
IFRS[®] Interpretations Committee meeting

Date November 2025

Project Determining and Accounting for Transaction Costs (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 definition of transaction costs and the requirements in IFRS 9 *Financial Instruments* relating to transaction costs.
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 5–10);
 - (b) [comment letter summary](#) (paragraphs 11–15);
 - (c) [staff analysis](#) (paragraphs 16–38);

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- (d) [staff recommendation](#) (paragraph 39); 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 how an entity determines whether costs that are directly attributable to origination or issuance of a financial instrument but are incurred before entering into the contractual arrangement are ‘incremental’ and, therefore, meet the definition of transaction costs in Appendix A of IFRS 9.¹
6. In the fact pattern described in the submission, an entity intends to enter into a loan contract with a bank and incurs legal and advisory fees while analysing the terms and conditions of the proposed loan. The entity expects to proceed with the contract, but the loan contract has not been signed as of the date the entity’s financial statements are authorised for issue.
7. The submission outlined two views:
- (a) in one view, costs that are incurred before entering into the contractual arrangement cannot meet the definition of transaction costs set out in Appendix A of IFRS 9; and
 - (b) in the other view, costs that are incurred before entering into the contractual arrangement can meet the definition of transaction costs set out in Appendix A

¹ Appendix A of 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. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.’

of IFRS 9 even if there is a possibility that the financial instrument might not be originated or issued.

8. Assuming that the 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

9. Evidence gathered by the Committee at the time it published the tentative agenda decision indicated no diversity in applying IFRS 9 that could have a material effect on entities' financial statements with regards to determining and accounting for costs incurred before entering into a contractual arrangement. Feedback suggested that:
 - (a) costs that are directly attributable to the origination or issuance of a financial instrument but are incurred before entering into the contractual arrangement, can be incremental and, accordingly, can meet the definition of transaction costs in IFRS 9; and
 - (b) transaction costs are recognised in the statement of financial position, often as prepayments or other assets.

Conclusion

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

Comment letter summary

11. We received 15 comment letters by the comment letter deadline. All comment letters received, including any late comment letters, are available on our [website](#).² This agenda paper includes analysis of only the comment letters received by the comment letter deadline.
12. Nine 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. Of these respondents:
 - (a) four respondents suggest adding further clarifications and guidance, such as illustrative examples, regarding the accounting for costs incurred before entering into a contractual arrangement; and
 - (b) one respondent (an accounting firm) suggests wording changes to the tentative agenda decision.
13. One respondent (an individual) does not object to the Committee's decision not to add a standard-setting project to the work plan. However, that respondent says the fact pattern described in the tentative agenda decision is common. Therefore, the respondent suggests that the Committee undertake a technical analysis of the matter and include explanatory material in the agenda decision.
14. Three respondents disagree with the Committee's decision not to add a standard-setting project to the work plan. These respondents say the Committee should add a standard-setting project to the workplan to clarify the definition of the term 'incremental costs' and to ensure its consistent application across different IFRS Accounting Standards.
15. Two respondents (individuals) do not specify whether they agree with the decision but provide their own technical analysis of the submitted fact pattern.

² At the date of posting this agenda paper, there were no late comment letters.

Staff analysis

16. This section considers feedback on:
- (a) whether the matter has widespread effect (paragraphs 17–26);
 - (b) adding a standard-setting project to the work plan (paragraphs 27–28);
 - (c) additional clarifications and guidance (paragraphs 29–33);
 - (d) comments on the appropriate accounting (paragraphs 34–36); and
 - (e) wording clarifications (paragraphs 37–38).

Whether the matter has widespread effect

Respondent's comments

17. As paragraph 12 notes, nine 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.
18. One respondent—Marek Muc—while not objecting to the Committee's decision not to add a standard-setting project to the work plan, disagrees with the Committee's conclusion that the matter described in the request does not have widespread effect and says:
- (a) this conclusion appears to be inconsistent with the evidence gathered by the Committee, which suggests that incurring costs before entering into a contractual agreement is common; and
 - (b) according to his reading of paragraph 5.16 of the [Due Process Handbook](#), the absence of diversity in practice is not, in itself, determinative of whether a standard-setting project should be added to the work plan.
19. The respondent therefore says the Committee should include explanatory material in the agenda decision to explain the required accounting. In the respondent's view, the

tentative agenda decision is unclear about whether the prevalent accounting practice it describes is the only acceptable approach.

