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International Accounting Standards Board

INFORMATION FOR OBSERVERS

IFRIC meeting: **March 2009, London**

Project: **Update on IFRIC Projects since November 2008 IFRIC Meeting (Agenda Paper 2)**

RELEVANT INTERPRETATIONS

- IFRIC 9 *Reassessment of Embedded Derivatives*
- IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*
- IFRIC 18 *Transfers of Assets from Customers*

SUMMARY

1. The last IFRIC meeting was held in November 2008. The January 2009 IFRIC meeting was cancelled due to the small number of agenda items for discussion. Since the November 2008 IFRIC meeting, the Board and staff have taken several actions to progress in-process IFRIC related issues and to address a few new issues the Board felt required immediate attention. This paper summarizes those actions to update the IFRIC members.

IFRIC 9 – proposed consequential amendment

2. During the January 2009 Board meeting, the Board was advised that the changed definition of a business combination within revised IFRS 3 caused embedded derivatives acquired during the formation of a joint venture to be within the scope of IFRIC *9 Reassessment of Embedded Derivatives*. The Board noted that common control transactions may also be within the scope of IFRIC 9 depending on which level of the group reporting entity is assessing the combination.

3. The Board proposed an amendment to paragraph 5 of IFRIC 9 to exclude from its scope embedded derivatives in contracts acquired in combinations of entities or businesses under common control and in the formation of joint ventures. The Board published an exposure draft of this proposal on 30 January with a 30-day comment period ending on 2 March. The Board asked the staff to present an analysis of the comment letters at the IFRIC meeting in March to obtain input from the IFRIC. This will be presented orally due to the timing of the comment letter deadline and the IFRIC meeting. The Board expects to finalise the amendment at its meeting in March.

IFRIC 9 – reclassification of assets amendment

4. Following the issue of *Reclassification of Financial Assets* (Amendments to IAS 39 and IFRS 7 *Financial Instruments: Disclosures*) in October 2008, constituents informed the Board that there was uncertainty about the interaction between those amendments and IFRIC 9 regarding the assessment of embedded derivatives. Some of those taking part in the public round-table meetings held by the Board and the US Financial Accounting Standards Board in November and December 2008 in response to the global financial crisis also raised that issue. They asked the Board to consider further amendments to IFRSs to prevent any practice developing whereby, following reclassification of a financial asset, embedded derivatives that should be separately accounted for are not.

5. The Board discussed the issue at its meeting in December 2008 and decided to publish an exposure draft (ED). The ED was published on 22 December 2008 with a 30-day comment period that ended on 21 January 2009. That ED proposed to clarify the accounting treatment for embedded derivatives. Specifically, the ED specifies that when an entity reclassifies a hybrid financial asset out of the fair value through profit or loss category, the entity must assess whether an embedded derivative must be separated from the host contract. The ED clarifies the requirements in IAS 39 *Financial Instruments: Recognition and Measurement* and IFRIC 9 *Reassessment of Embedded Derivatives.*

6. The staff expects to present the analysis of comment letters received from respondents to the Board during the February 2009 Board meeting. See February 2009 Board Agenda Paper 11 for additional information.

IFRIC 14 – voluntary prepayments

7. During the January 2009 meeting, the Board considered a proposal to amend IFRIC 14 *IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* to eliminate an unintended consequence that arises from some voluntary prepayments to a defined benefit plan that is subject to a minimum funding requirement. The Board tentatively decided to amend IFRIC 14 so that an entity recognises an asset for a prepayment that will reduce future contributions by the entity. The IFRIC was asked for comments on the pre-ballot draft of the amendment. See March 2009 IFRIC Agenda Paper 5H for a tentative agenda decision to remove the issue from the IFRIC agenda.

IFRIC 16 – proposed amendment

8. IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* does not permit hedge accounting if the hedging instrument is held by the foreign operation that is being hedged. At the January 2009 meeting, the Board decided to propose an amendment to paragraph 14 of IFRIC 16 to remove this restriction.

9. The Board decided to publish an exposure draft of this proposal in January with a 30-day comment period ending on 2 March 2009. The Board asked the staff to present an analysis of the comment letters at the IFRIC meeting in March to obtain input from the IFRIC. This will be presented orally due to the timing of the comment letter deadline and the IFRIC meeting. The Board expects to finalise the amendment at its meeting in March.

IFRIC 18 – approval of interpretation

10. During the January 2009 Board meeting, the Board approved IFRIC 18 *Transfers of Assets from Customers* and decided that an entity:

    a. should apply IFRIC 18 prospectively to assets received from customers on or after 1 July 2009;

    b. may apply IFRIC 18 earlier if it obtained the valuations and other information needed to apply the Interpretation to past transfers at the time those transfers occurred;

    c. should disclose the date from which it applied the Interpretation.

QUESTIONS FOR THE IFRIC

11. Does the IFRIC have any questions for the staff regarding the above IFRIC issues?