borrower meeting specified conditions, the government is providing assistance that meets the definition of a government grant in IAS 20. The assessment applying IFRS 9—as to whether the modification is substantial and results in derecognition—does therefore not affect whether the definition of a government grant in IAS 20 is met.

(i) judgement needs to be exercised in determining whether the subsequent reduction in interest or principal obligations is within the scope of IAS 20 or IFRS 9 using other paragraphs and the general definition of a government grant in IAS 20.

37. In addition, EY views the TLTRO III fact pattern as similar to a forgivable loan because, in its view, the potential benefit provided to an entity—should it meet the conditions—is akin to waiving interest cash payments that the entity would otherwise be obliged to make if it were subject to the MRO rate. EY said while the definition of a forgivable loan in IAS 20 refers to waiving repayment under certain prescribed conditions, the definition does not have to be read as referring to waivers of the principal amount only. EY also said the principle in paragraph 9 of IAS 20 applies, citing the example that an entity accounts for a grant in the same way whether it is received in cash or as a reduction of a liability to the government. If accrued interest is revised downwards due to an entity meeting the prescribed conditions, EY said this is a reduction in a liability.

38. The Autorité des Normes Comptables (ANC) (French Standard Setter), however, acknowledged the interaction between IAS 20 and IFRS 9 and that the joint application of these IFRS Standards gives rise to practical difficulties, most notably after initial recognition. However, it suggested no change to the scope of the agenda decision to consider additional aspects of this interaction. This is on the basis that any

significant changes would require specific analysis and exposure for comment. In addition, the ANC said such analysis would go beyond the request received.

39. Regarding costs, the World Savings and Retail Banking Group/European Savings and Retail Banking Group (WSBI/ESBG) said it is unclear what cost the grant is intended to compensate, given there are no binding restrictions on financial institutions in setting interest rates for customers.

Staff analysis

Relevant IFRS requirements

40. As noted by the Committee in June 2021, IFRS 9 is the starting point for a borrowing bank to determine its accounting for TLTRO III transactions. This is because the nature of the contractual arrangement between the ECB and the bank is that of a financial liability, ie the bank has a contractual obligation to repay the principal and interest on the loan at maturity. Therefore, if the TLTRO III transactions are regarded as bearing below-market interest rates, a bank considers whether IAS 20 applies to the difference between the fair value of the liability and its transaction price. However, the Committee noted that IAS 20 (if applicable) would apply only to the difference between the fair value of the financial liability at initial recognition and its transaction price because it is only this difference (the benefit) that is treated as a government grant. Paragraph 10A of IAS 20 confirms that an entity accounts for the financial liability itself as required by IFRS 9.

41. The staff note that IAS 20 specifically mentions two situations in which loans from the government are within its scope. The first relates to forgivable loans from the government (as referred to in paragraph 10 of IAS 20) which are defined as 'loans which the lender undertakes to waive repayment of under certain prescribed conditions'. In the staff's view, TLTRO III liabilities are not forgivable loans. The definition of a forgivable loan refers only to the waiver of the repayment of *the loan*, without mention of a portion of the loan or partial waiver.

42. Furthermore, based on the contractual terms of TLTRO III liabilities, interest is settled in arrears on maturity or early repayment—there is only one cash outflow on the instrument, which is determined by the ECB several days before maturity. The interest amount that is due will vary depending on the interest rate applied. However, interest based on the maximum MRO rate is not contractually due, therefore it cannot

be seen to be waived/forgiven if the bank pays less than the MRO rate on maturity or early repayment. Therefore, neither the principal nor the interest on the principal is waived.

43. The second situation that IAS 20 deals with is the benefit of a government loan at a below-market rate of interest. Paragraph 10A of IFRS 20 was added by *Improvements to IFRSs* issued in May 2008 to remove the inconsistency with IAS 39 *Financial Instruments: Recognition and Measurement*, which required that all loans be recognised at fair value, thus imputing interest on the loan. This amendment resulted in treating as a government grant the benefit of a government loan at a below-market rate of interest, which previously would not have been the case.

44. The application of paragraph 10A is therefore narrow and specific and, in our view, its scope is unrelated to the definition of a government grant in paragraph 3 of IAS 20. Paragraph 10A requires an entity to *treat* as a government grant the benefit of a government loan at a below-market rate of interest but does not say that benefit *is* a government grant. Paragraph 10A therefore describes *what* is treated as a government grant (the benefit of a government loan at a below-market rate of interest), and *when* and *how it is measured*.

