

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.

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 *Prepayment Features with Negative Compensation (Amendments to IFRS 9)* ('the Amendments'); and
 - (b) discuss and agree to recommend to the EFRAG Board a final endorsement advice.

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 to facilitate that the Amendments are applied 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.

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

- 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 same time as IFRS 9 as it will potentially avoid having to prepare results on a basis of reporting for the first quarter that will be replaced 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

- 13 Considering the input received from constituents, the EFRAG Secretariat proposes not to change the technical analysis of the endorsement advice.

Questions for EFRAG TEG

- 14 Does EFRAG TEG agree with the EFRAG Secretariat's recommendation?
- 15 Does EFRAG TEG agree to recommend the final endorsement advice on the Amendments contained in agenda paper 01-02 to the EFRAG Board?

Agenda Papers

- 16 In addition to this cover note, agenda paper *01-02 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	Standard Setter	Spain
ISDA	Preparers' organisation	United Kingdom
FRC	Standard Setter	United Kingdom
GDV	Preparers' organisation	Germany
AFME	Preparers' organisation	Europe
ICAEW	Accountancy body	United Kingdom
OIC	Standard Setter	Italy