

## **Meaning of delivery (IAS 39 *Financial Instruments: Recognition and Measurement*)—August 2005**

The IFRIC considered the application of the ‘own purchase, sale or usage requirements’ scope exemption in paragraph 5 of IAS 39 [now replaced by paragraph 2.4 of IFRS 9] when:

- the market design or process imposes a structure or intermediary (eg a gold refiner or an electricity market operator) that prevents the producer from physically delivering its production to the counterparty of the hedge pricing contract; and
- in some cases, physical delivery is to the intermediary for the spot price, even if the producer is protected from spot price risk by a separate contract that effectively sets a fixed price for the producer’s production.

The IFRIC noted that ‘delivery’ for the purposes of the paragraph 5 exemption is not necessarily restricted to the physical delivery of the underlying to a specific customer, as physical delivery is not a condition of the exemption. The IFRIC was of the view that delivery of gold to a refiner in return for an allocation of an equivalent quantity of refined gold was not delivery, but that allocation of that refined gold to a customer’s account could be regarded as delivery. The IFRIC decided not to develop guidance on the meaning of ‘delivery’ as it was not aware of evidence of significant diversity in practice.

The IFRIC indicated that a synthetic arrangement that results from the linking of a non deliverable contract entered into with a customer to fix the price of a commodity with a transaction to buy or sell the commodity through an intermediary would not satisfy the paragraph 5 scope exemption.

The IFRIC decided not to add this topic to its agenda, since IAS 39 was clear on both points.