

Introduction and Invitation to Comment

The International Accounting Standards Board proposes to amend IAS 18 *Revenue* to remove an inconsistency with IAS 39 *Financial Instruments: Recognition and Measurement*. The inconsistency relates to the identification of costs incurred in originating a financial asset that should be deferred and recognised as an adjustment to the effective interest rate. The proposed amendment requires the definition of transaction costs in IAS 39 to be applied to the accounting for financial asset origination fees in accordance with IAS 18.

The Board invites comments on the proposed amendment. It would particularly welcome answers to the question below. Comments are most helpful if they contain a clear rationale and, when applicable, provide a suggestion for alternative wording.

The Board is not requesting comments on matters in IAS 18 not addressed in the exposure draft.

Question

Do you agree with the proposed amendment to IAS 18 to require the definition of transaction costs in IAS 39 to be applied to the accounting for financial asset origination fees? If not, why?

Proposed amendment to IAS 18 *Revenue*

In the Appendix to the Standard, paragraph 14 is amended (new text is underlined, deleted text is struck through).

Rendering of services

...

14 *Financial service fees*

The recognition of revenue for financial service fees depends on the purposes for which the fees are assessed and the basis of accounting for any associated financial instrument. The description of fees for financial services may not be indicative of the nature and substance of the services provided. Therefore, it is necessary to distinguish between fees that are an integral part of the effective interest rate of a financial instrument, fees that are earned as services are provided, and fees that are earned on the execution of a significant act.

(a) *Fees that are an integral part of the effective interest rate of a financial instrument.*

Such fees are generally treated as an adjustment to the effective interest rate. However, when the financial instrument is measured at fair value with the change in fair value recognised in profit or loss, the fees are recognised as revenue when the instrument is initially recognised.

(i) *Origination fees received by the entity relating to the creation or acquisition of a financial asset other than one that under IAS 39 is classified as a financial asset 'at fair value through profit or loss'.*

Such fees may include compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction. These fees are an integral part of generating an involvement with the resulting financial instrument and, together with the related ~~direct~~ transaction costs (as defined in IAS 39), are deferred and recognised as an adjustment to the effective interest rate.

...

Basis for Conclusions on Proposed Amendment to IAS 18 Revenue

This Basis for Conclusions accompanies, but is not part of, the draft amendment.

Financial service fees

- BC1 The Board identified an apparent inconsistency in the guidance in IAS 18 *Revenue* and IAS 39 *Financial Instruments: Recognition and Measurement*. It relates to the identification of costs incurred in originating a financial asset that should be deferred and recognised as an adjustment to the effective interest rate. Paragraph 9 of IAS 39 defines transaction costs as incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. Paragraph 14 of the Appendix to IAS 18 permits the deferral of related direct costs incurred in the origination of a financial asset. IAS 18 does not require such costs to be incremental.
- BC2 The Board decided to remove this inconsistency. It believes that the definition of transaction costs in IAS 39 is more appropriate and should be used to determine the costs that are deferred in accordance with IAS 18 on the origination of a loan.