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

afep

Mouvement des Entreprises de France

Dr Andreas Barckow, Chairman,
International Accounting Standards Board,
30 Columbus Building,
7 Westferry Circus, Canary Wharf,
London E14 4HD-United Kingdom

19 July 2023

Dear Dr Barckow,

Re: ED/2023/2 – Amendments to the Classification and Measurement of Financial Instruments

We are pleased to have the opportunity to provide comments on the exposure draft ED/2023/2 – Amendments to the Classification and Measurement of Financial Instruments (the ED).

Although we agree with many of the proposals, we think that the ED will not resolve all the difficulties it tries to address.

We welcome the IASB's swift response to the comments from stakeholders in reaction to the Tentative Agenda Decision (TAD) of the IFRS Interpretations Committee (IFRIC) 'Cash Received via Electronic Transfer as Settlement for a Financial Asset'. However,

- We regret that the IASB has chosen to deal only with the question of the settlement of certain liabilities for which an electronic payment has been initiated and has not addressed the subject of the Tentative Agenda Decision referred to. Consequently, it appears to us that the application of the TAD will effectively be definitive; and
- We do not think that the conditions proposed for the revised treatment of financial liabilities will help preparers to any great extent, since they will be difficult to satisfy in most real circumstances.

We agree with the proposals to clarify that the presence of certain ESG-related features does not preclude the financial assets that contain them from being classified as SPPI transactions and would encourage the Board to proceed with this rapidly.

We provide fuller comments on these matters and the other proposals of the ED in the Appendix to this letter. If you require any further information about our comments, please do not hesitate to contact us.

Yours sincerely,

ACTEO	AFEP	MEDEF
Lise CHORQUES	Lé Quang TRAN VAN	Karine MERLE

Appendix: Comments on the proposals of ED/2023/2

Question 1—Derecognition of a financial liability settled through electronic transfer Paragraph *B3.3.8 of the draft amendments to IFRS 9 proposes that, when specified criteria are met, an entity would be permitted to derecognise a financial liability that is settled using an electronic payment system although cash has yet to be delivered by the entity. Paragraphs BC5–BC38 of the Basis for Conclusions explain the IASB's rationale for this proposal. Do you agree with this proposal? If you disagree, please explain what aspect of the proposal you disagree with.*

What would you suggest instead and why?

Before commenting on the proposals related to derecognition of financial liabilities, we would like to comment again on the subject of financial assets, which was touched on by the original Agenda Decision.

On the one hand, we appreciate the fact that the IASB has decided not to proceed with the agenda decision, leaving some room for transitional adaptations, since the consequent changes in accounting principles that we anticipate will be certainly costly and burdensome to implement. However, we feel that the IASB has not answered our previous arguments, which are still valid. We understand that, in leaving the standard unchanged, the IASB is implicitly confirming the Interpretation Committee's conclusions which, as recalled in BC8 of this ED, will lead to a disruption of long-standing practices and will generate costs with no real added informational value for financial statements, if not worse. Indeed, some entities, such as retail companies, will be prevented from presenting as cash the turnover generated on 31 December, which is for the most part settled by debit card and cheque. This will cause a real disruption to their cash-flow analysis.

We do not think that the Board has provided a sufficiently convincing case in its Basis of Conclusions for not addressing this matter and for not extending the accounting policy election it proposes for financial liabilities to some financial assets.

The consequence of this will be that entities will be obliged to present very highly liquid assets outside the cash and cash equivalents category. Such a presentation will not be relevant, since "cash in transit" is often much more liquid and less risky than some other instruments which usually qualify as cash equivalents.

In summary, all our concerns about the asset side of the original submission are still valid and unanswered. However, we believe that the IASB could solve them in a pragmatic way, without making any major structural changes to the standard, by exploring one of the following two solutions:

- Grant an exemption similar to that proposed for the settlement of liabilities but extended to all methods of payment that ensure very high liquidity and very low risk (such as debit cards).

