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International
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Board

This document is provided as a convenience to observers at IFRIC meetings, to assist them in following the IFRIC's discussion. It does not represent an official position of the IFRIC. IFRIC positions are set out in Interpretations.

Note: These notes are based on the staff paper prepared for the IFRIC. Paragraph numbers correspond to paragraph numbers used in the IFRIC paper. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

IFRIC meeting: January 2006, London

Project: D 15 Reassessment of Embedded Derivatives: Staff Proposal for a final interpretation (Agenda Paper 5)

During the meeting on 3 November 2005, the IFRIC discussed the comment letters it received concerning IFRIC D 15. The purpose of this cover note is to explain the changes in the paragraphs that have been redrafted according to the decisions made in the course of the discussions.

1. Business Combinations

Decision: A possible reassessment in relation to a business combination is explicitly excluded from the scope of IFRIC D 15.

Action: A new section "scope" has been added (paragraphs 3-6) between the "background" and "issues" section (this is the same sequence as in IFRIC 5). This section includes all scope decisions. The scope decision related to reassessment in a business combination is included in par. 5, with the reasons for this decision set out in BC5.

2. Clarification of "change in the terms of the contract"

Decision: The term "change" is to be clarified. The staff was asked to clarify 'a change in the terms' by reference to changes in future cash flows, using language consistent with that used in IASs 16, 38 and 39 to explain the notion of 'commercial substance'.

Action: Par. 8 was re-drafted according to the decision. The "change in the terms"

must have “commercial substance”, with “commercial substance” being explained using similar wording as in IAS 16 (par. 25) and IAS 38 (par. 46).

3. Clarification of “contract”

Decision: The term “contract” is to be clarified. The change in the terms may be related to the host contract, the embedded derivative(s) or both.

Action: The proposed wording in par. 8 reflects this decision, as the changes may be “associated with the embedded derivative, the host contract or both”.

4. Scope issue: Should IFRIC D 15 address re-measurement as a consequence of re-assessment?

Decision: The Interpretation should not address re-measurement issues as a consequence of a reassessment.

Action: For clarification and because the re-draft already includes a section on scope, this decision has been included in par. 4.

5. Should the Interpretation address the ‘closely related’-criterion only?

Decision: No, the interpretation addresses the complete IAS 39.11.

Action: The current wording in IFRIC D 15 is already consistent with that decision (see par. 2). No action.

6. Implicit interpretation in BC11

Decision: Staff should check again and in addition clarify the relation between the own-use-exemption in IAS 39 and possible reassessment. The wording should not imply that those contracts were outside the scope of IAS 39 – merely that IAS 39 dealt with them differently from other contracts containing embedded derivatives. (This is the decision as set out in the November IFRIC Update.)

Action: The parts from the former BC11 dealing with this scope question have been moved to the new scope section, see par. 6. The new wording clarifies that contracts falling under IAS 39.5-7 are not outside the scope of IAS 39 but are merely treated differently. If IAS 39 has not been applied to an instrument previously falling under paragraphs 5-7 of IAS 39, but IAS 39 has to be applied on a subsequent reporting date since the instrument now fails to fall under paragraphs 5-7 of IAS 39, this situation is not a reassessment. Consequently, this situation is outside the scope of this Interpretation. The reasons are set out in BC6.

Alternative Action: This issue contains a scope decision with a short explanation of the issue and a basis for conclusion. It is difficult to separate the parts, because the issue is complicated. To be understandable, the scope decision needs to include

some kind of explanation of the issue. Currently, the issue has been divided between the scope decision (with as little explanation as possible) and the basis for conclusion. As the “basis for conclusions” section should not include a kind of implicit interpretation, the decision needs to be included in the body of the Interpretation. Therefore, another alternative would be to move the part from the “scope” section to the “consensus” section. However, staff would not recommend this alternative, because in the staff’s view, the decision is more related to scope than to consensus.

7. Initial terms of the contract including a contingency relating to market conditions. Should reassessment in this situation be addressed? If yes: Should a reassessment be required or forbidden?

Decision: This situation should be addressed. A reassessment is forbidden if a contingency included in the initial terms of the contract is triggered by a change in market condition.

Action: The current wording already reflects this decision. As there is no change in the terms, reassessment is prohibited. For clarification, the reasons are set out in a new BC8. The reasons were taken from the discussion during the last meeting.