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Prepayment Features with Negative Compensation (Amendments to IFRS 9) Cover Note and Summary of Responses

Objective

- 1 The objectives of the session are to:
 - (a) consider the comments received in response to EFRAG's Invitation to Comment on its draft endorsement advice on the *Prepayment Features with Negative Compensation (Amendments to IFRS 9)* ('the Amendments'); and
 - (b) approve a final endorsement advice on the Amendments.

Background

- 2 The IASB issued the Amendments on 12 October 2017. The Amendments propose a change to IFRS 9 *Financial Instruments* for particular financial assets that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a prepayment feature.

EFRAG's initial assessment of the Amendments

- 3 EFRAG's preliminary assessment was that the Amendments satisfy the criteria for endorsement for use in the EU and, therefore, recommended their endorsement.

Comment letters received on EFRAG's Invitation to Comment

- 4 On 18 October 2017, EFRAG issued a draft endorsement advice letter and a separate invitation to comment relating to the endorsement for use in the EU of the Amendments. Comments were requested by 2 November 2017.
- 5 EFRAG received comment letters from nine respondents representing three national standard-setters, two preparers, three preparer organisations and one accountancy body. The respondents are listed in Appendix 1.
- 6 All respondents agreed with the Amendments. Three respondents specifically asked that the Amendments should be endorsed before the end of the first quarter of 2018 in order to enable application of the Amendments at the same time as IFRS 9.

Summary of respondents' views

Comments on technical criteria for endorsement

- 7 All respondents agreed with EFRAG's initial assessment with respect to the technical criteria for endorsement.
- 8 In particular, three respondents noted that in order to minimise the costs of preparation and to users, the endorsement process should be completed in time for the Q1 2018 reporting. This is to enable the application of the Amendments at the

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same time as IFRS 9 as it will potentially avoid having to prepare results on a different basis of reporting for the first quarter of 2018 that will be changed within a short period of time.

- 9 One respondent raised concerns on the clarification included in the Basis for Conclusions of the Amendments to IFRS 9 regarding the modification or exchange of a financial liability that does not result in derecognition.
- 10 The respondent noted that the decision of the IASB does not solve the real problem that entities are facing now, which is the retrospective application of the requirements relating to modification of financial liabilities. The respondent added that in their view this issue should have been addressed by the IASB issuing authoritative guidance, because this would have allowed for appropriate transitional provisions to apply to modifications occurred in past years.
- 11 The comment letters received in response to EFRAG's Invitation to comment can be found on EFRAG's website [here](#), under 'Documents' - 'Endorsement consultation'.

Comments on European public good

- 12 All respondents agreed with EFRAG's initial assessments in respect to the European public good assessment.

EFRAG Secretariat recommendation to EFRAG TEG

- 13 As a result of the general support, the EFRAG Secretariat proposes no changes to the draft endorsement advice.

EFRAG TEG discussion

- 14 EFRAG TEG will be discussing the feedback received in response to EFRAG's draft endorsement advice and recommending a final endorsement advice letter to the EFRAG Board at its meeting on 8 November 2017. The EFRAG Secretariat will provide a verbal update to the EFRAG Board on the EFRAG TEG discussion and recommendation.

Question for the EFRAG Board

- 15 Does the EFRAG Board approve the final endorsement advice on the Amendments contained in agenda paper 10-02?

Agenda Papers

- 16 In addition to this cover note, agenda paper *10-02 Endorsement Advice on IFRS 9 Amendments Prepayment Features with Negative Compensation* has been provided for the session.

Appendix 1 – List of respondents

1 The following respondents replied to EFRAG's Invitation to Comment:

<i>Name of the respondent</i>	<i>Type of the respondent</i>	<i>Country</i>
BNP Paribas	Preparer	France
Barclays	Preparer	United Kingdom
ICAC	National Standard Setter	Spain
ISDA	Preparers' organisation	United Kingdom
FRC	National Standard Setter	United Kingdom
GDV	Preparers' organisation	Germany
AFME	Preparers' organisation	Europe
ICAEW	Accountancy body	United Kingdom
OIC	National Standard Setter	Italy