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**International
Accounting Standards
Board**

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Note: The observer note is based on the staff paper prepared for the IFRIC. Paragraph numbers correspond to paragraph numbers used in the IFRIC paper. However, because the observer note is less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

IFRIC meeting: **March 2007, London**

Project: **Review of Tentative Agenda Decisions**
IAS 39 Financial Instruments: Recognition and
Measurement - Written options in retail energy contracts
(Agenda Paper 8(iv))

Tentative agenda decision published in January 2007 IFRIC Update

The IFRIC received a request to provide an Interpretation on what is meant by 'written option' within the context of paragraph 7 of IAS 39.

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 they do not meet the net settlement criteria laid out in paragraphs 5 and 6 of IAS 39. If this is the case, such contracts would not be considered to be within the scope of IAS 39.

In the light of this analysis, the IFRIC expected little divergence in practice and therefore [decided] not to take the item onto the agenda.