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Amendments proposed for IFRICs 9 and 16

On 30 January 2009, the International Accounting Standards Board (IASB) issued an exposure draft titled *Post-implementation Revisions to IFRIC Interpretations (Proposed amendments to IFRIC 9 and IFRIC 16)* (ED/2009/1). The proposals would amend two International Financial Reporting Interpretations Committee (IFRIC) Interpretations as follows:

- IFRIC 9 *Reassessment of Embedded Derivatives* – to exclude from its scope embedded derivatives in contracts acquired in common control transactions or in the formation of a joint venture; and

- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* – so that, for the purpose of hedging a net investment in a foreign operation, it would be acceptable to designate as the hedging instrument an instrument held by the foreign operation whose net investment is being hedged.

The proposed amendments are seen as relatively minor, and so the exposure period is very short, with comments due to the IASB by 2 March 2009.

Amendments proposed for IFRIC 9

IFRIC 9 currently specifically excludes from its scope "the acquisition of contracts with embedded derivatives in a business combination [and] their possible reassessment at the date of acquisition". It does not, however, refer to the reassessment of embedded derivatives in contracts acquired as part of a common control transaction or during the formation of a joint venture.

Following the revision of the definition of a 'business combination' when IFRS 3 *Business Combinations* was revised in 2008, commentators noted that these types of transactions had been brought within the scope of IFRIC 9, which was not the Board's intention. To address this, ED/2009/1 proposes to amend paragraph 5 of IFRIC 9 to confirm that embedded derivatives in contracts acquired as part of a common control transaction or during the formation of a joint venture are not within the scope of IFRIC 9.

The proposed amendment would apply prospectively for annual periods beginning on or after 1 July 2009, unless IFRS 3(2008) is applied for an earlier period, in which case the proposed amendment would apply from the same date.

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Amendments proposed for IFRIC 16

Paragraph 14 of IFRIC 16 indicates that, for the purpose of hedging a net investment in a foreign operation, the hedging instrument cannot be held by the foreign operation whose net investment is being hedged. This restriction was included in the Interpretation because the IFRIC believed that foreign exchange differences between the parent's functional currency and both the hedging instrument and the functional currency of the net investment would automatically be included in the group's foreign currency translation reserve as part of the consolidation process.

It has been brought to the attention of the IASB that this is not always the case (e.g. it is not the case where the foreign operation enters into the external derivative contract for legal or regulatory reasons). Without hedge accounting, part of the foreign exchange difference arising from the hedging instrument would be included in consolidated profit or loss. Therefore, ED/2009/1 proposes to amend paragraph 14 of IFRIC 16 to remove the restriction on the entity that can hold hedging instruments.

The proposed amendments would apply from IFRIC 16's effective date, which is annual periods beginning on or after 1 October 2008 (prospective application) with early application permitted.

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