45. The staff continues to agree with the Committee that IFRS 9 must be the starting point for the borrowing bank to determine its accounting for TLTRO III transactions because the financial liability arising from the bank's participation in the TLTRO III programme is in the scope of IFRS 9. The financial liability and what is treated as the government grant component must be *de-linked* because two different IFRS Standards apply to the different parts of the same transaction. Therefore, if an entity treats the difference between the fair value of the financial liability at initial recognition and its transaction price as a government grant, it is 'detached' from the financial liability and accounted for applying IAS 20, while IFRS 9 applies to the financial liability. For example, the entity would impute interest expense calculated using the effective interest method in IFRS 9 over the life of the loan while it would recognise the benefit

of the below-market rate government loan in profit or loss applying the requirements in IAS 20.

Initial recognition of the grant

46. Paragraph 7 of IAS 20 states that an entity does not recognise a government grant until there is reasonable assurance that it will comply with the conditions attached to the grant and that the grant will be received. Paragraph 12 of IAS 20 then states that an entity recognises a government grant in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grant is intended to compensate. Paragraph 20 of IAS 20 deals with government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving an entity immediate financial support with no future related costs—it requires an entity to recognise such government grants in profit or loss of the period in which it becomes receivable.

47. In the staff's view, paragraph 7 refers to the recognition of a grant in the statement of financial position, whereas paragraphs 12 and 20 applies to the recognition of a grant in profit or loss. The staff are also of the view that paragraphs 8-11 of IAS 20 provide further requirements on how to apply the principle set out in paragraph 7 of IAS 20. Paragraph 10A is therefore the more specific and relevant paragraph to apply when an entity recognises the benefit of a government loan at a below-market rate of interest—it specifically explains the timing of recognition and the measurement of that benefit. As noted above, the benefit of a government loan at a below-market rate of interest is *treated* as a government grant but is not defined as a government grant. We are therefore of the view that an entity applies the specific requirements on recognition and measurement in paragraph 10A to that benefit; an entity does not ignore or override the specific requirements in paragraph 10A and instead apply those in other paragraphs of IAS 20.

48. The staff agree with respondents that the fair value of a TLTRO III liability at initial recognition would include the probability of whether the entity will meet the lending and any other conditions of the TLTRO III programme. If an entity does not initially have reasonable assurance that it will comply with the conditions attached to the loan, then the fair value would reflect this expectation and the entity would not have a component to treat as a government grant at initial recognition. Said differently, if an

entity does not expect to qualify for a below-market rate of interest, the expected cash flows would reflect the market rate of interest and there would be no benefit that paragraph 10A of IAS 20 would require to be treated as a government grant.

49. However, the staff disagree with respondents that, in the case of a loan with a below-market rate of interest, an entity may recognise a government grant after initial recognition of the loan. This is because paragraph 10A of IAS 20 specifically refers only to the initial carrying value of the loan. Furthermore, unlike paragraphs B5.1.1 and B5.1.2A of IFRS 9 which apply at initial recognition of the loan, there are no requirements in IFRS 9 that refer to an assessment of whether changes in expected contractual cash flows subsequent to initial recognition are attributed to something other than the financial instrument. Therefore, if subsequent to initial recognition of the loan an entity assesses that there is reasonable assurance that it will comply with the conditions attached to the loan, this represents a change in expected cash flows on the loan to which the entity would apply the subsequent measurement requirements in IFRS 9.

Measurement of the grant

50. As discussed in paragraph 49 of this paper, paragraph 10A of IAS 20 requires an entity to measure the benefit of a below-market rate government loan at initial recognition as the difference between the initial carrying amount of the financial liability (fair value as required by paragraph 5.1.1 of IFRS 9) and the proceeds received. In explaining the requirements in paragraph 10A, paragraph BC4 of IAS 20 states that 'the benefit of a government loan with a below-market interest rate is measured at the inception of the loan as the difference between the cash received and the amount at which the loan is initially recognised in the statement of financial position'. IAS 20 does not discuss subsequent remeasurement of the benefit initially recognised because IFRS 9 applies to any changes in estimated cash flows including interest cash flows on the financial liability.

51. The staff therefore are of the view that, in the case of the TLTRO III tranches, an entity cannot subsequently remeasure the benefit of a below-market rate government loan to include the full transfer of resources to the entity. In response to respondents' comments that the definition of a government grant considers that the transfer of resources may be in return for past or future compliance with certain conditions, in

our view the definition is alluding to the recognition of the grant in profit or loss, and not to its subsequent measurement. This is consistent with the requirements in paragraphs 12 and 20 of IAS 20 discussed above.

