IAS 39 Financial Instruments: Recognition and Measurement (September 2012)

Classification of a GDP-linked security

The Interpretations Committee received a request for guidance on the appropriate accounting for the GDP. linked security that was offered as part of the restructuring of Greek Government bonds (GGB).

The submitter noted that IAS 39 refers to a 'nonfinancial variable that is not specific to a party to the contract' but does not define the meaning of that term. The Interpretations Committee noted that the four alternatives in the submitted fact pattern were based on the assumption that the indexation to the issuer's GDP is a non-financial variable specific to a party to the contract. The Interpretations Committee noted that the question of what constitutes an underlying that is a non-financial variable specific to a party to the contract had been considered on several previous occasions by itself and by the IASB. Consequently, the Interpretations Committee was concerned that it would not be able to resolve the issue efficiently within the confines of existing IFRSs and the *Conceptual Framework* and the demands of the Interpretation process and that it was not likely that it would be able to reach a consensus on the issue on a timely basis. The Interpretations Committee therefore considered that the question of whether the assumption in the submission is appropriate would remain open.

However, the Interpretations Committee thought that it could highlight some aspects that should be considered when assessing the accounting for the GDP-linked ecurities:

- The GDP-linked security is a structured option that entitles the holder to cash payments depending on the nominal and the real GDP of the issuer exceeding particular thresholds.
- Mandatory classification as at fair value through profit or loss only applies, by definition, if the GDP linked security is a derivative or is otherwise held for trading.
- The definition of loans and receivables in paragraph 9 of IAS 39 excludes those financial assets "for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale".
- The definition of held-to-maturity investments requires that an entity has the positive intention and ability to hold that financial asset to maturity. The application guidance in IAS 39 clarifies that "the criteria for classification as a held-to-maturity investment are met for a financial asset that is callable by the issuer if the holder intends and is able to hold it until it is called or until maturity and the holder would recover substantially all of its carrying amount".
- Unless the GDP-linked securities are classified as at fair value through profit or loss they would be classified as available-for-sale debt instruments.
- Entities should consider the operational complexities of applying the effective interest method to the GDP linked securities, because of their complex cash flow profile.

The Interpretations Committee considered that no clarification of IAS 39 was required. Even if changes were required, the Interpretations Committee considered that IFRS 9 already used a different classification for financial assets.

Consequently, the Interpretations Committee decided not to add the issue to its agenda.