

IFRS® Interpretations Committee meeting

Project	Physical settlement of contracts to buy or sell a non-financial item (IFRS 9)		
Paper topic	Initial consideration		
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Introduction

1. The IFRS Interpretations Committee (Committee) received a submission about how an entity applies IFRS 9 *Financial Instruments* to particular contracts to buy or sell a non-financial item in the future at a fixed price. The submitter describes two fact patterns in which an entity accounts for such contracts as derivatives at fair value through profit or loss (FVPL) but nonetheless physically settles the contracts by either delivering or taking delivery of the underlying non-financial item.
2. The submitter asks whether, in accounting for that physical settlement, it is appropriate for an entity to (a) reverse the accumulated gain or loss previously recognised in profit or loss on the derivative, and (b) recognise a corresponding adjustment to either revenue (in the case of a sale contract) or inventory (in the case of a purchase contract).
3. The objective of this paper is to:
 - (a) provide the Committee with a summary of the matter;
 - (b) present our research and analysis; and

- (c) ask the Committee whether it agrees with our recommendation not to add this matter to its standard-setting agenda.

Structure of the paper

- 4. This paper includes:
 - (a) background information;
 - (b) summary of outreach;
 - (c) staff analysis; and
 - (d) staff recommendation.
- 5. There are two appendices to the paper:
 - (a) Appendix A—Proposed wording of the tentative agenda decision; and
 - (b) Appendix B—Submission.

Background information

- 6. IFRS 9 must be applied to contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contracts were financial instruments. However, such contracts are excluded from the scope of IFRS 9 if they were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements.¹ This is commonly referred to as the own use scope exception.

¹ Paragraph 2.4 of IFRS 9. An entity also considers the additional requirements in paragraphs 2.6 and 2.7 of IFRS 9 in determining whether a contract to buy or sell a non-financial item is within the scope of IFRS 9.

7. The submitter describes two contracts:
 - (a) a contract to purchase a non-financial item (specifically, a commodity) in the future for a fixed price (purchase contract); and
 - (b) a contract to sell a non-financial item (specifically, a commodity) in the future for a fixed price (sale contract).

8. The submitter says the entity has concluded that both contracts are within the scope of IFRS 9 because they do not meet the own use scope exception. Consequently, the entity accounts for the contracts as if they were financial instruments and recognises them as derivatives measured at FVPL. The entity does not designate the contracts as part of a hedging relationship for accounting purposes.

9. At the settlement date, the entity physically settles the contracts by either delivering or taking delivery of the commodity. In accounting for that settlement, the entity records the cash paid (in the case of the purchase contract) or received (in the case of the sales contract) and derecognises the derivative. In addition, the submitter explains that the entity:
 - (a) recognises inventory at the market price of the commodity on the settlement date (in the case of the purchase contract); or
 - (b) recognises revenue at the market price of the commodity at the settlement date (in the case of the sale contract).

10. The submitter asks whether, in accounting for the physical settlement of these contracts, the entity is permitted or required to make an additional journal entry that would:
 - (a) reverse the accumulated gain or loss previously recognised in profit or loss on the derivative (even though the fair value of the derivative is unchanged); and
 - (b) recognise a corresponding adjustment to either revenue (in the case of the sale contract) or inventory (in the case of the purchase contract).

Illustration of the accounting

11. The submitter set out the following two fact patterns, with accompanying journal entries, to illustrate the accounting for the contracts described above.

Purchase contract

12. On 1 December 20X1, Entity A enters into a contract to purchase a commodity at a fixed price of CU100 on 5 January 20X2. At inception the contract is at the money and its fair value is nil. Entity A's reporting period ends on 31 December 20X1. On that date, the forward price of the commodity has increased and, as a result, the fair value of the contract has increased by CU10. Therefore, Entity A recognises a derivative asset of CU10 and a gain of CU10:

Dr	Derivative asset	CU10	
	CR Other operating income/expense ²		CU10

13. On 5 January 20X2, Entity A settles the contract by taking delivery of the commodity and paying CU100 in cash. The fair value of the contract has not changed between 31 December 20X1 and 5 January 20X2. Entity A makes the following journal entry to recognise the receipt of inventory and the settlement of the derivative asset:

Dr	Inventory	CU110	
	CR Derivative asset		CU10
	CR Cash		CU100

Sale contract

14. The facts are the same as the purchase contract described above, except Entity A sells the commodity instead of purchasing it. On 31 December 20X1, the forward price of the commodity has increased and, as a result, the fair value of the contract has decreased by CU10. Therefore, Entity A recognises a derivative liability of CU10 and a loss of CU10:

² Or other appropriate line item in the statement of profit or loss.

