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IASB ED/2017/3 *Prepayment Features with Negative Compensation (Proposed Amendments to IFRS 9)* - Cover Note

Objective

- 1 The objectives of the session are to:
 - (a) discuss with EFRAG TEG some examples of prepayment features with negative compensation, obtained by a European bank;
 - (b) consider the feedback received in response to EFRAG's draft comment letter on the Exposure Draft ED/2017/3 *Prepayment Features with Negative Compensation (proposed amendments to IFRS 9)*, issued by the IASB on 21 April 2017 (the 'ED');
 - (c) recommend to the EFRAG Board a final comment letter on the ED; and
 - (d) approve a feedback statement.

Background

- 2 The ED proposes a narrow-scope amendment to IFRS 9 *Financial Instruments* so that a financial asset that would otherwise meet the solely payments of principal and interest ('SPPI') condition in IFRS 9 but does not do so only as a result of a contractual term that permits (or requires) the issuer to prepay a debt instrument or permits (or requires) the holder to put a debt instrument back to the issuer before maturity, is eligible to be measured at amortised cost or fair value through other comprehensive income ('FVOCI') (subject to meeting the business model condition) if:
 - (a) the prepayment amount is inconsistent with paragraph B4.1.11(b) of IFRS 9 only because the party that chooses to terminate the contract early (or otherwise causes the early termination to occur) may receive reasonable additional compensation for doing so; and
 - (b) when the entity initially recognises the financial asset, the fair value of the prepayment feature is insignificant.
- 3 On 4 May 2017, EFRAG issued its draft comment letter on the ED. Comments were requested by 17 May 2017.
- 4 Agenda paper 01-02 provides some examples of prepayment features with negative compensation, which have been made available to the EFRAG Secretariat by a European bank.

Comment letters analysis

- 5 The EFRAG Secretariat has considered the feedback received (as summarised in the comment letter analysis issues paper 01-03 and the draft feedback statement in agenda paper 01-04) to prepare a draft of a final comment letter that is contained in agenda paper 01-05.
- 6 The comment letters received in response to EFRAG's draft comment letter can be found on EFRAG's website [here](#), under 'Documents' - 'Exposure draft consultation'.

Questions for EFRAG TEG

- 7 Does EFRAG TEG agree to recommend the proposed final comment letter to the EFRAG Board?
- 8 Does EFRAG TEG approve the proposed feedback statement?

Agenda Papers

- 9 In addition to this cover note, papers for this session are:
 - (a) Agenda paper *01-02 Issues paper on examples of prepayment features with negative compensation* TEG 17-05-24;
 - (b) Agenda paper *01-03 Analysis of comment letters received on DCL on IASB ED-2017-3* TEG 17-05-24;
 - (c) Agenda paper *01-04 Draft Feedback statement on DCL on IASB ED-2017-3* TEG 17-05-24; and
 - (d) Agenda paper *01-05 Proposed Final Comment Letter on IASB ED-2017-3* TEG 17-05-24 (marked-up).