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Post-implementation Revisions to IFRIC Interpretations

Proposed amendments to IFRIC 9 and IFRIC 16

Comments to be received by 2 March 2009



International
Accounting Standards
Board®

Exposure Draft

**POST-IMPLEMENTATION
REVISIONS TO
IFRIC INTERPRETATIONS**

(proposed amendments to IFRIC 9 and IFRIC 16)

Comments to be received by 2 March 2009

ED/2009/1

This exposure draft *Post-implementation Revisions to IFRIC Interpretations* (proposed amendments to IFRIC 9 and IFRIC 16) is published by the International Accounting Standards Board (IASB) for comment only. The proposals may be modified in the light of the comments received before being issued in final form as amendments to IFRIC 9 and IFRIC 16. Comments on the exposure draft and the Basis for Conclusions should be submitted in writing so as to be received by **2 March 2009**. Respondents are asked to send their comments electronically to the IASB website (www.iasb.org), using the 'Open to Comment' page.

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BASIS FOR CONCLUSIONS

APPROVAL BY THE BOARD OF *POST-IMPLEMENTATION REVISIONS TO IFRIC INTERPRETATIONS*

Proposed amendment to IFRIC 9 *Reassessment of Embedded Derivatives*

Invitation to comment

The International Accounting Standards Board invites comments on the proposed amendment to IFRIC 9, particularly on the questions set out below.

Comments are most helpful if they contain a clear rationale and, when applicable, provide a suggestion for alternative wording the Board should consider.

The Board is not seeking comments on other aspects of IFRIC 9.

Comments should be submitted in writing so as to be received no later than 2 March 2009.

Question 1 – Amendment arising from IFRS 3 (as revised in 2008)

The Board proposes to amend paragraph 5 of IFRIC 9 to exclude from its scope embedded derivatives in contracts acquired in combinations of entities or businesses entities under common control and in the formation of joint ventures.

Do you agree with the proposal? If not, why?

Question 2 – Effective date

The proposed amendment to IFRIC 9 would be effective for annual periods beginning on or after 1 July 2009 with prospective application, and would require an entity that applies IFRS 3 (revised 2008) for an earlier period to disclose that fact and apply the amendment to IFRIC 9.

Do you agree that this amendment should apply for annual periods beginning on or after 1 July 2009 with prospective application? If not, why?

Proposed amendment to IFRIC 9 *Reassessment of Embedded Derivatives*

In the References the title of IFRS 3 is amended and a reference added (new text is underlined).

- IFRS 3 *Business Combinations* (as revised in 2008)
- IAS 31 *Interests in Joint Ventures*

Paragraph 5 is amended (new text is underlined and deleted text is struck through).

Scope

- 5 This Interpretation does not ~~address the acquisition of contracts with apply to~~ embedded derivatives in contracts acquired in:
- (a) a business combination;
 - (b) a combination of entities or businesses under common control as described in paragraphs B1–B4 of IFRS 3; or
 - (c) the formation of a joint venture as defined in IAS 31

~~nor~~ their possible reassessment at the date of acquisition.*

* IFRS 3 (as revised in 2008) addresses the acquisition of contracts with embedded derivatives in a business combination.

The following new paragraph is added and will be numbered either 10 or 11 depending upon the finalisation of the current exposure draft *Embedded Derivatives* (proposed amendments to IFRIC 9 and IAS 39) published in December 2008.

Effective date and transition

- 11 Paragraph 5 was amended by *Post-implementation Revisions to IFRIC Interpretations* issued in [date]. An entity shall apply that amendment prospectively for annual periods beginning on or after 1 July 2009. If an entity applies IFRS 3 for an earlier period, it shall disclose that fact and apply this amendment for that earlier period.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the proposed amendment to IFRIC 9.

