GRAP 104
Reference Group

IFRS - IFRIC Update June 2025

October 2025

ACCOUNTING STANDARDS BOARD

Disclaimer

The views and opinions expressed in this presentation are those of the individual. Official positions of the ASB on accounting matters are determined only after extensive due process and deliberation.

Acronyms and abbreviations

Acronyms and abbreviations	Description
IFRS	International Financial Reporting Standards
FV	Fair value
FVTPL	Fair value through profit or loss
PV	Present value

Outline

- Determining and Accounting for Transaction Costs (IFRS 9 Financial Instruments) - Agenda Paper 2
  - General
  - Fact pattern
  - Findings
  - Conclusion

- Embedded Prepayment Option (IFRS 9 Financial Instruments) - Agenda Paper 3
  - General
  - Fact pattern
  - Findings
  - Conclusion

Determining and Accounting for Transaction Costs (IFRS 9 Financial Instruments)—Agenda Paper 2

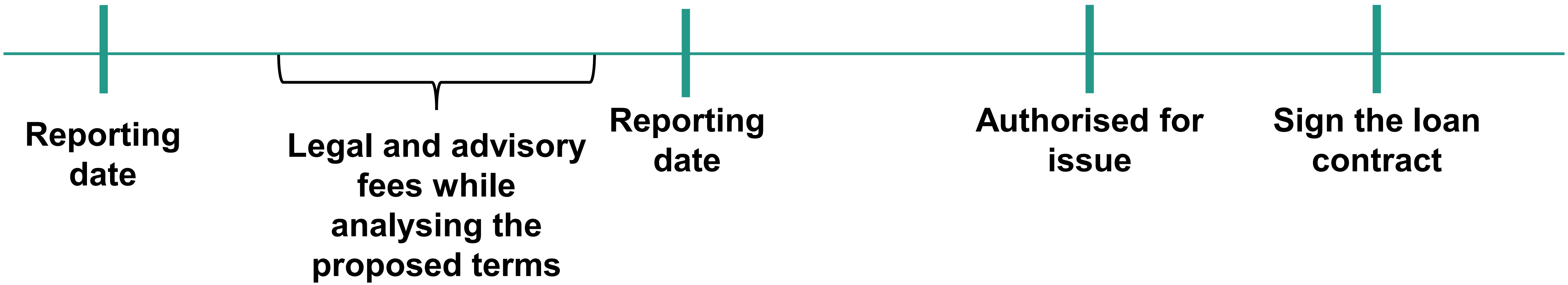
General

- How do you determine if costs that are directly attributable to the origination or issuing of a financial instrument but incurred before entering into a contractual arrangement are incremental costs?

- IFRIC did not add standard-setting projects to the work plan
- Open for comment until 6 October 2025
- Submit comments on this page IFRS - Consultations open for comment

Fact pattern

- IFRS 9 par 5.1.1: Initial measurement - FV plus or minus, in case of instruments not at FVTPL, transaction costs that are directly attributable to acquisition or issue of the instrument
- Fact pattern: Entity intends to enter into a loan contract with the bank.
- The timeline is as follows:



Fact pattern

- Two views
  1. Costs incurred before entering a contractual arrangement **cannot** meet the definition of transaction costs
  2. Costs incurred before entering a contractual arrangement **can** meet the definition of transaction costs even if there's a probability that the instrument might not be originated or issued

- **How does your entity treat these costs?**
  - Expensed or capitalised?
  - What happens if the contract is signed in the next financial year?
  - What happens if the contract is never signed in the next financial year?

Findings and conclusion

Findings

- No diverse practices that have a material effect
- Feedback received:
  - These costs can meet the definition of transaction costs
  - Recognised in SFPOS, prepayments or other assets

Conclusion

- No widespread effect
- Will not add a standard-setting project

Embedded Prepayment Option (IFRS 9 Financial Instruments)—Agenda Paper 3

General

- With reference to IFRS 9 par B4.3.5(e)(ii) for a prepayment option in a financial liability, should the ‘entity’ be read as ‘the lender’ or ‘the reporting entity’ (i.e the borrower)?

- IFRIC did not add standard-setting projects to the work plan
- Open for comment until 6 October 2025
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Fact pattern

- IFRS 9 par 4.3.3: Hybrid contract = Host not within scope of IFRS 9 + embedded derivative = separate host and embedded derivative if:
  - Embedded derivative behaves very differently from the host (economic characteristics and risk are not closely related)
  - Hybrid is not measured at FVTPL
- IFRS 9 par B4.3.5(e)(ii): States that the economic characteristics and risks for prepayment options are not closely related to the host unless the exercise price is reasonable compensation
  - Reasonable compensation = PV of lost interest (contractual – reinvestment) over the remaining term

Fact pattern

- IFRS 9 par B4.3.5(e)(ii) states this lost interest is the difference between the effective interest rate of the host contract and the effective interest **the entity** would receive if it reinvests the principal amount.
- The question raised is, who is ‘the entity’

- **What is your view of who is ‘the entity’?**
  - The lender – the entity receiving the early settlement on a loan receivable, because this is the entity losing interest
  - The reporting entity – the entity repaying a loan and now wants to settle it early, because when IFRS refers to ‘the entity’, it always refers to the ‘reporting entity’

Findings and conclusion

Findings

- No diverse practices that have a material effect
- Feedback received:
  - The entity refers to the lender

Conclusion

- No widespread effect
- Will not add a standard-setting project

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