Recognition of the benefit of a below-market rate government loan in profit or loss

52. As discussed in paragraph 47 of this paper, IAS 20 sets out how an entity recognises the amount of the benefit of a below-market rate government loan in profit or loss. The Committee observed in June 2021 that judgement may also be required to identify the related costs for which the grants, if any, are intended to compensate.

53. The staff continue to think it is unclear which costs any government grant would be intended to compensate the banks for, because the provision of TLTRO III funding does not appear to restrict the interest rates banks can charge their customers.

54. In the *Request for Information on the Third Agenda Consultation*, the Board noted that some stakeholders—mostly standard setters—questioned aspects of IAS 20 relating to the recognition of government grants in profit or loss, including the timing of recognition of income from government grants. Stakeholders noted that the requirements in IAS 20 are based on reasonable assurance and the matching of costs with income, rather than on the satisfaction of performance obligations identified in a grant. They also noted the matching of costs with income is not an objective of the *Conceptual Framework for Financial Reporting*.

Modifications or changes in estimates

55. If—subsequent to initial recognition—the lender decreases the interest rate on a loan (whether initially an at-market or below-market rate government loan) or there is a change in the interest rate based on an entity achieving specified targets, these modifications to the loan's terms or changes in estimated cash flows relate to the financial liability—an entity therefore applies IFRS 9 in assessing those modifications and changes. If an entity applies IAS 20 to those changes in addition to IFRS 9, this would lead to double counting.

56. Applying IFRS 9, if the modifications are substantial, an entity would derecognise the old financial liability and recognise a new financial liability. In that case, an entity assesses whether there is a difference between that new financial liability's fair value

and the consideration received, and whether that difference is treated as a new government grant applying paragraph 10A of IAS 20.

57. The staff therefore are of the view that the assessment of whether there is a substantial modification affects the recognition of a benefit of a below-market rate government loan because:

(a) in the context of government loans, it is the benefit of the below-market rate of interest on the government loan that an entity treats as a government grant (as specified in paragraph 10A of IAS 20).

(b) that benefit is measured as the difference between the initial carrying value of the loan and the proceeds received. A loan has an initial carrying value only at initial recognition. Therefore, the benefit that is treated as a government grant can arise only at initial recognition of the original loan or initial recognition of the new loan following a substantial modification.

Staff conclusion

58. In conclusion, the staff are of the view that it is inappropriate for an entity to use other paragraphs in IAS 20 or the general definition of government grants to determine the identification and accounting for the benefit of below-market rate government loans. Paragraph 10A of IAS 20 applies to both loans for which the below-market rate is certain and those for which it is conditional—the requirements in paragraph 10A do not distinguish between the differences in those circumstances. The staff are further of the view that IAS 20 provides an adequate basis to determine whether the TLTRO III tranches contain a benefit that an entity treats as a government grant applying IAS 20 and, if so, how to account for the benefit.

Application of the effective interest method

59. As explained in Agenda Paper 4 for the June 2021 meeting, the staff continues to be of the view that to analyse the application of the effective interest method to the TLTRO III liabilities, it is important to distinguish between the determination of the

effective interest rate at initial recognition and any changes to the original rate that might occur subsequently.

Determination of the effective interest rate at initial recognition

Respondents' comments

60. Only a few respondents elaborated on determining the effective interest rate at initial recognition and how to include—in that calculation—an entity's expectations about meeting the future lending conditions to estimate future cash payments through the expected life of the financial liability.

61. IOSCO and ESMA suggested that the Committee explain how to reflect uncertainty that arises from conditions attached to the interest rate in the calculation of the effective interest rate, instead of referring the matter to the PIR of IFRS 9. Similarly, even though EY and WSBI/ESBG said an entity should take into consideration conditions attached to the interest rate when determining the (original) effective interest rate, they said IFRS 9 is unclear about *how* such expectations should be taken into consideration—for example, whether an entity takes into consideration a most likely amount or the probability-weighted approach when determining the expected cash flows at initial recognition.

62. Some respondents (PwC, WSBI/ESBG, ANC) agreed in principle that a borrowing rate of a floating rate instrument can consist of a floating and a fixed interest rate component. However, they said an entity has to determine first if the interest rate as a whole is a market floating rate, before deciding to split the interest rate into a floating (ie benchmark) component and a component which is not floating (for example, a spread).

