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The IFRS Interpretations Committee's tentative agenda decision on IAS 39 Financial Instruments: *Recognition and Measurement* – Accounting for different aspects of restructuring Greek government bonds

The European Securities and Markets Authority (ESMA) is an independent EU Authority that contributes to safeguarding the stability of the European Union's financial system by ensuring the integrity, transparency, efficiency and orderly functioning of securities markets, as well as by enhancing investor protection.

ESMA has considered the IFRS Interpretations Committee's tentative decision not to add to its agenda the request for clarification it received on different aspects of the restructuring of Greek government bonds, as addressed in our letter dated 17 April 2012 (ESMA/2012/248). ESMA welcomes the Committee's swift reaction and would like to provide you with the following considerations aimed at improving the decision-usefulness of financial statements and the transparency and enforceability of IFRSs.

— Exchange of financial instrument: modification or derecognition

ESMA agrees with the Interpretations Committee's conclusion that the old Greek government bonds should be derecognised in their entirety. In the current economic climate, an increase in the number of restructuring transactions related to non-sovereign bonds and other loans has been observed.

Answering the question whether the restructuring transaction should be classified as a modification of the current financial instrument or as an exchange of financial assets resulting in the derecognition of the current financial instrument and the recognition of the new financial instrument in the

books of the lender requires a significant amount of judgement under the current reporting framework.

In such context, European enforcers of IFRS note varying accounting practices for debt restructurings by lenders due to the lack of clear guidance which leads in turn to decreased comparability between financial statements. The differences might be immaterial on a loan by loan basis but could be material on a collective basis, taking into account the current economic climate.

ESMA believes that guidance on how to account for debt restructurings from the holder's perspective is needed. More specifically, ESMA thinks that a more practical articulation between derecognition and impairment of financial instruments would enhance consistency in applying IFRSs requirements. The lack of clear guidance combined with the possibility of application by analogy of the criteria used for financial liabilities (IAS 39 paragraph 40) may have consequential impacts that might weaken comparability of IFRS financial statements and enforceability of the standard.

— **Accounting for the GDP-linked securities as part of the restructuring of Greek government bonds**

IAS 39 – *Financial Instruments: Recognition and Measurement* refers to, but does not define, a non-financial variable that is not specific to a party to the contract. The Interpretations Committee notes that the question of what constitutes an underlying that is a non-financial variable specific to a party to the contract had been considered on several previous occasions by the Committee and the IASB.

ESMA welcomes the Committee's implicit agreement that there is divergence in practice on this particular issue but does not agree with the Committee's conclusion not to add it to its active agenda nor to recommend the Board to perform further work. We believe that further work is necessary.

ESMA notes that the IASB is currently revisiting the guidance on financial instruments. In order to promote transparency, achieve consistent application of IFRS and to set standards that are enforceable ESMA would strongly encourage the Board to consider the abovementioned concerns as part of its ongoing deliberations on IFRS 9 – *Financial Instruments*.



We would be happy to discuss all or any of these issues further with you.

Yours sincerely,

A handwritten signature in blue ink, consisting of a stylized 'S' followed by a horizontal line and a small flourish.

Steven Maijoor
Chair ESMA

A handwritten signature in blue ink, featuring a large, stylized 'J' followed by the letters 'Galbo' and a long horizontal line extending to the right.

Julie Galbo
Chair ESMA's Corporate Reporting Standing Committee