Rechnungslegungs Interpretations
Accounting Interpretations Committee

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Dear Bob

Comment Letter on IFRIC Interpretation D15 *Reassessment of Embedded Derivatives*

We appreciate the opportunity to comment on the draft Interpretation IFRIC D15. We fully endorse IFRIC´s aim to support the IASB in establishing and improving International Financial Reporting Standards. In this respect we support IFRIC's objective to clarify if embedded derivatives contained in a contract need to be reassessed throughout the life of the contract or not.

Generally speaking, we are in agreement with the proposed consensus that prohibits subsequent reassessment of embedded derivatives unless there is a change in the terms of the contract. We also agree that first-time adopters have to make the assessment by referring to the conditions that existed when it first became a party to the contract.

Nevertheless, we would like to bring to your attention two instances where we feel further guidance may be warranted, being the interrelation of IFRIC D15 and IFRS 3 and a significant change in macroeconomic factors.

As regards the first issue, clarification is needed whether an acquirer is required to assess a hybrid instrument of an acquiree at the time of a business combination. One might argue that – from the perspective of the group – the acquirer and thus the group acquires the hybrid instrument and therefore becomes a party to the contract according to paragraph 3 (a) of D15 resulting in a reassessment of the contract. The AIC, however, is of the opinion that the acquisition of a contract through a business combination does not lead to a situation where the acquirer becomes a party to the contract since one of the parties of the contract is acquired and therefore there is no exchange of parties. In addition, the risk position resulting from the existing contract does not change just because one of the parties is acquired by the group.

Some members of the AIC come to the conclusion that only the acquiree should carry out the assessment and that a reassessment of the embedded derivative should, therefore, be prohibited when a business combination takes place. Other members of the AIC – while agreeing that the group does not become a party to the contract according to paragraph 3 (a) of D15 – argue that the requirement to identify the acquiree's assets and liabilities in accordance with IFRS 3 result in a mandatory (re-)assessment of the hybrid instrument at the acquisition date (which would, in most cases, lead to different treatments of the same contract in the stand-alone financial statements of the acquiree and the consolidated financial statements of the group).

The AIC discussed if in the case of macroeconomic changes an exception to the prohibition of the reassessment of an embedded derivative as set out in paragraph 4 of D15 might be warranted. D15 is drafted as an anti-abuse provision, in that an entity shall not have a free choice of whether to reassess hybrid instruments or not. However, things might be different in cases where a significant change in macroeconomic factors occurs, which is beyond the control of the entity. The AIC rejected this argument because any requirement to reassess hybrid instruments in addition to the circumstances set out in paragraph 4 of D15 would imply that market conditions would have to be monitored continuously to ensure the timely identification of a change in circumstances and the amendment of the accounting treatment accordingly. This, however, would contradict the explicit intention of the IFRIC stated in paragraph BC6 of D15. To avoid misunderstandings the AIC suggests that the IFRIC briefly addresses this issue.

If you would like further clarification of the issues set out in this comment letter, please do not hesitate to contact me.

With best regards

Dr. Stefan Schreiber
AIC, Chairman