63. With respect to the insertion of a negative spread of 50 basis points to the TLTRO III interest rate, most respondents said the ECB—as the central bank—is able to set and amend the terms of this facility unilaterally or create any other interest rate mechanism to reflect the same economics.[2] In their view, this means that the whole interest rate could be seen as a floating rate that is reset periodically to reflect movements in the market rate of interest. These respondents said the ECB's ability to

[2] ESMA, PwC, EY, KPMG, WSBI/ESBG, the French Banking Federation (FBF), ANC, Association for Financial Markets in Europe (AFME), BNP Paribas (BNP), ING

change the rate unilaterally is the key reason for their assessment as to whether the (whole) interest rate is a floating rate and not necessarily the contractual terms of the financial instrument.

64. Some other respondents (Deloitte, EY) were concerned that referring to the negative spread of 50 basis points for a specified period of time as a fixed component would imply that the overall rate was not a market rate of interest.

Staff analysis

65. As discussed in Agenda Paper 4 for the June 2021 meeting, the determination of the effective interest rate at initial recognition is based on the definitions in Appendix A to IFRS 9. When calculating the effective interest rate, an entity estimates the expected cash flows by considering all the *contractual* terms of the financial instrument. It is clear from the definition of amortised cost of a financial liability that amortised cost at initial recognition is its fair value at initial recognition plus or minus any transaction costs as required by paragraph 5.1.1 of IFRS 9.

66. The staff disagree with the view that, because the ECB is the market-maker that can unilaterally change the interest rates on the TLTRO III financial liabilities, the contractual terms are irrelevant and that the whole interest rate can be regarded as a floating market rate.

67. The staff continue to be of the view—as noted by the Committee in June 2021—that the interest rate on a financial instrument can contain both a floating component and other components. We acknowledge that IFRS 9 does not refer to a ‘fixed’ component of the interest rate. However, we think it is clear from IFRS 9 that changes to the interest rate to periodically reflect the movements in market rates of interest (as referred to in paragraph B5.4.5, ie a floating component) are accounted for differently from changes to other components of the rate (for example, modifications or revisions to an entity’s estimates of payments or receipts referred to in paragraph B5.4.6). These other components are colloquially referred to as ‘fixed components’ because they do not change with movements in market rates of interest. As a simple example, a loan with a borrowing rate that is referenced to a benchmark interest rate such as

LIBOR contains both a floating component, ie the LBOR rate, and a ‘fixed’ component, ie the spread added to the LIBOR rate.

68. To avoid confusion or any unintended consequences, the remainder of this paper refers to ‘other components’ of the interest rate rather than fixed components.

69. The staff are also of the view that IFRS 9 does not require there to be no variability/changes in the other components over the life of the instrument. This is consistent with example B27 of the Guidance on implementing IFRS 9, which illustrates how to determine the effective interest rate for a loan with stepped interest payments. For the loan in example B27, the contractual terms of the instrument specify fixed interest rates for every period of the loan. In determining the effective interest rate, the entity determines the rate that exactly discounts the stream of future cash payments through maturity. It is therefore clear that even though the contractual terms specify the rate for a period of time and that rate varies every period, the instrument is not considered a floating rate instrument because the rate does not change as market rates of interest change. Therefore, an entity does not account for such changes in the interest rate applying paragraph B5.4.5.

70. The main refinancing operation (MRO) rate is the interest rate banks pay when they borrow money from the ECB for one week and is one of the three interest rates the ECB sets every six weeks as part of its work to keep prices stable in the euro area. Other targeted longer-term refinancing operations such as TLTRO I and TLTRO II were also referenced the MRO in their interest rate. In that sense the MRO rate is a known building block in arriving at an interest rate for TLTRO tranches. In the staff’s view, the interest rate on the TLTRO III liabilities could be characterised as a floating component (ie the MRO rate), with a contractually specified spread of 0 basis points for one period, followed by a negative spread of 50 basis points for a number of periods, reverting back to a spread of 0 basis points for a final period.[3]

71. The staff therefore also disagree with the view that not considering the negative spread of 50 basis points as part of a market floating interest rate might imply the interest rate is not at market. As discussed in paragraph 32 of this paper, an entity might consider several factors to determine the market rate of interest at initial

[3] On the assumption that the bank does not meet any of the lending targets over the term of the tranche.

recognition. Whether the interest rate on the TLTRO III tranches is below-market at initial recognition does not depend on whether the negative spread of 50 basis points is characterised as part of a market floating rate or a component of a floating rate liability that does not reflect movements in the market rates of interest.

Subsequent measurement of the financial liability

Respondents' comments

72. Respondents were split in their views on how to account for changes in the interest rate of the TLTRO III liabilities subsequent to initial recognition.

73. Most of the respondents of the view that the whole TLTRO III interest rate is a market floating rate (as described in paragraph 63 of this paper) said any change in the interest rate made by the ECB represents a reset to market rates. They are therefore of the view that any change the ECB makes to the interest rate represents a movement in the market rate of interest to which paragraph B5.4.5 of IFRS 9 applies.

