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Prepayment Features with Negative Compensation (Proposed Amendments to IFRS 9) Cover Note

Objective

- 1 The objective of the session is to discuss and approve for recommendation to the EFRAG Board an updated draft comment letter on the exposure draft ED/2017/3 *Prepayment Features with Negative Compensation (Proposed amendments to IFRS 9)*, issued by the IASB in April 2017 (the 'ED').

Background

- 2 In April 2017, the IASB issued an ED to propose a narrow-scope amendment to IFRS 9 *Financial Instruments* so that a financial asset with a symmetric prepayment option would be eligible to be measured at amortised cost, or at fair value through other comprehensive income ('FVOCI') (subject to the business model condition) if the following 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) the fair value of the prepayment feature is insignificant when the entity initially recognises the financial asset.
- 3 The IASB issued the ED with a comment period of 30 days.
- 4 The EFRAG Secretariat has updated the initial draft comment letter presented to the EFRAG TEG in March 2017 for comments received from EFRAG TEG and from the EFRAG FIWG.

Question for EFRAG TEG

- 5 Does EFRAG TEG agree to recommend the draft comment letter to the EFRAG Board?

Agenda Papers

- 6 In addition to this cover note, papers for this session are:
 - (a) Agenda paper 01-02 *Draft Comment Letter on IFRS 9 Amendments - Prepayment Features with Negative Compensation TEG 17-04-26*; and
 - (b) Agenda paper 01-03 *IASB ED/2017/3 Prepayment Features with Negative Compensation TEG 17-04-26*.