

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

23 November 2015

Dear Mr Upton

**Tentative agenda decision – IAS 39 *Financial Instruments: Recognition and Measurement*:  
Separation of an embedded interest rate floor from a floating rate host contract in a negative  
interest rate environment**

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the September IFRIC Update of the tentative decision not to take onto the Committee's agenda a request for clarification on the application of the embedded derivative requirements of IAS 39 in a negative interest rate environment.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda and that paragraph AG33(b) of IAS 39 should be applied consistently in negative and positive interest rate environments, but believe that additional clarity should be added to the analysis in the tentative agenda decision.

Specifically, we recommend that in respect of loans with a contractual interest rate of a benchmark rate (for example, LIBOR) floored at zero plus a fixed margin the tentative agenda decision explain whether the comparison required by paragraph AG33(b) is performed on a 'like for like' basis by comparing the floor on the *overall* contractual rate (i.e. benchmark rate plus fixed margin) to a market rate of interest for the issuer or whether the comparison is made with the floor on the *benchmark component* alone. We also note that this distinction is equally important for an assessment of interest rate floors in positive interest rate environments and interest caps in either positive or negative interest rate environments.

In addition, we believe it would be helpful to specify in the agenda decision whether the comparative market rate is the rate for a debt instrument that has a floor or for an instrument that does not (which will be lower due to the absence of a premium payable to the borrower for the floor feature and, as a result, more likely to lead to a conclusion that the embedded floor is closely related).

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

Yours sincerely

A handwritten signature in blue ink, appearing to read 'V. Poole', with a long horizontal flourish extending to the right.

Veronica Poole  
Global IFRS Leader