STAFF PAPER

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IFRS Interpretations Committee Meeting

Project	IFRS 9 *Financial Instruments*/IAS 39 *Financial Instruments: Recognition and Measurement*		
Paper topic	Derecognition of modified financial assets		
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Introduction

1. The purpose of this paper is to consider whether the IFRS Interpretations Committee ('the Interpretations Committee') should progress, at this time, its consideration of a potential project to clarify the guidance in IFRS 9 *Financial Instruments* (and IAS 39 *Financial Instruments: Recognition and Measurement*) about when a modification or exchange of financial assets results in the derecognition of the original asset.

2. The Interpretations Committee asked the staff to:

   (a) investigate whether a sufficiently narrow-scope project to provide more guidance on the derecognition of modified or exchanged financial assets in IFRS 9 (and IAS 39) could be identified, which could then be proposed to the IASB; and

   (b) to informally sound out the IASB members' thoughts on taking on such a project at this time, if such a sufficiently narrow-scope project were to be identified.

3. We carried out an initial analysis of the key technical considerations that might arise when defining a narrow-scope project on the derecognition of modified or exchanged financial assets.

4. In addition, we informally consulted most IASB members at various meetings to obtain their individual views about whether to take on such a project at this time, if a sufficiently narrow-scope issue were to be identified.

5. On the basis of the informal views expressed by individual IASB members and our initial identification of the key considerations that might arise when defining such a narrow-scope project, we recommend that the Interpretations Committee should not pursue this issue at this time.

6. This paper sets out:

   (a) the issue;

   (b) background information;

   (c) a summary of informal feedback from IASB members;

   (d) a technical analysis that summarises:

      (i) the impact of the possible derecognition of a modified or exchanged financial asset; and

      (ii) some of the key technical issues that may arise when identifying whether narrow-scope guidance could be developed; and

   (e) the staff recommendation.

7. This paper does not analyse or attempt to identify an accounting solution to the question about how to determine whether a modified or exchanged financial asset is derecognised.

The issue

8. The Interpretations Committee has received, in connection with other more specific issues, a few requests for more generic guidance in IAS 39 and IFRS 9 on the derecognition of financial assets that have been modified or exchanged.

9. The Interpretations Committee considered that providing such generic guidance would be too broad for the Interpretations Committee to deal with itself. In addition, the Interpretations Committee acknowledged that this more general

matter has been raised previously with the IASB, but that it had decided not to add such a project to its agenda at that time (see paragraphs 28 and 32).

10. In response to the comments received, the Interpretations Committee asked the staff to perform further analysis to identify whether an issue of sufficiently narrow scope could be identified to be raised with the IASB. However, the Interpretations Committee also asked the staff to informally sound out the IASB members' thoughts on taking on such a project at this time, if a sufficiently narrow-scope issue were to be identified.

Background

11. In this section we look at:

    (a) the derecognition guidance in IFRS 9 and IAS 39;

    (b) relevant derecognition issues considered by the Interpretations Committee;

    (c) the IASB/FASB joint derecognition project; and

    (d) requests for clearer guidance received to date.

Derecognition guidance in IFRS 9 and IAS 39

12. The derecognition requirements in IFRS 9 for both financial assets and financial liabilities were brought forward from IAS 39 unchanged.

Derecognition of financial assets

13. The derecognition requirements for financial assets are set out in paragraphs 3.2.1-3.2.23 of IFRS 9 and paragraphs 15-37 of IAS 39.

14. The derecognition requirements for financial assets are complex and are summarised in the decision tree that is reproduced in Appendix A.

15. All the steps summarised in the decision tree are important. However, in this paper we refer to two particular aspects of the derecognition requirements (see paragraphs 25-26 and 45-46). This is because the Interpretations Committee

specifically considered these aspects during its discussions relating to the previous requests for guidance.

16. The first aspect is that entities should consider whether the contractual rights to the cash flows from the asset *expire* (paragraph 3.2.3(a) of IFRS 9/paragraph 17 of IAS 39). If so, the asset should be derecognised.

