

NZ IFRIC 9 (Diff Rep)



NZ IFRIC Interpretation 9 (Diff Rep)

Reassessment of Embedded Derivatives (NZ IFRIC 9 (Diff Rep))

Issued November 2012 and excludes consequential amendments resulting from early adoption of NZ IFRS 9 *Financial Instruments* (2010) and NZ IFRS 11 (Diff Rep) *Joint Arrangements*

This Interpretation was issued by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 24(1)(a) of the Financial Reporting Act 1993.

This Interpretation is a Regulation for the purposes of the Regulations (Disallowance) Act 1989.

As at 1 December 2012, the requirements in this Interpretation are identical to the requirements in NZ IFRIC 9 *Reassessment of Embedded Derivatives* as applied by qualifying entities. Versions of NZ IFRIC 9 applied by qualifying entities prior to adoption of this Interpretation are available in the Archived Standards page of the External Reporting Board (XRB) website at xrb.govt.nz

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APPROVAL BY THE IASB OF *EMBEDDED DERIVATIVES*
(AMENDMENTS TO IFRIC 9 AND IAS 39) ISSUED IN
MARCH 2009

IFRIC BASIS FOR CONCLUSIONS

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HISTORY OF AMENDMENTS

Table of Pronouncements – NZ IFRIC 9 (Diff Rep) *Reassessment of Embedded Derivatives*

This table lists the pronouncement establishing NZ IFRIC 9 (Diff Rep).

Pronouncements	Date approved	Early operative date	Effective date (annual reporting periods... on or after ...)
NZ IFRIC 9 (Diff Rep) <i>Reassessment of Embedded Derivatives</i>	Nov 2012	Early application permitted	1 Dec 2012

Table of Amended Paragraphs in NZ IFRIC 9 (Diff Rep)		
Paragraph affected	How affected	By ... [date]
Paragraph NZ 2.1	Inserted	NZ IFRIC 9 (Diff Rep) [Nov 2012]
Paragraphs 9–11	Deleted	NZ IFRIC 9 (Diff Rep) [Nov 2012]
Paragraph NZ 11.1	Inserted	NZ IFRIC 9 (Diff Rep) [Nov 2012]

The following tables list the pronouncements establishing and substantially amending NZ IFRIC 9 as applied by qualifying entities prior to the issue of this Interpretation as NZ IFRIC 9 (Diff Rep) other than consequential amendments resulting from early adoption of NZ IFRS 9 *Financial Instruments* (2010) and NZ IFRS 11 *Joint Arrangements*.

Pronouncements	Date approved	Early operative date	Effective date (annual reporting periods... on or after ...)
NZ IFRIC 9 <i>Reassessment of Embedded Derivatives</i>	May 2006	1 June 2006 Early application encouraged	1 Jan 2007
NZ IFRS 3 <i>Business Combinations</i> (revised 2008)	Feb 2008	Early application permitted	1 Jan 2009

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Pronouncements	Date approved	Early operative date	Effective date (annual reporting periods... on or after ...)
<i>Embedded Derivatives</i> (Amendments to NZ IFRIC 9 and NZ IAS 39 <i>Financial Instruments: Recognition and Measurement</i>)	Mar 2009	Annual periods ending on or after 30 June 2009	30 June 2009
<i>Improvements to NZ IFRSs</i>	May 2009	Early application permitted	1 July 2009

Table of Amended Paragraphs in NZ IFRIC 9		
Paragraph affected	How affected	By ... [date]
Paragraph 5	Footnote inserted	NZ IFRS 3 [Feb 2008]
Paragraph 5	Amended	<i>Improvements to NZ IFRSs</i> [May 2009]
Paragraph 7	Amended	<i>Embedded Derivatives</i> [Mar 2009]
Paragraph 7A	Inserted	<i>Embedded Derivatives</i> [Mar 2009]
Paragraph 10	Inserted	<i>Embedded Derivatives</i> [Mar 2009]
Paragraph 11	Amended	<i>Improvements to NZ IFRSs</i> [May 2009]

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NZ IFRIC Interpretation 9 (Diff Rep) *Reassessment of Embedded Derivatives* (NZ IFRIC 9 (Diff Rep)) is set out in paragraphs 1–NZ 11.1.

NZ IFRIC 9 (Diff Rep) is based on IFRIC 9 *Reassessment of Embedded Derivatives* (IFRIC 9). NZ IFRIC 9 (Diff Rep) should be read in the context of the IFRIC's Basis for Conclusions on IFRIC 9 and the Illustrative Example for IFRIC 9.

Differential Reporting

Qualifying entities must comply with all the provisions in NZ IFRIC 9 (Diff Rep).

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Reassessment of Embedded Derivatives

(NZ IFRIC 9 (Diff Rep))

References

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

NZ IFRIC 9 (Diff Rep) is identical to NZ IFRIC 9 applied by qualifying entities prior to the issuance of NZ IFRIC 9 (Diff Rep). That is, there is no change to the recognition, measurement, presentation and disclosure requirements of NZ IFRIC 9 on adoption of this Interpretation.

Background

- 1 NZ IAS 39 (Diff Rep) 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 NZ IAS 39 (Diff Rep) 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

NZ 2.1 This Interpretation applies only to Tier 3 for-profit entities.

- 3 Subject to paragraphs 4 and 5 below, this Interpretation applies to all embedded derivatives within the scope of NZ IAS 39 (Diff Rep).
- 4 This Interpretation does not address remeasurement issues arising from a reassessment of embedded derivatives.
- 5 This Interpretation does not apply to embedded derivatives in contracts acquired in:
- (a) a business combination (as defined in NZ IFRS 3 (Diff Rep) *Business Combinations*);
 - (b) a combination of entities or businesses under common control as described in paragraphs B1–B4 of NZ IFRS 3 (Diff Rep); or
 - (c) the formation of a joint venture as defined in NZ IAS 31 (Diff Rep) *Interests in Joint Ventures*
- or their possible reassessment at the date of acquisition.*

Issue

- 6 NZ IAS 39 (Diff Rep) 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 NZ IAS 39 (Diff Rep) 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 the NZ IFRS Diff Rep 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

* NZ IFRS 3 (Diff Rep) addresses the acquisition of contracts with embedded derivatives in a business combination.

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there is either (a) a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract or (b) a reclassification of a financial asset out of the fair value through profit or loss model, in which case an assessment 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.

- 7A The assessment whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative on reclassification of a financial asset out of the fair value through profit or loss category in accordance with paragraph 7 shall be made on the basis of the circumstances that existed on the later date of:
- (a) when the entity first became a party to the contract; and
 - (b) a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

For the purpose of this assessment paragraph 11(c) of NZ IAS 39 (Diff Rep) shall not be applied (ie the hybrid (combined) contract shall be treated as if it had not been measured at fair value with changes in fair value recognised in profit or loss). If an entity is unable to make this assessment the hybrid (combined) contract shall remain classified as at fair value through profit or loss in its entirety.

- 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

9–11 [Deleted]

NZ 11.1 A Tier 3 for-profit entity shall apply this Interpretation for annual periods beginning on or after 1 December 2012. Early application is permitted. This Interpretation replaces NZ IFRIC 9 as applied by qualifying entities prior to the issuance of this Interpretation. There are no changes to the requirements of NZ IFRIC 9 as it applied to qualifying entities.

IFRIC Basis for Conclusions

BC1–BC13 [Paragraphs BC1–BC13 do not form part of NZ IFRIC 9 (Diff Rep).]

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