This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG Board or EFRAG TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

Modifications of financial liabilities
Issues Paper

Objective

1   The objective of this paper is to discuss if and how EFRAG should address the inclusion of a paragraph discussing modifications of financial liabilities in the Basis for Conclusions of the recently published *Prepayment Features with Negative Compensation* (Amendments to IFRS 9) ('the Amendments').

Information for EFRAG TEG

2   EFRAG is currently seeking advice from its constituents on the draft endorsement advice on the Amendments, which were issued by the IASB on 12 October 2017. The Basis for Conclusions of these Amendments included another issue:

Modification or exchange of a financial liability that does not result in derecognition.

> *"Concurrent with the development of the amendments to IFRS 9 for prepayment features with negative compensation, the IASB also discussed the accounting for a modification or exchange of a financial liability measured at amortised cost that does not result in the derecognition of the financial liability. More specifically, at the request of the Interpretations Committee, the Board discussed whether, applying IFRS 9, an entity recognises any adjustment to the amortised cost of the financial liability arising from such a modification or exchange in profit or loss at the date of the modification or exchange.*

> *The IASB decided that standard-setting is not required because the requirements in IFRS 9 provide an adequate basis for an entity to account for modifications and exchanges of financial liabilities that do not result in derecognition. In doing so, the Board highlighted that the requirements in IFRS 9 for adjusting the amortised cost of a financial liability when a modification (or exchange) does not result in the derecognition of the financial liability are consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset."*

3   Although the Bases for Conclusions are not endorsed in the EU, the question has been raised by EFRAG TEG members if EFRAG were to address this point because:

    (a)   it may affect current practice for dealing with modifications of financial liabilities, although the exact impact on European constituents is unknown;

    (b)   changing current practice relying on the Basis for Conclusions may not be considered to be the best example in standard setting; and

(c)   no transition period or transition provision is foreseen for implementing the requirements, beyond the effective date of the Amendments.

4   If action is to be taken, the EFRAG Secretariat has identified two possibilities:

(a)   Draft a letter to the IASB's Due Process Oversight Committee for the EFRAG Board to consider. The letter could identify the concerns listed in paragraph 3 above. In addition, concern could be expressed at the IASB's view that two paragraphs in an amendment to a standard that is unrelated to the issue at hand is a more effective way to respond to an issue than an agenda decision, and the implication this has for the work of the IFRS Interpretations Committee.

(b)   Express similar views informally through EFRAG-IASB staff contacts.

Questions for EFRAG TEG

5   Does EFRAG TEG consider that EFRAG should take steps to address the inclusion of the modification issue in the Basis for Conclusions of an unrelated standard?

6   If EFRAG TEG considers that action should be taken, what action do you recommend.