74. Only two respondents (PwC, EY) clearly said changes in the interest rate that are subject to meeting lending targets would give rise to an entity revising its estimates of payments to which paragraph B5.4.6 of IFRS 9 applies. In addition, EY said, in a recent market survey conducted, they found that most participants apply (a) paragraph B5.4.5 to changes in the interest rate initiated by the ECB unrelated to lending targets and (b) paragraph B5.4.6 to revisions in original estimates of conditional elements of the interest rate.

75. In contrast, ING were of the view that it would not be unreasonable for financial institutions to conclude that changes in the interest rate—conditional on meeting pre-specified lending targets—are market floating interest rates; an entity would therefore apply B5.4.5 of IFRS 9 in accounting for those changes.

76. Related to such an application of paragraph B5.4.5, KPMG said if the term of the financial liability allows the borrower to repay early without a significant early repayment penalty and the entity is able—at the same time—to take out a new loan on market terms, this could be regarded as a substantial modification. This would lead to derecognition of the current financial liability and the recognition of a new financial liability, which would result in the effective interest rate being based on the new market rate. KPMG was therefore of the view that an entity should apply paragraph

B5.4.5 in accounting for any inferred contractual acceleration of maturity of a financial liability. For this reason, KPMG suggested that the Board consider the effects of such early repayment features without significant penalties as part of the PIR of IFRS 9.

Staff analysis

77. Amortised cost is a historical cost measurement basis that uses the effective interest method to allocate and recognise interest revenue or interest expense in profit or loss over the relevant period through the effective interest rate.

78. As such, determining whether the interest rate on a financial instrument is at or below market is relevant only when recognising a financial instrument at fair value at initial recognition as required by paragraph 5.1.1 of IFRS 9. Thereafter, changes in the market rate for a particular instrument does not affect the calculation of a financial liability's amortised cost. In fact, shortly after initial recognition, the interest rate on most financial instruments would not be at market as changes—for example, in the credit risk of the borrower—could have occurred, which the effective interest rate does not capture.

79. The effective interest rate determined at initial recognition remains generally unchanged over the life of the financial instrument, except for:

    (a) periodic re-estimation of cash flows to reflect the movements in the market rates of interest as required by paragraph B5.4.5 of IFRS 9; and

    (b) the recalculation of the effective interest rate required by paragraph 6.5.10 of IFRS 9 when amortising a fair value hedge adjustment.

80. When adjusting the effective interest rate as required in paragraph B5.4.5, it is not the whole interest rate an entity resets to market rates; only the floating component (ie the benchmark interest rate) is updated. Any other component of the interest rate (ie a spread added to the benchmark interest rate) is kept unchanged from what it was at initial recognition.

81. The staff therefore think it is important to distinguish between:

    (a) movements in market rates of interest, which are general movements in the market interest rates (such as benchmark interest rates) not specific to a particular

entity. Such movements therefore apply equally to all financial instruments with an interest rate referenced to such a floating component; and

(b) changes in the market rate for a particular financial instrument that reflect entity-specific factors (such as changes in credit risk) in addition to general market movements in interest rates.

82. In the staff's view, paragraph B5.4.5 applies to the changes described in paragraph 81(a), while paragraph B5.4.6 applies to any other changes to the estimates of future contractual cash flows, including modifications to the contractual terms of financial liabilities.

83. The staff disagree with the view that the whole interest rate on a financial instrument could be a 'market floating rate' without any other components and, therefore, that an entity would apply paragraph B5.4.5 in accounting for all changes to that rate. Such a view would imply that either:

(a) the market floating rate includes no compensation for entity-specific factors such as the borrower's credit risk, in which case it is questionable whether the interest rate is at market at initial recognition; or

(b) the floating rate represents the actual market rate for that particular instrument at each reset date, including an updated assessment of the borrower's credit risk, in which case the reset is more akin to fair value measurement than amortised cost.

Recommendation for the PIR of IFRS 9

84. As noted in the TAD, the application of paragraph B5.4.6 of IFRS 9—to reflect any revisions to an entity's future payments or receipts in the amortised cost of a financial liability—is influenced by the judgements and assumptions an entity has made when determining the effective interest rate at initial recognition. This is because the financial liability's amortised cost is recalculated as the present value of the estimated future contractual cash flows, discounted at the original effective interest rate.