Dr	Other operating income/expense ³	CU10	
	CR	Derivative liability	CU10

15. On 5 January 20X2, Entity A settles the contract by delivering the commodity and receiving CU100 in cash. The fair value of the contract has not changed between 31 December 20X1 and 5 January 20X2. Entity A has an accounting policy of recognising ‘gross revenue’ on physical settlement to reflect the sale of the inventory. Following this policy, Entity A makes the following journal entry:

Dr	Cash	CU100	
Dr	Derivative liability	CU10	
	CR	Revenue	CU110

Additional journal entry

16. As explained in paragraph 10 of this paper, the submitter asks whether, in addition to the journal entries set out in paragraphs 11–15, Entity A should or could make an additional journal entry. That additional journal entry would reverse the accumulated gain or loss previously recognised in profit or loss on the derivative and adjust either inventory (in the case of the purchase contract) or revenue (in the case of the sale contract) so that they are recognised at the fixed price set out in the contract (ie the amount of cash paid or received on the settlement date).
17. To illustrate using the fact patterns set out above, the submitter asks whether the following journal entry could or should be made for the purchase contract and the sale contract, respectively:

Dr	Other operating income/expense	CU10	
	CR	Inventory	CU10

(Additional entry for the purchase contract)

³ Or other appropriate line item in the statement of profit or loss.

Dr	Revenue		CU10
	CR	Other operating income/expense	CU10

(Additional entry for the sales contract)

18. The submitter describes two views, which are reproduced in Appendix B to this paper.

Summary of outreach

19. We sent information requests to members of the International Forum of Accounting Standard-Setters, securities regulators, and large accounting firms.
20. The request asked those participating to provide information, based on their experience, on whether the contracts described in the submission—ie contracts to buy or sell a non-financial item that are within the scope of IFRS 9 because they do not meet the own use scope exception, but nonetheless are physically settled by the entity either delivering or taking delivery of the non-financial item—are common and, if so, in which industries they are common.
21. We also asked whether they have observed the additional journal entry described by the submitter (illustrated in paragraph 17 of this paper) and, if so, how entities explain the accounting with reference to the requirements in the IFRS Standards applied.
22. We received sixteen responses—six from large accounting firms, eight from national standard-setters and two from organisations representing groups of regulators. The views received represent informal opinions and do not reflect the official views of those respondents or their organisations.

Findings from outreach

Prevalence

23. Most respondents said the contracts described in the submission are common. Respondents said such contracts are common in industries such as commodities trading, extractives, agriculture, energy, utilities and fish farming.

Accounting

24. Some respondents said they had not observed the additional journal entry that the submitter described whilst other respondents said differing reporting methods are applied (ie some entities make the additional entry and others do not). A few respondents said the additional journal entry is the most common accounting applied in some jurisdictions.
25. About half the respondents provided more detailed comments on whether the additional journal entry is required or permitted by IFRS Standards. We have summarised those comments below.

Objections to the additional journal entry

26. Some respondents said the additional journal entry described in the submission is inconsistent with the requirements in IFRS 9 for derivatives. If a contract to buy or sell a non-financial item does not meet the own use scope exception (as the submitter stated in the fact pattern) and the entity is required to apply IFRS 9, then that accounting should ‘follow through’ and not be reversed. Some respondents said the additional entry unwinds the accumulated fair value gain or loss on the derivative without any basis to do so, or said the additional journal entry appears to negate the requirement in IFRS 9 to account for the contract as a derivative.
27. One respondent said the additional journal entry is inappropriate because it would imply that there has been an accounting error in the previous period (similar to a retrospective restatement), which is not the case.
28. Some respondents said if an entity accounts for a contract to buy or sell a non-financial item as a derivative applying IFRS 9, then the entity accounts for the physical settlement

of such a contract at the spot price of the non-financial item at the settlement date. In so doing, the entity records the cost of the inventory (in the case of a purchase contract) or revenue (in the case of a sale contract) at an amount equal to the sum of the contract price (ie the cash paid or received) *and* the closing fair value of the derivative, as illustrated above in paragraphs 11–15. In expressing support for this accounting outcome, one respondent noted that it is consistent with the outcome that would arise if the entity had chosen instead to net settle the contract in cash and simultaneously purchase (sell) the non-financial item in the market. This respondent said the additional journal entry is inappropriate because it would change that outcome and, thus, the entity would have the ability to change the way its performance is reported simply by choosing between those two settlement alternatives.

