M MAZARS

Mrs Sue Lloyd
IFRS Interpretations Committee
Columbus Building,
7 Westferry Circus, Canary Wharf
London E14 4HD
United Kingdom

La Défense, February 6, 2019

Tentative Agenda Decisions – IFRIC Update November 2018

Dear Sue,

MAZARS is pleased to comment on the various IFRS Interpretations Committee tentative agenda decisions published in the November 2018 IFRIC Update.

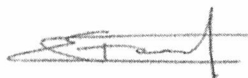
We have gathered all our comments as appendices to this letter, which can be read separately and are meant to be self-explanatory.

We would like to draw your attention to two issues that are worth considering:

- The tentative decision on physical settlement of contracts to buy or sell a non-financial item (see Appendix 2 to this letter) is contrary to the practice applied by large companies in the energy sector, and we think it necessary to undertake a comprehensive analysis of the issue and the rationale for their current practice before finalizing any decision;
- The issue of the accounting for the curing of a credit-impaired financial asset is not an easy one, and when diving into examples, it appears that there exist within IFRS 9 some unclear requirements or even inconsistencies between the definitions involved. We have tried to develop examples evidencing those difficulties, and we stand ready to present them and our concerns in a dedicated meeting with IFRS IC Staff / members.

Should you have any questions regarding our comments on the various tentative agenda decisions, or should you want us to participate in a meeting as proposed above, please do not hesitate to contact Michel Barbet-Massin (+33 1 49 97 62 27) or Edouard Fossat (+33 1 49 97 65 92).

Yours faithfully



Michel Barbet-Massin
Financial Reporting Advisory

Edouard Fossat

Appendix 1

Sale of output by a joint operator (IFRS 11 Joint Arrangements) — Agenda Paper 2

We agree with the Interpretations Committee's analysis that, applying IFRS 15, a Joint Operator recognises revenue only for the output it has received from the Joint Operation and transferred to its customers. No revenue shall be recognised relating to output it has not received from the Joint Operation, or relating to output it has received but not transferred to a customer.

We therefore agree with the Interpretations Committee not to add this matter to its standard-setting agenda.

We nevertheless would have expected the Interpretations Committee to deal at the same time with a slightly different fact pattern – that seems to us more widespread – where the difference between the delivered output and the contractual entitlement to output is settled in cash by / to the other Joint Operator (or the Joint Operation itself). The question of whether such transaction (where Joint Operator A accepts, in exchange for cash, that Joint Operator B receives part of the output to which A is entitled) triggers for revenue recognition seems to us being of high relevance.

Appendix 2

Physical settlement of contracts to buy or sell a non-financial item (IFRS 9 Financial Instruments*)—Agenda Paper 3*

We agree with the technical analysis conducted by the Interpretations Committee and the conclusion that, applying IFRS 9 to those contracts that do not meet the own-use exception, no additional accounting entries aiming at reversing the accumulated gain or loss previously recognised on the derivative should be made. We concur with the Interpretations Committee that the physical settlement of such contracts should lead to the recognition of revenue (in the case of a sale contract) or inventory (in the case of a purchase contract) at the market price of the non-financial item on the settlement date.

We nevertheless believe that there is a need for clarification of the interactions between IFRS 9, IFRS 15 and IAS 2, when a derivative on a non-financial item is physically settled. In particular, it is not clear whether the physical settlement triggers for an accounting on a gross basis in the Statement of Profit or Loss, and whether the physical delivery (in the case of a sale contract) is within the scope of IFRS 15.

We note that this lack of clarity on how to account for those contracts from inception to the final physical delivery has led companies – mainly in the energy sector – to develop accounting practices that, to their opinion, fairly portray their performance and how they manage it. These accounting practices do not comply with the conclusion in the Tentative Agenda Decision, but seem to be (according to the comment letter sent by IEAF) common practices consistently applied in the energy industry without significant diversity.

Applying the requirements in the Tentative Agenda Decision would represent for these companies significant implementation costs, together with a dramatic change in their measurement of performance. We believe that such a change cannot be imposed through a simple Agenda Decision, and that it would be better addressed through a comprehensive analysis, including outreach sessions with the relevant industry representatives, while making a link with the performance part of the Primary Financial Statements project.

We therefore recommend to the Interpretations Committee not to finalise the Agenda Decision, but rather to undertake a more comprehensive project that could lead to standard setting activities.

