acteo Association pour la participation des entreprises françaises à l'harmonisation comptable internationale

The Chairman of the IFRS IC
30 Cannon Street,
London EC4M 6XH,
United Kingdom.

15 May 2017

Dear Ms Lloyd,

IFRS 9 Financial Instruments: Modification or exchange of financial liabilities

We are writing this letter in reaction to the tentative decision as published in the March IFRIC update concerning the accounting for modification of financial liabilities under IFRS 9.

We have concerns about both the form and the substance of this agenda decision and we request the Board not to finalise it in its present state.

1. Should the Board consider that the problem of the modification of a liability is so important that it must be dealt with as a matter of urgency, we believe that this should be done by means of a standard amendment rather than a mere agenda decision. Indeed, an amendment will provide a proper Due Process with the opportunity for many stakeholders to comment on the rationale for the accounting outcome and may also provide specific transitional provisions. In addition, on the topic of the transition, entities will also have to address potential hedge accounting issues on these liabilities. Finally, because the accounting treatment will significantly change, entities should have the opportunity to reassess the qualification of the liability modification.

2. IFRS 9 contains no more precision concerning the accounting treatment of a liability modification than IAS 39. Even though IFRS 9 contains new requirements for the accounting for modifications of financial assets, we do not agree that a mechanical analogy should be made for liabilities, since the accounting for assets and liabilities is not symmetrical in many areas. We therefore believe that IFRS 9 is as silent on the issue as was IAS 39. Even though the paragraph 5.4.3 is placed in a section dealing with amortised cost, it specifically targets financial assets, not liabilities. As there is no basis for conclusion explaining this paragraph, one cannot conclude that the initial intention was that paragraph 5.4.3 also applies to liabilities.

Therefore, here again, we believe than an amendment rather than a mere decision agenda is needed to specify explicitly the accounting for those modifications of financial liabilities that do not result in derecognition.

3. Should the Board undertake to proceed with an amendment (as a result of the findings of the forthcoming PIR of the standard, for instance), we believe that it should not only deal with the accounting outcome of a liability modification but also with the initial assessment of the modification; currently, the requirement concerning the 10% test has been carried forward unchanged from IAS 39 to IFRS 9. We believe that some constituents could have interpreted paragraph AG62 as meaning that only a quantitative test should be performed. We believe that it is necessary to make it clearer that a qualitative assessment should also be performed. In this case, entities should also be able to reassess the qualification of their liabilities that have been modified.

   We also wonder whether it is relevant to maintain the original effective interest rate when a liability has been renegotiated. Doing so would create a mismatch between accountability and the way the liability is internally managed and analysed. The proposal to maintain the original rate could be acceptable only in those instances where the renegotiation is minimal. We therefore question the relevance of the 10% threshold for the quantitative test.

   At last, we believe that the difference between the accounting for modification and that for derecognition should be more clear-cut, with one leading to a P&L impact and the other not.

Finally, preparers are currently facing the implementation of 3 major new standards (IFRS 9, IFRS 15 and IFRS 16), which are very demanding both in time and human resources. Moreover, given the close deadlines for implementation, entities are more and more solicited to provide numerical estimates of the expected impacts.

In this context, we believe that no more changes should be proposed to IFRS 9, with the exception of very significant and urgent issues which could have very negative impacts if not resolved in time (such as the prepayment option issue). New issues may well emerge during the implementation phase, and certainly the standard warrants improvement in some areas, but entities need stability as a matter of priority. We therefore suggest waiting for the Post-Implementation Review before making to changes to the standard if needed.

If you require any clarification or information, please do not hesitate to contact us.

Yours sincerely,

Patrice MARTEAU
Chairman