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**International
Accounting Standards
Board**

This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.

These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

Board Meeting: 21 June 2007, London

Project: Annual Improvements

Subject: IAS 39 & IAS 18 – Costs of originating a loan (Agenda paper 12J)

1. The Board decided at the March 2007 Board meeting that, in most circumstances, minor issues relating to material that is not part of a standard can be resolved as an editorial change. The staff have identified that the following issue would be most appropriately resolved as an editorial change without Board discussion.

Issue: The apparent inconsistency between IAS 18, *Revenues*, and IAS 39, *Financial Instruments: Recognition and Measurement* on the treatment of transaction costs associated with originating a financial asset should be removed by amending the Appendix to IAS 18.
2. This paper is for information. It will not be discussed at the Board meeting unless a Board member requests.

Staff recommendation

3. The staff recommends that:
 - this issue should be dealt with as an editorial change; and
 - the Appendix to IAS 18 is amended as proposed in paragraph 7 of this paper.

Background

4. The staff has been notified of an apparent inconsistency in the guidance in IAS 18 and IAS 39. It relates to the accounting for transaction costs when originating a loan.

IAS 39 guidance

5. Paragraph 43 of IAS 39 requires that financial assets are recognised initially at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Paragraph 9 of IAS 39 defines transactions costs to be both incremental and directly attributable:

‘Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability (see Appendix A paragraph AG13). An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.’

IAS 18 guidance

6. Paragraph A4(a)(i) of the Appendix to IAS 18 states that fees that are an integral part of generating an ongoing involvement with a financial instrument are deferred, together with ‘the related direct costs’. This would seem to permit more costs to be deferred than IAS 39 because there is no requirement for these costs to be incremental.

Drafting

7. The staff recommends that the Appendix to IAS 18 be amended as follows:

A14 *Financial service fees*

The recognition of revenue for financial service fees depends on the purposes for which the fees are assessed and the basis of accounting for any associated financial instrument. The description of fees for financial services may not be indicative of the nature and substance of the services provided. Therefore, it is necessary to distinguish between fees that are an integral part of the effective interest rate of a financial instrument, fees that are earned as services are provided, and fees that are earned on the execution of a significant act.

a. Fees that are an integral part of the effective interest rate of a financial instrument.

Such fees are generally treated as an adjustment to the effective interest rate. However, when the financial instrument is measured at fair value with the change in fair value recognised in profit or loss, the fees are recognised as revenue when the instrument is initially recognised.

i. Origination fees received by the entity relating to the creation or acquisition of a financial asset other than one that under IAS 39 is classified as a financial asset 'at fair value through profit or loss'.

Such fees may include compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction. These fees are an integral part of generating an involvement with the resulting financial instrument and, together with the related direct transaction costs (as defined in IAS 39), are deferred and recognised as an adjustment to the effective interest rate.