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Mr Toomas Tõniste

Eu Presidency
Minister of Finance
Estonia

MEP Theodor Dumitru Stolojan

Chair of the ECON IFRS Permanent Team
European Parliament

Mr Alain Deckers

Head of Unit Accounting and Financial
Reporting
European Commission

Brussels, 21 November 2017

SUBJECT: IFRS 9 prepayment features with negative compensation - request for quick endorsement

Dear Sir/Madam,

We are taking this opportunity to bring to your kind attention the need for a quick endorsement of an amendment to IFRS 9 on Prepayment Features with Negative Compensation.

The objective of the amendments is to address the classification of particular prepayable financial assets in IFRS 9. It addresses the situation in which the party that exercises an option to prepay a financial asset could receive compensation payment from the other party. This is referred to as 'negative compensation'. As a result of a negative compensation arrangement, a lender could be forced to accept a prepayment amount that is substantially less than unpaid amounts of "principal and interest" of a debt instrument. We welcome the amendment as we believe that the negative sign of the compensation as such should not prevent measurement of financial asset at amortised cost.

The EFRAG has recently submitted to the European Commission its endorsement letter whereby they have assessed the amendment against technical as well as public good endorsement criteria. EFRAG has further indicated the need for a swift endorsement when recommending that the European Commission endorse the amendment.

The IFRS 9 is effective from January 2018. It would be more efficient for banks, preparing to transition to IFRS 9, and for markets, in understanding these financial statements, for the amendment to be applied at the same time as the IFRS 9 standard. Thus, to avoid undue complexity and to enable European banks to apply the amendment at the same time, it is important that the EU endorsement process is accelerated and the amendment, endorsed before 31 January 2018.

European Banking Federation aisbl

Brussels / Avenue des Arts 56, 1000 Brussels, Belgium / +32 2 508 3711 / info@ebf.eu
Frankfurt / Weißfrauenstraße 12-16, 60311 Frankfurt, Germany
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This will give confidence that banks can apply the amendment to their Q1 financial statements as well as to their IFRS 9 impact disclosures required in the 2017 Annual Report & Accounts (ARA) for the purpose of IAS 8.

In the event of delay in the endorsement process for technical and operational reasons and non-endorsement by the end of January 2018, we would urge the EU institutions to issue a statement providing certainty to all stakeholders – i.e. preparers, auditors, supervisors, users of financial information – that the amendment will be endorsed in an accelerated manner before March 2018.

Yours sincerely,



Wim MIJS
Chief Executive Officer

Copy: Veiko Tali, Secretary General, Ministry of Finance, Estonia
Rudolf Maier, European Parliament