

# Proposed amendments to IFRIC 9 and IFRIC 16

The International Accounting Standards Board (the Board) has published an Exposure Draft (ED) proposing amendments to IFRIC 9 *Reassessment of Embedded Derivatives* and IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*.

## IFRIC 9

### Background

IFRS 3 (Revised) *Business Combinations* (IFRS 3R) requires, for business combinations within its scope, assessment of whether embedded derivatives should be separated from the host contract in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. Meanwhile, IFRS 3R excludes the combination of entities under common control and the formation of joint ventures from its scope.

### Summary of proposed amendments

The ED proposes to amend the scope of IFRIC 9 so that it does not apply to possible reassessment, at the date of acquisition, of embedded derivatives in contracts acquired in:

- (a) A business combination
- (b) A combination of entities or businesses under common control
- (c) The formation of a joint venture as defined in IAS 31 *Interests in Joint Ventures*

The ED proposes that the amendments be applicable prospectively for annual periods beginning on or after 1 July 2009, consistent with the effective date of IFRS 3R. It is also proposed if an entity applies IFRS 3R for an earlier period, it shall apply the amendment for that earlier period with related disclosure of that fact.

### Business impact

Contracts acquired through a combination of entities or businesses under common control, or the formation of a joint venture, are excluded from the scope of IFRIC 9 and IFRS 3R. For business combinations between entities under common control and in the formation of a joint venture, being outside the scope of IFRIC 9 would mean that reassessment of such contracts would not automatically be required at the date of the transaction. But neither is reassessment automatically required. Whether or not such contracts are reassessed will likely be driven by the entity's accounting policy for these transactions. For example, if an entity is able and chooses to apply acquisition accounting for a business combination under common control, it will be bound by IFRS 3R to reassess the contract, while if pooling is applied, it likely will not be reassessed.

# IFRIC 16

## Background to proposed amendments

IFRIC 16 currently allows a hedging instrument, in a hedge of a net investment in a foreign operation, to be held anywhere in the group except in the foreign operation whose net investment is being hedged. The IFRIC concluded 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. However, the Board is now aware that this is incorrect. If the hedging instrument is held in the foreign operation, without hedge accounting, part of the foreign exchange difference arising from the hedging instrument would be included in consolidated profit or loss.

## Summary of proposed amendments

The ED proposes that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of IAS 39 *Financial Instruments: Recognition and Measurement* that relate to a net investment hedge are satisfied.

The ED proposes that the amendments be applicable prospectively for annual periods beginning on or after 1 October 2008, consistent with the effective date of IFRIC 16, with earlier application permitted if disclosed.

## Business impact of proposed amendments

More hedging relationships will be eligible for hedge accounting than under the current interpretation.

Comments on the Exposure Draft are due by 2 March 2009.

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