Staff paper

Agenda reference: AP11C

IASB® meeting

Date	**September 2026**
Project	**Amortised Cost Measurement**
Topic	**Accounting for costs or fees**
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Objective and structure of the paper

1. At its June 2026 meeting, the IASB tentatively decided to propose amending IFRS 9 *Financial Instruments* to provide application guidance about how an entity determines whether a modification of contractual cash flows of a financial asset or financial liability results in derecognition.

2. The objective of this paper is to consider application questions raised by stakeholders about how an entity accounts for costs or fees when a financial instrument is modified and the modification does not result in derecognition. The paper also discusses potential clarifications to address those questions and asks the IASB whether it agrees with the staff recommendations.

3. This paper is structured as follows:
   - (a) summary of staff recommendations and questions for the IASB;
   - (b) applicable requirements and issues;
   - (c) meaning of 'costs or fees incurred' in IFRS 9; and
   - (d) accounting for unamortised costs or fees.

Summary of staff recommendations and questions for the IASB

4. We recommend that the IASB proposes amending IFRS 9 to clarify that:

   (a) for purposes of paragraphs 5.4.3 and B3.3.6A of IFRS 9, the phrase 'costs or fees incurred' includes all fees and points paid or received between parties to the contract that are directly attributable to the modification of the financial instrument, transaction costs, and all other premium or discounts. This includes fees paid or received by either the borrower or the lender on the other's behalf.

   (b) if the modification of a financial asset or financial liability does not result in derecognition, any unamortised costs or fees at the time of the modification continue to be recognised as part of the modified instrument. Specifically, those costs or fees adjust the gross carrying amount of the modified financial asset or the amortised cost of the modified financial liability and are amortised over the remaining term of the modified financial instrument.

Questions for the IASB
1. Does the IASB agree with the staff recommendation in paragraph 4(a) of this paper?
2. Does the IASB agree with the staff recommendation in paragraph 4(b) of this paper?

Applicable requirements and issues

Applicable requirements

Costs or fees on origination of a financial instrument

5. Appendix A of IFRS 9 defines the effective interest rate (EIR). It requires that the calculation of the EIR includes all fees and points paid or received between parties to the contract that are an integral part of the EIR, transaction costs, and all other premiums or discounts.

6. Appendix A of IFRS 9 also 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.

7. Paragraphs B5.4.1–B5.4.3 of IFRS 9 distinguish between:

   (a) **fees integral to the EIR**, which adjust the EIR unless the instrument is measured at fair value through profit or loss, in which case they are recognised on initial recognition. Examples of fees that are an integral part of the EIR include loan origination fees received for creating or acquiring a financial asset, such as fees for credit evaluation, and origination fees paid on issuing financial liabilities measured at amortised cost; and

   (b) **fees not integral to the EIR**, which are accounted for under IFRS 15 *Revenue from Contracts with Customers*, such as loan servicing and syndication fees.

Costs or fees on modification of a financial instrument

8. Paragraph 5.4.3 of IFRS 9 sets out the requirements for accounting of modifications of financial assets that do not result in derecognition. It requires that **any costs or fees incurred** adjust the carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

9. Paragraph B3.3.6 of IFRS 9 specifies that the terms are substantially different if the discounted present value of the cash flows under the new terms using the original EIR is at least 10 percent different from the discounted present value of the remaining cash flows of the original financial liability (10 per cent test). Paragraph B3.3.6 requires an entity to include 'any fees paid net of any fees received' in the 10 percent test.

10. In 2016, the IASB received a request to clarify which fees and costs an entity includes in the 10 per cent test when assessing whether modification of a financial liability results in derecognition. In response, as part of the Annual Improvements to IFRS Standards 2018–2020, the IASB added paragraph B3.3.6A of IFRS 9 and amended paragraph B3.3.6 of IFRS 9.

11. In its deliberations, the IASB observed that the objective of the 10 per cent test is to quantitatively assess the significance of any difference between the old and new contractual terms on the basis of the changes in the contractual cash flows between the borrower and lender (see paragraph BC3.34 of the Basis for Conclusions on IFRS 9). Including cash flows paid to or received from parties other than the borrower and lender (ie third-party costs) would go beyond assessing the difference between the old and new contractual terms.