29. A few respondents acknowledged that the accounting for contracts that do not meet the own use scope exception in IFRS 9 (such as the contracts described in the submission) is different from the accounting for contracts that meet that exception. Similarly, the accounting for contracts designated in a hedging relationship for accounting purposes is different from the accounting for contracts that are not so designated. According to one respondent, the additional entry is inappropriate because it would be akin to permitting retrospective application of hedge accounting (ie it would appear that the entity has a free option to retrospectively document a hedging relationship for accounting purposes upon settlement of the contract), which is inconsistent with the requirements in IFRS 9 for hedge accounting.

Support for the additional journal entry

30. A few respondents provided support for the additional journal entry.
31. Some of these respondents said it can be argued that, while the contracts described in the submission initially do not meet the own use scope exception in IFRS 9, the contracts ultimately are for the entity’s ‘own use’ and therefore the entity should update its accounting accordingly.
32. A few respondents said presenting revenue (in the case of a sale contract) or inventory (in the case of a purchase contract) at the fixed contract price provides more relevant

information about the transaction. One respondent said if the entity had designated the contract in an ‘all in one’ cash flow hedge as described in Question F2.5 of the Implementation Guidance accompanying IAS 39 *Financial Instruments: Recognition and Measurement*, then the accounting would be similar to recording the additional journal entry described in the submission.

33. One respondent said, applying IFRS Standards, revenue and inventory should be recognised based on the fixed price set out in the contract (ie CU100 in the fact patterns described in paragraphs 11–15)—in their view, it would be inappropriate to recognise a gain or loss arising from the derecognition of a financial asset or financial liability as part of revenue or inventory.
34. A few respondents said entities record the additional journal entry for practical reasons, including:
 - (a) for many entities, the amounts in question are not material. In addition, enterprise resource planning (ERP) systems may have been configured to account for the contract at the contract price, both for reporting and tax/VAT measurement purposes.
 - (b) the additional entry avoids measurement issues for commodities that are delivered on a continuous basis during a period. Accounting for the purchase or sale of such commodities based on their fair values at delivery would be operationally complex.
 - (c) the additional journal entry for a sales contract may affect only the presentation of income or expense (eg depending on the line items that the entity uses in the statement of profit or loss).
35. A few respondents provided comments on broader aspects of accounting for contracts to buy or sell a non-financial item that are beyond the question asked by the submitter.

Staff Analysis

36. As described in paragraph 6 of this paper, an entity must apply IFRS 9 to particular contracts to buy or sell a non-financial item as if those contracts were financial instruments. The submitter says the entity has concluded that both contracts are within the scope of IFRS 9—consequently the entity accounts for the contracts as derivatives measured at FVPL. The submission also says the entity does not designate the contracts as part of a hedging relationship for accounting purposes. We have not reconsidered those conclusions in our analysis. We have analysed only the matter raised by the submitter—ie whether IFRS Standards permit or require the entity to make the additional journal entry described in paragraph 10 (and illustrated in paragraph 17) of this paper when accounting for the derivative contract.
37. Consistent with some of the outreach comments, we think the additional journal entry effectively negates the requirement in IFRS 9 to account for the contract as a derivative. That is, the additional journal entry reverses the accumulated fair value gain or loss on the derivative without any basis to do so. Therefore, we think it is inconsistent with the requirements in IFRS 9.
38. In the fact patterns submitted, due to a change in the forward price of the commodity, the fair value of the derivative changed by CU10 in the reporting period ending on 31 December 20X1. The entity recognised that fair value change in profit or loss in that reporting period, as illustrated by the journal entries in paragraphs 11–15 of this paper. Subsequently, the fair value of the derivative was unchanged. However, the additional journal entry described in the submission would recognise an expense (in the case of a purchase contract) or income (in the case of a sale contract) of CU10 on 5 January 20X2 (the day of settlement). We think that income or expense does not exist and therefore is inconsistent with the requirements in IFRS 9 for measuring derivatives at FVPL.
39. Specifically, we think there could be a CU10 expense (in the case of a purchase contract) or CU10 income (in the case of a sale contract) only if the derivative's fair value changed by CU10 on the day of settlement, which would require the price of the commodity (for the volume in the contract) to move from CU110 back to CU100. But that is not the fact

pattern. Instead, according to the fact pattern, the commodity price is CU110 on the settlement date and the derivative's fair value has not changed between 31 December 20X1 and 5 January 20X2.

