

6 February 2019

Sue Lloyd Chair IFRS Interpretations Committee Columbus Building 7 Westferry Circus Canary Wharf London United Kingdom Deloitte Touche Tohmatsu Limited Hill House 1 Little New Street London FC4A 3TR

Phone: +44 (0)20 7936 3000 Fax: +44 (0)20 7583 0112 www.deloitte.com/about

Direct phone: +44 20 7007 0884 vepoole@deloitte.co.uk

Dear Ms Lloyd

Tentative agenda decision – IFRS 9 *Financial Instruments*: Credit enhancement in the measurement of expected credit losses

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the November IFRIC Update of the tentative decision not to take onto the Committee's agenda the request for clarification on whether the cash flows expected from a financial guarantee contract or any other credit enhancement recognised separately in the financial statements can be included in the measurement of expected credit losses of the financial asset to which it relates.

We agree with the IFRS Interpretations Committee's conclusion that if a credit enhancement is required to be recognised separately by IFRS Standards, an entity cannot include the cash flows expected from it in the measurement of expected credit losses. However, we note that IFRS Standards do not specifically address when separate recognition of a purchased credit enhancement is required. We believe that without clarification in that respect, divergence of views may persist on whether a purchased credit enhancement is required to be separated and so indirectly could lead to divergence in the extent to which entities include the expected cash flows from such arrangements in the measurement of expected credit losses. We encourage the IFRS Interpretations Committee to consider whether further guidance can be provided on when it is that a credit enhancement is required to be recognised separately under IFRS Standards.

In any case, if finalised, the agenda decision should be revised to remove references to the fact that the credit enhancement "is required to be recognised separately by IFRS Standards" because of the absence of such requirements and instead simply referred to credit enhancement that "is recognised separately".

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely

Veronica Poole Global IFRS Leader

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/about for a more detailed description of DTTL and its member firms.

Deloitte Touche Tohmatsu Limited is a private company limited by guarantee incorporated in England & Wales under company number 07271800, and its registered office is Hill House, 1 Little New Street, London, EC4a, 3TR, United Kingdom.