

IFRS Briefing Sheet

IFRIC Interpretation 9 *Reassessment of Embedded Derivatives*

March 2006, **Issue 46**

This IFRS Briefing Sheet summarises the International Financial Reporting Interpretations Committee's (IFRIC) Interpretation 9 *Reassessment of Embedded Derivatives*, which was published on 1 March 2006.

IAS 39 does not include any guidance on how often this assessment for separation of an embedded derivative should be performed subsequent to initial recognition. IFRIC 9 addresses this issue, and also considers the implications for a first-time adopter of IFRSs.

Consensus

Subsequent to initial recognition, IFRIC 9 prohibits the reassessment of whether to separate an embedded derivative unless there is a significant change in the terms of the contract, i.e., in the terms of either the host contract or the embedded derivative or both. IFRIC 9 states that a significant change in the terms of the contract is a significant change in the expected future cash flows arising from the hybrid instrument as a result of the modification.

IFRIC 9 requires a first-time adopter of IFRSs to assess embedded derivatives at the transition date based on the conditions that existed at the later of: (1) the date that it first became a party to the contract; and (2) the date that a reassessment would have been required.

This interpretation does not address:

- measurement issues arising from a reassessment of an embedded derivative

IFRIC 9 states that reassessment of whether an embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract.

Background and Issue

IAS 39 *Financial Instruments: Recognition and Measurement* provides guidance on derivatives embedded in hybrid instruments, and requires their separation from the underlying host contracts when certain conditions are met. Once separated, an embedded derivative is accounted for as a derivative at fair value.

A supplement to KPMG's publication IFRS in Brief

- whether derivatives embedded in hybrid instruments of an acquiree in a business combination should be assessed for separation by the acquirer at the acquisition date.

Effective Date and Transition

IFRIC 9 is effective for annual periods beginning on or after 1 June 2006. Earlier application is encouraged.

Changes in accounting policies should be accounted for retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

If you would like further information on any of the matters discussed in this issue of *IFRS Briefing Sheet*, please talk to your usual local KPMG contact or call any of KPMG firms' offices.

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