

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

Ref: The IFRS Interpretations Committee's tentative agenda decision on IFRS 9 and IAS 39 - Derecognition of modified financial assets

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 November 2015 IFRIC Update of the tentative agenda decision related to the application of IFRS 9 *Financial Instruments* and 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 progress with a potential narrow-scope project to clarify the guidance in IFRS 9 and IAS 39 about when a modification or exchange of financial assets results in the derecognition of the original asset. We noted that, because of the broad nature of the issue, the IFRS IC concluded that it could not be resolved through an Interpretation and instead would require an amendment to the Standards.

As ESMA pointed out on several occasions¹, IAS 39 and IFRS 9 do not provide sufficient guidance on accounting for the exchange or modification of financial assets. Although ESMA understands that the issue is complex and may be too broad to be resolved through an Interpretation, we are of the view that more guidance is necessary in order to avoid diversity in accounting for this type of transactions, especially in relation to equity instruments.

¹ E.g. Letter to the IFRS IC: The IFRS IC's tentative agenda decision on IAS 39 Financial Instruments: Recognition and Measurement – Holder's accounting for exchange of equity instruments, ESMA, October 2014, ESMA/2014/1211



As exemplified by the issues related to the accounting for Greek sovereign debt², this type of transactions can have a significant impact on a number of entities and their reported financial performance.

Furthermore, due to the current economic environment, it can be 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 become prevalent in different jurisdictions.

Therefore, in order to promote consistent application of IFRS and to set standards that are enforceable, and in line with ESMA's response to the IASB's 2015 Agenda Consultation,³ ESMA urges the IFRS IC to recommend to the Board to add this project to its active research agenda in the medium to long-term.

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

Yours sincerely,

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

Steven Maijoor

² Letter to the IFRS IC: Accounting exposure to Greek sovereign debt, ESMA, April 2012, ESMA/2012/248

³ Letter to the IASB: ESMA response to the IASB's Request for Views: 2015 Agenda Consultation, December 2015, ESMA, ESMA/2015/1740