40. The change in the carrying amount of the derivative from an asset of CU10 (in the case of the purchase contract) or a liability of CU10 (in the case of the sale contract) to nil results from the fact that the derivative is settled. The contract was settled by the receipt (or delivery) of the commodity with a fair value of CU110 in exchange for a derivative of CU10 and cash of CU100. Accordingly, we think that the derecognition of the derivative contract on settlement does not give rise to further income or expense.

41. We acknowledge that the accounting for contracts that do not meet the own use scope exception in IFRS 9 (such as the contracts described in the submission) is different from the accounting for contracts that meet that exception. However, we think those differences reflect differences in the respective accounting requirements. In fact, the specific and detailed scope requirements in IFRS 9, which are described in paragraph 6 of this paper, are necessary because IFRS Standards require different accounting for such contracts. We disagree with the feedback that suggests the entity should account for the contracts described in the submission as if they met the own use scope exception because they ultimately were physically settled. We think IFRS 9 neither permits nor requires an entity to make such a 'reassessment', or to change its accounting for such contracts.

42. Similarly, we acknowledge that the accounting for contracts designated in a hedging relationship for accounting purposes is different from the accounting for contracts that are not in such relationships. Again, those differences reflect differences in the respective accounting requirements. We think the outcome the entity would achieve if it had applied hedge accounting for accounting purposes is irrelevant to the fact patterns described in the submission. This is because the entity has not designated the contract in such a hedging relationship.

43. Finally, we note that a few outreach respondents said some entities record the additional journal entry for practical reasons and we understand those considerations. However, practical considerations, such as complexity, do not override (or 'trump') the accounting

requirements in IFRS 9, unless the amounts are not material (as defined in IAS 1 *Presentation of Financial Statements*).

Question 1 for the Committee

Does the Committee agree with our analysis of the requirements in IFRS Standards, outlined in paragraphs 36–43 of this paper?

Should the Committee add this matter to its standard setting agenda?

Is it necessary to add to or change IFRS Standards to improve financial reporting?⁴

44. Based on our analysis in paragraphs 36–43 of this paper, we think that IFRS Standards provide an adequate basis for an entity to conclude on whether making the additional journal entry described in the submission is consistent with the requirements in IFRS 9 for derivatives.

Staff recommendation

45. Based on our assessment of the Committee’s agenda criteria in paragraphs 5.16-5.17 of the Due Process Handbook (discussed in paragraph 44 above), we recommend that the Committee does not add this matter to its standard-setting agenda. Instead, we recommend publishing an agenda decision that outlines how an entity applies the applicable requirements in IFRS 9.

⁴ Paragraph 5.16(b) of the *Due Process Handbook*.

46. Appendix A to this paper outlines the proposed wording of the tentative agenda decision.

Questions 2 and 3 for the Committee

2. Does the Committee agree with our recommendation not to add this matter to its standard-setting agenda?
3. Does the Committee have any comments on the proposed wording of the tentative agenda decision outlined in Appendix A to this paper?

Appendix A—Proposed wording of the tentative agenda decision**Physical settlement of contracts to buy or sell a non-financial item (IFRS 9 *Financial Instruments*)**

The Committee received a request about how an entity applies IFRS 9 to particular contracts to buy or sell a non-financial item in the future at a fixed price. The submitter describes two fact patterns in which an entity accounts for such contracts as derivatives at fair value through profit or loss (FVPL) but nonetheless physically settles the contracts by either delivering or taking delivery of the underlying non-financial item.

IFRS 9 must be applied to contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if those contracts were financial instruments, with one exception. That exception applies to contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements ('own use scope exception' in paragraph 2.4 of IFRS 9).

In the fact patterns described in the request, the entity concludes that the contracts are within the scope of IFRS 9 and accounts for them as derivatives measured at FVPL. The entity does not designate the contracts as part of a hedging relationship for accounting purposes.

At the settlement date, the entity physically settles the contracts by either delivering or taking delivery of the commodity. In accounting for that settlement, the request explains that the entity records the cash paid (in the case of the purchase contract) or received (in the case of the sale contract) and derecognises the derivative. In addition, the entity:

- recognises inventory at the market price of the commodity on the settlement date (in the case of the purchase contract); or

- recognises revenue at the market price of the commodity at the settlement date (in the case of the sale contract).

