



International Accounting Standards Board®

Press Release

DRAFT

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IFRIC publishes proposed guidance on reassessment of embedded derivatives

The International Financial Reporting Interpretations Committee (IFRIC)* today released for public comment a draft Interpretation: D15 *Reassessment of Embedded Derivatives*.

The proposed Interpretation has been developed in response to requests for guidance from constituents to clarify certain aspects of the accounting for embedded derivatives under International Accounting Standard 39 *Financial Instruments: Recognition and Measurement*.

International Accounting Standard 39 requires an entity, when it first becomes a party to a contract, to assess whether any embedded derivatives contained in the contract are required to be separated from the host contract and accounted for as derivatives under the Standard. The draft Interpretation proposes guidance on the following:

- (a) Does IAS 39 require such an assessment to be made only when the entity first becomes a party to the contract, or should the assessment be reconsidered throughout the life of the contract?
- (b) Should a first-time adopter make its assessment on the basis of the conditions that existed when the entity first became a party to the contract, or those prevailing when the entity adopts IFRSs for the first time?

To allow entities affected by the final Interpretations enough time to change current practices, the proposed Interpretations contain a delayed effective date. The proposed effective date for the draft Interpretation is **annual periods beginning on or after [date to be set at three months after the Interpretation is finalised]**. Earlier application is encouraged.

The proposals are open for public comment until 31 May 2005.

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

Introducing the draft Interpretations, Gilbert Gélard, Acting IFRIC Chairman and IASB member responsible for liaison with the French national standard-setter, said:

Accounting for embedded derivatives affects a large number of entities. The proposed Interpretation clarifies and simplifies the accounting for such embedded derivatives and also provides guidance for first-time adopters of IFRSs. The IFRIC believes that the proposed Interpretation will provide valuable guidance and clarify the application of IAS 39.

Subscribers to the IASB's Comprehensive Subscription Service can view the draft Interpretations from the secure online services area of the IASB's Website (www.iasb.org). From 4 March 2005, the complete text of the draft Interpretations will be freely available from the Website.

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NOTES TO EDITORS

D15 Reassessment of Embedded Derivatives

About the draft Interpretation

6 D15 notes that IAS 39 as a practical expedient does not require the separation of embedded derivatives that are closely related. Also, the rationale for the embedded derivatives requirements in IAS 39 is that an entity should not be able to circumvent the recognition and measurement requirements for derivatives merely by embedding a derivative in a non-derivative financial instrument or other contract (for example, by embedding a

commodity forward in a debt instrument). D15 notes that changes in external circumstances are not ways to circumvent the Standard.

7 D15 proposes that:

- a. An entity shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract, in which case it is required.
- b. First-time adopters shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative on the basis of the conditions that existed when it first became a party to the contract.

About the IFRIC

8 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 nine 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

9 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.

10 A Deloitte & Touche study indicates that 94 countries either require or permit the use of IFRSs for publicly traded companies beginning in 2005. Some other jurisdictions, including Australia, New Zealand, the Philippines and Singapore, base their national practices on international standards. In September 2002 the IASB and the US standard-setter, the Financial Accounting Standards Board, reached an agreement to work towards the convergence of existing US and international practices and the joint development of future standards. In October 2004, the IASB and the Accounting Standards Board of Japan agreed to initiate discussions about a joint project to minimise differences between IFRSs and Japanese accounting standards towards a final goal of convergence of their standards. In January 2005 the two boards announced their agreement to launch a joint project to reduce differences between IFRSs and Japanese accounting standards, and in March the boards met to decide on the initial programme of work for the project.