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IFRS Interpretations Committee
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Re: IFRS Interpretations Committee tentative agenda decisions published in the November 2018 IFRIC Update

Dear Ms Lloyd,

We are pleased to have the opportunity to provide our comments on the IFRS Interpretations Committee ("the Committee") tentative agenda decisions included in the September 2018 IFRIC Update.

Our comments refer to the following issues:

a. *Physical settlement of contracts to buy or sell a non-financial item (IFRS 9 Financial Instruments);*
b. *Customer's right to access the supplier's software hosted on the cloud (IAS 38 Intangible Assets);*
c. *Curing of a credit-impaired financial asset (IFRS 9 Financial Instruments).*

Physical settlement of contracts to buy or sell a non-financial item (IFRS 9)

We agree that in the fact pattern described in the tentative agenda decision IFRS 9 neither permits nor requires an entity to make the additional journal entries that would result in recognising inventory or revenues at the cash paid or received on settlement. However, we suggest to consider whether IAS 2 applies to the inventory received. In the case of an entity, which is also a broker-trader, we think that the conclusion reached in the tentative agenda decision is consistent with IFRS 9 and IAS 2, which permits broker-traders to measure their inventories at fair value.

Additionally we note that this tentative agenda decision could be read to imply that the cost of an asset (financial or non-financial) is the cash paid plus the fair value of the derivative on the settlement date (in the case of a purchase contract). We would disagree with this assertion.

Consequently, we:

- think that this broader issue (ie whether the cost of an asset include the fair value of a derivative on settlement date) should be addressed by the Committee or the IASB; and
- suggest the Committee to clarify in the final agenda decision that the conclusions reached are limited to the fact pattern described in the request and should not be applied by analogy to similar fact patterns.

Customer's right to access the supplier's software hosted on the cloud (IAS 38)

We agree with the Committee's conclusions on this issue.
The tentative agenda decision states that if the customer recognises an intangible asset, that asset shall be measured at cost.
We note that:

- IAS 38 does not specify whether the cost of an intangible asset includes some of the payments that may be required in the arrangements described in the fact pattern, such as variable payments or payments payable during optional periods;
- IFRS 16 includes measurement guidance that deal with variable payments and optional periods

We think that the Committee should clarify in its final decision whether, applying the hierarchy in paragraphs 10-12 of IAS 8, a customer may apply the measurement guidance in IFRS 16 by analogy to measure these intangible assets.

Curing of a credit-impaired financial asset (IFRS 9)

In summary, in its tentative agenda decision the Committee observes that:

- applying paragraph 5.5.8 of IFRS 9, an entity recognises in profit or loss as a reversal of expected credit losses the adjustment required to bring the loss allowance to the amount that is required to be recognised in accordance with IFRS 9 (zero if the asset is paid in full).
- The amount of this adjustment includes the effect of the unwinding of the discount on the loss allowance during the period that the financial asset was credit-impaired.
- Accordingly, following the curing of the credit-impaired financial asset, an entity is required to present in the statement of profit or loss the difference between the interest calculated on the gross carrying amount and the interest income recognised for credit-impaired financial assets ("the unrecognised interest") as a reversal of impairment losses.
- The requirements in existing IFRS Standards are adequate.

We think that IFRS 9 does not specify that the amount of adjustment referred to in paragraph 5.5.8. of IFRS 9 includes the effect of the unwinding of the discount on the loss allowance. Consequently, we disagree with the Committee's conclusion that the requirements in existing IFRS Standards are adequate. Indeed, we have been informed that there are diverging views on this issue. Some share the view of the Committee, whilst some other believe that such a reversal should be presented as interest revenues. We believe that both the views are correct being IFRS 9 not sufficiently clear on this.

We are aware that this issue is material in the banking industry; thus we think that the Committee should:

- propose an amendment to IFRS 9 to clarify the presentation in the statement of profit or loss of the unrecognised interest; and
- amend its decision in order to permit entities (in the meantime) to present the unrecognised interest as a reversal of impairment losses or as interest revenue (ie entities have an accounting policy choice in presenting the unrecognised interest).

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

Yours sincerely,

Angelo Casò
(Chairman)