AGENDA PAPER

IFRS Foundation Trustees meeting – Due Process Oversight Committee

PARIS	31 JANUARY 2017	**Agenda ref 1G**
PRESENTER	Hugh Shields	

IFRS9 Financial Instruments: Comment letter period for narrow scope amendment

Symmetric Prepayment Options (Exposure Draft for proposed amendments to IFRS 9 *Financial Instruments*)

Purpose

1. The purpose of this paper is to seek the approval of the Due Process Oversight Committee (DPOC) for a shortened comment period for the forthcoming Exposure Draft (ED) *Symmetric Prepayment Options.* The Exposure Draft will propose a narrow-scope amendment to IFRS 9 *Financial Instruments.*

Background

2. The IFRS Interpretations Committee ('the Interpretations Committee') received a submission relating to the classification and measurement requirements of IFRS 9. Specifically, the submitter asked whether financial assets with a particular type of prepayment option can meet the requirements for amortised cost accounting. The Interpretations Committee discussed the issue at their November 2016 meeting and noted that instruments with such options do not meet the requirements in IFRS 9 to be measured at amortised cost.[1] The Interpretations Committee suggested that the Board consider changing the requirements in IFRS 9 in this respect.

Proposed solution

3. At their January 2017 meeting, the Board tentatively decided to propose an amendment to IFRS 9 to include a very specific and focused exception to the classification and measurement requirements for financial assets with particular prepayment options. In order to restrict the scope of the proposed

[1] Such instruments do not satisfy the 'solely payments of principal and interest' condition that is required for amortised cost accounting applying IFRS 9.

exception, the Board decided that it be applicable only if the fair value of the prepayment feature is insignificant when an entity first recognises the financial asset.

Comment period considerations

4. Paragraph 6.7 of the *Due Process Handbook* states that the IASB normally allows a minimum period for 120 days for comment on an ED. However, if the matter is narrow in scope and urgent, the IASB may consider a comment period of no less than 30 days. This is subject to obtaining approval from the DPOC.
5. The staff thinks that the forthcoming ED of a narrow-scope amendment to IFRS 9 is both narrow in scope and urgent.
6. 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). 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 their retail 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. 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 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.
8. 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.

Recommended comment period

9. 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.

10. The staff note that in similar circumstances in 2013, the DPOC gave approval for a comment period of no less than 30 days for an urgent amendment to IAS 39 and IFRS 9 (ED/2013/2 *Novation of Derivatives and Continuation of Hedge Accounting).*

Proposed Timeline

Timeline	**Project plan**
February 2017	Board finishes deliberations of the proposed exception, including the comment period, due process steps and permission to ballot Proceed with drafting those amendments in an expeditious manner
April 2017	Publish an Exposure Draft by the end of the month
May 2017	Comment period ends
June-July 2017	Board redeliberations
October 2017	Issue final amendment by the end of the month

Question for the DPOC

Does the DPOC give its approval for a shortened comment period of no less than 30 days for the forthcoming ED of a narrow-scope amendment to IFRS 9?