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## IFRS<sup>®</sup> Interpretations Committee meeting

Date	<b>June 2025</b>
Project	<b>Determining and accounting for transaction costs (IFRS 9)</b>
Topic	<b>Initial consideration</b>
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## Introduction

1. The IFRS Interpretations Committee (Committee) received a submission about application of the definition of, and requirements in IFRS 9 *Financial Instruments* relating to, transaction costs.
2. The objective of this paper is:
  - (a) to provide the Committee with a summary of the matter;
  - (b) to present our research and analysis; and
  - (c) to ask the Committee whether it agrees with our recommendation not to add a standard-setting project to the work plan.

## Structure

3. This paper includes:
  - (a) [background and summary of the submission](#) (paragraphs 5–9);
  - (b) [findings from information request](#) (paragraphs 10–16);
  - (c) [staff analysis](#) (paragraphs 17–21); and

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- (d) [staff recommendation](#) (paragraphs 22–23).
4. There are two appendices to this paper:
- (a) [Appendix A—suggested wording for the tentative agenda decision](#); and
  - (b) [Appendix B—submission](#).

## Background and summary of the submission

5. The submission asks how an entity determines whether costs that are directly attributable to originating a financial instrument but incurred prior to entering into the contractual arrangement, are ‘incremental’ and therefore meet the definition of transaction costs in Appendix A of IFRS 9.<sup>1</sup>
6. The submission describes a fact pattern (reproduced in [Appendix B](#)) in which an entity intends to enter into a loan agreement with a bank and incurs legal and advisory fees while analysing the terms and conditions of the proposed loan. The entity plans to proceed with the agreement, but the loan contract has not been signed as of the date the entity’s financial statements are issued.
7. With regards to the question asked, the submission outlines two views related to costs that would be attributable to originating a financial instrument, but are incurred prior to entering into the contractual arrangement (ie signing the contract):
- (a) View 1—costs that are incurred prior to entering into the contractual arrangement are not transaction costs as defined in Appendix A of IFRS 9. This view is based on the notion of ‘incremental costs’ explained in the definition of transaction costs that states that ‘an incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument’; or

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<sup>1</sup> Appendix A of IFRS 9: ‘Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.’

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- (b) View 2—costs that are incurred prior to entering into the contractual arrangement meet the definition of transaction costs even if there is a possibility that the financial instrument might not be originated or issued.
8. Assuming that such costs are determined to be transaction costs, the submission asks how to account for such costs in the period between incurring the costs and entering into the contractual arrangement. Specifically, whether such costs are:
- (a) expensed as incurred;
  - (b) expensed as incurred but then reinstated and deducted from the loan balance at the initial recognition of the loan;
  - (c) recognised as an asset, for example an intangible asset, and then:
    - (i) deducted from the loan amount at the initial recognition of the loan; or
    - (ii) expensed in case the loan agreement is not signed; or
  - (d) accounted for in some other way.
9. The submission—reproduced in [Appendix B](#)—includes further information about the fact pattern and the alternative views identified by the submitter. We also made the submission available on our [website](#).

## Findings from information request

10. We sent an information request to members of the International Forum of Accounting Standard-Setters, securities regulators and large accounting firms. The request asked whether the respondents are aware of divergent interpretations, similar to the views described in the submission (see paragraphs 7 and 8), being applied in their jurisdictions; and, if so, whether such diversity is widespread and could have a material effect on those affected.
11. We received 15 responses—seven from national accounting standard-setters, seven from accounting firms and one from a member of the Committee representing a

preparer. The responses represent informal opinions and do not necessarily reflect the official views of those respondents or their organisations.

