IFRIC Meeting

Staff Paper

Agenda reference	5D
Date	May 2009

Project	**IAS 39-21 Financial Instrument with Participating Rights**
Topic	**Comment letters on tentative agenda decision**

Introduction

1. In March 2009, the IFRIC published a tentative agenda decision (see Appendix A) not to add to its agenda an issue to provide guidance on how an issuer should account for a financial liability that contains participation rights by which the instrument holder shares in the net income and losses of the issuer.

2. The IFRIC received one comment letter.

Summary of comments from respondent

3. The comment letter supports the IFRIC's decision not to add the issue to its agenda and suggests some changes to the IFRIC's proposed agenda decision wording, including:

   (a) clarifying that such contracts are more likely to contain a separable embedded derivative and the issue submitted assuming otherwise would not meet the agenda criteria because it is not widespread[1].

   (b) clarifying that a previously proposed Annual Improvements amendment to the definition of a derivative, if adopted, would conclude that such contracts contain a separable embedded derivative[2].

4. The discussion below considers whether the tentative wording should be amended before being finalised.

[1] D&T
[2] D&T

Staff recommendation

5. With respect to the comment in paragraph 3(a), the staff proposes not to amend the agenda decision to highlight that the submission's assumed fact may be rare. The staff notes that the tentative agenda decision already explicitly states that the IFRIC did not reconsider the submission's assumptions, including the conclusion that such contracts do not contain any embedded derivatives.

6. With respect to the comment in paragraph 3(b), the staff proposes not to refer in the tentative agenda decision to the amendment to the definition of derivative previously proposed in Annual Improvements. After considering comments received on that proposed amendment, the Board decided at its October 2008 meeting not to proceed with finalising the proposal in the Annual Improvements project but will consider addressing this issue in a future project.

Questions to the IFRIC
Does the IFRIC agree with the staff recommendation to confirm its decision not to add the issue to its agenda? Does the IFRIC agree with the staff recommendations to finalise the wording of the tentative agenda decision as previously published after considering comments received based on the discussion in paragraphs 5-6?

Appendix A

A1. The Staff proposes the following wording for the final agenda decision.

IAS 39 *Financial Instruments: Recognition and Measurement*—Participation rights and calculation of the effective interest rate

The IFRIC was asked for guidance on how an issuer should account for a financial liability that contains participation rights by which the instrument holder shares in the net income and losses of the issuer. The holder receives a percentage of the issuer's net income and is allocated a proportional share of the issuer's losses. . Losses are applied to the nominal value of the instrument to be repaid on maturity. Losses allocated to the holder in one period can be offset by profits in subsequent periods. The IFRIC considered the issue without reconsidering the assumptions described in the request that the financial liability:

- does not contain any embedded derivatives
- is measured at amortised cost using the effective interest rate method, and
- does not meet the definition of a *floating rate* instrument.

The IFRIC noted that paragraphs AG6 and AG8 of IAS 39 provide the relevant application guidance for measuring financial liabilities at amortised cost using the effective interest rate method. The IFRIC also noted that it is inappropriate to analogise to the derecognition guidance in IAS 39 because the liability has not been extinguished.

Because specific application guidance already exists, the IFRIC [decided] not to add this issue to its agenda.