

## STAFF PAPER

February 2017

## IASB Meeting

<b>Project</b>	<b>Symmetric Prepayment Options</b>		
<b>Paper topic</b>	Due process steps		
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (the Board) and does not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS<sup>®</sup> Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB<sup>®</sup> *Update*.

## Introduction and background

1. At its meetings in December 2016 and January 2017, the International Accounting Standards Board (the Board) discussed the classification of financial assets with symmetric prepayment options when applying IFRS 9 *Financial Instruments*.
2. At the January 2017 meeting, the Board tentatively decided to propose a narrow-scope amendment to IFRS 9 so that a financial asset with a symmetric prepayment option would be eligible to be measured at amortised cost, or at fair value through other comprehensive income (subject to the financial asset meeting the business model condition) if
  - (a) the financial asset would otherwise meet the requirements in paragraph B4.1.11(b) of IFRS 9 (prepayable financial assets whose contractual cash flows are solely payments of principal and interest) but does not do so only as a result of the symmetric nature of the prepayment feature; and
  - (b) when the entity initially recognises the financial asset, the fair value of the symmetric prepayment feature is insignificant.
3. Additionally, the Board tentatively decided:
  - (a) to propose the effective date for the narrow-scope amendment for annual periods beginning on or after 1 January 2018 (the same as that of IFRS 9) and also to include a question in the Exposure Draft about

whether a later effective date, with early application permitted, would be more appropriate; and

- (b) to require retrospective application of the proposed amendment.

## Purpose

4. This paper:
  - (a) proposes a comment period of 30 days for the Exposure Draft of the proposed amendments;
  - (b) explains the steps in the IFRS Foundation Due Process Handbook (the *Due Process Handbook*) that the Board has taken in developing the proposed amendments (see **Appendix A**), and asks the Board to confirm that it is satisfied that it has complied with the due process requirements;
  - (c) asks whether any Board member intends to dissent from the proposed amendments; and
  - (d) seeks the Board’s permission to prepare the Exposure Draft for balloting.

## Comment period

5. Paragraph 6.7 of the *Due Process Handbook* states the following about the comment period on an Exposure Draft.

The IASB normally allows a minimum period of 120 days for comment on an Exposure Draft. If the matter is narrow in scope and urgent the IASB may consider a comment period of no less than 30 days, but it will only set a period of less than 120 days after consulting, and obtaining approval from, the DPOC [Due Process Oversight Committee].

6. The staff think that the proposed amendments to IFRS 9 are both narrow in scope and urgent. The urgency arises because entities are required to apply IFRS 9 for

annual periods beginning on or after 1 January 2018. Therefore, the amendment to IFRS 9 (if confirmed) needs to be finalised as quickly as possible this year so that it can have the same effective date as IFRS 9 (ie 1 January 2018)<sup>1</sup>. Not finalising the amendment before the effective date of IFRS 9 would be inefficient and burdensome for entities affected by the amendment. This is because these entities would incur significant costs in changing to a fair value measurement for particular portfolios when initially applying IFRS 9. However, fair value measurement would no longer be required after the proposed amendment becomes effective. It would clearly be most efficient for these entities if they are able to initially apply IFRS 9 taking into account the proposed amendment.

7. We have consulted with the DPOC at the January 2017 meeting. The DPOC agreed with the staff that the matter is sufficiently narrow in scope and urgent to deviate from the 120 days comment period. The DPOC has therefore decided to approve a comment period of no less than 30 days.
8. The staff have also received feedback from particular financial institutions and trade organisations representing financial institutions that have emphasised the urgency of a solution for the issue. We understand that in most cases those preparers affected by the amendment will already have the required information to account for instruments with prepayment options in accordance with the amendment. This is because that information would have been, in most cases, necessary to apply the existing requirements in IAS 39 *Financial Instruments: Recognition and Measurement*. Therefore, implementing the amendment should not be burdensome for those preparers and should require only a relatively short period between issuance of the amendment and its effective date.
9. The staff emphasise that the proposed amendment is a narrow and targeted amendment to IFRS 9. The scope of the proposed exception is extremely limited and the principles underpinning the classification and measurement requirements in IFRS 9 remain unchanged. Furthermore, it will affect only those stakeholders who have an exposure to such types of instruments.

