

 Der Inhalt ist momentan nur in englischer Sprache verfügbar.

This figure is based on the general figure [Early repayment Ratio \("Prepayment"\)](#).

The consideration of early repayment in IFRS related measurement approaches offers several benefits.

IFRS 9 explicitly requires the incorporation of prepayment expectation in the calculation of the effective interest rate: in Appendix A, the definition of the effective interest rate states, "*When calculating the effective interest rate, an entity shall estimate the expected cash flows by considering all the contractual terms of the financial instrument (for example, **prepayment**, extension, call and similar options)...*"

Moreover, it is to an entity's benefit to incorporate an accurate prepayment estimation in its effective interest calculation:

Imagine that the EIR of a loan is initially only calculated using payments of capital and interest according to the standard contractual terms. Under these terms, any fees/charges/commissions will be amortised over the complete expected contractual life of the loan.

As soon as a customer prepays, this will lead to a recalculation of the EIR and a significant decrease of the term over which the remaining amount of the fee/charge/commission can be amortised. (In the case of a complete early redemption, the remaining part will need to be included entirely in the P&L for the period.) The result of this is a sudden shock in the P&L: whereas before, profit or loss out of amortisation was underestimated (because prepayment was not taken into account), as soon as prepayment occurs, the previous underestimated value is now to be absorbed over a significantly shorter period (or even instantly) in the P&L.

Hence, in portfolios where prepayment behaviour is significant, it can induce significant P&L volatility. By estimating prepayment upfront, an entity can insert expected prepayment cash flows in the cash flow plan. If then the EIR is initially calculated while incorporating these prepayment cash flows, it will also cover the potential future early decrease of the principle and hence the amortisation period.

On a single deal level, of course in many cases, prepayment will be over- or underestimated. Nevertheless, on a portfolio level, a reliable aggregated prepayment estimation will lead to an overall reduction in P&L volatility.

Reduced P&L volatility leads to a better assessment of an entity's risk profile by investors and hence, will lead to a lower cost of capital. As such, prepayment estimation leads to a tangible return on investment!

Advantages:

- Compliance with IFRS 9, which explicitly required prepayment to be taken into account while calculating the effective interest rate. (Appendix A, effective interest rate definition)
- Improve accuracy of expected cash flow estimation and expected deal maturity date by inserting expected prepayment cash flows into the cash flow plan
- Reduce P&L volatility: accurate upfront assessment of prepayment behaviour already incorporates expected prepayment in EIR calculation, thus reducing EIR volatility reducing amortisation volatility reducing sudden shocks in P&L
- Perform smart assessment which relates expected prepayment behaviour to remaining time to maturity and/or macroeconomic parameters such as the market interest rate