The request asks whether, in accounting for the physical settlement of these contracts, the entity is permitted or required to make an additional journal entry that would:

- reverse the accumulated gain or loss previously recognised in profit or loss on the derivative (even though the fair value of the derivative is unchanged); and
- recognise a corresponding adjustment to either revenue (in the case of the sale contract) or inventory (in the case of the purchase contract).

The Committee observed that the additional journal entry described in the request would effectively negate the requirement in IFRS 9 to account for the contract as a derivative because it would reverse the accumulated fair value gain or loss on the derivative without any basis to do so. The additional journal entry would also result in the recognition of income or expenses that do not exist.

The Committee also observed that the accounting for contracts that do not meet the own use scope exception in IFRS 9 is different from the accounting for contracts that meet that exception. Similarly, the accounting for contracts designated in a hedging relationship for accounting purposes is different from the accounting for contracts that are not designated in such relationships. Those differences reflect differences in the respective accounting requirements. IFRS 9 neither permits nor requires an entity to reassess or change its accounting for a derivative contract solely because that contract is ultimately physically settled.

Consequently, the Committee concluded that the additional journal entry described in the request is inconsistent with the requirements in IFRS 9.

The Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to conclude on whether the additional journal entry described in the request is consistent with the requirements in IFRS 9.

Consequently, the Committee [decided] not to add the matter to its standard-setting agenda.

Appendix B—Submission

B1. We have reproduced the submission below, and in doing so deleted details that would identify the submitter of this request. We have only reproduced information relevant to the matter discussed in this paper.

Submission

Suggested agenda item: Repeated recognition of gains and losses in profit or loss

It has come to our attention that there are diverse views on when, if ever, it is acceptable for a gain or loss to be ‘recycled’ out of one item of profit or loss (where it was recognised in a prior period) into another item of profit or loss in the current period. We are seeking clarification by the Committee of the issue detailed below.

Background

In various circumstances, a gain or loss (other than on a designated hedging instrument) may arise that could be thought of as relating to a future transaction. In examples such as those detailed below, practices have been observed under which that gain or loss is recognised as it arises but is then reversed and recognised (or ‘recycled’) as an adjustment to the value of a subsequent transaction.

Example 1 – ‘Failed own use’ contracts

Recognition of revenue relating to a ‘failed own use’ sales contract

On 1 December 20X1, Entity A enters into a contract with Entity B to deliver a commodity product at a fixed price of CU100 on 5 January 20X2. On inception the contract is at the money and its fair value is nil.

The contract is in the scope of IFRS 9 *Financial Instruments* as it can be settled net in cash or another financial instrument or by exchanging financial instruments in accordance with one of the examples in IFRS 9:2.6. Entity A has assessed that the contract fails the own use exemption

in IFRS 9:2.4 as it has a practice of settling net in cash some of its purchase and sale contracts. Nevertheless, Entity A intends to physically settle the contract above by delivering its own commodity product held in inventory. Entity A has not designated the contract in a hedging relationship for accounting purposes.

On 31 December 20X1, the forward price of the commodity product has increased and as a result the fair value of the contract has decreased by CU10. This is reflected by recognition of a derivative liability of CU10 in the statement of financial position and of a loss of CU10 classified outside revenue (for example, as “other operating income/loss”).

On 5 January 20X2, Entity A delivers the commodity product to Entity B in return for cash of CU100. The fair value of the contract has not changed between 31 December 20X1 and 5 January 20X2.

Entity A follows an accounting policy of recognising the contract gross on physical settlement to reflect the revenue earned on sale of the inventory.

Following this policy, the following entries are posted at 5 January 20X2:

Dr	Cash		CU100
Dr	Derivative liability	CU10	
	Cr	Revenue	CU110

This results in the recognition of revenue at the market price of the commodity on delivery. The question then arises as to whether a further entry should or could be posted:

Dr	Revenue		CU10
	Cr	Other operating income/loss	CU10

This would reverse the loss previously recognised on the derivative portion of the contract and would result in recognition of revenue at the contract price of CU100.

The above example of failed own use sale contract impacts the presentation of line items in the period of settlement of the sale contract.

Application of a consistent accounting policy to failed own use purchased contracts that are settled by taking physical delivery of the commodity would impact the amount of the initial recognition of inventory in the period of settlement of the purchase contract and profit or loss upon sale of the commodity. This is illustrated below.

Recognition of cost relating to a 'failed own use' purchase contract

On 1 December 20X1, Entity A enters into a contract with Entity B to purchase a commodity product at a fixed price of CU100 on 5 January 20X2. On inception the contract is at the money and its fair value is nil.