17. Secondly, if the contractual rights to the cash flows have not expired, entities should consider whether the entity *transfers* the financial asset (paragraphs 3.2.3(b)-3.2.5 of IFRS 9/paragraphs 17(b)-19 of IAS 39).[1] When an entity transfers a financial asset, it shall evaluate the extent to which it retains the *risks and rewards* of ownership of the financial asset. In this case:

    (a) if the entity transfers substantially all the *risks and rewards* of ownership of the financial asset, the entity shall derecognise the financial asset and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer (paragraph 3.2.6(a) of IFRS 9/paragraph 20(a) of IAS 39); but

    (b) if the entity retains substantially all the *risks and rewards* of ownership of the financial asset, the entity shall continue to recognise the financial asset.

18. Unlike the derecognition requirements for financial liabilities, there is no specific guidance in IFRS 9 or IAS 39 about whether financial assets that are modified or exchanged should be derecognised.

Derecognition of financial liabilities

19. The derecognition requirements for financial liabilities are set out in paragraphs 3.3.1-3.3.4 of IFRS 9 and paragraphs 39-42 of IAS 39.

20. Paragraph 3.3.1 of IFRS 9 (paragraph 39 of IAS 39) states that an entity should derecognise a financial liability (or part of it) when and only when it is

[1] Paragraph 3.2.4 of IFRS 9 and paragraph 81 of IAS 39 state that an entity transfers a financial asset if, and only if, it either: (a) transfers the contractual rights to receive the cash flows of the financial asset, or (b) retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement that meets the conditions in paragraph 3.2.5 of IFRS 9 or paragraph 19 of IAS 39.

extinguished–ie when the obligation specified in the contract is discharged or cancelled or expires.

21. In addition, paragraph 3.3.2 of IFRS 9 (paragraph 40 of IAS 39) gives specific requirements in respect of modifications and exchanges of financial liabilities with the same lender, as follows:

> **3.3.2** An exchange between an existing borrower and lender of debt instruments with substantially different terms shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

22. Paragraph B3.3.6 of IFRS 9 (paragraph AG62 of IAS 39) introduces the concept of a quantitative '10 per cent test':

> **B3.3.6** For the purpose of paragraph 3.3.2, the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability…

Interpretations Committee Agenda Decisions

23. The Interpretations Committee has considered two specific issues in connection with the derecognition of exchanged financial assets.

24. The first was about whether holders of Greek Government Bonds ('GGB') should derecognise the original GGBs on their exchange for different GGBs. See Appendix B for the Interpretations Committee's agenda decision as given in *IFRIC Update* for September 2012.

25. The Interpretations Committee considered whether the transaction should be assessed as:

    (a) an expiry (ie when the contractual rights to the cash flows from the asset expire) (see paragraph 16); or

    (b) a transfer (ie when the entity transfers the contractual rights to receive the cash flows of the financial asset) (see paragraph 17).

26. The key conclusions reached by the Interpretations Committee, in this specific case, were that:

    (a) although 'transfer' is not defined in IFRS 9/IAS 39, the issue should be assessed as an expiry of cash flows. This is because the transfer of the original GGBs in exchange for the new GGBs were to the issuer, instead of to a third party.

    (b) either of the following approaches would lead to derecognition of the original GGBs:

        (i) as an expiry of cash flows in accordance with paragraph 17(a) of IAS 39 (paragraph 3.2.3(a) of IFRS 9); or

        (ii) as a substantial change of the terms of the original GGBs, by analogy to the requirements for modified financial liabilities, as summarised in paragraph 21.

27. The second issue considered by the Interpretations Committee was about the accounting by the holders of an equity instrument that was exchanged for a new equity instrument issued by the same issuer. As noted in the *IFRIC Update* for November 2014 (see Appendix C), the Interpretations Committee decided not to add this specific issue to its agenda because the issue was not widespread and the submitter had not identified significant diversity in accounting for the particular transaction. Consequently, the Interpretations Committee did not analyse or discuss how to account for that specific transaction.

IASB/FASB joint derecognition project

28. The IASB has already undertaken a comprehensive derecognition project, jointly with the FASB. In March 2009, the IASB published an Exposure Draft that focussed on new proposals for the derecognition of (i) transfers of financial assets and (ii) financial liabilities. However this project was curtailed in June 2010 and the proposals were not taken forward, other than for the disclosures of transferred assets. In making that decision, the IASB noted the feedback it had received from national standard-setters on the largely favourable effects of the IFRS derecognition requirements during the financial crisis.

