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Chairman

PdC N° 67

Mrs Lloyd
IFRS Interpretations Committee
30 Cannon Street
LONDON EC4M 6XH
United Kingdom

May 2017- IFRS-IC tentative agenda decision – IFRS 9 Financial Instruments – Financial assets eligible for the election to present changes in fair value in other comprehensive income

Dear Mrs Lloyd,

I am writing on behalf of the Autorité des Normes Comptables (ANC) to express our views on the above-mentioned IFRS IC tentative decision published in May 2017 IFRIC Update regarding "IFRS 9 Financial Instruments – Financial assets eligible for the election to present changes in fair value in other comprehensive income". This letter sets out some of the most critical comments raised by interested stakeholders involved in ANC's due process.

IFRS-IC's conclusion relies on basis for conclusions expressing the Board's decision

The IFRIC Update reports that "*the Committee observed that the presentation election in paragraph 4.1.4 of IFRS 9 refers to particular investments in equity instruments. 'Equity instrument' is a defined term, and Appendix A of IFRS 9 specifies that it is defined in paragraph 11 of IAS 32*." IAS 32.11 specifies that, *"as an exception, an instrument that meets the definition of a financial liability is classified as an equity instrument by the issuer if it has all the features and meets the conditions in paragraphs 16A and 16B or paragraphs 16C and 16D"* of IAS 32.

Supported by paragraph BC 5.21 of IFRS 9, the Committee concluded that it was the Board's decision to consider that, even if such instrument "*is classified as equity*", it does "*not meet the definition of an equity instrument*".

ANC goes along with the IFRS-IC referring to a Board's decision (IFRS 9.BC 5.21) to exclude such instruments from the election to present changes in fair value in OCI. ANC is however concerned that such significant guidance is expressed in the basis for conclusions instead of the standard itself. A clear distinction between board's decisions (expressed in the standard) and basis for conclusions (explaining that decision) would provide clarification on the initial intent of the board introducing "an exception to the definition" (as expressed for instance in IAS 32.BC 67, not referring to classification). This would as well enhance the endorsement process. In ANC's view the "classification" vs. "definition" issue could be clarified in the FICE project.

Long-term investment

Moreover, this issue brings to light one aspect of a broader concern raised during the endorsement process regarding long-term investment. Indeed, asset managers often use puttable instruments (such as shares in mutual funds) to manage their portfolios. The IFRS-IC decision confirms an accounting treatment according to which puttable instruments not only will not benefit from the § 4.1.4 equity treatment, but also would not pass the SPPI test and therefore would have to be measured at fair value through P&L. This would increase the volatility in the P&L deterring assets managers with long term liabilities from using such tools.

These concerns have already been raised during the IFRS 9 endorsement process and have led the European Parliament to request a careful impact assessment of the standard on long-term investment. In a recent letter, the European Commission has requested the EFRAG to issue a detailed report. We therefore encourage IASB to shortly address that issue and reopen discussions on it.

Yours sincerely,

Patrick de Cambourg