

IAS 39 Financial Instruments: Recognition and Measurement (November 2006)

Valuation of electricity derivatives

The IFRIC received a request for guidance on the treatment of certain principal-to-principal derivatives designed to fix the price of a supply of electricity by linking it with a transaction to buy or sell the electricity through an intermediary. In a related agenda decision published in *IFRIC Update* for August 2005, the IFRIC noted that such derivatives did not fall under the exemption from IAS 39 for contracts for the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements. The question therefore arose whether such contracts fell under the exception from valuation in IAS 39 for derivatives linked to unquoted equity instruments and, if not, how they should be valued. Valuation issues included the facts that the derivative had a variable notional amount and that the term of the derivative might extend well beyond the period for which there were any observable market data.

The IFRIC noted that the only exception in IAS 39 from the requirement to fair value derivatives after initial recognition is given in paragraph 46(c), amplified by paragraphs AG80 and AG81, and that it was not appropriate to extend this exemption to the derivatives considered in this request. The IFRIC noted further that IAS 39 contains general principles on how to measure fair value. The IFRIC decided that it should not seek to develop more detailed guidance on this topic, since the subject was too specific.