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Ms Sue Lloyd  
International Accounting Standards Board  
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30 Cannon Street  
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Our ref CS/288

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Dear Ms Lloyd

**Tentative agenda decision: Presentation of interest revenue for particular financial instruments (IFRS 9 *Financial Instruments* and IAS 1 *Presentation of Financial Statements*)**

We appreciate the opportunity to comment on the IFRS Interpretations Committee's (the Committee) tentative agenda decision *Presentation of interest revenue for particular financial instruments (IFRS 9 Financial Instruments and IAS 1 Presentation of Financial Statements)* (IFRIC Update November 2017). We have consulted with, and this letter represents the views of, the KPMG network.

The original submission related to the effect of paragraph 82(a) of IAS 1 on the presentation of 'interest' income and expense from trading derivatives separately from other fair value gains and losses. We do not believe that the tentative agenda decision effectively addresses that question. Additionally, we believe that the tentative agenda decision instead provides inappropriately restrictive guidance regarding the presentation of interest revenue from non-derivative financial assets.

*Non-derivative financial assets*

We disagree with the Committee's tentative conclusion that the separate presentation required by IAS 1.82(a) can apply only to those financial assets that are subsequently measured at amortised cost or fair value through other comprehensive income (FVOCI). We believe that an entity is not precluded from presenting interest revenue as 'interest revenue calculated using the effective interest method' for non-derivative financial assets measured at fair value through profit or loss (FVTPL) if:

- the entity calculates the interest revenue using the 'effective interest method' (EIM) as described in IFRS 9, and
- either the financial asset meets the SPPI criterion or, if not, calculation and presentation of interest revenue is appropriate in the context of the economic characteristics of the asset.

This is because:

- IFRS 7.B5(e) (under both IAS 39 and IFRS 9), which requires disclosure of whether the net gains or net losses on items at FVTPL include interest or dividend income, suggests that presentation of interest revenue from financial assets measured at FVTPL is acceptable.
- While the definition of EIM and related terms in Appendix A of IFRS 9 are used (and are required to be used) for assets measured at amortised cost or at FVOCI, neither IFRS 9 nor IAS 1 precludes an entity from using the same concept to calculate and present interest revenue for particular non-derivative financial assets measured at FVTPL.
- IAS 1.82(a) refers to interest revenue calculated using the EIM, but it does not state that this calculation must have been required by IFRS 9.
- Although the definition of EIM and related definitions are primarily relevant for instruments measured at amortised cost and FVOCI, they are given in Appendix A of IFRS 9 – i.e. they are not part of the amortised cost and FVOCI measurement chapters in IFRS 9, suggesting they could be applied in other cases.

#### *Derivative instruments*

The tentative agenda decision states that the Committee did not consider any other presentation requirements in IAS 1 or broader matters related to the presentation of other 'interest' amounts in the statement of comprehensive income. There is currently diversity in practice regarding the presentation of accrued coupons on derivatives that are not designated as hedging instruments as 'interest' income or expense. The original submission related to this matter and we recommend that the Committee address it effectively.

Except for derivatives designated as hedging instruments (or, as an alternative, where a non-derivative financial asset is designated as at FVTPL to eliminate or reduce an accounting mismatch), we believe that it is inappropriate to present (separately from other changes in fair value) accruals on interest rate derivatives as interest revenue or in a similarly labelled line item (such as 'other interest income'), for the following reasons:

- These accruals are not calculated using the EIM so cannot be described as interest revenue calculated using the EIM.
- The interest accrual on a derivative is not a return on any actual principal amount invested (i.e. it is different from the return on an investment in a non-derivative) – it is just the result of applying a formula to a 'notional' principal amount and is not similar to applying the EIM.
- This is supported by the IASB's observation in IFRS 9.B4.1.9 that cash flows on derivatives do not have the economic characteristics of interest.

- IFRS 9 requires the total fair value gain or loss on a derivative to be included in profit or loss – there is nothing in IFRS for these cases that would support a split between an interest accrual and other fair value gains or losses or saying that the resulting line items and sub-totals are made up of amounts recognised and measured in accordance with IFRS (see IAS 1.85A(a)).
- An entity applying this approach effectively aims to achieve a presentation for net interest income similar to applying hedge accounting. This should not be possible unless the entity does apply hedge accounting or uses the fair value option designation as an alternative to hedge accounting.

The tentative agenda decision would merely clarify that an entity could not include these interest accruals in ‘interest revenue calculated using the EIM’ under IAS 1.82(a). We believe that an entity also should not be able to present them in an adjacent ‘interest’ line item. Such an outcome is discussed in the submission. We believe that a narrow decision regarding only the new words/requirements added to IAS 1.82(a) would not address the underlying issue and the current diversity would continue, although perhaps in a slightly different form.

We recommend adding a narrow-scope project to the Committee’s agenda or extending the tentative agenda decision to address this issue.

*Other matter*

The tentative agenda decision refers to ‘the requirement in paragraph 82(a) of IAS 1 to present separately an interest revenue line item calculated using the EIM’. IAS 1.82(a) requires such interest revenue to be presented separately. However, it does not state that a separate line item must be used. We believe that separate presentation of such interest revenue may be achieved in other ways (e.g. parenthetically to a broader revenue line item). Consequently, we recommend amending the wording in the tentative agenda decision so that it does not imply that a separate line item is required for interest revenue calculated using the EIM.

Please contact Chris Spall on +44 (0)20 7694 8871 if you wish to discuss any of the issues raised in this letter.

Yours sincerely

*KPMG IFRG Limited*

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cc Reinhard Dotzlaw, KPMG IFRG Limited