



International Accounting Standards Board®

# Press Release

FOR IMMEDIATE RELEASE

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## **IFRIC issues Interpretation on the reassessment of embedded derivatives**

The International Financial Reporting Interpretations Committee (IFRIC)\* has today issued an Interpretation—IFRIC 9 *Reassessment of Embedded Derivatives*. The Interpretation clarifies certain aspects of the treatment of embedded derivatives under IAS 39 *Financial Instruments: Recognition and Measurement*.

IAS 39 describes an embedded derivative as a component of a hybrid (combined) instrument that also includes a non-derivative host contract—with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. With certain exceptions, IAS 39 requires embedded derivatives to be separately recognised and measured when the entity first becomes a party to the contract.

The IFRIC was asked whether the treatment of an embedded derivative has to be reassessed subsequently if certain events occur. IFRIC 9 concludes that reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required.

Introducing IFRIC 9, Robert Garnett, IASB member and Chairman of IFRIC, said:

This Interpretation will be welcomed by entities holding contracts with embedded derivatives. In reaching its conclusions the IFRIC was anxious to avoid a ruling that would have required continual reassessment whenever market prices or other external events affected the value of these instruments. Instead it has remained faithful to the spirit of IAS 39 in not permitting reclassification unless the terms of the instrument themselves are changed in a significant way.

Subscribers to the IASB's Comprehensive Subscription Service can view the Interpretation from the secure online services area of the IASB's Website ([www.iasb.org](http://www.iasb.org)). Those wishing

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\* The IFRIC is the interpretative arm of the International Accounting Standards Board (IASB).

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### **NOTES TO EDITORS**

#### ***About the IFRIC***

The IFRIC first met in February 2002. It comprises 12 voting members (all part-time) drawn from a variety of countries and professional backgrounds, and it meets about six times a year under a non-voting chairman. The IFRIC's principal role is to consider, on a timely basis within the context of International Financial Reporting Standards and the IASB *Framework*, accounting issues that are likely to receive divergent or unacceptable treatment in the absence of authoritative guidance, with a view to reaching consensus on the appropriate accounting treatment. In developing Interpretations, the IFRIC works closely with similar national interpretation committees.

#### ***About the IASB***

The IASB, based in London, began operations in 2001. It is funded by contributions collected by its Trustees, the IASC Foundation, from the major accounting firms, private financial institutions and industrial companies throughout the world, central and development banks, and other international and professional organisations. The 14 IASB members (12 of whom are full-time) are drawn from nine countries and have a variety of professional backgrounds. The IASB is committed to developing, in the public interest, a single set of high quality, global accounting standards that require transparent and comparable information in general purpose financial statements. In pursuit of this objective, the IASB co-operates with national accounting standard-setters to achieve convergence in accounting standards around the world.