
IFRS[®] Interpretations Committee meeting

Date **November 2025**

Project **Embedded Prepayment Option (IFRS 9)**

Topic **Comment letters on tentative agenda decision**

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Introduction

1. In June 2025, the IFRS Interpretations Committee (Committee) published a [tentative agenda decision](#) in response to a submission about the application of the requirements in paragraph B4.3.5 of IFRS 9 *Financial Instruments* to determine whether to separate an embedded prepayment option in a loan contract.
2. The objective of this paper is:
 - (a) to summarise and analyse comments on the tentative agenda decision; and
 - (b) to ask the Committee whether it agrees with our recommendation to finalise the agenda decision.

Structure

3. This paper includes:
 - (a) [background](#) (paragraphs 5–9);
 - (b) [comment letter summary](#) (paragraphs 10–13);
 - (c) [staff analysis](#) (paragraphs 14–21);

- (d) [staff recommendation](#) (paragraph 22); and
 - (e) [questions for the Committee](#).
4. The [appendix](#) to this paper sets out the proposed wording of the agenda decision.

Background

Fact pattern

5. The submission asked whether, for purposes of applying paragraph B4.3.5(e)(ii) of IFRS 9 to a prepayment option in a financial liability, ‘the entity’ should be read to refer to ‘the lender’ or ‘the reporting entity’ (that is, the borrower).
6. In the fact pattern described in the submission, a reporting entity (the borrower) signed a loan contract that contains an early repayment option (the prepayment option). The submission stated that views differ in practice with regards to the meaning of ‘the entity’ in paragraph B4.3.5(e)(ii) of IFRS 9:
- (a) one view is that ‘the entity’ refers to ‘the lender’ because lost interest should be considered from the lender’s perspective; and
 - (b) the other view is that, similar to references to ‘the entity’ in other IFRS Accounting Standards, ‘the entity’ is ‘the reporting entity’ (that is, the borrower) and lost interest should be considered from the reporting entity’s perspective.
7. The distinction between ‘the entity’ meaning ‘the lender’ or ‘the reporting entity’ can be significant, because the assessment of whether to separate an embedded derivative from the host contract could differ depending on whether it is assessed from the lender’s or the borrower’s perspective. The effects of accounting for an embedded derivative at fair value through profit or loss and for a host contract at amortised cost could significantly differ from the effects of accounting for the entire financial liability at amortised cost.

Findings

8. Evidence gathered by the Committee at the time it published the tentative agenda decision indicated no diversity in practice that could have a material effect on entities' financial statements with regards to interpreting the term 'the entity' in paragraph B4.3.5(e)(ii) of IFRS 9. Feedback suggested that stakeholders read the requirements as referring to the lender.

Conclusion

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

Comment letter summary

10. We received nine comment letters by the comment letter deadline. All comment letters received, including any late comment letters, are available on our [website](#).¹ This agenda paper includes analysis of only the comment letters received by the comment letter deadline.
11. Five respondents agree with the Committee's decision not to add a standard-setting project to the work plan for the reasons set out in the tentative agenda decision.
12. Three respondents agree with the Committee's findings that there is no, or only little diversity in practice and that stakeholders read the requirements in paragraph B4.3.5 of IFRS 9 as referring to the lender. However, they suggest amending paragraph B4.3.5 of IFRS 9 to replace the term 'the entity' with 'the lender' or providing illustrative examples to avoid any ambiguity in future. One of these respondents provided examples of common prepayment clauses and suggests clarifying other

¹ At the date of posting this agenda paper, there were no late comment letters.

requirements in IFRS 9 related to assessment of contractual cash flow characteristics and the separation of embedded derivatives in this regard.

13. The remaining respondent (an individual) disagreed with the Committee's conclusion and says there is diversity in practice between jurisdictions. They suggest the Committee provide guidance to improve consistent application.

Staff analysis

Diversity in practice

Respondent's comments

14. All but one respondent agree with the Committee's findings set out in the tentative agenda decision (and reproduced in paragraph 8 of this paper).
15. Muhammad Sarfraz Arshad says he observes diversity in practice between jurisdictions, particularly on cross-border financing arrangements and syndicated loan structures. He says stakeholders in some jurisdictions read paragraph B4.3.5 of IFRS 9 as referring to the lender, but stakeholders in other jurisdictions read that paragraph as referring to the borrower, often influenced by guidance from local regulators. He suggests providing guidance to improve consistent application.

Staff analysis

16. In our view, evidence gathered by the Committee (including feedback on the tentative agenda decision) continues to confirm the Committee's findings as described in the tentative agenda decision (and reproduced in paragraph 8 of this paper), given that:
 - (a) all 15 respondents to our initial outreach request—comprising seven national accounting standard-setters, seven accounting firms and one Committee

member representing a preparer—said they did not observe diversity in practice;²

- (b) no Committee member or observer reported observing diversity in practice when discussing the matter at the Committee’s June 2025 meeting; and
- (c) all but one of the respondents to the tentative agenda decision agreed with the Committee’s findings that there is no diversity in practice.