Requests for clearer guidance

29. Requests for clearer guidance on the derecognition of modified or exchanged financial assets have not arisen from any specific outreach by the IASB or the Interpretations Committee. Instead, some comments have been received in response to other matters, as noted below.

30. The Interpretations Committee received requests for more generic guidance for modified financial assets from a few respondents to tentative agenda decisions in respect of the two specific derecognition issues noted in paragraphs 23-27 (ie, in respect of the exchange of Greek Government Bonds and an exchange of equity instruments).

31. The reasons given by these respondents for calling for more guidance were that:

    (a) respondents report that in the current economic climate there are more frequent and significant debt restructurings taking place;

    (b) the potential for diversity in practice, given that there is not much guidance in IAS 39/IFRS 9; and

    (c) addressing the wider issue would promote transparency, achieve consistent application of IFRS and improve the enforceability of the Standards.

32. In addition, many respondents to the IASB's Exposure Draft *Financial Instruments: Expected Credit Losses*, which was published in 2013,

requested clarification on when a modification results in derecognition. However a number of respondents noted that developing guidance in this area would be a significant undertaking and urged that it should not delay the general impairment model, but should instead be addressed as a separate project. At the time, the IASB observed that this is a non-trivial question that is currently outside the scope of the impairment project. Furthermore, the time and resources required to develop such guidance would be substantial and could result in delaying finalising of the impairment project if it were to be developed in parallel. Consequently, the IASB decided not to develop further guidance on when a modification of a financial asset results in derecognition within the confines of the IFRS 9 impairment project.

Informal feedback from IASB members

33. We consulted most IASB members at various meetings to obtain their individual views on whether to take on such a project at this time, if a sufficiently narrow scope issue were to be identified. We did not ask the IASB members to make any decisions when we consulted them.

34. At those meetings we provided some background information and the staff's initial identification of the key technical considerations that might arise when defining narrow-scope guidance on the derecognition of modified or exchanged financial assets, as described in this paper. The primary focus of the IASB members' comments was not on the specific technical aspects identified by the staff, but was instead on whether to take on such a project at this time.

35. The IASB members consulted were of the view that it would be better not to take on a project about the derecognition of modified financial assets at this time, although a few IASB members noted that this would be subject to the outcome of the current Agenda Consultation. In summary, the main reasons given for such a view were that:

    (a) this is not a new issue, because the guidance for the derecognition of financial assets has been around for a long time unchanged. Some

IASB members observed that, up to now, assessments in practice have been made based on the current guidance.

(b) there is little evidence of a need for more guidance.

(c) this is a very judgemental area and therefore there is a limit on what any new guidance could achieve.

(d) it will be difficult to keep the scope of any amendment narrow, because of the complexity of the derecognition requirements and there is a danger that a narrow-scope amendment might create more problems than it solves.

(e) this does not appear to be a fatal flaw and therefore some IASB members expressed reluctance to amend a new Standard before it has been implemented and applied in practice.

Technical analysis

36. In this section, we first look at the impact of the possible derecognition of a modified or exchanged financial asset.

37. Secondly, we consider some of the key technical issues that may arise when identifying whether guidance could be developed on a narrow-scope basis.

Does it matter whether modified assets are derecognised?

38. Whether modified or exchanged financial assets are derecognised determines whether a new financial asset should be recognised on modification (at fair value on initial recognition at the date of the modification) or whether the existing financial asset should continue to be recognised.

39. This means that, in accordance with IFRS 9:

(a) for all derecognised financial assets, the newly recognised ‘modified’ financial assets may be classified on a different measurement basis from that of the original asset. For example, if the new asset is now managed under a different business model, it may be measured at amortised cost or fair value through other comprehensive income (FVOCI) instead of fair value though profit or loss (FVPL). Without derecognition of the original asset, such a reclassification would be prohibited unless otherwise allowed for under the Standard.

(b) for derecognised debt instruments that are measured at amortised cost and FVOCI, the amount of expected credit losses recognised in accordance with the IFRS 9 impairment requirements may differ from the amount that would otherwise be recognised. This is because significant increases in credit risk are determined from the date of initial recognition of the financial asset.

