

6 October 2025

International Accounting Standards Board 7 West Ferry Circus
Canary Wharf
London E14 4HD
United Kingdom
Email: commentletters@ifrs.org

Dear Sir/Madam

SAICA SUBMISSION ON TENTATIVE AGENDA DECISION: EMBEDDED PREPAYMENT OPTION (IFRS 9)

In response to your request for comments on Tentative Agenda Decision: *Embedded Prepayment Option* (IFRS 9), attached is the comment letter prepared by the South African Institute of Chartered Accountants (SAICA). This comment letter results from deliberations of SAICA's Accounting Practices Committee (APC), which comprises members from reporting organisations, preparers, regulators, auditors, IFRS specialists, investment analysts and academics.

We thank you for the opportunity to provide comments on this Tentative Agenda Decision.

Please do not hesitate to contact us should you wish to discuss any of our comments.

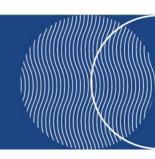
Prof Ahmed Mohammadali-Haji

Chairperson: APC

Cc: Kedibone Sono

Head: Financial Reporting

Mulala Ratshitanga Lead: Financial Reporting



Overview

The Committee received a request about the application of the requirements in paragraph B4.3.5 of IFRS 9 to determine whether to separate an embedded prepayment option in a loan contract.

Fact pattern

The request asked whether, for purposes of applying paragraph B4.3.5(e)(ii) of IFRS 9 to a prepayment option in a financial liability, 'the entity' should be read to refer to 'the lender' or 'the reporting entity' (that is, the borrower).

In the fact pattern described in the request, a reporting entity (the borrower) signed a loan contract that contains an early repayment option (the prepayment option). The request states that views differ in practice with regards to the meaning of 'the entity' in paragraph B4.3.5(e)(ii) of IFRS 9:

- 1. one view is that 'the entity' refers to 'the lender' because lost interest should be considered from the lender's perspective;
- 2. the other view is that, similar to references to 'the entity' in other IFRS Accounting Standards, 'the entity' is 'the reporting entity' (that is, the borrower) and lost interest should be considered from the reporting entity's perspective.

The distinction between 'the entity' meaning 'the lender' or 'the reporting entity' can be significant, because the assessment of whether to separate an embedded derivative from the host contract could differ depending on whether it is assessed from the lender's or the borrower's perspective. The effects of accounting for an embedded derivative at fair value through profit or loss and for a host contract at amortised cost differ from the effects of accounting for the entire financial liability at amortised cost.

Findings

Evidence gathered by the Committee [to date] indicates no diversity in practice that could have a material effect on entities' financial statements with regards to interpreting the term 'the entity' in paragraph B4.3.5(e)(ii) of IFRS 9. Feedback suggests that stakeholders read the requirements as referring to the lender.

Conclusion

Based on its findings, the Committee concluded that the matter described in the request does not have widespread effect. Consequently, the Committee [decided] not to add a standard-setting project to the work plan.

SPECIFIC COMMENTS

We have not had any issues on the application of the requirements in paragraph B4.3.5 of IFRS 9 to determine whether to separate an embedded prepayment option in a loan contract.