20. The respondent also refers to comments from some respondents to the Exposure Draft *General Presentation and Disclosures* regarding the proposal—which was later withdrawn—for an entity to classify in the investing category incremental expenses incurred in generating investment income and expenses. Respondents to that exposure draft said there were differences in how entities identify incremental expenses and similar concepts applying IFRS Accounting Standards.³

Staff analysis

21. We note that assessing whether a matter has widespread effect requires considering not only whether the fact pattern or transaction described in the submission is prevalent, but importantly also whether there are different views about applying related requirements. Therefore, the Due Process Handbook requires the Committee to assess whether diversity in accounting for that fact pattern or transaction is widespread.
22. Feedback on the tentative agenda decision supports the Committee's tentative conclusion that the matter does not have widespread effect. In particular:
- (a) respondents either confirmed the Committee's findings—that is, that there is no evidence of diversity in how entities applying IFRS 9 determine and account for costs incurred before entering into a contractual arrangement—or provided no contrary evidence.
 - (b) the comment in paragraph 20 refers to potential differences in the way entities apply requirements in different IFRS Accounting Standards, rather than diversity in how entities apply the requirements in a specific Standard. Therefore, in our view the comment does not provide evidence of diversity in

³ See paragraph 13 of [Agenda Paper 21D](#) for the September 2022 IASB meeting.

how entities apply the requirements in IFRS 9 in the fact pattern described in the tentative agenda decision.

23. Regarding whether the agenda decision should explain the required accounting, paragraph 8.3 of the Due Process Handbook states:

... An agenda decision typically includes explanatory material when the reason for not adding a standard-setting project to the work plan is the Interpretations Committee's conclusion that the principles and requirements in the Standards provide an adequate basis for an entity to determine the required accounting. ...

24. In this case, the Committee's reason for not adding a standard-setting project to the work plan is a different one—it is that the matter does not meet the 'widespread and material' criterion set out in paragraph 5.16(a) of the *Due Process Handbook*.

25. [Agenda Paper 4](#) of the Committee's September 2023 meeting discussed similar comments on another matter in which the Committee concluded that the matter did not meet the 'widespread and material' criterion. Paragraph 27 of that paper notes:

...the Committee's role is not to undertake technical analysis and provide explanatory material in agenda decisions when the Committee has obtained insufficient evidence that the matter has widespread effect and has, or is expected to have, a material effect on those affected. We think doing so could risk setting a precedent that the Committee will provide technical analysis on all matters submitted to it, even when the evidence obtained indicates that the matter is not widespread (including when evidence suggests there is little diversity in the accounting treatment entities apply).

26. Consistent with the Committee's decisions on previous issues that did not meet the 'widespread and material' criterion, we recommend not including explanatory material in this agenda decision.⁴

Adding a standard-setting project to the work plan

Respondents' comments

27. The Autorité des Normes Comptables (ANC), Mazars and Sounder Rajan suggest adding a standard-setting project to the workplan to clarify and align the term 'incremental costs' across IFRS Accounting Standards. These respondents say:
- (a) the term 'incremental costs' is also used in other IFRS Accounting Standards, for example in the definition of 'initial direct costs' in IFRS 16 *Leases* and in the requirements related to costs to obtain a contract in IFRS 15 *Revenue from Contracts with Customers*. Although entities apply that term consistently when applying IAS 32 *Financial Instruments: Presentation* and IFRS 9, entities apply that term in a different way when applying IFRS 15 and IFRS 16.
 - (b) in the [Agenda Decision Transaction Costs to be Deducted from Equity \(IAS 32\)](#), the Committee noted that the terms 'incremental' and 'directly attributable' are used with similar but not identical meanings in IFRS Accounting Standards. The Committee recommended developing common definitions for both terms.

