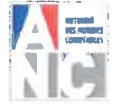




**RÉPUBLIQUE  
FRANÇAISE**

*Liberté  
Égalité  
Fraternité*



**AUTORITÉ  
DES NORMES COMPTABLES**

Paris, 20 July 2021

Patrick de Cambourg

Phone : 01 53 44 28 53  
Mail. : [patrick.de-cambourg@anc.gouv.fr](mailto:patrick.de-cambourg@anc.gouv.fr)  
Internet : [www.anc.gouv.fr](http://www.anc.gouv.fr)

PDC n°38

Mrs Sue Llyod  
Vice-Chair of the IASB  
7 Westferry Circus, Canary Wharf  
London, E14 4HD  
United Kingdom

**June 2021 IFRIC Update—Feedback on the Tentative Agenda Decision TLTRO III Transactions (IFRS 9 and IAS 20)**

Dear Sue,

I am writing to you on behalf of the Autorité des Normes Comptables (ANC) to express our views on the above-mentioned IFRS Interpretations Committee's (Committee) Tentative Agenda Decision (TAD) published in June 2021.

- **Committee's overall technical analysis included in the TAD**

We agree with the Committee's technical analysis and tentative conclusion as set out in the TAD except for one aspect of the analysis that relates to the subsequent measurement of the financial liability (see below).

- **Subsequent measurement of the financial liability at amortised cost**

- ***The Committee expressed only a possible view in the TAD on how to analyse the interest rate that applies to TLTRO III tranches***

The Committee noted in the TAD that paragraphs B5.4.5 and B5.4.6 of IFRS 9 *Financial Instruments* specify requirements for how an entity accounts for changes in the estimated future cash flows of a financial liability. In particular, the Committee observed that (i) paragraph B5.4.5<sup>1</sup> applies to floating-rate financial liabilities, (ii) IFRS 9 does not elaborate on what is meant by floating rate and (iii) a financial instrument with variable contractual cash flows—which can periodically be adjusted to reflect movements in the market rates of interest—is a floating-rate financial instrument.

We agree with those observations.

The Committee went on and 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*

<sup>1</sup> Paragraph B5.4.5 of IFRS 9 states that '*...period re-estimation of cash flows to reflect the movements in the market rates of interest alters the effective interest rate (EIR)...*' of a financial instrument subsequently measured at amortised cost (emphasis added).

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 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 of the instrument (which are typically not reset to reflect movements in the market rates of interest) (emphasis added).

In other words, the TAD specifies that the fixed 50bp discount given by the ECB on particular TLTRO III tranches for a fixed period is a fixed element and accordingly, that paragraph B5.4.6 of IFRS 9 applies when accounting for any change in the instrument's estimated future cash flows resulting from a change in that element—in particular when the ECB decided that the borrowing rate applying to some refinancing operations would be 50bp below the MRO rate over a specified fixed period.

We disagree with this observation.

We agree there are many circumstances in which an entity analyses a borrowing rate that includes a benchmark interest rate and a fixed component as including both:

- a variable interest rate element—to which paragraph B5.4.5 of IFRS 9 applies—and,
- another fixed element—to which paragraph B5.4.6 of IFRS 9 applies.

However, we think the TAD addresses very specific circumstances that could justify applying paragraph B5.4.5 of IFRS 9 to any change in the fixed 50bp element. We also think the Committee cannot express any view on this specific matter. This is because:

- the Committee's observation is a possible view of how to analyse the interest rate that applies to TLTRO III tranches. Reaching any conclusion in this respect requires the use of judgement (see below for an alternative view).
- the TAD deals with other matters which also require the use of judgement. The Committee only outlined the analysis an entity has to perform in relation to those matters—the Committee did not express any view on the conclusion an entity should reach for such matters.
- the TAD does not, itself, include any evidence that would substantiate the Committee's observation.

o ***An alternative view on the matter***

As mentioned above, we think the Committee's observation whereby the 50bp reduction is a fixed element—ie a fixed spread that is not a movement in the market rates of interest—is only a possible view on to analyse the interest rate that applies to TLTRO III tranches.

