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International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores

23 May 2017

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

RE: IASB Exposure Draft – Prepayment Features with Negative Compensation – Proposed amendments to IFRS 9

Our Ref: 2017/PK/C1/IASB/34

Dear IASB Members:

The International Organization of Securities Commissions (IOSCO) Committee on Issuer Accounting, Audit and Disclosure (Committee 1 or C1) thanks you for the opportunity to provide our comments regarding the International Accounting Standards Board (IASB or the Board) Exposure Draft: *Prepayment Features with Negative Compensation – Proposed amendments to IFRS 9* (the Exposure Draft or ED).

IOSCO is committed to promoting the integrity of international markets through promotion of high quality accounting standards including rigorous application and enforcement. Members of Committee 1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect a general consensus among the members of Committee 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

Question 1: Addressing the concerns raised

Paragraphs BC3-BC6 describe the concerns raised about the classification of financial assets with particular prepayment features applying IFRS 9. The proposals in this Exposure Draft are designed to address these concerns.

Do you agree that the Board should seek to address these concerns? Why or why not?

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Response:

C1 members have mixed views regarding whether the Board should seek to address the concerns that have been raised, for many of the same reasons noted in the basis for conclusions of the proposed amendments, as well as in the published alternative view.

In addition, the Exposure Draft (and the related agenda papers) did not identify the jurisdictions where it is common to have financial instruments with prepayment features that could provide for negative compensation. Some C1 members believe such financial instruments are uncommon in their jurisdictions, while others are not sure. Therefore, C1 is not able to assess whether this issue is so widespread in practice to justify an amendment of IFRS 9 at this particular point in time, so close to its mandatory effective date. Consequently, if the Board decides to finalize the amendments, we would suggest that the Board better describe how there was a widespread need.

A few C1 members observed that the first sentence in paragraph BC15 seems to assume that the interest rates on Asset A and Asset B are the same. They suggest clarifying why this is assumed, because the difference in contractual features could lead to different interest rates.

Finally, in order to ensure the consistent application of IFRS 9, if the IASB decides not to pursue these amendments, C1 believes that it is important that an agenda decision of the IFRS Interpretations Committee clarify the treatment of prepayments options with negative compensation.

Question 2: The proposed exception

The Exposure Draft proposes a narrow exception to IFRS 9 for particular financial assets that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a prepayment feature. Specifically, the Exposure Draft proposes that such a financial asset would be eligible to be measured at amortised cost or at fair value through other comprehensive income, subject to the assessment of the business model in which it is held, if the following two conditions are met:

(a) the prepayment amount is inconsistent with paragraph B4.1.11(b) of IFRS 9 only because the party that chooses to terminate the contract early (or otherwise causes the early termination to occur) may receive reasonable additional compensation for doing so; and

(b) when the entity initially recognizes the financial asset, the fair value of the prepayment feature is insignificant.

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Do you agree with these conditions? Why or why not? If not, what conditions would you propose instead, and why?

Response:

If the Board decides to finalize the proposed exception, we believe that the proposed criteria would be enforceable.

Question 3: Effective date

For the reasons set out in paragraphs BC25-BC26, the Exposure Draft proposes that the effective date of the exception would be the same as the effective date of IFRS 9; that is annual periods beginning on or after 1 January 2018 with early application permitted.

Do you agree with this proposal? Why or why not? If you do not agree with the proposed effective date, what date would you propose instead and why? In particular, do you think a later effective date is more appropriate (with early application permitted) and, if so, why?

Response:

If the Board decides to finalize the proposed exception, we agree with the proposed effective date.

Question 4: Transition

For the reasons set out in paragraphs BC27-BC28, the Exposure Draft proposes that the exception would be applied retrospectively, subject to a specific transition provision if doing so is impracticable.

(a) Do you agree with this proposal? Why or why not? If not, what would you propose instead and why?

As described in paragraphs BC30-BC31, the Exposure Draft does not propose any specific transition provisions for entities that apply IFRS 9 before they apply the exception.

(b) Do you think there are additional transitional considerations that need to be specifically addressed for entities that apply IFRS 9 before they apply the amendments set out in the Exposure Draft? If so, what are those considerations?

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Response:

If the Board decides to finalize the proposed exception, we agree with the proposed transition provisions. We are not aware of any additional transitional considerations that need to be specifically addressed for entities that apply IFRS 9 before they apply the amendments set out in the Exposure Draft.

We appreciate your thoughtful consideration of the comments raised in this letter. If you have any questions or need additional information on the recommendations and comments that we have provided, please do not hesitate to contact Jenifer Minke-Girard, Vice Chair of Committee 1 at +1 202-551-5300.

Sincerely,

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