IAS 39 Financial Instruments: Recognition and Measurement (Jan 2007)

Short Trading

The IFRIC received a submission regarding the accounting for short sales of securities when the terms of the short sales require delivery of the securities within the time frame established generally by regulation or convention in the marketplace concerned. A fixed price commitment between trade date and settlement date of a short sale contract meets the definition of a derivative according to IAS 39 paragraph 9. However, the submission noted that entities that enter into regular way purchase or sales of financial assets are allowed to choose trade date or settlement date accounting in accordance with IAS 39 paragraph 38. Therefore, the issue was whether short sales of securities should be eligible for the regular way exceptions (ie whether entities that enter into short sales are permitted to choose trade date or settlement date accounting).

The IFRIC noted that paragraphs AG55 and AG56 of IAS 39 address the recognition and derecognition of financial assets traded under regular way purchases and regular way sales of long positions. If the regular way exceptions are not applicable to short sales of securities, such short sales should be accounted for as derivatives and be measured at fair value with changes in fair value recognised in profit or loss.

The IFRIC received several comment letters explaining an interpretation of IAS 39 that is commonly used in practice. Under that interpretation, entities that enter into short sales of securities are allowed to choose trade date or settlement date accounting. Specifically, practice recognises the short sales as financial liabilities at fair value with changes in fair value recognised in profit or loss. Under the industry practice, the same profit or loss amount is recognised as would have been recognised if short sales of securities were accounted for as derivatives but the securities are presented differently on the balance sheet.

The IFRIC acknowledged that requiring entities to account for the short positions as derivatives may create considerable practical problems for their accounting systems and controls with little, if any, improvement to the quality of the financial information presented. For these reasons and because there is little diversity in practice, the IFRIC decided not to take the issue onto the agenda.