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Re: IFRS Interpretations Committee tentative agenda decisions published in the June 2021 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 June 2021 IFRIC Update.

Our comments refer to the following issues:

a. Issue 1 – Economic Benefits from Use of a Windfarm (IFRS 16);
b. Issue 2 – TLTRO III transactions (IFRS 9 and IAS 20).

Issue 1 – Economic Benefits from Use of a Windfarm (IFRS 16)

We agree with the conclusion reached by the Committee that the contract described in the tentative agenda decision does not contain a lease. This is because the contract does not give to the customer the right to obtain any of the electricity the windfarm produces throughout the period of the agreement.

However, we suggest the Committee to complete its analysis and to clarify whether the contract is within the scope of IFRS 9

In completing its agenda decision the IFRS IC may consider the following elements:

i) The contract results in the customer settling, net in cash, with the supplier the difference between the fixed price and the spot prices per megawatt of electricity the windfarm supplies to the grid throughout the period of the agreement and

ii) the own-use exception is not applicable because the agreement does not provide a physical settlement between the customer and the supplier.

Issue 2 - TLTRO III transactions (IFRS 9 and IAS 20)

We observe that TLTRO are Eurosystem operations that provide financing to credit institutions at attractive conditions to stimulate bank lending to the real economy. The TLTRO, therefore, is an instrument of monetary policy issued by the EBC in its role of European institution responsible for the European monetary policy.

Entities usually apply IFRS 9 to account for TLTRO III transactions, because:

- the interest rate charged on the TLTRO III tranches has been considered a market interest rate;
- The instrument has not been considered a form of government assistance, because it is an instrument of monetary policy.

However, we have been informed that on this topic there may be divergence in practice. Consequently, we suggest the Committee to clarify whether banks are required to apply IFRS 9 or IAS 20 to account for TLTRO III transactions. The main element to be considered is whether the ECB meets the definition of government of IAS 20 or not. The ECB is acting in its role of independent central bank adopting measures towards bank according with its monetary policy operations and therefore not acting as a government agency. We then exclude that the ECB is considered a government and that IAS 20 may apply. We believe that a response of IFRIC without such element could be useless.

We note that both the interest rate on the main refinancing operations (MRO) and the borrowing rate in TLTRO III operations are instruments of the ECB's monetary policy operations and, as such, can be unilaterally changed by the ECB anytime. In theory, the ECB could have defined the TLTRO interest rate without any reference to the MRO rate.
Consequently, we disagree with the conclusion that the 50 basis points discount (given by the ECB on particular TLTRO III tranches) are considered as an example of fixed elements of a floating-rate financial instrument. In our view, the variable interest rate (including the 50-basis points discount) is a single rate, unilaterally established by the ECB, that should be accounted for applying paragraph B5.4.5.

In addition, we note that have the TAD addresses the calculation of effective interest rate and the subsequent measurement of the financial liability at amortised cost according to IFRS 9. It is unclear whether in this part of the response the Committee is assuming that the TLTRO tranches do not include a government grant. Indeed, we believe that if the tranches include a government grant, the initial and subsequent measurement of the IFRS

9 financial liability should be done excluding the cash flows already considered in the IAS 20 benefit. Otherwise, there is a risk of double counting.

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

Yours sincerely,
Angelo Casò
(Chairman)