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*This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.*

*These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.*

## INFORMATION FOR OBSERVERS

**Board Meeting:** January 2006, London

**Project:** IFRIC Update: Reassessment of Embedded Derivatives – proposed  
**final** Interpretation (Agenda Paper 2)

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1. The IFRIC issued D15 *Reassessment of Embedded Derivatives* in March 2005 with a request for comments by 31 May. A total of 31 comment letters was received, most of which agreed with the proposed Interpretation. The IFRIC has amended its proposals in the light of the comments and presents a proposed final Interpretation to the Board for approval to issue. [Not reproduced in observer notes].
2. The two most frequent comments asked for clarification of whether the Interpretation would deal with embedded derivatives in a business combination and what was covered by the phrase 'a change in the terms of the contract'.
3. In response to the first point, the IFRIC has added a brief scope section, which makes clear that the Interpretation does not address the acquisition of contracts with embedded derivatives on the occasion of a business combination nor their possible reassessment at that date.
4. To explain 'a change in the terms of the contract' the IFRIC has expanded the consensus to say that it means a change of commercial substance in either or both of the embedded derivative or the host contract. 'Commercial substance' is itself explained in language based on that in IAS 39 and other IFRSs.
5. Finally, the Basis for Conclusions has been shortened by the removal of a paragraph dealing with a matter, which the IFRIC decided, on reflection, did not need to be specifically addressed.
6. The Board is invited to approve the proposed final Interpretation for issue.