Staff analysis

28. We continue to agree with the Committee's decision not to add a standard-setting project to the work plan. In particular:

⁴ For example, see Agenda Decisions [Classification of Cash Flows related to Variation Margin Calls on 'Collateralised-to-Market' Contracts \(IAS 7 Statement of Cash Flows\)](#), [Merger between a Parent and Its Subsidiary in Separate Financial Statements \(IAS 27 Separate Financial Statements\)](#) and [Homes and Home Loans Provided to Employees](#).

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- (a) respondents did not provide new evidence to support adding a project to the work plan in accordance with paragraph 5.16 of the Due Process Handbook. As paragraph 27(b) notes, the Committee has already noted in the past that the term ‘incremental’ might not be used with identical meanings across IFRS Accounting Standards.
 - (b) the matter described in the submission is about the application of the requirements in IFRS 9. Considering the application of the term ‘incremental costs’ across different IFRS Accounting Standards would go beyond the scope of the matter submitted to the Committee.
 - (c) respondents provided no evidence that the term ‘incremental costs’ is being applied in a way that was not intended by the IASB in setting the requirements in each specific IFRS Accounting Standards.

Additional clarifications and guidance

Respondents’ comments

- 29. Four respondents suggest adding further clarifications or guidance, such as illustrative examples, regarding the accounting for costs incurred before entering into a contractual arrangement either as part of, or separate from, any agenda decision on this matter. They say such clarifications and guidance will help improve the consistent application of the requirements in IFRS 9. For example:
 - (a) Muhammad Sarfraz Arshad suggests, among other things, clarifying what constitutes a direct linkage between the costs incurred and the acquisition of a financial instrument. Muhammad also suggests providing illustrative examples that distinguish between eligible and ineligible costs.
 - (b) ANAAM International say examples would help avoid ambiguity for preparers and auditors, particularly examples on the accounting in the period between incurring the costs and signing the contract.

- (c) the Saudi Organization for Chartered and Professional Accountants (SOCPA) suggest, among other things, clarifying that an entity should apply judgement to distinguish between incremental costs that qualify for deferral and general administrative and overhead costs, which should be expensed as incurred.
- (d) the Public Accountants and Auditors Board of Zimbabwe suggest, among other things, clarifying the accounting if an entity does not proceed with the contract and illustrating the distinction between costs that can be incremental and those that cannot.

Staff analysis

30. Paragraph 5.16 of the Due Process Handbook states that:

The Interpretations Committee decides a standard-setting project should be added to the work plan, either by recommending that the Board develop a narrow-scope amendment or by deciding to develop an IFRIC Interpretation, when all of the following criteria are met:

- (a) the matter has widespread effect and has, or is expected to have, a material effect on those affected;
- (b) it is necessary to add or change requirements in IFRS Standards to improve financial reporting—that is, the principles and requirements in the Standards do not provide an adequate basis for an entity to determine the required accounting;
- (c) the matter can be resolved efficiently within the confines of the existing Standards and the *Conceptual Framework*; and
- (d) the matter is sufficiently narrow in scope that the Board or the Interpretations Committee can address it in an efficient manner, but not so narrow that it is not cost-effective for the

Board or the Interpretations Committee and stakeholders to undertake the due process required to change a Standard.

31. As paragraph 22 notes, feedback on the tentative agenda decision supports the Committee's tentative conclusion that the matter does not have widespread effect as required in paragraph 5.16(a) of the Due Process Handbook.
32. Consequently, the matter does not meet the criteria for the Committee to either recommend that the IASB develop a narrow-scope standard-setting project to its workplan or develop an IFRIC interpretation.
33. We also think it would be inappropriate to provide any clarifications or guidance, including examples as part of the agenda decision. This is because, when the Committee decides that a standard-setting project should not be added, paragraphs 8.2 and 8.3 of the Due Process Handbook states that the Committee explains its reasons in an agenda decision. Similar to other agenda decisions in which the Committee concluded that the matter did not have widespread effect, the 'findings' section of the tentative agenda decision simply reports the prevalent accounting based on the evidence gathered by the Committee. Providing clarifications or guidance would go beyond describing the evidence gathered by the Committee in determining whether the matter has widespread effect.

