[Draft Comment Letter]

Comments should be submitted by 15 January 2013 to Commentletters@efrag.org

21 December 2013

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

Dear Sir/Madam,

Re: Income and expenses arising on financial instruments with a negative yield

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on the tentative rejection notice on the *IAS 39 Financial Instruments: Recognition and Measurement, Negative interest rates: implications for presentation in the statement of comprehensive income* published by the IFRS Interpretations Committee ('the Interpretations Committee') in the IFRIC Update in September 2012 (the 'Draft Interpretation').

This letter is intended to contribute to the IASB's due process and does not necessarily indicate the conclusions that would be reached by EFRAG in its capacity as advisor to the European Commission on endorsement of a definitive Interpretation in the European Union and European Economic Area.

In our view, the wording for rejection used by the Committee in its publication of the 'IFRIC Update' to explain the agenda rejection is in itself akin to an interpretation. We urge the IFRS Interpretations Committee not to issue any rejection notice that would be akin to an interpretation. While rejection notices have no authoritative status, in practice, regulators do refer to rejection notices in the exercise of their enforcement responsibilities. In Europe, ESMA considers rejection notices to be part of the IFRS literature that preparers should comply with.

Rejection notices cannot add or interpret the existing requirements, as they are not subject to a full due process, and also not subject to an endorsement process in the European Union.

We observe that the IFRS Interpretations Committee conclusion that "the expense arising on a financial asset because of a negative effective interest rate should not be presented as interest revenue or interest expense, but in some other appropriate expense classification" is interpretative in nature, as it is currently not an explicit requirement.

Therefore, we suggest that the IFRS Interpretations Committee reconsiders its tentative decision and considers the letter dated 23 November 2012 received from the Accounting Standards Committee of Germany.

If you would like to discuss our comments further, please do not hesitate to contact Marc Labat or me.

Yours sincerely,

Françoise Flores

EFRAG Chairman

APPENDIX 1

Notes to constituents:

1. In September 2012, the IFRS Interpretations Committee discussed accounting for income and expenses arising on financial instruments with a negative yield.

2. The IFRS Interpretations Committee published a tentative rejection notice in the IFRIC Update in September 2012, in which it said:

   The Interpretations Committee noted that interest resulting from a negative effective interest rate on a financial asset does not meet the definition of interest revenue in IAS 18 *Revenue* because it reflects a gross outflow, instead of a gross inflow, of economic benefits. The Interpretations Committee also noted that this amount is not an interest expense because it arises on a financial asset instead of on a financial liability of the entity. Consequently, the expense arising on a financial asset because of a negative effective interest rate should not be presented as interest revenue or interest expense, but in some other appropriate expense classification. The Interpretations Committee noted that in accordance with paragraphs 85 and 112(c) of IAS 1 *Presentation of Financial Statements*, the entity is required to present additional information about such an amount if that is relevant to an understanding of the entity's financial performance or to an understanding of this item.

3. On 23 November 2012, the DRSC sent a letter to the Interpretations Committee in which it suggested that 'the IFRS IC reconsider and change its tentative decision such that interest cash flows can exceptionally and temporarily be negative with the nature of interest revenue still being preserved. As argued [in the DRSC letter], negative interest yield from a financial asset should be presented as part of interest revenue, thus, being part of interest (net) income.'

4. The DRSC agrees with the Interpretations Committee that negative yields cannot be considered interest expenses and that interest revenue and interest expenses must not be offset. However, they believe that both positive and negative interest cash flows from a financial asset are revenue and that therefore, adding (temporarily) negative interest cash flows (i.e. negative yield) with positive interest cash flows does not violate offsetting constraints. The DRSC viewed it rather as an aggregation matter.

EFRAG's response

5. In our view, the wording for rejection used by the Committee in its publication of the 'IFRIC Update' to explain the agenda rejection is in itself akin to an interpretation. We urge the IFRS Interpretations Committee not to issue any rejection notice that would be akin to an interpretation.

Question to constituents

6. Do you agree with EFRAG comment letter about the **IFRS Interpretations Committee** tentative decision?

7. Are there any additional arguments that you have identified and would like EFRAG to consider?