

COMMISSION REGULATION (EU) 2018/498**of 22 March 2018****amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard 9****(Text with EEA relevance)**

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards ⁽¹⁾, and in particular Article 3(1) thereof,

Whereas:

- (1) By Commission Regulation (EC) No 1126/2008 ⁽²⁾ certain international standards and interpretations that were in existence at 15 October 2008 were adopted.
- (2) On 12 October 2017, the International Accounting Standards Board (IASB) published amendments to International Financial Reporting Standard (IFRS) 9 *Financial Instruments Prepayment features with Negative Compensation*. The amendments are intended to clarify the classification of particular prepayable financial assets when applying IFRS 9.
- (3) Following consultations with the European Financial Reporting Advisory Group, the Commission concludes that the amendments to IFRS 9 meet the criteria for adoption set out in Article 3(2) of Regulation (EC) No 1606/2002.
- (4) Regulation (EC) No 1126/2008 should therefore be amended accordingly.
- (5) The IASB set the effective date of the amendments as 1 January 2019 with earlier application permitted.
- (6) Since Commission Regulation (EU) 2016/2067 ⁽³⁾ has become applicable for financial periods starting at the latest on or after 1 January 2018, companies should be able to use International Financial Reporting Standard (IFRS) 9 *Financial Instruments* as amended in the Annex to this Regulation as from the date of application of Regulation (EU) 2016/2067. Therefore, companies should be able to apply the provisions of this Regulation for financial periods starting on or after 1 January 2018.
- (7) Given that Regulation (EU) 2016/2067 entered into force on 12 December 2016, in order to ensure consistency this Regulation should enter into force as soon as possible.
- (8) The measures provided for in this Regulation are in accordance with the opinion of the Accounting Regulatory Committee,

HAS ADOPTED THIS REGULATION:

*Article 1*In the Annex to Regulation (EC) No 1126/2008, International Financial Reporting Standard (IFRS) 9 *Financial Instruments* is amended as set out in the Annex to this Regulation.⁽¹⁾ OJ L 243, 11.9.2002, p. 1.⁽²⁾ Commission Regulation (EC) No 1126/2008 of 3 November 2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council (OJ L 320, 29.11.2008, p. 1).⁽³⁾ Commission Regulation (EU) 2016/2067 of 22 November 2016 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard 9 (OJ L 323, 29.11.2016, p. 1).

Article 2

Each company shall apply the amendments referred to in Article 1 at the latest, as from the commencement date of its first financial year starting on or after 1 January 2019.

Article 3

This Regulation shall enter into force on the third day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 22 March 2018.

For the Commission
The President
Jean-Claude JUNCKER

ANNEX

Prepayment Features with Negative Compensation

(Amendments to IFRS 9)

Amendments to IFRS 9 Financial Instruments

Paragraph 7.1.7 is added. A new heading and paragraphs 7.2.29–7.2.34 are added.

Chapter 7 Effective date and transition

7.1 EFFECTIVE DATE

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7.1.7 *Prepayment Features with Negative Compensation* (Amendments to IFRS 9), issued in October 2017, added paragraphs 7.2.29-7.2.34 and B4.1.12 A and amended paragraphs B4.1.11(b) and B4.1.12(b). An entity shall apply these amendments for annual periods beginning on or after 1 January 2019. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.

7.2 TRANSITION

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Transition for *Prepayment Features with Negative Compensation*

7.2.29 An entity shall apply *Prepayment Features with Negative Compensation* (Amendments to IFRS 9) retrospectively in accordance with IAS 8, except as specified in paragraphs 7.2.30-7.2.34.

7.2.30 An entity that first applies these amendments at the same time it first applies this Standard shall apply paragraphs 7.2.1-7.2.28 instead of paragraphs 7.2.31-7.2.34.

7.2.31 An entity that first applies these amendments after it first applies this Standard shall apply paragraphs 7.2.32-7.2.34. The entity shall also apply the other transition requirements in this Standard necessary for applying these amendments. For that purpose, references to the date of initial application shall be read as referring to the beginning of the reporting period in which an entity first applies these amendments (date of initial application of these amendments).

7.2.32 With regard to designating a financial asset or financial liability as measured at fair value through profit or loss, an entity:

- (a) shall revoke its previous designation of a financial asset as measured at fair value through profit or loss if that designation was previously made in accordance with the condition in paragraph 4.1.5 but that condition is no longer satisfied as a result of the application of these amendments;
- (b) may designate a financial asset as measured at fair value through profit or loss if that designation would not have previously satisfied the condition in paragraph 4.1.5 but that condition is now satisfied as a result of the application of these amendments;
- (c) shall revoke its previous designation of a financial liability as measured at fair value through profit or loss if that designation was previously made in accordance with the condition in paragraph 4.2.2(a) but that condition is no longer satisfied as a result of the application of these amendments; and
- (d) may designate a financial liability as measured at fair value through profit or loss if that designation would not have previously satisfied the condition in paragraph 4.2.2(a) but that condition is now satisfied as a result of the application of these amendments.