Appropriate accounting

Respondents' comments

34. Some respondents provided their own views on the appropriate accounting for the fact pattern described in the submission. These include:
 - (a) Ian Richmond and Sultan AlShubaily who provide their own technical analysis and views on the accounting for the fact pattern described in the submission
 - (b) Marek Muc who refers to Example 36 of the *Illustrative Examples* on IFRS 15 and says that example supports the first view described in the tentative agenda

decision (see paragraph 7). The respondent says the substance of the term ‘incremental’ is the same under IFRS 15 and IFRS 9, and therefore the term should be interpreted consistently under those Standards. He says the agenda decision should address the connections between these requirements.

- (c) Sounder Rajan who says accounting for the costs as described in the tentative agenda decision as an asset is inconsistent with the definition of an asset in the *Conceptual Framework for Financial Reporting*.⁵

Staff analysis

35. We disagree with the view described in paragraph 34(b). As noted in paragraph 27(b), the Committee previously noted that the terms ‘incremental’ and ‘directly attributable’ are used with similar but not identical meanings in IFRS Accounting Standards.
36. For the reasons explained in paragraphs 21–26, we recommend not including explanatory material in this agenda decision because there is no indication of diversity that has widespread effects. We have therefore not further analysed respondents’ views on the appropriate accounting for the fact pattern described in the submission.

Wording clarifications

Respondents’ comments

37. Deloitte says it is unclear whether the summary of feedback gathered by the Committee is intended as a simple observation of practice or as a tacit endorsement of a technical position. Deloitte highlights, in particular, the statement that costs that are directly attributable to the origination or issuance of a financial instrument but are incurred before entering into the contractual arrangement ‘can be incremental’.

⁵ The *Conceptual Framework* defines an asset as ‘a present economic resource controlled by the entity as a result of past events’.

Staff analysis

38. As paragraph 33 notes, the ‘findings’ section of the tentative agenda decision simply reports the prevalent accounting based on the evidence gathered by the Committee. We have suggested some changes to the wording of that section of the agenda decision to make this clearer. See the Appendix for our proposed wording suggestions.

Staff recommendation

39. Based on our analysis, we recommend finalising the agenda decision, as published in [IFRIC Update](#) in June 2025, with the changes to the wording of the tentative agenda decision as marked in Appendix A. 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 39?
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).

Determining and Accounting for Transaction Costs (IFRS 9 *Financial Instruments*)

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

Fact pattern

The request asked how an entity determines whether costs that are directly attributable to the origination or issuance of a financial instrument but are incurred before 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 request, an entity intends to enter into a loan contract with a bank and incurs legal and advisory fees while analysing the terms and conditions of the proposed loan. The entity expects to proceed with the contract, but the loan contract has not been signed as of the date the entity’s financial statements are authorised for issue.

The request outlined two views:

- (a) in one view, costs that are incurred before entering into the contractual arrangement cannot meet the definition of transaction costs set out in Appendix A of IFRS 9; and
- (b) in the other view, costs that are incurred before entering into the contractual arrangement can meet the definition of transaction costs set out in Appendix A of IFRS 9, even if there is a possibility that the financial instrument might not be originated or issued.

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

Findings

Evidence gathered by the Committee ~~indicated [to date]~~ ~~indicates~~ no diversity in applying IFRS 9 that could have a material effect on entities' financial statements with regards to determining and accounting for costs incurred before entering into a contractual arrangement. Feedback ~~suggested~~ ~~suggests~~ that:

- (a) costs that are directly attributable to the origination or issuance of a financial instrument but are incurred before entering into the contractual arrangement are not precluded from being 'incremental', can be incremental and, accordingly, could ~~can~~ meet the definition of transaction costs in IFRS 9; and
- (b) transaction costs are recognised in the statement of financial position, often as prepayments or other assets.

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.