Key technical considerations

40. We have considered some of the key technical issues that may arise when developing narrow-scope guidance. Our initial analysis has identified the following, which are discussed below:

(a) defining what we mean by 'modified financial assets' for derecognition purposes;

(b) distinguishing between modifications and transfers of financial assets;

(c) how a substantial modification of a financial asset might be determined; and

(d) implications for the derecognition of financial liabilities.

41. This section highlights some of the challenges that may arise when developing narrow-scope guidance. However, at this stage, we are not attempting to analyse or find solutions to the issues identified.

Defining what we mean by modified financial assets

42. Modifications and exchanges of financial instruments are not formally defined in IFRS 9. However some limited explanation is given within the context of the derecognition requirements for financial liabilities (see paragraph 21).

43. Defining or describing what is meant by a modification of a financial instrument for the purposes of applying any guidance on derecognition is part of the consideration of the scope of any guidance. In doing so, we would need to consider:

(a) which parties are involved in a modification (eg is it the existing holder and issuer only?);

(b) whether a modification would be restricted to changes to the original contractual cash flows or would it also include other non-cash changes to the original terms (eg covenant terms, bankruptcy rights);

(c) which transactions, including linked transactions, are considered to be modifications. From the holder's perspective the same economic modification can be transacted in different ways. Should they all be accounted for as modifications? For example, the interest cash flows of a financial asset could be modified through either:

(i) an amendment to the original contractual terms of the instrument ('renegotiating' the original contract);

(ii) exchanging the original instrument for a new instrument that is identical except for the revised interest cash flows (an 'exchange'); and

(iii) keeping the original instrument and entering into an interest rate swap with the issuer that swaps the original cash flows with the revised interest cash flows ('linking' a new derivative with the original asset).

44. The guidance on the derecognition of financial liabilities in IFRS 9 and IAS 39 already introduces the concept that both an exchange between an existing borrower and lender of debt instruments with substantially different terms and a substantial modification of the terms of an existing financial liability should be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. However, 'linking' a new derivative with an existing financial asset for derecognition and, by implication, treating the two as one for subsequent accounting purposes, could have significant consequences.

Distinguishing between modifications and transfers of financial assets

45. If new guidance is developed on the derecognition of modified financial assets, a key issue that arises is whether there would be any implications for the existing derecognition requirements for 'transferred' assets. There would need to be clarity about in which circumstances the existing transfer requirements apply (which incorporate a risks and rewards approach (see paragraph 17)) or any new guidance for modified financial assets.

46. For example, if an entity sells a bond to a transferee and enters into a total return swap over the bond with the transferee, the existing derecognition requirements for transferred assets would prohibit derecognition of the bond because the entity has retained substantially all the risks and rewards (see paragraph B3.2.16(o) of IFRS 9). However if the entity enters into the same transaction, but with the issuer of the bond instead of with a third party, should the transaction still be accounted for as:

    (a) a transfer of the bond (because economically the entity is in a similar position whether it transacts with the issuer or with a third party); or

    (b) a modification of the bond, which could result a different outcome?

How a substantial modification of a financial asset might be determined

47. Any potential project would need to consider in which circumstances modifications of financial assets should result in derecognition. If an approach similar to that for financial liabilities is adopted (ie a 'substantial' modification or exchange between the holder and issuer results in derecognition of the financial asset), then a qualitative test or a quantitative test, or both, could be developed.

48. A qualitative test would be more principle-based. However, by avoiding a bright-line test, it becomes more judgemental and may not satisfy the request for clearer guidance.

49. If a quantitative test is introduced, perhaps similar to the 10 per cent test for liabilities, then it would be necessary to consider its suitability or how to adapt it for financial assets. For example:

(a) for debt instruments measured at amortised cost or FVOCI, would the cash flows being considered be based on the contractual cash flows, or the expected cash flows after expected credit loss and write-offs?

(b) how would a qualitative test work for equity and hybrid financial instruments, because equity cash flows are discretionary and so the holder has no contractual right to cash flows?

Implications for derecognition of financial liabilities

50. If new guidance is developed for the derecognition of modified financial assets, there may be a need to consider the potential implications for the derecognition of financial liabilities. This may depend upon the view as to how much symmetry there should be between the issuer and holder of an instrument on the derecognition of the instrument.