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Appendix 3

Over time transfer of constructed good (IAS 23 Borrowing Costs*)—Agenda Paper 4*

We agree with the technical analysis conducted by the Interpretations Committee, leading to the conclusion that in the specific fact pattern described in the Agenda Decision, IAS 23 should not lead to any capitalization of borrowing costs.

We agree with the Interpretations Committee that neither receivables nor contract assets recognized according to IFRS 15 (i.e. relating to sold individual real estate units) are qualifying assets. We also agree that the management's intent regarding any unsold unit under construction is to sell it – still part-constructed – as soon as it finds a suitable customer, and that, applying IAS 23, should prevent any inventory (work-in-progress) from being a qualifying asset. That conclusion is obviously driven by the assumption that the expected contract with the suitable customer will trigger for revenue recognition overtime. Should the usual contracts for real estate sales not meet the criteria in IFRS 15.35(c), the conclusion would be reversed for both sold and unsold units under construction.

Appendix 4

Customer's right to access the supplier's software hosted on the cloud (IAS 38 Intangible Assets*)—Agenda Paper 5*

We agree on the technical conclusion reached by the Interpretations Committee, that in the fact pattern described in the Agenda Decision the customer obtains only the right to receive access to the supplier's application software in the future, and that it is a service contract.

Having said that, we question the relevance of all the developments added in the Agenda Decision regarding the distinction between a software intangible asset and a software lease, and the applicable standards depending on the situation. While not disagreeing with those, we find it surprising:

- To analyse the distinction between a software lease and a software intangible asset, although it has been previously concluded that the contract described in the fact pattern corresponds to neither categories;
- To provide guidance at the end of the Agenda Decision on how to assess whether customer's rights are sufficient to give it the right to use a software, without using that guidance to support the initial conclusion that in the described situation the customer does not have the right to use the software.

In addition, we note that IAS 38 is an old standard, that was developed far before the changes in the business model of the software industry. We believe that this standard has not been designed to deal with the new Software as a Service type contracts, and that it probably needs to be updated to properly address the accounting for such contracts.

We therefore recommend to the Interpretations Committee not to issue an Agenda Decision that goes beyond the simple answer to the submission.

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Appendix 5

Credit enhancement in the measurement of expected credit losses (IFRS 9 Financial Instruments*)—Agenda Paper 6*

We agree with the Tentative Agenda Decision as drafted.

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Appendix 6

Curing of a credit-impaired financial asset (IFRS 9 Financial Instruments*)— Agenda Paper 7*

We have several comments regarding that Tentative Agenda Decision on curing of a credit-impaired financial asset. We are concerned that the proposed clarifications go beyond a simple application of the existing framework and may create inconsistencies with the existing guidance in IFRS 9 (see Issue 2 below).

Description of our main areas of concern

ISSUE 1: a need for a consistent approach both for reversal and initial recognition of "interest in suspense"

Firstly, we believe that the IFRS IC cannot properly analyse the question of the reversal of "interest in suspense" following the collection of all the contractual interest on "stage 3" financial assets without considering beforehand how the "interest in suspense" should be accounted for **initially**, when accounting for interest on a net basis rather than on a gross basis. The corresponding entries should in our opinion be consistent both for the initial recognition and the reversal of "interest in suspense" (i.e. if the interest in suspense is not included within the loss allowance initially, then its reversal upon recovery / curing should not be treated as an impairment gain either).

In its agenda paper the staff seems to think that there has been in the past an allocation of impairment allowance in relation to interest in suspense, and that it is justified to take it back / reverse it. In our example we figure out that such entries are not obvious and maybe unjustified (see Issue 2 below).

ISSUE 2: we disagree with the proposal to present the reversal of "interest in suspense" as an impairment gain

We consider that "interest in suspense" **may not** be accounted for **initially** as part of the impairment allowance. Existing guidance in IFRS 9.5.5.8 and IFRS 9.B5.5.33 requires that all changes in loss allowance go through the profit or loss statement as an impairment gain or loss.

