IAS 39 Financial Instruments: Recognition and Measurement (March 2014)

Recognition and Measurement – accounting for term-structured repo transactions

The Interpretations Committee received a request to clarify: (Issue 1) whether an entity (Entity A) should account for three transactions separately or aggregate and treat them as a single derivative; and (Issue 2) how to apply paragraph B.6 of Guidance on Implementing IAS 39 *Financial Instruments: Recognition and Measurement* ('IG B.6 of IAS 39') in addressing Issue 1. Some key features of the three transactions are as follows:

(a) Transaction 1 (bond purchase): Entity A purchases a bond (the bond) from another entity (Entity B).
(b) Transaction 2 (interest rate swap): Entity A enters into interest rate swap contract(s) with Entity B. Entity A pays a fixed rate of interest equal to the fixed coupon rate of the purchased bond in Transaction 1 and receives a variable rate of interest.
(c) Transaction 3 (repurchase agreement): Entity A enters into a repurchase agreement with Entity B, in which Entity A sells the same bond in Transaction 1 on the same day it purchases the bond and agrees to buy back the bond at the maturity date of the bond.

The Interpretations Committee noted that in order to determine whether Entity A should aggregate and account for the three transactions above as a single derivative, reference should be made to paragraphs B.6 and C.6 of Guidance on Implementing IAS 39 and paragraph AG39 of IAS 32 *Financial Instruments: Presentation*.

The Interpretations Committee also discussed Issue 2, ie, how to apply paragraph IG B.6 of IAS 39 in addressing Issue 1. The Interpretations Committee noted that application of the guidance in paragraph IG B.6 of IAS 39 requires judgement. It also noted that the indicators in paragraph IG B.6 of IAS 39 may help an entity to determine the substance of the transaction, but that the presence or absence of any single specific indicator alone may not be conclusive.

The Interpretations Committee noted that providing additional guidance would result in the Interpretations Committee attempting to specify the accounting for a specific transaction, and that this would not be appropriate.

On the basis of the analysis above, the Interpretations Committee determined that, in the light of the existing IFRS requirements, neither an Interpretation nor an amendment to a Standard was necessary and consequently decided not to add this issue to its agenda.