***Application of the term ‘incremental’ in the definition of ‘transaction costs’***

12. Most respondents said they observed no diversity in applying the notion of ‘incremental’ in the definition of transaction costs introduced in Appendix A of IFRS 9. They said entities normally consider costs that are directly attributable to the origination or issuance of a financial instrument and incurred prior to entering into a financial instrument contract, as incremental and, accordingly, as transaction costs (see View 2 in paragraph 7(b)). Some respondents referred to the following sources, which, in their view, support View 2:
- (a) the last sentence in paragraph 37 of IAS 32 *Financial Instruments: Presentation* might imply that costs incurred before the occurrence of an equity transaction can be included as transaction costs unless the equity transaction is abandoned<sup>2</sup>;
  - (b) paragraph B5.4.2 of IFRS 9 provides examples of fees that are an integral part of the effective interest rate of a financial instrument, including loan commitment fees, despite the possibility that the commitment might expire without the financial instrument being recognised;
  - (c) paragraph B5.4.8 of IFRS 9 provides examples of transaction costs that appear to include not only fees contingent on a completion of a deal<sup>3</sup>; and
  - (d) guidance on accounting for transaction costs under IFRS 9 issued by some of the large accounting firms.

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<sup>2</sup> Paragraph 37 of IAS 32: ‘...The transaction costs of an equity transaction are accounted for as a deduction from equity to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided. The costs of an equity transaction that is abandoned are recognised as an expense.’

<sup>3</sup> Paragraph B5.4.8 of IFRS 9: ‘Transaction costs include fees and commission paid to agents (including employees acting as selling agents), advisers, brokers and dealers, levies by regulatory agencies and security exchanges, and transfer taxes and duties...’

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13. A few respondents noted that, similar to the views discussed in paragraph 12, they have observed no diversity in interpretation of the notion of ‘incremental costs’ in the context of IFRS 9. However, they said that, in theory, it is possible to interpret the definition of transaction costs in IFRS 9 as being similar to View 1 in paragraph 7(a), because, in their view, the relevant guidance in IFRS 9 is not sufficient and some other IFRS Accounting Standards provide clearer guidance on incremental costs that, if applied by analogy, might lead to View 1.
14. One accounting firm said that, although in their experience most entities apply View 2, in the Agenda Decision [Transaction costs](#) (IAS 32) published in September 2008 the Committee recommended that the IASB develop common definitions for terms ‘incremental’ and ‘directly attributable’ across different IFRS Accounting Standards and Interpretations. The respondent said this recommendation is still relevant.

***Accounting for transaction costs incurred prior to entering into the contractual arrangement***

15. Most respondents said they observed no diversity in how entities account for transaction costs incurred prior to entering into the contractual arrangement. They said entities usually defer the costs (often as prepayments or other assets) in the statement of financial position until the costs are included in the amortised cost of the financial instrument when the instrument is recognised. A few standard-setters specifically disagreed with presenting such costs as intangible assets.

***Materiality***

16. Some respondents said that, in their view, the transaction costs accumulated at the end of a reporting period and relating to unsigned contractual arrangements are generally not material. This is because transaction costs in general are often not material and the time lag between the incurrence of the costs and entering into a financial instrument contract is generally insignificant.

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## Staff analysis

### ***Should the Committee add this matter to its standard-setting agenda?***

*Does the matter have widespread effect and have, or is expected to have, a material effect on those affected?<sup>4</sup>*

17. The submission discusses the existence of different views on whether costs directly attributable to entering in a financial instruments contract and incurred prior to entering in the contract are ‘incremental’ and, consequently, are transaction costs as defined in Appendix A of IFRS 9.
18. Responses to our information request did not provide evidence of widespread diversity in how entities identify ‘transaction costs’ incurred prior to entering in a financial instruments contract or how entities account for such costs in the period before the financial instrument is recognised. All respondents who commented on the observed practices said that:
  - (a) entities normally identify costs directly attributable to a financial instrument and incurred prior to entering into the contractual arrangement, as incremental and, accordingly, as transaction costs (that is apply View 2 in paragraph 7(b)); and
  - (b) usually defer the costs (often as prepayments or other assets) in the statement of financial position until the costs are included in the amortised cost of the financial instrument when the instrument is recognised.
19. Therefore, we have not obtained evidence that the matter has widespread effect—in other words, diversity in application that could have a material effect on entities’ financial statements.