IFRS 9.5.5.8 (emphasis added): *"An entity shall recognise **in profit or loss**, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognised in accordance with this Standard."*

IFRS 9.B5.5.33 (emphasis added): *"For a financial asset that is credit-impaired at the reporting date, but that is not a purchased or originated credit-impaired financial asset, an entity shall measure the expected credit losses as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Any adjustment is* ***recognised in profit or loss*** *as an impairment gain or loss."*

In our opinion, impairment gains and losses correspond to the change in discounted expected cash shortfalls, in accordance with the definition of credit losses in Appendix A of IFRS 9. Therefore, interest in suspense, which is created by a change in the way interest revenue is recognised rather than by a change in expected cash shortfalls, do not relate to an impairment gain or loss. The Basis for Conclusions of IFRS 9 clearly state that the loss allowance should be calculated in the same manner for Stage 2 and Stage 3 assets, the distinction between the two stages having an impact only on the calculation of interest revenue, as per the extract below:

IFRS 9 BC5.75 (emphasis added): *The IASB received feedback on the 2013 Impairment Exposure Draft that showed the majority of respondents agreed that the interest revenue calculation should change to a calculation on a net basis for some financial assets, because it best supported faithful representation.* ***These requirements only affect the calculation and presentation of interest revenue and not the measurement of the loss allowance****.*

This is further illustrated by our example 1. No additional impairment gain or loss needs to be recorded on the date on which interest in suspense is recognised. As a result, applying IFRS 9.5.5.8 and IFRS 9.B5.5.33 the interest in suspense should neither be included in the loss allowance amount nor as an impairment gain or loss.

As the initial accounting of interest in suspense is not recognised through impairment loss, we disagree with the IFRS IC tentative decision to recognise the reversal of the interest in suspense upon recovery against an impairment gain.

We note that the staff's example provided in the Agenda Paper AP7 is simplified. This could be source of some misunderstandings, for example in relation to the unwinding of discounting mentioned. We strongly recommend to the IFRS IC and its Staff to perform a comprehensive example, over the life of the instrument, with annual interest payment (rather than a zero-coupon profile) and taking into account discounting effects.

ISSUE 3: what is the appropriate initial accounting for the "interest in suspense"?

We have prepared numerical examples 1 and 2 that are attached to this comment letter that illustrate the initial accounting scenarios for interest in suspense for Stage 3 assets (the third example, example 0, is only included for reference / control purposes to show what the accounting entries would have been for a stage 2 asset where there is no interest in suspense). **To facilitate the understanding of our reasoning, we stand ready to present this example step-by-step during a dedicated meeting with the IFRS IC Staff, should you wish so.**

Example 2 shows that the suspended interest would be included within the gross carrying amount in order to comply with the definition of amortised cost and impairment allowance. We would ask the IFRS IC to provide additional guidance as to which of these calculations is more appropriate / prohibited. In our opinion, only example 2 fully complies with the existing definitions of gross carrying amount, loss allowance and amortised cost in the Appendix A of IFRS 9.

- **Example 1**
  - Presentation & assumptions:
    - It is similar in its underlying assumptions to the example discussed by the ITG in its December 2015 meeting, meaning that the *gross carrying amount* is calculated as a present value / sum of discounted contractual cash flows (without considering credit losses and the specific interest revenue mechanism for credit impaired asset).
    - The *loss allowance* is calculated as the discounted expected credit losses / cash shortfalls.
    - The *amortised cost* is the present value / sum of expected cash flows taking into account credit losses.
  - The issues:
    - As the gross carrying amount and amortised cost include a coupon on a gross basis and the P&L includes a coupon on a net basis, this gives rise to an "interest in suspense" amount (a negative asset)
    - Contrary to the 2015 ITG discussion, we do not agree that this negative asset should be included within the loss allowance for the reasons explained in Issue 2 above.
    - If the IFRS IC confirms the calculation of gross carrying amount in Example 1, additional guidance is needed on where / how this negative asset should be presented upon its initial recognition.

- **Example 2:**
  - Presentation & assumptions:
    - The *loss allowance* calculation is identical to the one in Example 1 (i.e. present value of expected cash shortfalls)
    - Upon transfer to Stage 3, we calculate the *amortised cost* as defined in Appendix A of IFRS 9 (i.e. amortised cost of previous year-end plus change in loss allowance during the period plus interest revenue using the EIR method, i.e. on a net basis, minus repayments of coupon)
    - So the *gross carrying amount* equals the amortised cost plus impairment allowance. Mechanically, "interest in suspense" (interest in P&L minus interest in cash) is included within the gross carrying amount.
  - The issue:
    - This example is not in line with the 2015 ITG discussion, as the gross carrying amount is a balancing figure rather than the present value of contractual cash flows.

