The Chair

2 October 2014
ESMA/2014/1211

Wayne Upton
Chair
IFRS Interpretations Committee
30 Cannon Street
London, EC4M 6XH
United Kingdom

Re: The IFRS Interpretations Committee's tentative agenda decision on IAS 39 *Financial Instruments*: *Recognition and Measurement* - Holder's accounting for exchange of equity instruments

Dear Mr Upton,

The European Securities and Markets Authority (ESMA) thanks you for the opportunity to respond to the IFRS Interpretations Committee's (IFRS IC) publication in the July IFRIC Update of the tentative decision related to the application of IAS 39 – *Financial Instruments: Recognition and Measurement*. We are pleased to provide you with the following comments with the aim of improving the consistent application and enforceability of IFRSs.

ESMA has considered the IFRS IC's tentative decision not to add to its agenda the request about the accounting by the holder of equity instruments in the circumstance in which the issuer exchanges its original equity instruments for new equity instruments in the same entity but with different terms.

Whereas ESMA agrees with the IFRS IC that the transaction described in the submission is of a unique nature, we are concerned that the lack of guidance on the exchange of equity instruments, and more importantly, on the broader issue of derecognition of financial assets is leading to diversity in practice.

As ESMA pointed out in its submission related to the accounting for restructuring of Greek government bonds[1], IAS 39 does not provide sufficient guidance on accounting for the exchange or modification of financial assets. Although ESMA understands that the IFRS IC could not analyse a particular transaction or provide specific guidance on it, we are of the view that guidance on the accounting for modification of

[1] Letter to the IFRS IC: Accounting exposure to Greek sovereign debt, ESMA, April 2012 (ESMA/2012/248)

financial assets and on the assessment of expiry of contractual rights to cash flows for equity instruments is needed in order to avoid diversity in accounting for this type of transactions[2].

Even though no diversity in practice was identified in relation to the particular transaction described in the submission, the examples of accounting for Greek sovereign debt and accounting for increase of share capital of an entity from its reserves provide evidence that although this type of transactions is not widespread, it can have a significant impact on a number of entities and their reported financial performance.

Furthermore, in the current economic environment, it is expected that other significant transactions that include modification of financial assets will occur in the near future, thus increasing the risks that divergent accounting practices will become entrenched.

For all these reasons, and in order to promote transparency, achieve consistent application of IFRS and to set standards that are enforceable, ESMA urges the IFRS IC to reconsider its decision and refer the broader issue to the IASB to be addressed comprehensively.

We would be happy to discuss these issues further with you.

Yours sincerely,

Steven Maijoor
Chair
European Securities and Markets Authority

Cc: Hans Hoogervorst, Chair, International Accounting Standards Board

[2] Letter to the IFRS Interpretations Committee on tentative agenda decision on IAS 39 *Financial Instruments: Recognition and Measurement* – Accounting for different aspects of restructuring Greek government bonds, ESMA, August 2012 (ESMA/2012/465)