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<sup>4</sup> Paragraph 5.16(a) of the [Due Process Handbook](#).

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20. Consequently, we recommend that the Committee not add a standard-setting project to the work plan and instead publish a tentative agenda decision that explains its reasons for not adding a standard-setting project.
  21. Our recommendation is based on evidence we obtained to date from our information request. Should there be additional evidence which could lead to a different conclusion on whether the matter has widespread effect, stakeholders will have the opportunity to share this with the Committee by providing feedback to the tentative agenda decision.

### Staff recommendation

22. Based on our assessment of the criteria in paragraph 5.16 of the *Due Process Handbook* (as discussed in paragraphs 17–21), we recommend not adding a standard-setting project to the work plan and instead publishing a tentative agenda decision that explains the Committee’s reasons for not adding a standard-setting project.
23. [Appendix A](#) to this paper suggests wording for the tentative agenda decision.

### Questions for the Committee

1. Does the Committee agree with our recommendation not to add a standard-setting project to the work plan?
2. Does the Committee have any comments on the wording of the tentative agenda decision suggested in [Appendix A](#) to this paper?

## Appendix A—suggested wording for the tentative agenda decision

### **Determining and accounting for transaction costs (IFRS 9 *Financial Instruments*)**

The Committee received a request about application of the definition of, and requirements in IFRS 9 *Financial Instruments* relating to, transaction costs.

#### **Fact pattern**

The submission asked how an entity determines whether costs that are directly attributable to originating a financial instrument but incurred prior to entering into the contractual arrangement, are ‘incremental’ and therefore meet the definition of transaction costs in Appendix A of IFRS 9.

In the fact pattern described in the submission an entity intends to enter into a loan agreement with a bank and incurs legal and advisory fees while analysing the terms and conditions of the proposed loan. The entity plans to proceed with the agreement, but the loan contract has not been signed as of the date the entity’s financial statements are issued.

The submission outlined two views:

- (a) View 1—costs that are incurred prior to entering into the contractual arrangement are not transaction costs as defined in Appendix A of IFRS 9. This view is based on the notion of ‘incremental costs’ explained in the definition of transaction costs that states that ‘an incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument’; or
- (b) View 2—costs that are incurred prior to entering into the contractual arrangement meet the definition of transaction costs even if there is a possibility that the financial instrument might not be originated or issued.

Assuming that such costs are determined to be transaction costs, the submission asked how to account for such costs in the period between incurring the costs and entering into the contractual arrangement.

**Findings and conclusion**

Evidence gathered by the Committee [to date] indicates no diversity that could have a material effect on entities' financial statements with regards to determining and accounting for transaction costs incurred prior to entering into a contractual arrangement. Feedback suggests that:

- (a) costs that are directly attributable to the origination or issuance of a financial instrument and incurred prior to entering into the contractual arrangement, are determined to be incremental and, accordingly, transaction costs; and
- (b) such costs are recognised in the statement of financial position (often as prepayments or other assets) until they are included in the amortised cost of the financial instrument.

Based on its findings, the Committee concluded that the matter described in the request does not have widespread effect. Consequently, the Committee [decided] not to add a standard-setting project to the work plan.

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## Appendix B—submission

B1. We have reproduced the submission below, and in doing so deleted details that would identify the submitter of the request.

### Potential Agenda Item:

#### Subject

B2. Interpretation of IFRS 9 *Financial Instruments*, and clarification on how to apply the definition of transaction costs in IFRS 9 to determine whether costs are incremental and how to account for such costs in the period before entering into the financial instrument contract.

### Background information and opposing opinions

B3. Appendix A to IFRS 9 defines transaction costs as “incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.” It further clarifies that “an incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.”

B4. A key source of ambiguity lies in the interpretation of the term *incremental*. Specifically, the uncertainty arises as to whether:

- **Transaction costs must be directly triggered by the signing of the contract (View 1):**

Should incremental costs be interpreted strictly as those arising solely as a result of the signing of the contract that establishes the financial instrument? Under this view, costs would only qualify as "incremental" if they were directly triggered by the contract's execution and would not have been incurred otherwise.

