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EFRAG
35 Square de Meeûs
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BELGIUM

3 November 2017

Re: Prepayment Features with Negative Compensation (Amendments to IFRS 9)

Dear Jean-Paul,

We are pleased to have the opportunity to provide our comments in order to contribute to the finalization of the EFRAG Draft Endorsement Advice on *Prepayment Features with Negative Compensation* (Amendments to IFRS 9) ("DEA").

On balance, we support the assessment made by EFRAG on the endorsement of the Amendments to IFRS 9.

However, we would like to take this opportunity to highlight our concerns on the clarification included in the Basis for Conclusions of the Amendments to IFRS 9 regarding the modification or exchange of a financial liability that does not result in derecognition (see paragraphs BC4.252-BC4.253 of the Amendments).

This issue was originally raised to the IFRS Interpretation Committee ("IFRS IC"). In March 2017, the IFRS IC issued a tentative agenda decision in which the IFRC IC concluded that:

- an entity applies paragraph B5.4.6 of IFRS 9 to a modification or exchange of a financial liability that does not result in the derecognition of the financial liability;
- the amortised cost of the modified financial liability shall be recalculated by discounting the modified contractual cash flows using the original effective interest rate; and
- any adjustment to the amortised cost of the financial liability is recognised in profit or loss as income or expense at the date of the modification or exchange.

In June 2017, on the basis of the comments received, the IFRS IC decided not to finalise this tentative agenda decision and to refer the matter to the IASB. Subsequently, the IASB decided to add two paragraphs (BC4.252-BC4.253) to the Basis for Conclusions of the Amendments to IFRS 9, to state that:

> *…the requirements in IFRS 9 provide an adequate basis for an entity to account for modifications and exchanges of financial liabilities that do not result in derecognition… .*

We acknowledge that the European Commission does not endorse the Basis for Conclusions and thus EFRAG is not required to give an advice on them. However, we think that this is the first time that a tentative agenda decision is "finalised" in the Basis for Conclusions of a different project. We also think that this "unusual" decision of the IASB does not solve the real problem that entities are facing now, that is the retrospective application of the requirements of IFRS 9 on modifications and exchanges of financial liabilities that do not result in derecognition.

We believe that this issue should have been addressed by the IASB issuing authoritative guidance, because this would have allowed for appropriate transitional provisions to apply to modifications occurred in past years.

Should you need any further information, please do not hesitate to contact us.

Yours sincerely,

Angelo Casò

(Chairman)