- BC1 When the Board developed IFRS 3 *Business Combinations* (as revised in 2008), it revised the definition of a business combination. The previous definition of a business combination was ‘the bringing together of separate entities or businesses into one reporting entity’. The revised definition of a business combination is ‘a transaction or other event in which an acquirer obtains control of one or more businesses’.
- BC2 The Board was advised that the changes to that definition caused the accounting for the reassessment of embedded derivatives acquired during the formation of a joint venture to be within the scope of IFRIC 9. The Board noted that common control transactions may also be within the scope of IFRIC 9 depending on which level of the group reporting entity is assessing the combination.
- BC3 The Board noted that during the development of revised IFRS 3 it did not discuss whether it intended IFRIC 9 to apply to these types of transactions. The Board also noted that the reason for excluding common control transactions and the accounting by a joint venture upon its formation from the scope of revised IFRS 3 was to give the Board more time to consider the relevant accounting issues. When the Board revised IFRS 3, it did not intend to change existing practice by bringing such transactions within the scope of IFRIC 9, which does not specifically address them.
- BC4 Accordingly, the Board proposes to amend paragraph 5 of IFRIC 9 to confirm that embedded derivatives in contracts acquired in the formation of a joint venture and common control transactions are not within the scope of IFRIC 9.

Proposed amendment to IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*

Invitation to comment

The International Accounting Standards Board invites comments on the proposed amendment to IFRIC 16, particularly on the questions set out below.

Comments are most helpful if they contain a clear rationale and, when applicable, provide a suggestion for alternative wording the Board should consider.

The Board is not seeking comments on other aspects of IFRIC 16.

Comments should be submitted in writing so as to be received no later than 2 March 2009.

Question 1 – Removal of the restriction on the entity that can hold hedging instruments

The Board proposes to amend paragraph 14 of IFRIC 16 to remove the restriction on the entity that can hold hedging instruments.

Do you agree with the proposal? If not, why?

Question 2 – Effective date

IFRIC 16 is effective for annual periods beginning on or after 1 October 2008 with prospective application. The Board concluded that this amendment should apply in the same way.

Do you agree that this amendment should apply for annual periods beginning on or after 1 October 2008 with prospective application? If not, why?

**Proposed amendment to
IFRIC 16 *Hedges of a Net Investment in a Foreign Operation***

Paragraphs 14 and 18 are amended (new text is underlined and deleted text is struck through).

Where the hedging instrument can be held

- 14 A derivative or a non-derivative instrument (or a combination of derivative and non-derivative instruments) may be designated as a hedging instrument in a hedge of a net investment in a foreign operation. The hedging instrument(s) may be held by any entity or entities within the group ~~(except the foreign operation that itself is being hedged)~~, as long as the designation, documentation and effectiveness requirements of IAS 39 paragraph 88 that relate to a net investment hedge are satisfied. In particular, the hedging strategy of the group should be clearly documented because of the possibility of different designations at different levels of the group.

Effective date

- 18 An entity shall apply this Interpretation (including the amendment to paragraph 14 made in [month] 2009) for annual periods beginning on or after 1 October 2008. Earlier application is permitted. If an entity applies this Interpretation for a period beginning before 1 October 2008, it shall disclose that fact.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the proposed amendment to IFRIC 16.

- BC1 Paragraph 14 of IFRIC 16 states that the hedging instrument cannot be held by the foreign operation whose net investment is being hedged. The restriction was included in draft Interpretation D22 (from which IFRIC 16 was developed) and attracted little comment from respondents. The IFRIC concluded, as part of its redeliberations, that the restriction was appropriate because the foreign exchange differences between the parent's functional currency and both the hedging instrument and the functional currency of the net investment will automatically be included in the group's foreign currency translation reserve as part of the consolidation process (paragraph BC24 of the Basis for Conclusions on IFRIC 16).
- BC2 It has been brought to the attention of the International Accounting Standards Board that this conclusion is not correct. Without hedge accounting, part of the foreign exchange difference arising from the hedging instrument would be included in consolidated profit or loss. Therefore, the Board proposes to amend paragraph 14 of IFRIC 16 to remove the restriction on the entity that can hold hedging instruments, and to delete paragraph BC24 of the Basis for Conclusions.
- BC3 IFRIC 16 is effective for annual periods beginning on or after 1 October 2008 with prospective application. The Board concluded that this amendment should apply in the same way.

Approval by the Board of *Post-implementation Revisions to IFRIC Interpretations* (proposed amendments to IFRIC 9 and IFRIC 16) published in January 2009

Post-implementation Revisions to IFRIC Interpretations (proposed amendments to IFRIC 9 and IFRIC 16) was approved for publication by the fourteen members of the International Accounting Standards Board, except that Mr Kalavacherla abstained from voting on the proposed amendment to IFRIC 9 in view of his recent appointment to the Board.

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