We also note that the TAD does not include any technical analysis that would support the Committee's view. That being said, on the basis of the public discussions which took place at the June 2021 Committee's meeting, we understand the Committee tentatively reached this conclusion considering that:

- the 50 bp element was 'locked in' and therefore, was not subject to movements. In contrast, the MRO and DFR rates were subject to movements and were, in the Committee's view, the market rates; and
- the fact that an interest rate element may change does not automatically result in the rate being a floating rate.

We think those arguments could be valid in many circumstances. However, they ignore the very specific facts and circumstances applying to TLTRO III transactions. We think an alternative view exists and a technical analysis supports this view.

The analysis below focuses solely on the changes that the ECB made in January 2021 to the borrowing rate of TLTRO III operations. We acknowledge that the ECB made other changes to the borrowing rate before that date. However, the outstanding amount of the TLTRO III program really gained momentum in June 2020, moving from €0.21 to €1.6 trillion. The only change the ECB has made to the borrowing rate since June 2020 occurred in January 2021.

We distinguished below the case of entities that applied their judgement and concluded that (i) TLTRO III tranches include a government grant in the scope of IAS 20 *Accounting for Government Grants and Disclosure of Government assistance* and (ii) IFRS 9 applies to TLTO III tranches in their entirety—ie the tranches include no government grant.

- *Entities that concluded that TLTRO III tranches contained a government grant in the scope of IAS 20*

Those entities generally considered that the MRO rate was not the market interest rate. This is because there were few transactions to which this interest rate applied between June 2021 and June 2022. The statistics available on the ECB's website and shown in Appendix 1 to this letter provide evidence the MRO rate applied to relatively few transactions (€0.2 billion).

This contrasts with the number of the transactions which occurred in the context of the TLTRO III program whose outstanding amount is €2.2 trillion. A maximum [MRO-50bp] interest rate has applied to those transactions since June 2020—this maximum interest applies if banks do not achieve predefined lending performance thresholds.

Accordingly, those entities assessed that the rate at which banks could borrow from the ECB under the TLTRO III program without achieving the predefined lending performance was the market rate of interest.

Those entities also considered the following aspects when making their assessment:

- the ECB is the 'market maker'. Accordingly, it would be contradictory to conclude that change in an interest rate introduced by a market maker is not a change in the market rate.
- the rate of main refinancing operations is one of the three key ECB rates. As such, the MRO rate is a monetary decision from the Governing Council of the ECB. The reset of MRO rate is discrete over time (last reset to 0 per cent occurred on 18 September 2019). Absent any significant transactions at the current MRO rate, it is equivalent from the borrower perspective to get new refinancing operations from ECB at [MRO-50bp] or at a new MRO rate reset to -0.50 per cent.
- the ECB is able to reset unilaterally the rate at any point in time—ie it has the right to amend the rate at any time. The fact that the ECB's initial decision published [22 July 2019](#), was subsequently superseded by a decision on [30 April 2020](#), which was subsequently superseded by a decision on [29 January 2021](#) provides evidence of the ECB's 'market maker' capacity. Furthermore, the banks can voluntarily repay early (either partly or fully) as of September 2021 ([refer to Q32 in the linked ECB site](#)) with no penalty. This would support the view that the reduction in the 50bp fixed rate can be considered to reflect movements in market rates of interest.
- [MRO-50 bp] which now corresponds to [-50 bp] is consistent with the rates observed on the interbank market—see Ester and Euribor 1 Year in Appendix 2 to this letter.

In the light of the arguments set out above, we think that determining whether the 50bp reduction is a movement in market rate of interest requires the use of judgement based on the specific facts and circumstances. This is similar to the judgment required to determine whether an interest rate is a below-market rate on initial recognition. We also note in this regard that it would be contradictory to permit an entity to apply its judgement to assess whether a rate is a market rate on initial recognition of a TLTRO III tranche, and meanwhile, not permit that entity to apply its judgment on whether the reduction in that rate is a change that reflects a movement in the market rate.

- *Entities that concluded that IFRS 9 applies to TLTRO III tranches in their entirety*

Those entities generally considered that the ECB had defined as many market rates as there are permutations of different lending targets.