Such a designation and revocation shall be made on the basis of the facts and circumstances that exist at the date of initial application of these amendments. That classification shall be applied retrospectively.

- 7.2.33 An entity is not required to restate prior periods to reflect the application of these amendments. The entity may restate prior periods if, and only if, it is possible without the use of hindsight and the restated financial statements reflect all the requirements in this Standard. If an entity does not restate prior periods, the entity shall recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application of these amendments in the opening retained earnings (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application of these amendments.
- 7.2.34 In the reporting period that includes the date of initial application of these amendments, the entity shall disclose the following information as at that date of initial application for each class of financial assets and financial liabilities that were affected by these amendments:
- the previous measurement category and carrying amount determined immediately before applying these amendments;
 - the new measurement category and carrying amount determined after applying these amendments;
 - the carrying amount of any financial assets and financial liabilities in the statement of financial position that were previously designated as measured at fair value through profit or loss but are no longer so designated; and
 - the reasons for any designation or de-designation of financial assets or financial liabilities as measured at fair value through profit or loss.

In Appendix B, paragraphs B4.1.11(b) and B4.1.12(b) are amended. Paragraph B4.1.12 A is added. Paragraph B4.1.10 has not been amended but has been included for ease of reference.

CLASSIFICATION (CHAPTER 4)

Classification of financial assets (Section 4.1)

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Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding

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Contractual terms that change the timing or amount of contractual cash flows

- B4.1.10 If a financial asset contains a contractual term that could change the timing or amount of contractual cash flows (for example, if the asset can be prepaid before maturity or its term can be extended), the entity must determine whether the contractual cash flows that could arise over the life of the instrument due to that contractual term are solely payments of principal and interest on the principal amount outstanding. To make this determination, the entity must assess the contractual cash flows that could arise both before, and after, the change in contractual cash flows. The entity may also need to assess the nature of any contingent event (i.e. the trigger) that would change the timing or amount of the contractual cash flows. While the nature of the contingent event in itself is not a determinative factor in assessing whether the contractual cash flows are solely payments of principal and interest, it may be an indicator. For example, compare a financial instrument with an interest rate that is reset to a higher rate if the debtor misses a particular number of payments to a financial instrument with an interest rate that is reset to a higher rate if a specified equity index reaches a particular level. It is more likely in the former case that the contractual cash flows over the life of the instrument will be solely payments of principal and interest on the principal amount outstanding because of the relationship between missed payments and an increase in credit risk. (See also paragraph B4.1.18).
- B4.1.11 The following are examples of contractual terms that result in contractual cash flows that are solely payments of principal and interest on the principal amount outstanding:
- a variable interest rate that consists of consideration for the time value of money, the credit risk associated with the principal amount outstanding during a particular period of time (the consideration for credit risk may be determined at initial recognition only, and so may be fixed) and other basic lending risks and costs, as well as a profit margin;

- (b) a contractual term that permits the issuer (i.e. the debtor) to prepay a debt instrument or permits the holder (i.e. the creditor) to put a debt instrument back to the issuer before maturity and the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for the early termination of the contract; and
- (c) a contractual term that permits the issuer or the holder to extend the contractual term of a debt instrument (i.e. an extension option) and the terms of the extension option result in contractual cash flows during the extension period that are solely payments of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for the extension of the contract.

B4.1.12 Despite paragraph B4.1.10, a financial asset that would otherwise meet the condition in paragraphs 4.1.2(b) and 4.1.2 A(b) but does not do so only as a result of a contractual term that permits (or requires) the issuer to prepay a debt instrument or permits (or requires) the holder to put a debt instrument back to the issuer before maturity is eligible to be measured at amortised cost or fair value through other comprehensive income (subject to meeting the condition in paragraph 4.1.2(a) or the condition in paragraph 4.1.2 A(a)) if:

- (a) the entity acquires or originates the financial asset at a premium or discount to the contractual par amount;
- (b) the prepayment amount substantially represents the contractual par amount and accrued (but unpaid) contractual interest, which may include reasonable compensation for the early termination of the contract; and
- (c) when the entity initially recognises the financial asset, the fair value of the prepayment feature is insignificant.

B4.1.12 A For the purpose of applying paragraphs B4.1.11(b) and B4.1.12(b), irrespective of the event or circumstance that causes the early termination of the contract, a party may pay or receive reasonable compensation for that early termination. For example, a party may pay or receive reasonable compensation when it chooses to terminate the contract early (or otherwise causes the early termination to occur).