- However, this calculation seems to us in line with the definitions provided in Appendix A of IFRS 9 (which do not define gross carrying amount as a present value; reference to present value is only provided in IFRS.5.4.3 and IFRS 9.B5.4.6 on modified / revised contractual cash flows).
- Upon recovery, assuming all contractual cash flows are recovered the same question arises as to where the gain upon recovery should be recorded (as the asset's net carrying amount is below the recovered amount). This topic is similar to the reversal of the interest in suspense amount upon recovery (see Issue 4 below).

To sum up the issue, the real question according to us is **the definition of gross carrying amount** in IFRS 9. Should interest in suspense be included within the gross carrying amount (this is in our view the sole possibility given current definitions in IFRS 9 Appendix A), its initial recognition would no longer be an issue, contrary to Example 1.

ISSUE 4: where in P&L should the gain upon recovery / curing be presented?

When "interest in suspense" is recognised on B/S separately from the impaired asset (see **Example 1** in Issue 3 above), the current IFRS framework does not provide sufficient guidance as to how the reversal of this interest should be recorded[1].

In our view, this gain may not be presented as an *impairment gain* in accordance with IAS 1.82(ba) as it is not related to a change in impairment allowance. Moreover, it did not give rise to an impairment loss initially (see Issue 2 for more arguments on this specific aspect).

In our opinion, this gain may be presented as *interest revenue.* Even if it is not directly calculated using the effective interest method in accordance with IAS 1.82(a)(i), we see it as a reversal of the specific interest revenue mechanism required by IFRS 9 for credit-impaired assets.

We acknowledge that this presentation issue is not straightforward in IAS 1 / IFRS 9 requirements and recommend to the IFRS IC to provide further guidance on this topic in a way consistent with the answers provided to the above-mentioned issues.

ISSUE 5: minor additional comments on the wording of November's TAD

The proposed TAD raised another concern to us, in particular the part we underlined hereafter: "*The amount of this adjustment includes the effect of the unwinding of the discount on the loss allowance during the period that the financial asset was credit-impaired, <u>which means the reversal of impairment losses may exceed the impairment losses</u>*

[1] Similarly, if we follow the alternative approach / **Example 2** presented in Issue 3 above (i.e. when the gross carrying amount is calculated as the balancing figure / sum of amortised cost and impairment allowance rather than as the sum of contractual cash flows discounted at the initial effective interest rate – which means that the interest in suspense is presented as a deduction from the gross carrying amount rather than a separate item on B/S), the net book value of the instrument will be lower than the amount recovered. Therefore, the question is here where to account for this gain / positive difference between the cash inflow and the reversal of a smaller net carrying amount. Our opinion here as to the appropriate line in P&L to present this gain is the same as for Example 1.

We note that under the general model of impairment of IFRS 9 the unwinding of the discounting (assuming an unchanged undiscounted credit loss estimates) gives rise to a complementary impairment loss at each closing of accounts. Should the losses be eventually reversed, the reversal may not exceed the previously recognised amount of impairment loss. We encourage the IFRS IC to review this position and clarify the wording in the final Agenda Decision in this respect. To our knowledge, the only scenario where impairment gains may outweigh previously recognised impairment losses is in the case of POCI (purchased or originated credit-impaired assets), as per IFRS 9.5.5.14, but POCI follow a specific impairment model, whereas the scope of the submission is limited to the general impairment model.

Last but not least, we would prefer that the scope of the issue in the first paragraph be reduced to only deal with cured assets that are **paid in full**. The case of no longer credit-impaired (i.e. assets that are transferred back to Stage 2 or Stage 1) is not really dealt with in the TAD, as in addition to the presentation issue (i.e. where in P&L to present the gain upon curing) there is the issue of the timing of reversal of "interest in suspense" (i.e.. upon transfer out of Stage 3, upon final recovery or some time in between?). We are not sure this issue may be resolved within the confines of existing IFRS 9 guidance.

Appendix 6Bis – page 1/4

Numerical example to illustrate our comments on Agenda Paper 7, Curing of a credit-impaired financial asset (IFRS 9 Financial Instruments*)—*

DEFINITIONS

Amortised Cost

amortised cost of a financial asset or financial liability The amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the **effective interest method** of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any **loss allowance**.

Gross Carrying amount :

gross carrying amount of a financial asset The **amortised cost of a financial asset**, before adjusting for any **loss allowance**.