Appendix 3A to this letter presents the market rate that applied to TLTRO III transactions before the change the ECB made in January 2021. Appendix 3B to this letter presents the market rate after that date. The change resulted in the ECB defining a new lending target ASRP. If banks met this additional lending target, together with the three preexisting lending targets, the interest rate applied to their refinancing TLTRO III transactions moved from DFR to [DFR-50bp] with a floor at -1 per cent. Accordingly, those entities held the view that the ECB had defined a new interest rate that is linked to the new ASRP lending target.

For reasons similar to those described above—ie the ECB is (i) the 'market maker' and (ii) able to reset unilaterally the rate at any point in time—those entities considered that the change introduced in January 2021 change should lead them to assess that [DFR-50 bp] was the new market rate for the banks that met the new lending target (before that date, banks could borrow from the ECB at DFR rate if they met the three lending targets).

The same rationales would apply to the changes that the ECB made to any different permutation of the three first lending targets.

Here again, we think that determining whether the 50bp reduction is a movement in market rate of interest requires the use of judgement based on the specific facts and circumstances.

- **Proposed way forward**

We think that the specific facts and circumstances relating to TLTRO III transactions require an entity to apply its judgment when assessing whether the 50bp reduction is a fixed or variable element. The Committee's observation as currently drafted in the ED is only a possible view.

Accordingly, we recommend the Committee delete the brackets '(for example, the ECB rate on the main refinancing operations)' and '...(for example, the fixed 50 basis points discount given by the ECB on particular TLTRO III tranches for a fixed period)...' in any final agenda decision. The agenda decision would read as follows:

*... 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)...*

- **Interaction between IAS 20 and IFRS 9**

IAS 20 and IFRS 9 are two IFRS Standards which were developed at very different times—IAS 20 was originally issued in April 1983 whereas the completed version of IFRS 9 was published in July 2014. The joint application of these IFRS Standards gives rise to practical difficulties and seems to show that their interaction has never been thoroughly thought.

In particular, we note that their ongoing interaction is not entirely clear, most notably after an entity has initially recognised a government loan at a below-market rate applying paragraph 10A of IAS 20. We understand the TAD does not include any analysis on this matter and, if so, we agree with the Committee's approach in this respect.

We recommend the Committee not modify the scope of any final agenda decision to consider some aspects of the above-mentioned ongoing interaction—we think any analysis in this respect would go beyond the request received and would warrant specific (i) analysis from the Committee and (ii) proper exposure for comments.

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

Yours sincerely,



Patrick de Cambourg

## Appendix 1—Data from Banque de France on MRO versus TLTRO III transactions

Opérations de refinancement en euro 2020				
Référence de l'opération	Date de valeur	Type d'opération	Montant alloué (en millions d'euros)	Date d'échéance
20210089	07/07/2021	MRO	72	14/07/2021
20210086	01/07/2021	LTRO	3	30/09/2021
20210085	30/06/2021	MRO	85	07/07/2021
20210081	24/06/2021	PELTRO	520	30/06/2022
20210078	24/06/2021	TLTRO III	109 829	26/06/2024
20210082	23/06/2021	MRO	91	30/06/2021
20210077	16/06/2021	MRO	124	23/06/2021
20210074	09/06/2021	MRO	185	16/06/2021
20210071	02/06/2021	MRO	197	09/06/2021
20210068	27/05/2021	LTRO	40	26/08/2021
20210067	26/05/2021	MRO	376	02/06/2021
20210064	19/05/2021	MRO	117	26/05/2021
20210061	12/05/2021	MRO	111	19/05/2021
20210058	05/05/2021	MRO	72	12/05/2021
20210055	29/04/2021	LTRO	25	29/07/2021
20210054	28/04/2021	MRO	252	05/05/2021
20210051	21/04/2021	MRO	126	28/04/2021
20210048	14/04/2021	MRO	137	21/04/2021
20210045	07/04/2021	MRO	190	14/04/2021
20210042	01/04/2021	LTRO	93	01/07/2021
20210041	31/03/2021	MRO	461	07/04/2021
20210038	25/03/2021	PELTRO	421	31/03/2022
20210034	24/03/2021	TLTRO III	330 501	27/03/2024
20210037	24/03/2021	MRO	271	31/03/2021
20210033	17/03/2021	MRO	609	24/03/2021
20210030	10/03/2021	MRO	22/11/1901	17/03/2021
20210027	03/03/2021	MRO	502	10/03/2021
20210024	25/02/2021	LTRO	30	27/05/2021
20210023	24/02/2021	MRO	622	03/03/2021
20210020	17/02/2021	MRO	459	24/02/2021
20210017	10/02/2021	MRO	427	17/02/2021
20210014	03/02/2021	MRO	167	10/02/2021
20210011	29/01/2021	LTRO	6	29/04/2021
20210010	27/01/2021	MRO	236	03/02/2021
20210007	20/01/2021	MRO	234	27/01/2021
20210004	13/01/2021	MRO	521	20/01/2021
20210001	06/01/2021	MRO	180	13/01/2021
20200248	16/12/2020	TLTRO III	504 14	20/12/2023
20200244	03/12/2020	PELTRO	1681	29/07/2021
20200229	05/11/2020	PELTRO	747	29/07/2021
20200215	08/10/2020	PELTRO	1008	26/08/2021
20200207	30/09/2020	TLTRO III	174464	27/09/2023
20200195	03/09/2020	PELTRO	794	26/08/2021
20200174	06/08/2020	PELTRO	5684	30/09/2021
20200136	24/06/2020	PELTRO	1661 1	30/09/2021
20200131	24/06/2020	TLTRO III	1308433	28/06/2023
20200098	21/05/2020	PELTRO	851	30/09/2021
20200029	25/03/2020	TLTRO III	114979	29/03/2023
20190129	18/12/2019	TLTRO III	97718	21/12/2022
20190097	25/09/2019	TLTRO III	3396	28/09/2022

