

IFRIC Interpretation 9

Reassessment of Embedded Derivatives

This version includes an amendment resulting from IFRSs issued up to 31 December 2008.

IFRIC 9 *Reassessment of Embedded Derivatives* was developed by the International Financial Reporting Interpretations Committee and issued by the International Accounting Standards Board in March 2006.

IFRIC 9 has been amended by IFRS 3 *Business Combinations* (as revised in January 2008).*

* effective date 1 July 2009

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BASIS FOR CONCLUSIONS

IFRIC Interpretation 9 *Reassessment of Embedded Derivatives* (IFRIC 9) is set out in paragraphs 1–9. IFRIC 9 is accompanied by a Basis for Conclusions. The scope and authority of Interpretations are set out in paragraphs 2 and 7–17 of the *Preface to International Financial Reporting Standards*.

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References

- IAS 39 *Financial Instruments: Recognition and Measurement*
- IFRS 1 *First-time Adoption of International Financial Reporting Standards*
- IFRS 3 *Business Combinations*

Background

- 1 IAS 39 paragraph 10 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.’
- 2 IAS 39 paragraph 11 requires an embedded derivative to be separated from the host contract and accounted for as a derivative if, and only if:
 - (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
 - (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
 - (c) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss (ie a derivative that is embedded in a financial asset or financial liability at fair value through profit or loss is not separated).

Scope

- 3 Subject to paragraphs 4 and 5 below, this Interpretation applies to all embedded derivatives within the scope of IAS 39.
- 4 This Interpretation does not address remeasurement issues arising from a reassessment of embedded derivatives.
- 5 This Interpretation does not address the acquisition of contracts with embedded derivatives in a business combination 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.

Issues

- 6 IAS 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. This Interpretation addresses the following issues:
- (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?

Consensus

- 7 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 that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. An entity determines whether a modification to cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative, the host contract or both have changed and whether the change is significant relative to the previously expected cash flows on the contract.
- 8 A first-time adopter 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 at the later of the date it first became a party to the contract and the date a reassessment is required by paragraph 7.

Effective date and transition

- 9 An entity shall apply this Interpretation for annual periods beginning on or after 1 June 2006. Earlier application is encouraged. If an entity applies the Interpretation for a period beginning before 1 June 2006, it shall disclose that fact. The Interpretation shall be applied retrospectively.