Loss allowance

loss allowance The allowance for **expected credit losses** on financial assets

Expected credit losses

expected credit losses The weighted average of **credit losses** with the respective risks of a default occurring as the weights.

Credit Losses:

credit loss The difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (ie all cash shortfalls), discounted at the original **effective interest rate** (or **credit-adjusted effective interest rate** for **purchased or originated credit-impaired financial assets**). An entity shall

Interest revenue

5.4.1 **Interest revenue shall be calculated by using the *effective interest method* (see Appendix A and paragraphs B5.4.1–B5.4.7). This shall be calculated by applying the *effective interest rate* to the *gross carrying amount* of a *financial asset* except for:**

(b) **financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become *credit-impaired financial assets*. For those financial assets, the entity shall apply the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods.**

Impairment gain or Loss

5.5.8 An entity shall recognise in profit or loss, as an *impairment gain or loss*, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognised in accordance with this Standard.

B5.5.33 For a financial asset that is credit-impaired at the reporting date, but that is no a purchased or originated credit-impaired financial asset, an entity sha measure the expected credit losses as the difference between the asset's gro carrying amount and the present value of estimated future cash flow discounted at the financial asset's original effective interest rate. An adjustment is recognised in profit or loss as an impairment gain or loss

THE ASSUMPTIONS

3 year Loan, *in fine*
Nominal 100
Issued 31th december N
Contractual interest and EIR = 10%
Interest paid each year on 31th december

Expected loss of 60 on final repayment
(assumption unchanged from N+1 to N+3)

THREE EXAMPLES

	YE N+1	YE N+2	YE N+3
Ex0	Stage 2	Stage 2	Stage 2
Ex1	Stage 2	Stage 3	Stage 3
Ex2	Stage 2	Stage 3	Stage 3

Difference between Ex1 and Ex2:

- Ex1. GCA = present value of contractual cash flows
- Ex2. GCA = amortised cost + loss allowance (includes interest in suspense)

Appendix 6Bis – page 2/4 – Numerical example 0 (asset in Stage 2 at all closings)

SITUATION AT THE END OF N+1

Gross Carrying Amount : 100

Credit Loss = 60 x $(1+10\%)^{-2}$ = 50

Amortised Cost = 100 – 50 = 50

Interest revenue = 10 = (100*10%)

Impairment Gain or Loss = - 50

B/S as at 31 December N+1 stage 2			
GCA (including accrued coupon)	110	Capital	100
Coupon payment	-10	Retained earnings	0
GCA (after coupon payment)	100		
Loss allowance	-50		
Loan's NCA	50		
		Interest revenue	10
		Impairment gains / losses	-50
Cash	10	Profit or loss for the year	-40
Total	60	Total	60

SITUATION AT THE END OF N+2

GCA : 100

Credit Loss = 60 x $(1+10\%)^{-1}$ = 55

Amortised Cost = 100 – 55 = 45

Interest revenue = 10 = (100*10)

Impairment Gain or Loss = -5 = 50 – 55

B/S as at 31 December N+2 stage 2			
GCA (including accrued coupon)	110	Capital	100
Coupon payment	-10	Retained earnings	-40
GCA (after coupon payment)	100		
Loss allowance	-55		
Loan's NCA	45		
		Interest revenue	10
		Impairment gains / losses	-5
Cash	20	Profit or loss for the year	5
Total	65	Total	65

SITUATION AT THE END OF N+3
(JUST BEFORE CASH REPAYMENT)

GCA : 100 + 10 Accrued coupon

Credit Loss = 60 x $(1+10\%)^{0}$ = 60

Amortised Cost = 110 – 60 = 50

Interest revenue = 10 = (100*10)

Impairment Gain or Loss = -5 = 55 – 60

B/S as at 31 December N+3 stage 2 just before recovery of 50			
GCA (including accrued coup	110	Capital	100
Coupon payment	0	Retained earnings	-35
GCA (after coupon payment)	110		
Loss allowance	-60		
Loan's NCA	50		
		Interest revenue	10
		Impairment gains / losses	-5
Cash	20	Profit or loss for the year	5
Total	70	Total	70

Appendix 6Bis – page 3/4 – Numerical example 1 (Stage 3 + GCA = present value)

SITUATION AT THE END OF N+1

Gross Carrying Amount : 100
Credit Loss = 60 x $(1+10\%)^{-2}$ = 50
Amortised Cost = 100 – 50 = 50
Interest revenue = 10 = (100*10%)
Impairment Gain or Loss = - 50