51. It would be necessary to consider whether any specific guidance on the derecognition of modified financial assets (including any definition of 'modification') would apply to the derecognition of modified financial liabilities either by analogy or directly (through a revision of the existing requirements).

52. For example, if a specific qualitative test was introduced to determine whether modified financial assets are derecognised, should it similarly be explicitly introduced for the derecognition of modified financial liabilities?

Staff recommendation

53. We acknowledge that there have been some requests for clearer guidance in this area. However, we recommend that the Interpretations Committee should not progress, at this time, its consideration of whether a potential project to clarify the derecognition of modified financial assets with a sufficiently narrow scope can be identified. This is because:

(a) we think that the technical considerations identified above highlight that it may be difficult to develop guidance within a narrow-scope project, in particular because:

(i) of the potential overlap with, and implications for, the derecognition of transferred financial assets, linkage of transactions and the derecognition of modified financial liabilities; and

(ii) such a project would be complex. These complexities also mean that such a project could require a significant amount of time and resources.

(b) the IASB has previously considered, in late 2013, whether to develop further guidance on when a modification of a financial asset results in derecognition and decided not to, recognising that this is a non-trivial question that would require significant time and resources (see paragraph 32).

(c) the existing derecognition requirements are not new and, although there have been some requests for clearer guidance, there is limited evidence to date of a pressing need for new guidance. Furthermore, the Interpretations Committee's agenda decision in September 2012, which was based on the GGB exchange scenario, already provides some help in practice. In addition, this can be a judgemental area and so there might be a limit as to the extent of the clarity any new additional guidance could achieve.

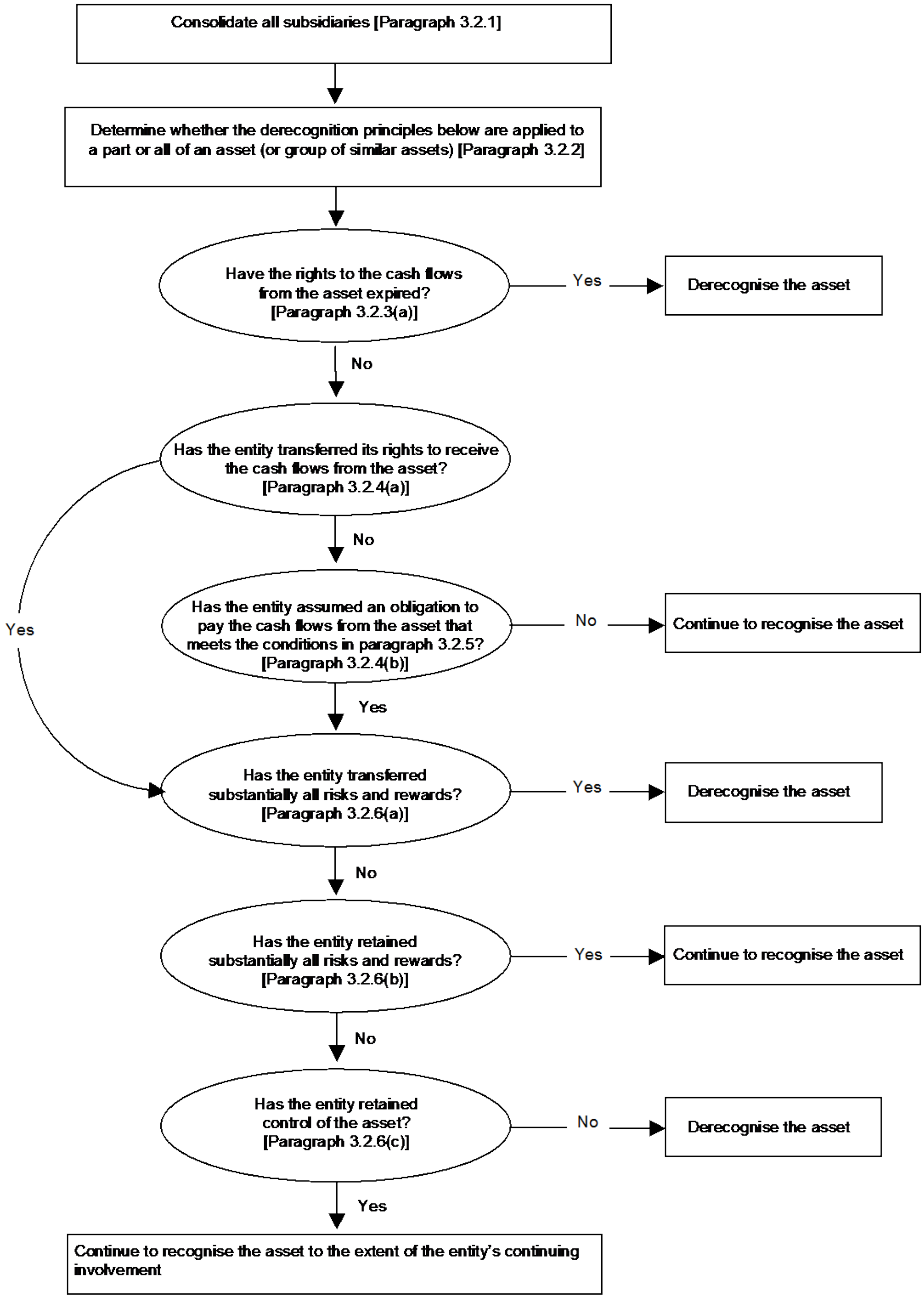
(d) our informal soundings of individual members of the IASB indicate that there is little appetite among IASB members to take on such a project at this time, for the reasons noted in paragraph 35.