85. The Committee also observed in the TAD that the question of how an entity should reflect conditions attached to the interest rate in the estimates and revisions of expected future cash flows when determining the effective interest rate is part of a broader matter, which it should not analyse solely in the context of TLTRO III

tranches. The Committee was therefore of the view that the Board should consider this matter as part of the PIR of the classification and measurement requirements in IFRS 9, together with similar matters already identified in the first phase of that review.

86. The *Request for Information: Post-implementation Review of IFRS 9 – Classification and Measurement* (RFI) was published in September 2021 and included specific questions about the application of the effective interest method. Consultation on the RFI is open until 28 January 2022.

Staff conclusion

87. The staff continue to agree with the Committee's conclusion that the matters with respect to the effective interest rate of TLTRO III tranches are part of a broader matter that, in isolation, are not possible to be addressed in a cost-effective manner and should be reported to the Board.

Staff recommendation

88. Based on our analysis as set out in this paper, we recommend finalising the agenda decision as published in the IFRIC Update in June 2021 with changes to the tentative agenda decision as suggested in Appendix A to this paper. If the Committee agrees with our recommendation, we will ask the Board whether it objects to the agenda decision at the first Board meeting at which it is practicable to present the agenda decision.

Question for the Committee
1. Does the Committee agree with our recommendation to finalise the agenda decision as explained in paragraph 88 of this paper?

Appendix A—Proposed wording of the tentative agenda decision

A1. We propose the following wording for the final agenda decision (new text is underlined, and deleted text is struck through).

TLTRO III Transactions (IFRS 9 *Financial Instruments* and IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*)

The Committee received a request about how to account for the third programme of the targeted longer-term refinancing operations (TLTROs) of the European Central Bank (ECB). The TLTROs link the amount a participating bank can borrow and the interest rate the bank pays on each tranche of the operation to the volume and amount of loans it makes to non-financial corporations and households.

The request asks:

a. whether the TLTRO III tranches represent loans with a below-market interest rate and, if so, whether the borrowing bank is required to apply IFRS 9 or IAS 20 to account for the benefit of the below-market interest rate;

b. if the bank applies IAS 20 to account for the benefit of the below-market interest rate:

   i. how it assesses in which period(s) it recognises that benefit; and

   ii. whether, for the purpose of presentation, the bank adds the amount of the benefit to the carrying amount of the TLTRO III liability;

c. how the bank calculates the applicable effective interest rate;

d. whether the bank applies paragraph B5.4.6 of IFRS 9 to account for changes in estimated cash flows resulting from the revised assessment of whether the conditions attached to the liability have been met; and

e. how the bank accounts for changes in cash flows related to the prior period that result from the bank's lending behaviour or from changes the ECB makes to the TLTRO III conditions.

Applying the requirements in IFRS Standards

The Committee observed that IFRS 9 is the starting point for the borrowing bank to determine its accounting for TLTRO III transactions because each financial liability arising from the bank's participation in a TLTRO III tranche is within the scope of IFRS 9. The bank:

a. determines whether it bifurcates any embedded derivatives from the host contract as required by paragraph 4.3.3 of IFRS 9;

b. initially recognises and measures the financial liability, which includes determining the fair value of the financial liability, accounting for any difference between the fair value and the transaction price and calculating the effective interest rate; and

c. subsequently measures the financial liability, which includes accounting for changes in the estimates of expected cash flows.

The Committee noted that the questions the request asks are unrelated to the existence of an embedded derivative and, therefore, this agenda decision does not discuss the requirements in IFRS 9 with respect to the separation of embedded derivatives.

Initial recognition and measurement of the financial liability

Applying paragraph 5.1.1 of IFRS 9, at initial recognition a bank measures each TLTRO III tranche at fair value plus or minus transaction costs, if the financial liability is not measured at fair value through profit or loss. A bank therefore determines the fair value of the liability using the assumptions that market participants would use when pricing the financial liability as required by IFRS 13 *Fair Value Measurement*. The fair value of a financial instrument at initial recognition is normally the transaction price—that is, the fair value of the consideration given or received (paragraphs B5.1.1 and B5.1.2A of IFRS 9). If the fair value at initial recognition differs from the transaction price, paragraph B5.1.1 requires a bank to determine whether a part of the consideration given or received is for something other than the financial liability.

The Committee observed that determining whether an interest rate is a below-market rate requires judgement based on the specific facts and circumstances of the relevant financial liability. Nonetheless, a difference between the fair value of a financial liability at initial recognition and the transaction price might indicate that the interest rate on the financial liability is a below-market rate.

If a bank determines that the fair value of a TLTRO III tranche at initial recognition differs from the transaction price and that the consideration received is for only the financial liability, the bank applies paragraph B5.1.2A of IFRS 9 to account for that difference.