12. The IASB also observed that in considering items to include in calculating the EIR, IFRS 9 distinguishes between 'fees and points paid or received between the parties to the contract' and 'transaction costs'. The fees included in the 10 per cent test are similar to 'fees and points paid or received between the parties to the contract that are an integral part of the EIR'. In contrast, the reference to 'costs' incurred relating to an

exchange or modification are similar to 'transaction costs' in that they are incremental costs directly attributable to the exchange or modification.

13. Accordingly, the IASB amended paragraph B3.3.6 of IFRS 9 to clarify that, in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender. This includes fees paid or received by either the borrower or the lender on the other's behalf.

14. The IASB also added paragraph B3.3.6A of IFRS 9 to clarify that:

    (a) if an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment.

    (b) if the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Application questions

15. During the post-implementation reviews of IFRS 9, some stakeholders raised two application questions relating to accounting for costs or fess upon modification of a financial instrument which does not result in derecognition.

16. The first question relates to the meaning of 'costs or fees incurred' in paragraph 5.4.3 of IFRS 9. Stakeholders asked whether this phrase includes fees received and fees paid by both the lender and the borrower.

17. In particular, they said that it is clear from paragraph 5.4.3 of IFRS 9 that the costs or fees paid by the lender qualify as 'incurred' and thus adjust the gross carrying amount of the modified financial asset. However, it is unclear how a lender should account for modification fees charged to and therefore received from the borrower—for example, an extension fee charged when the maturity date of a financial asset is extended, or an

amendment fee charged to compensate the lender for processing documents and closing the transaction.

18. Stakeholders reported two different views in practice. One view is that such fees are recognised immediately in profit or loss as part of the modification gain or loss because they are not 'fees incurred'. The alternative view is that they adjust the carrying amount of the modified financial instrument and are amortised over its remaining term, consistent with the requirements in IFRS 9 for origination fees (see paragraph 5 of this paper).

19. The second issue relates to the accounting for costs or fees that remain unamortised at the time of a modification of a financial instrument and that modification does not result in derecognition (unamortised costs or fees). Stakeholders asked for clarification and said there are different views in practice about whether such costs or fees are required to:

    (a) adjust the gross carrying amount of the modified financial asset, or the amortised cost of the liability, and amortised over its remaining term; or

    (b) be recognised immediately, in whole or in part, in profit or loss as part of the modification gain or loss.

Meaning of 'costs or fees incurred' in IFRS 9

Staff analysis

20. We acknowledge that a fee received from the borrower might not ordinarily be described as 'incurred' from the lender's perspective. Furthermore, in other parts of IFRS 9, fees are described as 'fees paid and received by parties to the contract' (see paragraphs 5–7 of this paper).

21. However, we think that considering the context for the requirements in paragraph 5.4.3 of IFRS 9 provides insights into the meaning of the phrase 'costs or fees

incurred’. This paragraph sets the requirements for accounting of modifications that do not result in derecognition and does not distinguish between amounts paid or received from the perspective of either party. In our view, the phrase ‘costs or fees incurred’ should therefore be read as referring to costs or fees that arise from modifying the contractual terms of a financial asset.

22. We also note that paragraph B5.4.1 of IFRS 9 emphasises that, in applying the effective interest method, an entity considers the nature and substance of fees rather than how they are described for financial services.

23. Accordingly, in our view, the phrase ‘costs or fees incurred’ includes fees charged by the lender to the borrower that are directly attributable to the modification of a financial instrument. Fees such as extension or amendment fees arise only because the contractual terms of the original instrument are modified and are therefore integral to generating the resulting modified financial instrument.

24. This view would align with other IFRS 9 requirements that refer to fees paid or received between the lender and borrower. As noted in paragraphs 5–13 of this paper:

   (a) Appendix A of IFRS 9 requires that the calculation of the EIR includes all fees and points **paid or received** between parties to the contract that are an integral part of the EIR.

   (b) paragraph B5.4.2 of IFRS 9 provides examples of fees that are an integral part of the EIR, which are treated as an adjustment to the EIR. Examples include **fees received** by the entity relating to the creation or acquisition of a financial asset. Such fees may include compensation for activities such as evaluating the borrower’s financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction. These fees are an integral part of generating an involvement with the resulting financial instrument.

(c) the amended paragraph B3.3.6 of IFRS 9 also refers to fees **paid or received** between the borrower and the lender, including fees paid or received by either the borrower or the lender on the other's behalf.

