

International Financial Reporting Interpretations
Committee
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Dear IFRIC members

Tentative Agenda Decision: IAS 39 *Financial Instruments: Recognition and Measurement* Written options in retail energy contracts

We agree with the tentative decision in respect of the above issue as set out in the January 2007 *IFRIC update*, but recommend IFRIC provide further explanation as to why such contracts do not meet the net settlement criteria in paragraphs 5 and 6 of IAS 39, to help constituents deal with similar questions in the future.

The underlying principle appears to be that an entity must consider who is the counterparty before determining if a contract is within the scope of IAS 39 and, in particular, it is the ability of the counterparty, as opposed to the reporting entity, to convert the underlying to cash, that is relevant to paragraph 6(d).

If this principle is, in fact, the basis for IFRIC's tentative conclusion, we also recommend that IFRIC requests the IASB to amend IAS 39 as part of the annual amendments project, to make this point clearer.

We would be pleased to discuss our views with the Committee. Please do not hesitate to contact Tony Clifford at 020 7951 2250 or Ken Marshall at 1 212 773 2279.

Yours faithfully