  Indeed, we believe that the main principle that should prevail is the one stated in paragraph B.3.3.9, i.e. "an insignificant settlement risk such that completion of the payment instruction follows a standard administrative process and the time between initiating a payment instruction and the cash being delivered is short", or

- allow "cash in transit" to be presented within cash equivalents (this would be facilitated by a re-examination of the definition of cash and cash equivalents).

In respect of the exemption for financial liabilities and the criteria proposed in B.3.3.8, whilst we believe that criterion (c) is suitable and implementable, we are more concerned about criteria (a) and (b) related to the ability to withdraw, stop or cancel the payment instruction and the practical ability to access the cash.

In the case of (a), we think that the entity will sometimes have the ability to stop the payment but only in very limited, exceptional circumstances, such as in cases of technical error, erroneous duplication of the settlement transaction, when a serious doubt arises about whether the liability is genuine or fraud is suspected. In almost all other instances, payment would not be prevented and we therefore think that this criterion should take into account the very low likelihood that the payment would be stopped.

We think that criterion (b) requires further clarification. Consider the case of an entity which can in no circumstances stop the payment but has an arrangement with its bank to be temporarily overdrawn, i.e., the payment will go ahead even if there is an insufficient positive cash balance on the account. Would this represent a "practical ability to access the cash to be used for settlement"?

We think that in view of the above, the Board might consider an approach which takes into account the entity's likelihood of stopping the payment based upon the entity's intention as illustrated by its past experience or practice.

In conclusion, we strongly encourage the Board to review its decisions in this area so as not to create a change in current practices, practices that have never been brought into question. These changes will inevitably entail costly effort with a consequent one-off effect only in the first year of transition (if prior years are not restated). The cost/benefit balance of such a change therefore seems to us to be very highly unfavourable.

Question 2—Classification of financial assets—contractual terms that are consistent with a basic lending arrangement

Paragraphs B4.1.8A and B4.1.10A of the draft amendments to IFRS 9 propose how an entity would be required to assess: (a) interest for the purposes of applying paragraph B4.1.7A; and (b) contractual terms that change the timing or amount of contractual cash flows for the purposes of applying paragraph B4.1.10. The draft amendments to paragraphs B4.1.13 and B4.1.14 of IFRS 9 propose additional examples of financial assets that have, or do not have, contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. Paragraphs BC39–BC72 of the Basis for Conclusions explain the IASB's rationale for these proposals. Do you agree with these proposals? Why or why not? If you disagree, please explain what aspect of the proposals you disagree with. What would you suggest instead and why?

We welcome the Board's proposals aimed at clarifying this area in order to avoid arrangements with ESG-related features being disqualified from treatment as SPPI transactions. We think that there is an increasing frequency in the number of lending arrangements whose payment timing and amounts are linked to performance against debtor-specific environmental, social or governance targets, and we agree with the IASB that amortised cost is the most useful and relevant accounting model for such arrangements.

In view of the rapidity with which such instruments appear to be being developed and their expected importance in the European Union's sustainable-economy drive, we would encourage the Board to finalise these proposals as soon as possible, perhaps by separating them from the other proposals in the ED.

Question 3—Classification of financial assets—financial assets with non-recourse features

The draft amendments to paragraph B4.1.16 of IFRS 9 and the proposed addition of paragraph B4.1.16A enhance the description of the term 'non-recourse'. Paragraph B4.1.17A of the draft amendments to IFRS 9 provides examples of the factors that an entity may need to consider when assessing the contractual cash flow characteristics of financial assets with non-recourse features. Paragraphs BC73–BC79 of the Basis for Conclusions explain the IASB's rationale for these proposals. Do you agree with these proposals? Why or why not? If you disagree, please explain what aspect of the proposals you disagree with. What would you suggest instead and why?

We think that paragraph B4.1.17A provides helpful guidance.

The addition of paragraph B4.1.16A in the proposals does enhance the description of the term 'non-recourse'. However, in view of the fact that (according to paragraph B4.1.17) the existence of a 'non-recourse' feature does not necessarily preclude the financial asset from satisfying the SPPI condition, it may be more helpful to clarify which features would cause the financial asset from failing this condition (the exposure to the performance risk, for example) rather than to focus on the non-recourse description. Perhaps inclusion of some of the discussion about the contrast with collateralised assets from the Basis for Conclusions would help.

