

## STAFF PAPER

27 January 2015

## IFRS Interpretations Committee Meeting

Project	Finalisation of agenda decision
Paper topic	IAS 39 <i>Financial instruments: Recognition and Measurement</i> – Foreign currency embedded derivatives
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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IFRS Interpretations Committee. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination. Decisions made by the IFRS Interpretations Committee are reported in IFRIC *Update*. The approval of a final Interpretation by the Board is reported in IASB *Update*.

## Introduction

1. In September 2014, the IFRS Interpretations Committee (the ‘Interpretations Committee’) published a tentative agenda decision not to add to its agenda a request for guidance relating to the interpretation of the ‘closely related’ criterion in paragraph 11 of IAS 39 *Financial Instruments: Recognition and Measurement*.
2. More specifically, the Interpretations Committee was asked to consider whether a licence agreement (ie the host contract) contains an embedded foreign currency derivative that is closely related to the economic characteristics and risks (ie the closely related criterion) of the host contract. This is on the basis that the payments required under the licence agreement are denominated in a currency that is the currency in which such commercial transactions are routinely denominated around the world (ie the routinely denominated criterion).
3. The Interpretations Committee analysed the results of the outreach request performed by the staff. The outreach indicated that there was no significant diversity observed in practice on this issue.
4. On the basis of the requirements in IAS 39 and on the basis of the outreach results received, the Interpretations Committee determined that neither an Interpretation nor an amendment to the Standard was necessary. Consequently,

the Interpretations Committee decided to issue a tentative agenda decision, which can be found in the [IFRIC Update](#) of September 2014.

### Purpose of the paper

5. The purpose of this paper is to:
  - (a) provide an analysis of the comments received on the tentative agenda decision; and
  - (b) set out the wording for the final agenda decision (see **Appendix A**).

### Comment letter analysis

6. The comment period for the tentative agenda decision ended on 25 November 2014. We received **two** responses from:
  - (a) Deloitte; and
  - (b) Constantin Film AG ('Constantin').
7. The comment letters from these respondents are attached to this paper (see **Appendix B**).
8. Both respondents agree with the Interpretations Committee's tentative decision not to add the issue to its agenda for the reasons set out in the tentative agenda decision.
9. In addition, Constantin expressed the view that the application of judgement should be stressed further in the Interpretations Committee's tentative decision.
10. More specifically, Constantin recommends that the Interpretations Committee should amend the second paragraph of the tentative agenda decision by adding the following statement (emphasis added):

The Interpretations Committee further observed that the assessment of the routinely denominated criterion is a question of fact and **judgement** based on an assessment

of available evidence **and that the examples given in the Standard are not exhaustive.**

### Staff analysis

11. The staff reiterates its note in paragraph 22 of Agenda Paper 12 of the September 2014 meeting that the assessment of the routinely denominated criterion is a matter of fact and therefore cannot be based on judgement.<sup>1</sup>
12. Neither the guidance in section C.9 of the guidance on implementing IAS 39, nor the examples in the Standard are meant to be exhaustive. Hence, in the staff's view, reiterating this in the agenda decision is not required.

### Staff recommendation

13. On the basis of the comments received, we propose to the Interpretations Committee that the agenda decision should be finalised without any further changes.
14. We have set out the wording for the final agenda decision in **Appendix A** of this paper.

### Questions for the Interpretations Committee

#### Question for the Interpretations Committee

1. Does the Interpretations Committee agree with our recommendation to finalise the agenda decision?

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<sup>1</sup> Agenda Paper 12 of the September 2014 meeting:

<http://www.ifrs.org/Current-Projects/IASB-Projects/IAS-39-accounting-for-embedded-foreign-currency-derivatives-in-host-contracts/Pages/Home.aspx>

## Appendix A—Final agenda decision

A1. We propose the following wording for the final agenda decision.

***IAS 39 Financial Instruments: Recognition and Measurement—embedded foreign currency derivatives***

The IFRS Interpretations Committee (the ‘Interpretations Committee’) received a request related to the interpretation of the criterion of ‘closely related’ in paragraph 11 of IAS 39 to determine whether an embedded derivative should be separated from a host contract and accounted for as a derivative in accordance with IAS 39.

More specifically, the Interpretations Committee was asked to consider whether a licence agreement (ie the host contract) contains an embedded foreign currency derivative that is closely related to the economic characteristics and risks (ie the closely related criterion) of the host contract, on the basis that the payments required under the licence agreement are denominated in a currency that is the currency in which such commercial transactions are routinely denominated around the world.

Based on the responses to the outreach request, the Interpretations Committee observed that the issue is not widespread. The Interpretations Committee therefore concluded that in the light of the existing guidance in IAS 39, neither an Interpretation nor an amendment to a Standard was necessary and consequently {decided} not to add this issue to its agenda.

## **Appendix B—comment letters submitted**

Wayne Upton  
Chairman  
IFRS Interpretations Committee  
30 Cannon Street  
London  
United Kingdom  
EC4M 6XH

25 November 2014

Dear Mr Upton

**Tentative agenda decision - IAS 39 *Financial Instruments: Recognition and Measurement*:  
Accounting for embedded foreign currency derivatives in host contracts**

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the September IFRIC Update of the tentative decision not to take onto the Committee's agenda a request for guidance on whether an embedded foreign currency derivative in a licence agreement is closely related to the economic characteristics of the host contract.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda for the reasons set out in the tentative agenda decision.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely



Veronica Poole  
Global IFRS Leader

# Constantin Film

IFRS Interpretations Committee  
Mr. Wayne Upton  
Chairman  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

October 6, 2014

Dear Mr. Upton,

IFRIC Update September 2014: IAS 39 Financial Instruments (Agenda Paper12)

I am writing to you concerning the recently published IFRIC Update September 2014 with reference to Agenda Paper 12 discussed in the Committee Meeting on September 17, 2014.

We understand that you decided not to take our request to the agenda for the reason that in the light of the existing IFRS requirements sufficient guidance exists and because the issue is not widespread.

We appreciate that you agree with our opinion that the assessment of the routinely-denominated criterion is a question of fact and is based on an individual assessment of available evidence. This clarification by the IFRIC is very helpful to us since it is in agreement with our argument that neither the examples given by the standard nor the listing in corresponding literature are exhaustive. However, this fact is not explicitly mentioned in the agenda decision and the application of judgment should also be stressed further. Therefore, in our opinion the last sentence of the third paragraph of the agenda decision should be changed such as:

“The Interpretations Committee further observed that the assessment of the routinely-denominated criterion is a question of fact and **judgment** based on an assessment of available evidence **and that the examples given in the standard are not exhaustive.**”

Yours sincerely



Hanns Beese

Chief Financial Officer



Julia Burghardt

Head of Group Accounting