The contract is in the scope of IFRS 9 as it can be settled net in cash or another financial instrument or by exchanging financial instruments in accordance with one of the examples in IFRS 9:2.6. Entity A has assessed that the contract fails the own use exemption in IFRS 9:2.4 as it has a practice of settling net in cash some of its purchase and sale contracts. Nevertheless, Entity A intends to physically settle the contract above by taking delivering of the commodity product and hold it in inventory to be measured at the lower of cost and net realisable value. Entity A has not designated the contract in a hedging relationship for accounting purposes.

Entity A's reporting period ends on 31 December 20X1. On that date, the forward price of the commodity product has increased and as a result the fair value of the contract has increased by CU10. This is reflected by recognition of a derivative asset of CU10 in the statement of financial position and of a gain of CU10 classified outside revenue (for example, as "other operating income/loss").

On 5 January 20X2, Entity A takes delivery of the commodity product from Entity B in return for cash of CU100. The fair value of the contract has not changed between 31 December 20X1 and 5 January 20X2.

The following entries are posted at 5 January 20X2 to reflect the receipt of inventory and settlement of the derivative asset:

Dr	Inventory	CU110	
	Cr	Derivative asset	CU10
	Cr	Cash	CU100

This results in the recognition of inventory at the market value of the commodity on delivery. The question then arises as to whether a further entry should or could be posted:

Dr	Other operating income/loss	CU10	
	Cr	Inventory	CU10

This would reverse the gain previously recognised on the derivative and would result in recognition of inventory at the contract price of CU100 and in a lower cost of sales when the commodity is subsequently sold.

In each of these examples, recognition of the ‘further entry’ illustrated results in recognition of the same value in profit or loss in two different reporting periods and two different line items.

In Example 1, in cash of the failed own use sale contracts, the loss on the derivative is first recognised as other operating income/loss in one period and is then ‘recycled’ in a subsequent period and recognised as a reduction in (or addition to) revenue. In the case of the failed own use purchase contracts, the gain on the derivative is first recognised as other operating income/loss in one period, the gain reversed in the period the commodity is received and finally ‘recycled’ (through a lower cost of sale) upon sale of the commodity (possible in a different period).

Question – Is the ‘recycling’ of gains and losses in profit or loss and their recognition in more than one reporting period appropriate?

View 1 – Yes.

Under this view, none of the entries illustrated above are explicitly prohibited by either IAS 1 *Presentation of Financial Statements* or IFRSs specific to the transaction in question. As such they should, de facto, be considered acceptable.

In addition, the ‘further entry’ in each case is intended to provide a faithful representation of the transaction in question (in Example 1 to reflect sales and purchases at their cash value as would be the case had the ‘failed own use’ requirements of IFRS 9).

View 2 – No.

Under this view, in the absence of specific provisions in IFRSs the criteria for recognition of income or expense in the *Conceptual Framework for Financial Reporting* can be met only once. Repeated recognition must by definition result in recognition of an item of income or expense that does not meet those criteria and, therefore, in misstatement of profit or loss in at least one reporting period. Where such a possibility is addressed by individual IFRS it is only to restrict such practice (for example, IAS 38 *Intangible Assets* precludes the capitalisation of costs that have previously been expensed and IFRS 15 *Revenue from Contracts with Customers* does not allow interest income from contracts with a significant financing component to be recognised subsequently as revenue).

Recognition of a gain or loss required by an IFRS Standard then subsequently reversing that gain or loss (as illustrated for example, in respect of the derivative in Example 1) could also be viewed as only temporarily complying with that Standard. IFRS 9 requires changes in the fair value of derivatives to be recognised in profit or loss, reversal of that gain or loss at the date of settlement means that, across the life of the derivative, that requirement has not been followed.

Supporters of this view also note that the hedge accounting provisions of IFRS 9 defer the recognition of gains and losses in profit or loss but do not result in recognising them in profit or

loss more than once. ‘Recycling’ of gains and losses to, for example, recognise a purchase at a contracted rate could be seen as a form of hedge accounting outside the strict requirements of IFRS 9 and with recognition of the same gain or loss in different reporting periods.

Reasons for the Committee to address the issue

We believe that these practices are common and are concerned that the inconsistent use of ‘recycling’ of gains and losses outside the strict confines of hedge accounting permitted by IFRS 9 result in significant distortions of revenue and other key measures of performance, undermining the comparability of financial statements.

For these reasons, we believe that this issue is urgent and meets the criteria for acceptance onto the Committee’s agenda.