Question 4—Classification of financial assets—contractually linked instruments

The draft amendments to paragraphs B4.1.20–B4.1.21 of IFRS 9, and the proposed addition of paragraph B4.1.20A, clarify the description of transactions containing multiple contractually linked instruments that are in the scope of paragraphs B4.1.21– B4.1.26 of IFRS 9. The draft amendments to paragraph B4.1.23 clarify that the reference to instruments in the underlying pool can include financial instruments that are not within the scope of the classification requirements of IFRS 9. Paragraphs BC80–BC93 of the Basis for Conclusions explain the IASB's rationale for these proposals. Do you agree with these proposals? Why or why not? If you disagree, please explain what aspect of the proposals you disagree with. What would you suggest instead and why?

We have no objection to these proposed modifications.

Question 5—Disclosures—investments in equity instruments designated at fair value through other comprehensive income

For investments in equity instruments for which subsequent changes in fair value are presented in other comprehensive income, the Exposure Draft proposes amendments to: (a) paragraph 11A(c) of IFRS 7 to require disclosure of an aggregate fair value of equity instruments rather than the fair value of each instrument at the end of the reporting period; and (b) paragraph 11A(f) of IFRS 7 to require an entity to disclose the changes in fair value presented in other comprehensive income during the period. Paragraphs BC94–BC97 of the Basis for Conclusions explain the IASB's rationale for these proposals. Do you agree with these proposals? Why or why not? If you disagree, please explain what aspect of the proposals you disagree with. What would you suggest instead and why?

We agree with the Board's proposals for modifications to the disclosure requirements, given the current reporting requirements for changes in fair value.

However, we are disappointed that the Board has not responded to the well-founded requests of a number of respondents to the PIR of IFRS 9 Classification and Measurement, including some major national standard setters, that the Board should allow entities to reclassify the post-acquisition changes in fair value of equity instruments to profit and loss upon disposal.

Question 6—Disclosures—contractual terms that could change the timing or amount of contractual cash flows

Paragraph 20B of the draft amendments to IFRS 7 proposes disclosure requirements for contractual terms that could change the timing or amount of contractual cash flows on the occurrence (or non-occurrence) of a contingent event. The proposed requirements would apply to each class of financial asset measured at amortised cost or fair value through other comprehensive income and each class of financial liability measured at amortised cost (paragraph 20C). Paragraphs BC98–BC104 of the Basis for Conclusions explain the IASB's rationale for this proposal. Do you agree with this proposal? Why or why not? If you disagree, please explain what aspect of the proposal you disagree with. What would you suggest instead and why?

We agree with the proposed disclosure requirements and in particular with the Board's decision not to require a sensitivity analysis of the effect of contingent events, as justified in paragraph BC 103. It would be helpful if further guidance were provided about how the probability of an event occurring and the potential impact of such an event should be assessed.

However, we note that users were particularly interested in understanding the effect of contingent events upon instruments with ESG-linked features, and we think that these proposed requirements should be limited in scope to those instruments. Extending the requirements to all contractual terms of financial instruments in these classes will, in our view, be onerous for preparers to comply with.

Question 7—Transition Paragraphs 7.2.47–7.2.49 of the draft amendments to IFRS 9 would require an entity to apply the amendments retrospectively, but not to restate comparative information. The amendments also propose that an entity be required to disclose information about financial assets that changed measurement category as a result of applying these amendments.

Paragraphs BC105–BC107 of the Basis for Conclusions explain the IASB's rationale for these proposals. Do you agree with these proposals? Why or why not? If you disagree, please explain what aspect of the proposals you disagree with. What would you suggest instead and why?

We welcome the transition requirements since they provide an adequate balance by not requiring a full retrospective approach while allowing the restatement of comparative periods if it is possible to do so. Indeed, we expect that an entity that will have to reclassify a significant portion of its cash will have no choice but to restate previous periods.