Question for Interpretations Committee
Do you agree with the staff recommendation not to progress, at this time, further consideration of whether a potential project to clarify the derecognition of modified financial assets with a sufficiently narrow scope can be identified to be proposed to the IASB?

Appendix A

IFRS 9 Derecognition of financial assets decision tree

B3.2.1 The following flow chart illustrates the evaluation of whether and to what extent a financial asset is derecognised.



Appendix B

IFRIC Update September 2012 (Greek Government Bond exchange)

IAS 39 *Financial Instruments: Recognition and Measurement*—Derecognition of financial instruments upon modification

The Interpretations Committee received a request for guidance on the circumstances in which the restructuring of Greek government bonds (GGB) should result in derecognition in accordance with IAS 39 of the whole asset or only part of it. In particular, the Interpretations Committee has been requested to consider whether:

- the portion of the old GGBs that are exchanged for twenty new bonds with different maturities and interest rates should be derecognised, or conversely accounted for as a modification or transfer that would not require derecognition?
- IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* would be applicable in analysing the submitted fact pattern?
- either paragraphs AG8 or AG62 of IAS 39 would be applicable to the fact pattern submitted if the GGBs were not derecognised?

Exchange of financial instruments: derecognition?

The Interpretations Committee noted that the request has been made within the context of a narrow fact pattern. The narrow fact pattern highlights the diversity in views that has arisen in relation to the accounting for the portion of the old GGBs that is exchanged for twenty new bonds with different maturities and interest rates. The submitter asked the Interpretations Committee to consider whether these should be derecognised, or conversely accounted for as a modification or transfer that would not require derecognition.

In addition, the Interpretations Committee has been asked to consider whether IAS 8 would be applicable in analysing the submitted fact pattern, and whether the exchange can be considered to be a transfer within the scope of paragraph 17(b) of IAS 39.

The Interpretations Committee observed that the term ‘transfer’ is not defined in IAS 39. However, the potentially relevant portion of paragraph 18 of IAS 39 states that an entity transfers a financial asset if it transfers the contractual rights to receive the cash flows of the financial asset. The Interpretations Committee noted that, in the fact pattern submitted, the bonds are transferred back to the issuer rather than being transferred to a third party. Accordingly, the Interpretations Committee believed that the transaction should be assessed against paragraph 17(a) of IAS 39.

In applying paragraph 17(a), the Interpretations Committee noted that, in order to determine whether the financial asset is extinguished, it is necessary to assess the changes made as part of the bond exchange against the notion of ‘expiry’ of the rights to the cash flows. The Interpretations Committee also noted that, if an entity applies IAS 8 because of the absence in IAS 39 of an explicit discussion of when a modification of a financial asset results in derecognition, applying IAS 8 requires judgement to develop and apply an accounting policy. Paragraph 11 of IAS 8 requires that, in determining an appropriate accounting policy, consideration must first be given to the requirements in IFRSs that deal with similar and related issues. The Interpretations Committee noted that, in the fact pattern submitted, that requirement would lead to the development of an analogy to the notion of a substantial change of the terms of a financial liability in paragraph 40 of IAS 39.

