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## IASB® meeting

Date	<b>January 2026</b>
Project	<b>Embedded Prepayment Option (IFRS 9)</b>
Topic	<b>Finalisation of agenda decision</b>
Contacts	Rashida Abdryashitova ( <a href="mailto:rabdryashitova@ifrs.org">rabdryashitova@ifrs.org</a> )

This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB). This paper does not represent the views of the IASB or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS® Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB® *Update*.

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## Purpose of the meeting

1. At its November 2025 meeting, the IFRS Interpretations Committee (Committee) decided not to add a standard-setting project to the work plan 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. The Committee instead decided to finalise an agenda decision that explained its reasons for not adding a standard-setting project.
2. The purpose of this meeting is to ask the International Accounting Standards Board (IASB) members whether they object to the agenda decision, as required by paragraph 8.7 of the IFRS Foundation *Due Process Handbook*.

## Background

3. 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). The agenda decision (see the [appendix](#) to this paper) describes the fact pattern and the question.
4. Upon receiving the submission, we sent an information request to members of the International Forum of Accounting Standard Setters, securities regulators and large

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accounting firms. The responses to the information request 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.<sup>1</sup>

5. Based on its findings, in June 2025, the Committee concluded that the matter described in the request does not meet the criteria for adding a standard-setting project to the work plan set out in paragraph 5.16 of the *Due Process Handbook*. In particular, the matter did not meet the criterion in sub-paragraph 5.16(a) that 'the matter has widespread effect...'. Consequently, the Committee decided to publish a tentative agenda decision outlining its findings and explaining its reasons for not adding a standard-setting project.

## Feedback on the tentative agenda decision

6. The Committee received nine comment letters on its tentative agenda decision by the comment letter deadline. All comment letters received, including any late comment letters, are available on our [website](#).<sup>2</sup> [Agenda Paper 4](#) for the Committee's November 2025 meeting summarised the comments and set out our analysis of those comments.
7. In summary:
  - (a) five respondents agreed 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.
  - (b) three respondents agreed 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 suggested amending paragraph B4.3.5 of IFRS 9 to replace the term 'the

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<sup>1</sup> See paragraphs 10–14 of [Agenda Paper 3](#) for the Committee's June 2025 meeting.

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

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entity' with 'the lender' or providing illustrative examples to avoid any ambiguity in future.

- (c) one respondent disagreed with the Committee's conclusion and said there is diversity in practice between jurisdictions. They suggested providing guidance to improve consistent application.

## The Committee's discussion and feedback

8. The Committee considered the feedback at its November 2025 meeting. The Committee confirmed its conclusion that the matter described in the request does not have widespread effect and its decision not to add a standard-setting project to the work plan.
9. The Committee made no significant changes to the wording of the tentative agenda decision. The [appendix](#) to this paper includes the wording of the agenda decision approved by the Committee.
10. All 14 Committee members voted to finalise the agenda decision.

### Questions for the IASB

Do you object to the Committee's:

- a. decision not to add a standard-setting project to the work plan?
- b. conclusion that the agenda decision does not add or change requirements in IFRS Accounting Standards?

## Appendix—the agenda decision

A1. The agenda decision below was approved by the Committee at its November 2025 meeting.

### **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 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 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**

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.