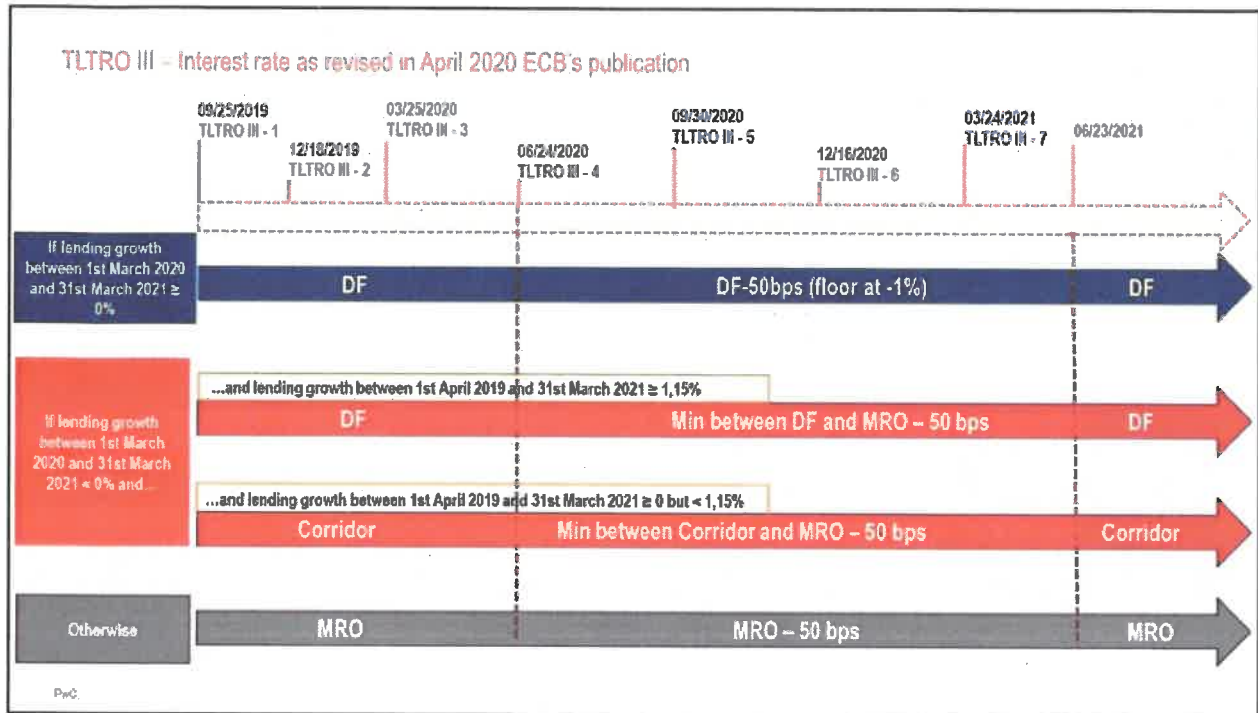
Somme de Montant:				
Type d'opération	Années	Trimestres	Date de valeur	Total
<input type="checkbox"/> LTRO	<input checked="" type="checkbox"/> 2021			197
<b>Total LTRO</b>				<b>197</b>
<input type="checkbox"/> MRO	<input checked="" type="checkbox"/> 2021			7 506
<b>Total MRO</b>				<b>7 506</b>
<input type="checkbox"/> PELTRO	<input checked="" type="checkbox"/> 2020			26 576
	<input checked="" type="checkbox"/> 2021			941
<b>Total PELTRO</b>				<b>27 517</b>
<input type="checkbox"/> TLTRO III	<input checked="" type="checkbox"/> 2019			101 114
	<input checked="" type="checkbox"/> 2020			1 648 290
	<input checked="" type="checkbox"/> 2021			440 330
<b>Total TLTRO III</b>				<b>2 189 734</b>
<b>Total général</b>				<b>2 224 954</b>