If a bank determines that the fair value of a TLTRO III tranche at initial recognition differs from the transaction price and that the consideration received is for more than just the financial liability, the bank assesses whether that difference ~~represents~~ is treated as a government grant ~~as defined~~ in IAS 20. An entity makes this assessment only at initial recognition of the TLTRO III tranche. The Committee noted that if the difference ~~represents~~ is treated as a government grant, paragraph 10A of IAS 20 applies only to that difference. The bank applies IFRS 9 to account for the financial liability, both on initial recognition and subsequently (including when accounting for any subsequent modifications to the liability's terms or changes in estimated cash flows related to the financial liability).

Do TLTRO III tranches contain a benefit of a government ~~grant~~ loan at a below-market rate of interest in the scope of IAS 20?

IAS 20 defines government as referring to 'government, government agencies and similar bodies whether local, national or international'. IAS 20 also defines government grants as 'assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity'.

Paragraph 10A of IAS 20 requires an entity to treat as a government grant the benefit of a government loan at a below-market rate of interest and apply IAS 20 to

account for that benefit. The benefit of a below-market interest rate is the difference between the initial carrying amount of the loan determined by applying IFRS 9 and the proceeds received. Paragraphs ~~7,~~ 12 and 20 of IAS 20 specify requirements for the recognition of government grants in profit or loss.

The Committee observed that TLTRO III tranches would contain a benefit that is treated as a government grant in the scope of IAS 20 only if it were determined that:

a. the ECB meets the definition of government in IAS 20;

b. the interest rate charged on the TLTRO III tranches is a below-market interest rate; and

c. the TLTRO III transactions with the ECB are distinguishable from the borrowing bank's normal trading transactions.

The Committee observed that making these determinations require judgement based on the specific facts and circumstances. The Committee therefore said it is not in a position to conclude on whether the TLTRO III tranches contain a benefit that is treated as a government grant in the scope of IAS 20.

The Committee acknowledged that judgement may also be required to identify the related costs for which the grants, if any, are intended to compensate. The Committee nonetheless concluded that IAS 20 provides an adequate basis for the bank to determine whether the TLTRO III tranches contain a benefit that is treated as a government grant and if so, how to account for the benefit. ~~if the TLTRO III tranches contain a government grant in the scope of IAS 20, the requirements in IAS 20 provide an adequate basis for the bank to determine how to account for that government grant.~~

Calculating the effective interest rate ~~on~~ at initial recognition of the financial liability

For the purpose of measuring financial liabilities, Appendix A to IFRS 9 defines both the amortised cost of a financial liability and the effective interest rate. Calculating the effective interest rate requires an entity to estimate the expected cash flows through the expected life of the financial liability.

In calculating the effective interest rate for a TLTRO III tranche ~~on~~ at initial recognition, the question arises as to what to consider in estimating the expected future cash flows and, specifically, ~~whether the expected future cash flows reflect an assessment of whether the bank will satisfy the conditions attached to the~~ how to reflect uncertainty that arises from conditions attached to the ~~liability~~ interest rate. The Committee noted that the question of what to consider in estimating the expected future cash flows for the purpose of calculating the effective interest rate is also relevant to fact patterns other than that described in the request. The Committee therefore concluded that considering how to reflect uncertainty that arises from conditions attached to the interest rate in calculating the effective interest rate is a broader matter, which it should not analyse solely in the context of TLTRO III tranches. This is because such an analysis could have unintended consequences for other financial instruments, the measurement of which involves similar questions about the application of IFRS Standards. The Committee is therefore of the view that the Board should consider this matter ~~should be considered~~ as part of the post-implementation review of the classification and measurement requirements in IFRS 9, together with similar matters already identified in the first phase of that review.

Subsequent measurement of the financial liability at amortised cost

The contractual terms of the TLTRO III tranches require interest to be settled in arrears on maturity or on early repayment of each tranche. There is therefore only one cash flow on settlement of the instrument.

The original effective interest rate is calculated based on estimated future cash flows at initial recognition as required by IFRS 9. The Committee noted that whether a bank adjusts the effective interest rate over the life of a tranche depends on the contractual terms of the financial liability and the applicable requirements in IFRS 9. Paragraphs B5.4.5 and B5.4.6 of IFRS 9 specify requirements for how an entity accounts for changes in estimated future cash flows.