25. Modification fees received from the borrower, such as extension or amendment fees, have the same nature and substance to the fees described in paragraph B5.4.2 of IFRS 9 as they relate to creating the modified financial instrument. They should therefore be part of the 'costs or fees incurred' in paragraph 5.4.3 of IFRS 9. Consequently, such fees would adjust the gross carrying amount of the modified financial asset and be amortised over its remaining term.

26. We note that paragraph B3.3.6A of IFRS 9, which is applicable to financial liabilities, also uses the phrase 'costs or fees incurred'. Therefore, any potential clarification of this phrase should also extend to the requirements in that paragraph.

Staff recommendation

27. Based on the analysis in this paper, we therefore recommend the IASB clarify that, for purposes of paragraph 5.4.3 and paragraph B3.3.6A of IFRS 9, the phrase 'costs or fees incurred' includes all fees and points paid or received between parties to the contract that are directly attributable to the modification of the financial instrument, transaction costs, and all other premium or discounts. This includes fees paid or received by either the borrower or the lender on the other's behalf.

28. In our view, this clarification would address the application issue raised by stakeholders as well as enhance the internal consistency within IFRS 9.

Accounting for unamortised costs or fees

Staff analysis

29. In our view, the starting point for analysing the application question described in paragraph 19 is the principle underlying the accounting for a modification that does not result in derecognition.

30. Under IFRS 9, when a modification of a financial instrument is considered not substantial and therefore does not result in derecognition, the existing financial instrument continues to be recognised. The entity does not derecognise the existing instrument and recognise the modified cash flows as a 'new' instrument. Instead, it accounts for such a modification by adjusting the gross carrying amount of the existing financial asset or amortised cost of the existing financial liability (non-derecognition accounting).

31. Upon modification, the gross carrying amount of a financial asset, or the amortised cost of a financial liability, includes any costs or fees which are yet to be amortised over the remaining term of the existing instrument. Those amounts are not recognised separately from the financial instrument. They form part of the carrying amount of the existing instrument.

32. Accordingly, if the modification does not result in derecognition, there is no basis for treating those unamortised costs or fees as extinguished or otherwise disposed of. Because the existing financial instrument continues to be recognised, the amounts already included in its gross carrying amount or amortised cost should also continue to be recognised as part of the modified financial instrument.

33. This is also consistent with the mechanics of accounting for a modified instrument under IFRS 9. For a modification that does not result in derecognition, the gross carrying amount of a financial asset, or the amortised cost of a financial liability, is recalculated or adjusted, but the instrument itself continues to be recognised.

34. In our view, it would therefore be inappropriate to recognise any existing unamortised costs or fees immediately in profit or loss. Doing so would, in effect, treat part of the carrying amount of a continuing instrument as though it had been derecognised.

35. We considered an alternative view whereby **some**, not all, of the existing unamortised costs or fees would be recognised immediately in profit or loss on the basis that they relate to the original terms of the instrument. For example, when the gross carrying amount of a financial asset is reduced as part of the modification. However, we do not think such a view is consistent with non-derecognition accounting. A modification that does not result in derecognition revises the terms of the existing instrument; it does not, by itself, show that previously deferred costs or fees no longer relate to that instrument. Requiring immediate recognition of those amounts in profit or loss would therefore resemble derecognition accounting, even though the existing instrument continues to be recognised.

36. Furthermore, recognising previously deferred costs or fees immediately in profit or loss could create arbitrary outcomes. For example, if only part of those costs or fees were recognised immediately, an entity would need to determine which portion continues to relate to the modified instrument and which portion does not. IFRS 9 provides does not provide a basis for making that allocation. The IASB would therefore need to introduce new requirements.

37. For all these reasons, we think the IASB should simply clarify that unamortised costs or fees at the time of a modification that does not result in derecognition continue to be recognised as part of the modified financial instrument. These costs or fees are amortised over the remaining term of the modified instrument applying the effective interest method, alongside the costs or fees incurred during the modification.

Staff recommendation

38. Based on the analysis in this paper, we recommend that the IASB clarify that, if the modification of a financial asset or financial liability does not result in derecognition,

any unamortised costs or fees at the time of the modification continue to be recognised as part of the modified instrument. Specifically, those costs or fees adjust the gross carrying amount of the modified financial asset or the amortised cost of the modified financial liability and are amortised over the remaining term of the modified financial instrument.