- **Preparatory costs incurred prior to contract signing also qualify as “incremental” (View 2):**

Alternatively, does the definition extend to preparatory costs incurred prior to contract signing, provided these costs are directly attributable to the prospective financial

instrument? This interpretation would allow for the inclusion of such costs even if they would have been incurred regardless of whether the financial instrument was ultimately acquired or issued.

- B5. The implementation guidance to IFRS 9 briefly states that transaction costs include fees and commissions paid to third parties as well as various levies (IFRS 9.B5.4.8). However, it provides no further clarification on the meaning of incremental, leaving the question of which of the two views is correct unresolved.
- B6. Separately, another section of the implementation guidance (IFRS 9.B5.4.1–B5.4.3) provides extensive discussion on fees exchanged between parties to a financial instrument. However, it is important to note that such fees are distinct from transaction costs. As indicated in the definition of the effective interest rate in Appendix A to IFRS 9, fees are exchanged between the parties to a financial instrument. Conversely, transaction costs are incurred to third parties who are not part of the contractual relationship giving rise to the financial instrument.
- B7. Furthermore, if View 2 is deemed appropriate, an additional question arises concerning the treatment of costs incurred in a reporting period that precedes the origination of a financial instrument.
- B8. To illustrate this issue, consider the following scenario:

An entity (a borrower) intends to enter into a loan agreement with a bank in 20X2. Both the borrower and the bank have a 31 December year-end.

In 20X1, the borrower incurs legal and advisory fees while analysing the terms and conditions of the proposed loan. The borrower intends to proceed with the agreement, but the loan contract has not been signed as of the authorisation date of the 20X1 financial statements.

Similarly, in 20X1, the bank incurs professional fees for valuing a property that would serve as collateral for the loan. These costs are incurred during the process of preparing a loan quote. However, as with the borrower, the loan contract remains unsigned by the reporting date.

- B9. The question arises: how should the costs incurred in 20X1 be accounted for in the financial statements of the respective parties, given that the loan contract has not been signed and may never be executed? Specifically, should the 20X1 costs be:
- (a) **Option A:** Expensed in profit or loss in 20X1 as incurred, without subsequent reinstatement as part of the amortised cost of the loan, even if the loan is eventually signed.
  - (b) **Option B:** Expensed in profit or loss in 20X1 as incurred but later reinstated as part of the amortised cost of the loan if the loan is ultimately signed.
  - (c) **Option C:** Recognised as an intangible asset in 20X1. They would later be included in the amortised cost of the loan or expensed in profit or loss if it becomes unlikely **that** the loan contract will be signed. (Alternatively, should a different probability threshold be applied in determining the treatment?).
  - (d) **Option D:** Treated in **another** manner entirely?
- B10. This issue has been frequently raised in queries on the IFRS Community forums ([example](#)). During my research, I found that the IFRS Staff have also identified diversity in practical application as part of the “Primary Financial Statements” project ([source](#)). Specifically:
- Many of those respondents said that there is diversity in practice in how entities identify incremental expenses and similar concepts applying existing Accounting Standards. A few respondents asked the IASB to clarify [...] whether legal and advisory fees incurred in purchasing an investment are incremental, considering that often (part of) these fees would still be due even when the transaction does not go ahead.*
- B11. It’s worth noting that, in the EU alone, total outstanding loans to non-financial corporations and households amounted to EUR 13.6 trillion as of the 2023 year-end ([source](#)). If we assume, conservatively, that transaction costs represent approximately 0.1% of loan amounts, then the transaction costs associated with outstanding loans at any given time would amount to approximately EUR 14 billion in the EU alone.

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B12. Given the extensive use of financial instruments globally, this issue has significant and widespread implications, with the potential to materially impact affected parties. Nevertheless, I believe the matter can be resolved effectively within the framework of existing IFRS Accounting Standards and the *Conceptual Framework for Financial Reporting*.