

Written options in retail energy contracts (IAS 39 *Financial Instruments: Recognition and Measurement*)—March 2007

The IFRIC received a request to interpret what is meant by ‘written option’ within the context of paragraph 7 of IAS 39 [now replaced by paragraph 2.7 of IFRS 9].

Under paragraph 7 of IAS 39 a written option to buy or sell a non-financial item that can be net settled (as defined in paragraph 5) cannot be considered to have been entered into for the purpose of meeting the reporting entity’s normal purchase, sale and usage requirements. The application of this paragraph is illustrated in the current guidance.

The submission was primarily concerned with the accounting for energy supply contracts to retail customers.

Analysis of such contracts suggests that in many situations these contracts are not capable of net cash settlement as laid out in paragraphs 5 and 6 of IAS 39 [now replaced by paragraphs 2.4 and 2.6 of IFRS 9]. If this is the case, such contracts would not be considered to be within the scope of IAS 39.

In the light of the above, the IFRIC expected little divergence in practice and therefore decided not to take the item on to the agenda.