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<sup>1</sup> In its January 2017 meeting, the Board decided to propose the effective date for the narrow-scope amendment to be annual periods beginning on or after 1 January 2018 (the same as that of IFRS 9) and also to include a question in the Exposure Draft as to whether a later effective date, with early application permitted, would be more appropriate.

10. Considering the timeline to draft and ballot an ED, redeliberate the proposals, finalise the amendment and allow a short implementation period, the staff recommend a comment period of no less than 30 days for the ED. Given the narrow scope of the ED, we believe that such a comment period would still provide constituents with sufficient time to consider and comment on the proposals. In that regard, the staff have created a project page on the IASB website that keeps stakeholders informed about every stage of the project.

### Intention to dissent

11. In accordance with paragraph 6.9 of the *Due Process Handbook*, we are formally asking whether any Board member intends to dissent from the proposed amendments to IFRS 9.

### Confirmation of due process steps

12. In **Appendix A** to this paper, we have summarised the due process steps taken so far in the development of the proposed amendments to IFRS 9. We note that the required due process steps applicable have been completed.

#### Questions for the Board

1. **Comment period**—does the Board agree with our recommendation to have a comment period of 30 days for the Exposure Draft of proposed amendments to IFRS 9?
2. **Dissent**—does any Board member intend to dissent from the publication of the Exposure Draft?
3. **Permission to ballot**—is the Board satisfied that it has complied with all due process steps required and, thus, do we have permission to prepare the Exposure Draft for balloting?

## Appendix A—Actions taken to meet the due process requirements

<i>Step</i>	<i>Required/ Optional</i>	<i>Metrics or evidence</i>	<i>Actions</i>
<b>Board and Interpretations Committee meetings held in public, with papers available for observers. All decisions are made in public session.</b>	Required	<p>Meetings held.</p> <p>Project website contains a full description with up-to-date information.</p> <p>Meeting papers posted in a timely fashion.</p>	<p>At its December 2016 and January 2017 meeting, the Board discussed the classification of financial assets with symmetric prepayment options in applying IFRS 9 and tentatively decided to propose amendments to IFRS 9.</p> <p>The Interpretations Committee discussed the issue at its November 2016 meeting and provided feedback to the Board</p> <p>The <a href="#">project webpage</a> has been updated by the staff after every meeting.</p> <p>Agenda Papers were posted on the website before every meeting on a timely basis.</p>
<b>Consultation with the Trustees and the Advisory Council.</b>	Required	Trustees and Advisory Council consulted.	<p>The Trustees were informed about the proposed amendments to IFRS 9 as part of the regular reporting to them (January 2017).</p> <p>The Advisory Council will be informed about this at its next meeting (4-5 April 2017).</p>
<b>Analysis of the likely effects of the forthcoming Standard or major amendment, for example, initial costs or ongoing associated costs</b>	Required	Publication of the Effects Analysis as part of the Basis for Conclusions.	<p>We assessed the likely effects of the proposed amendment as being limited because it is narrow in scope.</p> <p>A description of the potential financial reporting effects of the proposed amendment was provided to the IASB at the January 2017 meeting, which will be included in the Basis for Conclusions of the ED.</p>
<b>Finalisation</b>			
<b>Due process steps reviewed by the Board.</b>	Required	Summary of all due process steps discussed by the IASB before a Standard is issued.	This step will be met by this Agenda Paper.
<b>The Exposure Draft has an appropriate comment period.</b>	Required	The period has been set by the IASB. If outside the normal comment period, an explanation from the IASB to the DPOC has been provided and the decision has been approved.	To be discussed by the Board at this meeting. We recommend a comment period of 30 days. We have obtained approval from the DPOC for a comment period of no less than 30 days. See paragraph 5–10 of this agenda paper.
<b>Drafting</b>			
<b>Drafting quality assurance steps are adequate.</b>	Required	Translations and XBRL teams have been included in the review process.	The translations, XBRL and editorial teams will review drafts during the balloting process.
<b>Publication</b>			
<b>Exposure Draft published.</b>	Required	Exposure Draft posted on the IASB website.	The Exposure Draft will be made available on our website when published.
<b>Press release to announce publication of Exposure Draft.</b>	Required	Press release published.	A press release will be published with the Exposure Draft.