B/S as at 31 December N+1 stage 2

GCA (including accrued coupon)	110	Capital	100
Coupon payment	-10	Retained earnings	0
GCA (after coupon payment)	100		
Loss allowance	-50		
Loan's NCA	50		
		Interest revenue	10
		Impairment gains / losses	-50
Cash	10	Profit or loss for the year	-40
Total	60	Total	60

SITUATION AT THE END OF N+2

GCA : 100
Credit Loss = 60 x $(1+10\%)^{-1}$ = 55
Amortised Cost = 100 – 55 = 45
Interest revenue = 5 = (50*10%)
Impairment Gain or Loss = -5 = 50 – 55

B/S as at 31 December N+2 Stage 3

GCA (including accrued coupon)	110	Capital	100
Coupon payment	-10	Retained earnings	-40
GCA (after coupon payment)	100		
Loss allowance	-55		
Loan's NCA	45		
Suspended interest	-5	Interest revenue	5
		Impairment gains / losses	-5
Cash	20	Profit or loss for the year	0
Total	60	Total	60

SITUATION AT THE END OF N+3 (JUST BEFORE CASH REPAYMENT)

GCA : 100 + 10 Accrued coupon
Credit Loss = 60 x $(1+10\%)^{0}$ = 60
Amortised Cost = 105 – 60 = 45
Interest revenue = 5 = (45*10%)
Impairment Gain or Loss = -5 = 55 – 60

B/S as at 31 December N+3 Stage 3 - just before the recovery of 50

GCA (including accrued coupo	110	Capital	100
Coupon payment	0	Retained earnings	-40
GCA (after coupon payment)	110		
Loss allowance	-60		
Loan's NCA	50		
Suspended interest	-11	Interest revenue	5
		Impairment gains / losses	-5
Cash	20	Profit or loss for the year	-1
Total	59	Total	59

Appendix 6Bis – page 4/4 – Numerical example 2 (Stage 3 + GCA includes interest in suspense)

SITUATION AT THE END OF N+1

Gross Carrying Amount : 100

Credit Loss = 60 x $(1+10\%)^{-2}$ = 50

Amortised Cost = 100 – 50 = 50

Interest revenue = 10 = (100*10%)

Impairment Gain or Loss = - 50

B/S as at 31 December N+1 stage 2

GCA (including accrued coupon)	110	Capital	100
Coupon payment	-10	Retained earnings	0
GCA (after coupon payment)	100		
Loss allowance	-50		
Loan's NCA	50		
		Interest revenue	10
		Impairment gains / losses	-50
Cash	10	Profit or loss for the year	-40
Total	60	Total	60

SITUATION AT THE END OF N+2

Interest revenue = 5 = (50*10%)

Cash received = 10 of which 5 of interest revenue, 5 remaining considered as principal repayment

GCA : 95 = 100 – 5 cash income not recognised as interest revenue

Credit Loss = 60 x $(1+10\%)^{-1}$ = 55

Amortised Cost = 95 – 55 = 40

Impairment Gain or Loss = -5 = 50 – 55

B/S as at 31 December N+2 Stage 3

GCA (including accrued coupon at EI	105,0	Capital	100,0
Coupon payment	-10,0		
GCA (after coupon payment)	95,0		
Loss allowance	-54,5	Retained earnings	-39,6
Loan's NCA	40,5		
Suspended interest	0,0		
		Interest revenue	5,0
		Impairment gains / losses	-4,9
Cash	20,0	Profit or loss for the year	0,1
Total	60,5	Total	60,5

SITUATION AT THE END OF N+3

Interest revenue = 4 = (40*10%)

GCA : 99 = 95 + 4 as interest revenue

Credit Loss = 60

Amortised Cost = 99 – 60 = 39

Impairment Gain or Loss = -5 = 55 – 60

B/S as at 31 December N+3 Stage 3 - just before the recovery of 50

GCA (including accrued coup	99,1	Capital	100,0
Coupon payment	0,0		
GCA (after coupon payment)	99,1		
Loss allowance	-60,0	Retained earnings	-39,5
Loan's NCA	39,1		
Suspended interest	0,0		
		Interest revenue	4,0
		Impairment gains / losses	-5,5
Cash	20,0	Profit or loss for the year	-1,4
Total	59,1	Total	59,1