17. Therefore, we recommend no changes to the description of the Committee’s findings in the tentative agenda decision.

Amending paragraph B4.3.5 of IFRS 9

Respondents’ comments

18. Forvis Mazars and the Saudi Organization for Chartered and Professional Accountants (SOCPA) agree with the Committee’s findings that there is no diversity in practice and that stakeholders read the requirements in paragraph B4.3.5 of IFRS 9 as referring to the lender. They also say prevalent practice reflects the economic rationale for compensation in embedded prepayment options. However, they suggest amending paragraph B4.3.5 of IFRS 9 to replace the term ‘the entity’ with ‘the lender’. In their view, such an amendment would avoid any possible misinterpretation, given that the term ‘the entity’ is generally used to refer to ‘the reporting entity’ in IFRS Accounting Standards. Forvis Mazars says such an amendment could be done as part of the annual improvements process.³

² See paragraphs 10–14 of [Agenda Paper 3](#) for the Committee’s June 2025 meeting.

³ See paragraphs 6.10–6.15 of the [Due Process Handbook](#).

Staff analysis

19. We recommend not amending paragraph B4.3.5 of IFRS 9. In particular:
- (a) such an amendment might not be as simple as suggested by respondents. Other requirements in IFRS 9 also use the term ‘the entity’, and depending on context, the term might refer to the reporting entity or to the counterpart of a financial instrument. Amending paragraph B4.3.5 of IFRS 9 might imply that the term ‘the entity’ refers only to the ‘reporting entity’, which could have unintended consequences on the application of those other paragraphs.
 - (b) given the evidence gathered by the Committee (including from responses to the tentative agenda decision) does not indicate diversity in practice, such an amendment would have limited benefits.

Additional guidance or clarifications*Respondents’ comments*

20. Two respondents suggest providing further clarifications or guidance. Specifically:
- (a) Mo Chartered Accountants agrees that there is not much diversity in practice and that adding a standard-setting project is not required. However, the respondent suggests providing further guidance, including illustrative examples.
 - (b) SOCPA suggests clarifying other requirements in IFRS 9 and providing examples of common market clauses (such as make-whole and yield-maintenance clauses).⁴

⁴ SOCPA suggest clarifying, for example, how an entity applies the terms ‘approximately equal’ in paragraph B4.4.5(e)(i) and ‘substantially represents’ in paragraph B4.1.11(b) of IFRS 9.

Staff analysis

21. In our view, the evidence gathered by the Committee confirms its findings as set out in the tentative agenda decision (and reproduced in paragraph 8 of this paper). Therefore, the criterion in paragraph 5.16(a) of the [Due Process Handbook](#) for adding a standard-setting project to the work plan is not met. Based on this analysis, we recommend that the Committee does not provide further guidance or clarification on the matter described in the tentative agenda decision. We also note that providing guidance on other requirements in IFRS 9 would go beyond the scope of the matter raised in the submission.

Staff recommendation

22. Based on our analysis in this paper, we recommend finalising the agenda decision, as published in [IFRIC Update](#) in June 2025, with changes to the wording of the tentative agenda decision as marked in the Appendix. If the Committee agrees with our recommendation, we will ask the IASB whether it objects to the agenda decision at the first IASB meeting at which it is practicable to present the agenda decision.

Questions for the Committee

1. Does the Committee agree with our recommendation to finalise the agenda decision as explained in paragraph 22?
2. Do Committee members have any comments on the wording of the agenda decision in the appendix to this paper?

Appendix—Proposed wording of the agenda decision

A1. We propose the following wording for the final agenda decision (new text is underlined and deleted text is struck through).

Embedded Prepayment Option (IFRS 9 *Financial Instruments*)

The Committee received a request about the application of the requirements in paragraph B4.3.5 of IFRS 9 to determine whether to separate an embedded prepayment option in a loan contract.

Fact pattern

The request asked whether, for purposes of applying paragraph B4.3.5(e)(ii) of IFRS 9 to a prepayment option in a financial liability, ‘the entity’ should be read to refer to ‘the lender’ or ‘the reporting entity’ (that is, the borrower).

In the fact pattern described in the request, a reporting entity (the borrower) signed a loan contract that contains an early repayment option (the prepayment option). The request ~~stated~~ states that views differ in practice with regards to the meaning of ‘the entity’ in paragraph B4.3.5(e)(ii) of IFRS 9:

- (a) one view is that ‘the entity’ refers to ‘the lender’ because lost interest should be considered from the lender’s perspective; and
- (b) the other view is that, similar to references to ‘the entity’ in other IFRS Accounting Standards, ‘the entity’ is ‘the reporting entity’ (that is, the borrower) and lost interest should be considered from the reporting entity’s perspective.

The distinction between ‘the entity’ meaning ‘the lender’ or ‘the reporting entity’ can be significant, because the assessment of whether to separate an embedded derivative from the host contract could differ depending on whether it is assessed from the lender’s or the borrower’s perspective. The effects of accounting for an embedded derivative at fair value

through profit or loss and for a host contract at amortised cost differ from the effects of accounting for the entire financial liability at amortised cost.

Findings

Evidence gathered by the Committee indicated ~~[to date]~~ ~~indicates~~ no diversity in practice that could have a material effect on entities' financial statements with regards to interpreting the term 'the entity' in paragraph B4.3.5(e)(ii) of IFRS 9. Feedback suggested ~~suggests~~ that stakeholders read the requirements as referring to the lender.

Conclusion

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.