

**Organismo Italiano di Contabilità – OIC
(The Italian Standard Setter)**

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IFRS Interpretations Committee

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Re: Tentative agenda decision on IAS 39 Financial Instruments: Recognition and Measurement – Accounting for different aspects of restructuring Greek government bonds

Dear Sir/Madame,

We are pleased to have the opportunity to comment on the tentative agenda decision taken by the IFRS Interpretation Committee (IFRS IC) on the *Accounting for different aspects of restructuring Greek government bonds*.

We substantially agree with the IFRS IC's conclusion that the old Greek government bonds should be derecognised in their entirety and therefore the issue should not be added to the agenda of IFRS IC. However, we would like to point out the following aspects.

- The IFRS IC argues that the derecognition occurs in this case in accordance with the paragraph 17(a), i.e. due to the fact that the cash flows are to be considered expired, and not for the paragraph 17(b) providing the transfers of the contractual rights to receive the cash flows of the financial asset.

We do not believe correct the argument used by IFRS IC which moves from the fact that the transfer of the contractual rights to receive the cash flows under IAS 39.17(b) is possible only when the debtor (i.e. the subject who has to pay those cash flows) is different from the transferee.

This assumption is not always verified: indeed, it is a common situation that an entity buys back its own debt securities/shares. This transaction qualifies – for both parties, the seller and the

buyer – as a transfer for purposes of, respectively, de-recognition and recognition, even if one party is also the issuer of the instrument being traded.

- The IFRS IC argues that it can be concluded for derecognition also by analogy with the requirements for the derecognition of financial liabilities. We agree with the conclusion from a substantive point of view, when the subject of renegotiation is not an impaired financial asset (see the following bullet point). However, it seems legitimate to ask why, if the application by analogy to financial assets is correct, this provision has not been explicitly provided in the IAS 39. Therefore, we suggest to consider carefully the consequences of the tentative decision, that should result, through the annual improvements, in a clear requirement in IAS 39;
- The transaction, considered as a whole, is a restructuring of creditors' exposure to the Greece. In fact, IAS 39.59(c) specifies that granting to a borrower, for economic or legal reasons relating to his financial difficulty, a concession that the lender would not otherwise considered is an indicator of impairment. This means that, according to this approach, the post-restructuring exposure should be classified as "impaired" (in a sort of continuity between old and new) and that the loss should be classified as an "impairment loss". However it has to be recognized that, when the restructuring involves the transformation of the original exposure in a different legal form (e.g. conversion of a mortgage in a borrower's shares), it is inevitable to register the derecognition of the old exposure (loan) and the recognition of the new exposure (equity). In addition, in this case it is very likely that *before* the restructuring, the creditors would hold the Government Greek Bonds in different portfolios (some valued at cost, others at fair value) and *after* the restructuring they could have made a different allocation of new securities issued. Therefore, for simplicity and considering that the application of the provision in IAS 39.59(c) is relevant only when both *before and after* the restructuring the securities are allocated to a portfolio valued at amortized cost, we believe that in most cases the outcome of the IFRS IC approach does not substantially differ – in term of measurement – from that achievable when considering that renegotiation as a restructuring. However, in order to avoid unintended consequences, we urge that the IFRS IC final decision clarifies that the approach followed in this case (consisting in breaking the initial exposure into more tranches and therefore reasoning separately on each one as it was a stand-alone exposure) is due to the peculiarities of the specific case considered (sovereign debt, support from the international community, etc..) and cannot be applied by analogy to other situations (e.g. restructuring of a corporate exposure).

With reference to the other issue regarding the accounting for the GDP-linked security granted as part of the renegotiation of Greek Government Bonds, in our opinion the statement that the GDP is not a "non-financial variable" is highly questionable. In fact, both the IFRS 9.IG.B.8 and the IFRS 9.B4.3.8 (f) (ii) clearly indicate that revenues and sales specific to one party of the derivative are considered as "financial" variables. This interpretation is confirmed by the fact that in the IFRS 9 the reference to "non-financial variables" has been introduced merely to distinguish derivative instruments from insurance contracts.

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

Yours sincerely,

Angelo Casò
(Chairman)