

Determining and Accounting for Transaction Costs

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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 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 are not precluded from being 'incremental' and, accordingly, could 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.

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