

*Banking supervision  
And Accounting issues Unit  
The Director*

Paris, May 24<sup>th</sup> 2017

**FBF comments on IASB ED/2017/3 Prepayment Features with Negative Compensation  
(Proposed amendments to IFRS 9)**

Dear Mr Hoogervorst,

The French Banking Federation is pleased to have the opportunity to comment on the Exposure Draft related to Amendments to IFRS 9 on Prepayment Features with Negative Compensation.

We welcome the Board's initiative to propose a solution to allow financial assets with symmetrical prepayment options to be considered as passing the SPPI test as we believe that the negative sign of the compensation - as such - should not prevent measurement of financial asset at amortised cost.

We agree with the first eligibility criterion. The sense of the reasonable compensation – negative or positive – should not prevent these financial assets to meet the SPPI test provided that certain criteria are met.

We question the rationale of the second eligibility criterion as it would lead to different conclusions regarding the eligibility for amortised cost depending on vanilla instruments positive or negative compensation. Therefore, we disagree with the second criterion and we would recommend to remove it.

However, in order not to restrict the scope of the amendment and should the IASB maintain the criterion, we suggest that instead of valuing the option to determine whether or not the FV of the prepayment feature is insignificant, it should be allowed to demonstrate that the potential occurrence of catch-up adjustments should be considered as a driver for assessing the relevance of measurement at amortised cost.

**Mr Hans HOOGERVORST**  
**Chairman**  
**International Accounting Standards Board**  
**30 Cannon Street**  
**London, EC4M 6XH United Kingdom**

The paragraphs of the BC should be read as general guidance and they should not undermine the current interpretation of IFRS 9.

Finally, we urge the IASB to finalise as soon as possible the Amendments so that jurisdictions with endorsement procedure – such as the European Union- could trigger their procedures following the issuance of these amendments so that they could be endorsed and become applicable from 1st January 2018.

Our answers to the exposure draft are detailed in the Appendix to this letter.

We hope you find these comments useful and would be pleased to provide any further information you might require.

Yours sincerely,



Bertrand Lussigny

## **Appendix**

### **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?*

We welcome the Board's initiative to address the concerns raised about the classification of financial assets with particular prepayment features applying IFRS 9.

Banks provide fixed rate loans with prepayment option settled with fair value of symmetrical prepayment penalties to answer to their clients themselves' demands. Such prepayment features and notably prepayment features with negative compensation are generally not contingent on the occurrence of any specific trigger event. They become a growing part of a common market practice for example for specialised financing or asset based financing of large corporates.

We welcome the amendment as we believe that the negative compensation - as such - should not prevent measurement of financial asset at amortised cost or at fair value through other comprehensive income (FVOCI) provided that certain criteria are met.

### **Question 2—The proposed exception**

*Do you agree with the two conditions proposed to the exception? Why or why not? If not, what conditions would you propose instead, and why?*

We agree with the first eligibility criterion that proposes that financial assets containing prepayment features with negative compensation could be eligible for measurement at amortised cost or at fair value through other comprehensive income (FVOCI). Indeed, we are in the view that the sense of the reasonable compensation – negative or positive – should not prevent these financial assets to meet the SPPI test.

The second criterion has been inserted to limit the scope of the amendment and to avoid otherwise frequent application of the "catch-up" adjustments as required under IFRS 9 B5.4.6. The IASB considers that a significant increase of the frequency to such "catch-up" adjustments is inconsistent with the objective of the effective interest method.

While fully understanding the IASB concerns not to extend unduly financial instruments measured at amortised cost, the amendment should not treat differently the same vanilla instruments whether the instruments contain positive or negative compensation.

Therefore, we disagree with the second eligibility criterion as we see no reason why prepayment features with negative compensation should be treated differently than prepayment features with positive compensation. Indeed, there is no requirement to value the prepayment option in case of positive compensation. Therefore, both should be aligned. Accordingly, we suggest removing the second criterion while only clarifying that the reasonable compensation for the early termination of the contract can both be positive and negative.

However, in order not to restrict the scope of the amendment and should the IASB maintain the second criterion, we suggest that instead of valuing the option to determine whether or not the FV of the prepayment feature is insignificant, the potential occurrence of catch-up adjustments should be considered as a driver for assessing the relevance of measurement at amortised cost.

Generally speaking, the proposed amendments intend to clarify IFRS 9 provisions on how particular prepayment financial instruments would be classified. Thus, we understand that the aim of the paragraphs of the BC is rather to explain how the exception proposed in the ED is in line with the IFRS 9 principle of measurement and classification, and notably when amortised cost provides useful information to users about particular financial assets with simple cash flows that represent principal and interests. So, the IASB should pay attention in the way the BC are drafted not to override the scope of the proposed amendment and not to interpret existing guidance in IFRS 9, notably as far as the meaning of “reasonable compensation” is concerned.

For example, in paragraph BC 18, we understand that there might be circumstances where prepayment amounts which include the unwinding cost of hedging instrument could meet the criterion if the prepayment amount is consistent paragraph B4.1.11.b).

**Question 3—Effective date**

*Do you agree with the ED 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?*

It is of utmost importance to maintain the effective date of 1 January 2018, same as IFRS 9, even if the European process of endorsement might be difficult to fit within this agenda.

Besides, we are not convinced by an effective date of 1 January 2019 as it might have been suggested, even if early application is permitted.

An effective date of 1 January 2019 will require classification and measurement of financial instruments to be changed twice within a few months. Financial entities will have to measure and classify financial assets with such prepayment features at fair value through profit and loss when they first apply IFRS 9 in 2018. Then, when the amendment applies in 2019, they will once again have to change measurement and classification of those financial asset to amortised cost or FVOCI. Since these changes would occur within a so short period of time, financial institutions will have to provide specific information to users of financial statements so that to answer the questions they would inevitably ask. In addition, prudential consequences of such double changes should be taken into consideration.

Thus, it is of utmost importance to maintain the effective date of 1 January 2018, same as IFRS 9.

Therefore, we urge the IASB to do its utmost to finalise as soon as possible the amendments so that jurisdictions with endorsement procedures such as the European Union could trigger their procedures following the issuance of these amendments so that they could be endorsed and become applicable from 1<sup>st</sup> January 2018.

#### **Question 4—Transition**

Considering that the Amendments will enter into force at 1<sup>st</sup> January 2018, we agree that they should be applied using the transition provisions provided in IFRS 9.

We see no additional transition provisions to specifically address for entities applying IFRS 9 before they apply the amendments.