Average  
outstanding amount 200,16

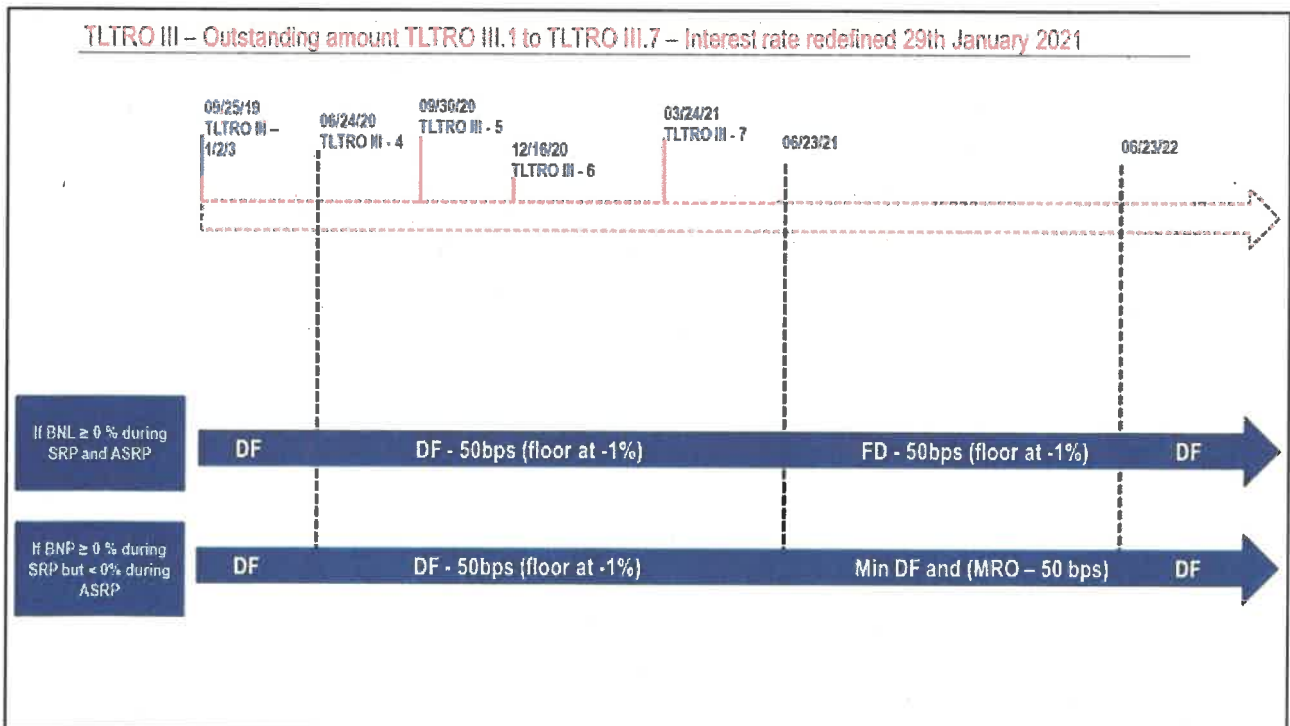
## Appendix 2—Statistics of Ester and Euribor 12 months