Paragraph 40 sets out that such a change can be effected by the exchange of debt instruments or by modification of the terms of an existing instrument. Hence, if this analogy to financial liabilities is applied to financial assets, a substantial change of terms (whether effected by exchange or by modification) would result in derecognition of the financial asset.

The Interpretations Committee noted that, if the guidance for financial liabilities is applied by analogy to assess whether the exchange of a portion of the old GGBs for twenty new bonds is a substantial change of the terms of the financial asset, the assessment needs to be made taking into consideration all of the changes made as part of the bond exchange.

In the fact pattern submitted, the relevant facts led the Interpretations Committee to conclude that, in determining whether the transaction results in the derecognition of the financial asset, both approaches (ie extinguishment under paragraph 17(a) of IAS 39 or substantial change of the terms of the asset) would result in derecognition.

The Interpretations Committee considered the following aspects of the fact pattern in assessing the extent of the change that results from the transaction:

- A holder of a single bond has received, in exchange for one portion of the old bond, twenty bonds with different maturities and cash flow profiles as well as other instruments in accordance with the terms and conditions of the exchange transaction.
- All of the bond-holders received the same restructuring deal irrespective of the terms and conditions of their individual holdings. This indicates that the individual instruments, terms and conditions were not taken into account. The different bonds (series) were not each modified in contemplation of their respective terms and conditions but were instead replaced by a new uniform debt structure.
- The terms and conditions of the new bonds are substantially different from those of the old bonds. The changes include many different aspects, such as the change in governing law; the introduction of contractual collective action clauses and the introduction of a co-financing agreement that affects the rights of the new bond holders; and modifications to the amount, term and coupons.

The Interpretations Committee noted that the starting point that it used for its analysis was the assumption in the submission that the part of the principal amount of the old GGBs that was exchanged for new GGBs could be separately assessed for derecognition. The Interpretations Committee emphasised that this assumption was more favourable for achieving partial derecognition than looking at the whole of the old bond. Hence, its conclusion that the old GGBs should be derecognised would apply even more so when taking into account that the exchange of the old GGBs was, as a matter of fact, the result of a single agreement that covered all aspects and types of consideration for surrendering the old GGBs. As a consequence, the Interpretations Committee noted that partial derecognition did not apply.

Consequently, the Interpretations Committee decided not to add the issue to its agenda.

Application of paragraphs AG62 or AG8 of IAS 39 to the submitted fact pattern

The Interpretations Committee noted that the questions raised by the submitter assume that the old GGBs in the fact pattern would not be derecognised. In the submitted fact pattern, the Interpretations Committee concluded that the old GGBs are derecognised. The Interpretations Committee noted that, because of its conclusion on derecognition, these questions did not need to be answered.

Appendix C

IFRIC Update November 2014 (Holders accounting for exchange of equity instruments)

IAS 39 *Financial Instruments: Recognition and Measurement*—Holder's accounting for exchange of equity instruments

The Interpretations Committee received a request about the accounting by the holder of equity instruments in the circumstance in which the issuer exchanges its original equity instruments for new equity instruments in the same entity but with different terms. Specifically, this transaction involved equity instruments issued by a central bank, and the exchange of instruments was imposed on the holders as a consequence of a change in legislation.

The submitter asked whether the holders of the equity instruments should account for this exchange under IAS 39 as a derecognition of the original equity instruments and the recognition of new instruments.

The Interpretations Committee observed that:

a. because of the unique nature of the transaction, the issue is not widespread; and
b. the submitter had not identified significant diversity in accounting for this transaction among the holders of the equity instruments in question.

For these reasons, the Interpretations Committee decided not to add this specific issue to its agenda.

The Interpretations Committee additionally noted requests for more guidance in IAS 39 and IFRS 9 on the derecognition of financial assets that have been modified or exchanged. The staff observed that this more general matter had been raised previously with the IASB but that it had decided not to add such a project to its agenda. The Interpretations Committee asked the staff to perform further analysis to identify whether an issue of sufficiently narrow scope could be identified to be raised with the IASB. The staff's analysis will be considered at a future Interpretations Committee meeting.