Paragraph B5.4.5 applies to floating-rate financial instruments with a floating interest component that is periodically adjusted to reflect the movements in the market rates of interest ~~financial liabilities, the estimated future cash flows of which are revised to reflect movements in the market rates of interest. Periodic re-~~

~~estimations of those cash flows to reflect such movements~~ that alter the effective interest rate. IFRS 9 does not elaborate on what is meant by floating rate. However, the Committee observed that a financial instrument with ~~variable~~ contractual cash flows—which are ~~can~~ periodically ~~be~~ adjusted to reflect the movements in the market rates of interest —is a floating-rate financial instrument.

~~The Committee also observed that a floating-rate financial instrument may consist of a variable interest rate element, which is reset to reflect movements in the market rates of interest (for example, the ECB rate on the main refinancing operations) plus or minus other elements, which are fixed and therefore not reset to reflect movements in the market rates of interest (for example, the fixed 50 basis points discount given by the ECB on particular TLTRO III tranches for a fixed period).~~

When considering how to account for changes in cash flow estimates, the Committee noted that paragraph B5.4.5 of IFRS 9 applies only to the floating interest component that is periodically adjusted to reflect the movements in the market rates of interest ~~the variable interest rate element of a floating-rate instrument (as far as it reflects movements in the market rates of interest)~~ and not to other interest rate ~~elements~~ components of the instrument, ~~(~~which are typically not reset to reflect movements in the market rates of interest~~)~~.

Paragraph B5.4.6 of IFRS 9 applies to changes in estimated future cash flows of financial liabilities other than those dealt with in paragraph B5.4.5, irrespective of whether the change arises from a modification or another change in expectations. However, when changes in contractual cash flows arise from a modification, an entity assesses whether those changes result in the derecognition of the financial liability and the initial recognition of a new financial liability by applying paragraphs 3.3.2 and B3.3.6 of IFRS 9.

The Committee considered a situation in which, as a result of a modification that does not result in derecognition or other changes in expected future cash flows, a bank estimates the final repayment cash flow relating to a TLTRO III tranche to be different from that used in determining the carrying amount. In such a situation, the bank adjusts the carrying amount to reflect the modification or other change in

expected future cash flows and recognises the difference immediately in profit or loss. The bank therefore makes no adjustment to interest recognised in prior periods.

The Committee also noted that application of paragraph B5.4.6 of IFRS 9 ~~relates~~ depends on ~~to~~ a bank's estimates of expected future cash flows in calculating the effective interest rate ~~on~~ at initial recognition of the financial liability. This is because, applying B5.4.6, the original effective interest rate is used to discount the revised cash flows.

The Committee observed that the question of ~~whether~~ how conditions attached to the interest rate should be reflected in the estimates ~~and revisions~~of expected future cash flows when determining the effective interest rate affects both initial and subsequent measurement. As this question is part of a broader matter, ~~which~~ the Committee considered that it should not be analysed solely in the context of TLTRO III tranches. The Committee is therefore of the view that the Board should consider this matter ~~should be considered~~as part of the post-implementation review of the classification and measurement requirements in IFRS 9, together with similar matters already identified in the first phase of that review.

Disclosure

If a bank determines that the ECB meets the definition of government in IAS 20 and that it has received government assistance from the ECB, the bank needs to provide the information required by paragraph 39 of IAS 20 with respect to government grants and government assistance that does not meet the definition of a government grant.

In addition, given the judgements required and the risks arising from the TLTRO III tranches, a bank needs to consider the requirements in paragraphs 117,122 and 125 of IAS 1 *Presentation of Financial Statements*, as well as paragraphs 7, 21 and 31 of IFRS 7 *Financial Instruments: Disclosures*. Those paragraphs require a bank to disclose information that includes its significant accounting policies and the assumptions and judgements that management has made in the process of applying the bank's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Conclusion

The Committee concluded that IAS 20 provides an adequate basis for the bank to determine whether ~~if the bank determines that~~ the TLTRO III tranches contain a benefit that is treated as a government grant in the scope of IAS 20~~,~~ and, if so, ~~the requirements in IAS 20 provide an adequate basis for an entity to determine~~ how to account for that ~~government grant~~benefit.

With respect to the question of ~~whether~~ how conditions attached to the interest rate should be reflected in the estimates ~~and revisions~~ of expected future cash flows when determining the effective interest rate at initial recognition or in the revisions of estimated future cash flows upon subsequent measurement of the financial liability, the Committee concluded that the matters described in the request are part of a broader matter that, in isolation, are not possible to address in a cost-effective manner and should be reported to the Board. The Board should consider this matter as part of the post-implementation review of the classification and measurement requirements in IFRS 9.

For these reasons, the Committee ~~[~~decided~~]~~ not to add a standard-setting project to the work plan.