DATE	EURIBOR 12M (%)	DATE	ESTER (%)
02/11/2020	-0,486	02/11/2020	-0,555
03/11/2020	-0,486	03/11/2020	-0,558
04/11/2020	-0,486	04/11/2020	-0,558
05/11/2020	-0,488	05/11/2020	-0,556
06/11/2020	-0,468	06/11/2020	-0,558
09/11/2020	-0,488	09/11/2020	-0,558
10/11/2020	-0,472	10/11/2020	-0,557
11/11/2020	-0,478	11/11/2020	-0,558
12/11/2020	-0,468	12/11/2020	-0,548
13/11/2020	-0,469	13/11/2020	-0,556
16/11/2020	-0,476	16/11/2020	-0,558
17/11/2020	-0,474	17/11/2020	-0,557
18/11/2020	-0,483	18/11/2020	-0,557
19/11/2020	-0,483	19/11/2020	-0,557
20/11/2020	-0,483	20/11/2020	-0,557
23/11/2020	-0,484	23/11/2020	-0,557
24/11/2020	-0,482	24/11/2020	-0,556
25/11/2020	-0,482	25/11/2020	-0,554
26/11/2020	-0,483	26/11/2020	-0,556
27/11/2020	-0,487	27/11/2020	-0,557
30/11/2020	-0,487	30/11/2020	-0,56
01/12/2020	-0,487	01/12/2020	-0,557
02/12/2020	-0,486	02/12/2020	-0,556
03/12/2020	-0,488	03/12/2020	-0,556
04/12/2020	-0,49	04/12/2020	-0,555
07/12/2020	-0,499	07/12/2020	-0,555
08/12/2020	-0,504	08/12/2020	-0,559
09/12/2020	-0,507	09/12/2020	-0,556
10/12/2020	-0,504	10/12/2020	-0,556
11/12/2020	-0,499	11/12/2020	-0,557
14/12/2020	-0,505	14/12/2020	-0,558
15/12/2020	-0,503	15/12/2020	-0,551
16/12/2020	-0,498	16/12/2020	-0,557
17/12/2020	-0,495	17/12/2020	-0,556
18/12/2020	-0,498	18/12/2020	-0,558
21/12/2020	-0,492	21/12/2020	-0,557
22/12/2020	-0,493	22/12/2020	-0,558
23/12/2020	-0,495	23/12/2020	-0,559
24/12/2020	-0,494	24/12/2020	-0,555
28/12/2020	-0,495	28/12/2020	-0,553
29/12/2020	-0,495	29/12/2020	-0,557
30/12/2020	-0,499	30/12/2020	-0,555
31/12/2020	-0,499	31/12/2020	-0,583
04/01/2021	-0,502	04/01/2021	-0,566
05/01/2021	-0,508	05/01/2021	-0,563
06/01/2021	-0,509	06/01/2021	-0,566
07/01/2021	-0,509	07/01/2021	-0,565
08/01/2021	-0,51	08/01/2021	-0,562
11/01/2021	-0,503	11/01/2021	-0,564
12/01/2021	-0,506	12/01/2021	-0,563
13/01/2021	-0,498	13/01/2021	-0,562
14/01/2021	-0,505	14/01/2021	-0,564
15/01/2021	-0,508	15/01/2021	-0,566
18/01/2021	-0,503	18/01/2021	-0,565
19/01/2021	-0,502	19/01/2021	-0,564
20/01/2021	-0,506	20/01/2021	-0,564
21/01/2021	-0,505	21/01/2021	-0,562
22/01/2021	-0,498	22/01/2021	-0,561
25/01/2021	-0,493	25/01/2021	-0,564
26/01/2021	-0,504	26/01/2021	-0,558
27/01/2021	-0,505	27/01/2021	-0,563
28/01/2021	-0,513	28/01/2021	-0,561
29/01/2021	-0,512	29/01/2021	-0,564
01/02/2021	-0,511	01/02/2021	-0,566
02/02/2021	-0,515	02/02/2021	-0,564
03/02/2021	-0,507	03/02/2021	-0,558
04/02/2021	-0,508	04/02/2021	-0,564
05/02/2021	-0,504	05/02/2021	-0,565
08/02/2021	-0,503	08/02/2021	-0,563
09/02/2021	-0,503	09/02/2021	-0,564
10/02/2021	-0,503	10/02/2021	-0,564
11/02/2021	-0,502	11/02/2021	-0,565
12/02/2021	-0,502	12/02/2021	-0,564
15/02/2021	-0,505	15/02/2021	-0,563
16/02/2021	-0,5	16/02/2021	-0,564
17/02/2021	-0,498	17/02/2021	-0,563
18/02/2021	-0,498	18/02/2021	-0,562
19/02/2021	-0,494	19/02/2021	-0,563
22/02/2021	-0,494	22/02/2021	-0,564
23/02/2021	-0,496	23/02/2021	-0,565
24/02/2021	-0,494	24/02/2021	-0,564
25/02/2021	-0,497	25/02/2021	-0,564
26/02/2021	-0,493	26/02/2021	-0,566

