



Project	IAS 39 <i>Financial Instruments: Recognition and Measurement</i>
Topic	Forward contracts with volumetric optionality on non-financial items that are readily convertible to cash

Background

1. In January 2010, the IFRIC published a tentative agenda decision not to add to its agenda a request for guidance on whether a contract that:
 - (a) obliges an entity to deliver (sell) at a fixed price a fixed number of units of a non-financial item that is readily convertible to cash and
 - (b) provides the counterparty with the option to purchase, also at a fixed price, a fixed number of additional units of the same itemcan be assessed as two separate contracts for the purpose of applying paragraphs 5-7 of IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39).
2. In the January 2010 IFRIC Update, the IFRIC noted that:

Although the IFRIC recognised that diversity exists in practice, it noted that the Board has accelerated its project to develop a replacement for IAS 39 and expects to issue a comprehensive replacement standard by the end of 2010. The Board will consider the scope of IAS 39, including the guidance about contracts to buy or sell non-financial items in paragraphs 5-7 of IAS 39, as part of the replacement for that standard. Consequently, the IFRIC [decided] not to add this issue to its agenda.
3. The IFRIC has received one comment letter. The respondent disagrees with the IFRIC's decision not to take this item onto its agenda because:

This paper has been prepared by the technical staff of the IASCF for discussion at a public meeting of the IFRIC.

The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the IFRIC or the IASB. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRIC or the IASB can make such a determination.

Decisions made by the IFRIC are reported in IFRIC *Update*.

Interpretations are published only after the IFRIC and the Board have each completed their full due process, including appropriate public consultation and formal voting procedures. The approval of an Interpretation by the Board is reported in IASB *Update*.

IASB Staff paper

[...] we believe that the expected date of mandatory application of all the requirements in IFRS 9 is too far in the future (not earlier than January 1, 2013). Given the current diversity in practice in the application of the requirements of IAS 39, that time period is sufficient for the IFRIC to develop an interpretation and for the interpretation to be effective in order to address the existing divergence in practice in the interim period.

Objective of this paper

4. The objective of this paper is to ask the IFRIC to make a final decision on this issue.

Analysis of comment received

5. The staff acknowledge the respondent's concern that the effective date for all the requirements of IFRS 9 would likely be January 1, 2013 and thus any changes that the IASB makes to the scope of IAS 39 would not be mandatory until that date. However, the staff note that the IFRIC specifically considered the timing of IFRS 9 in making its tentative decision at the January 2010 meeting not to add the issue to its agenda.¹
6. Weighing into its decision, the IFRIC also considered that the issue was only one of many practice issues with respect to the scope provisions in IAS 39.5-7. Thus the IFRIC believed that the best course of action was not for the IFRIC to address the issue in isolation, but rather for the IASB to address it together with the other issues experienced in practice concerning the scope of IAS 39 as part of the replacement of that standard.²

¹See paragraphs 13-16 of Agenda Paper 16 discussed at the IFRIC meeting in January 2010.

²See paragraph 17 of the agenda paper referenced in footnote 1.

Staff recommendation

7. In light of the foregoing analysis, **the staff recommend that the IFRIC finalise the tentative agenda decision using the same wording as that published in the January 2010 IFRIC Update.**

Questions – Finalisation of IFRIC Agenda Decision

Question 1 – Does the IFRIC agree with the staff’s recommendation in paragraph 7?

Question 2 – Appendix A includes the staff’s proposed wording for the final agenda decision. Does the IFRIC agree with the proposed final agenda decision wording?

Appendix A – Proposed wording for a final agenda decision

The IFRIC received a request to add an item to its agenda on providing guidance on whether a contract that (a) obliges an entity to deliver (sell) at a fixed price a fixed number of units of a non-financial item that is readily convertible to cash and (b) that provides the counterparty with the option to purchase also at a fixed price a fixed number of additional units of the same item can be assessed as two separate contracts for the purpose of applying paragraphs 5-7 of IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39).

Although the IFRIC recognised that significant diversity exists in practice, it noted that the Board has accelerated its project to develop a replacement for IAS 39 and expects to issue a new standard by the end of 2010. The Board will consider the scope of IAS 39, including the guidance about contracts to buy or sell non-financial items in IAS 39.5-7, as part of the replacement for that standard. Therefore, the IFRIC [decided] not to add this issue to its agenda.