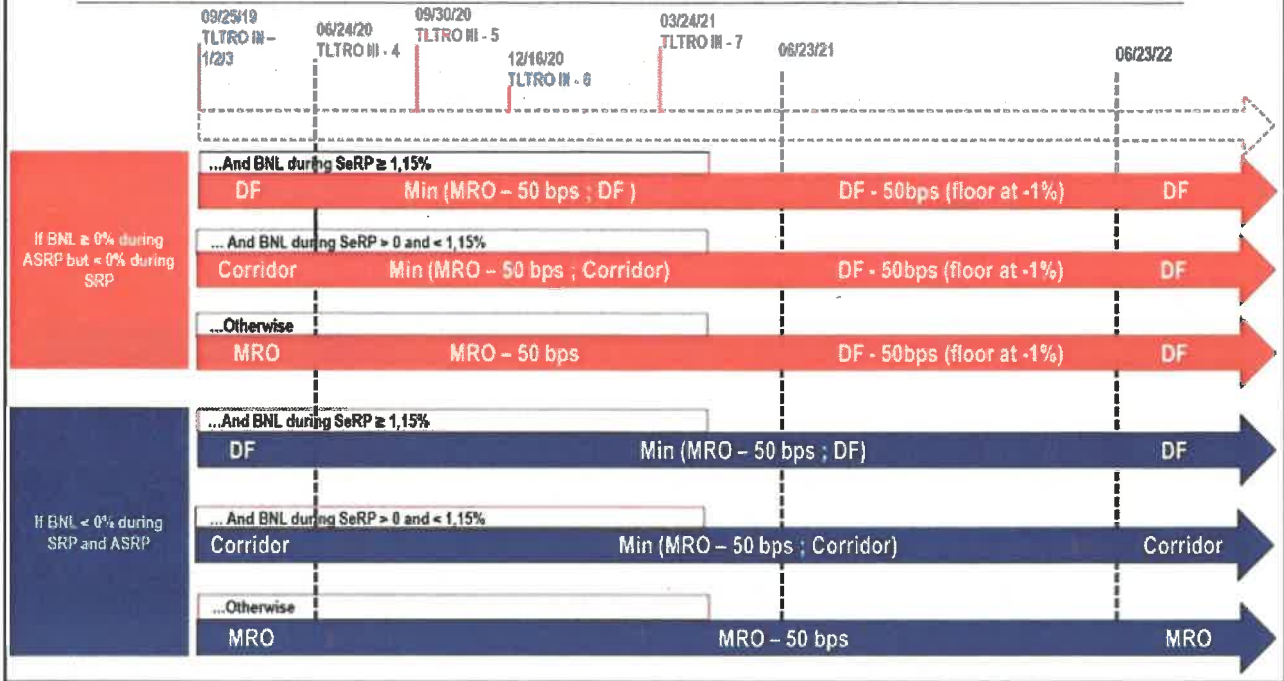
### Appendix 3A—Interest rate applying to TLTRO III operations before January 2021



### Appendix 3B—Interest rate applying to TLTRO III operations from January 2021 onwards



Outstanding amount TLTRO III.1 to TLTRO III.7 – Interest rate redefined 29th January 2021



Outstanding amount TLTRO III.8 to TLTRO III.10 – Interest rate defined 29th January 2021

