Exposure Draft **ED 175**

February 2009

Post-implementation Revisions to AASB Interpretations

Comments to the AASB by 25 February 2009

Prepared by the
Australian Accounting Standards Board

Australian Government

Australian Accounting Standards Board

Commenting on this Exposure Draft

Constituents are strongly encouraged to respond to the AASB and the IASB. The AASB is seeking comment by 25 February 2009. This will enable the AASB to consider Australian constituents' comments in the process of formulating its own comments to the IASB, which are due by 2 March 2009. Comments should be addressed to:

The Acting Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West Victoria 8007
AUSTRALIA
E-mail: standard@aasb.gov.au

Respondents to the IASB are asked to send their comments electronically through the 'Open to Comment' page on the IASB website (www.iasb.org)

All non-confidential submissions to the AASB will be made available to the public on the AASB website: www.aasb.gov.au.

Obtaining a Copy of this Exposure Draft

This Exposure Draft is available on the AASB website: www.aasb.gov.au.
Alternatively, printed copies of this Exposure Draft are available by contacting:

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AASB REQUEST FOR COMMENTS

In light of the Australian Accounting Standards Board's (AASB's) policy of incorporating International Financial Reporting Standards (IFRSs) into Australian Accounting Standards, the AASB is inviting comments on:

(a) any of the proposals in the attached International Accounting Standards Board (IASB) Exposure Draft, including the specific questions on the proposals as listed in the Invitation to Comment section of the attached IASB Exposure Draft; and

(b) the 'AASB Specific Matters for Comment' listed below.

The AASB would prefer that respondents supplement their opinions with detailed comments, whether supportive or critical, on the major issues. The AASB regards both critical and supportive comments as essential to a balanced review and will consider all submissions, whether they address all specific matters, additional issues or only one issue.

Due Date for Comments to the AASB

Comments should be submitted to the AASB by 25 February 2009. This will enable the AASB to consider those comments in the process of formulating its own comments to the IASB. Constituents are also strongly encouraged to send their response to the IASB.

AASB Specific Matters for Comment

1. The IASB is proposing that entities which early apply IFRS 3 (as revised 2008 - annual reporting period that begins on or after 30 June 2007) shall also apply the proposed IFRIC 9 amendments and is further proposing that the amendments to IFRIC 16 be applicable to annual reporting periods beginning on or after 1 October 2008. AASB Standards are legislative instruments and under Australian law, there is an impediment to making an instrument that applies to a date prior to the instrument being made. Whilst this would not affect the AASB Interpretations itself, it would affect AASB 1048 which gives AASB Interpretations legislative authority.

2. The AASB would particularly value comments on whether:

   (a) there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals to these entities, particularly any issues relating to:

      (i) not-for-profit entities; and

      (ii) public sector entities.

   (b) overall, the proposals would result in financial statements that would be useful to users; and

   (c) the proposals are in the best interests of the Australian economy.

January 2009

Exposure Draft ED/2009/1

Post-implementation Revisions to IFRIC Interpretations

Proposed amendments to IFRIC 9 and IFRIC 16

Comments to be received by 2 March 2009

International Accounting Standards Board®

Exposure Draft

POST-IMPLEMENTATION REVISIONS TO IFRIC INTERPRETATIONS

(proposed amendments to IFRIC 9 and IFRIC 16)

Comments to be received by 2 March 2009

ED/2009/1

This exposure draft *Post-implementation Revisions to IFRIC Interpretations* (proposed amendments to IFRIC 9 and IFRIC 16) is published by the International Accounting Standards Board (IASB) for comment only. The proposals may be modified in the light of the comments received before being issued in final form as amendments to IFRIC 9 and IFRIC 16. Comments on the exposure draft and the Basis for Conclusions should be submitted in writing so as to be received by **2 March 2009.** Respondents are asked to send their comments electronically to the IASB website (www.iasb.org), using the 'Open to Comment' page.

All responses will be put on the public record unless the respondent requests confidentiality. However, such requests will not normally be granted unless supported by good reason, such as commercial confidence.

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Proposed amendment to IFRIC 9 *Reassessment of Embedded Derivatives*

Invitation to comment

The International Accounting Standards Board invites comments on the proposed amendment to IFRIC 9, particularly on the questions set out below.

Comments are most helpful if they contain a clear rationale and, when applicable, provide a suggestion for alternative wording the Board should consider.

The Board is not seeking comments on other aspects of IFRIC 9.

Comments should be submitted in writing so as to be received no later than 2 March 2009.

Question 1 – Amendment arising from IFRS 3 (as revised in 2008)

The Board proposes to amend paragraph 5 of IFRIC 9 to exclude from its scope embedded derivatives in contracts acquired in combinations of entities or businesses entities under common control and in the formation of joint ventures.

Do you agree with the proposal? If not, why?

Question 2 – Effective date

The proposed amendment to IFRIC 9 would be effective for annual periods beginning on or after 1 July 2009 with prospective application, and would require an entity that applies IFRS 3 (revised 2008) for an earlier period to disclose that fact and apply the amendment to IFRIC 9.

Do you agree that this amendment should apply for annual periods beginning on or after 1 July 2009 with prospective application? If not, why?

Proposed amendment to IFRIC 9 *Reassessment of Embedded Derivatives*

In the References the title of IFRS 3 is amended and a reference added (new text is underlined).

- IFRS 3 *Business Combinations* (as revised in 2008)
- IAS 31 *Interests in Joint Ventures*

Paragraph 5 is amended (new text is underlined and deleted text is struck through).

Scope

5 This Interpretation does not ~~address the acquisition of contracts with~~ apply to embedded derivatives in contracts acquired in:

(a) a business combination;

(b) a combination of entities or businesses under common control as described in paragraphs B1–B4 of IFRS 3; or

(c) the formation of a joint venture as defined in IAS 31

~~n~~or 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.

The following new paragraph is added and will be numbered either 10 or 11 depending upon the finalisation of the current exposure draft *Embedded Derivatives* (proposed amendments to IFRIC 9 and IAS 39) published in December 2008.

Effective date and transition

11 Paragraph 5 was amended by *Post-implementation Revisions to IFRIC Interpretations* issued in [date]. An entity shall apply that amendment prospectively for annual periods beginning on or after 1 July 2009. If an entity applies IFRS 3 for an earlier period, it shall disclose that fact and apply this amendment for that earlier period.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the proposed amendment to IFRIC 9.

BC1 When the Board developed IFRS 3 *Business Combinations* (as revised in 2008), it revised the definition of a business combination. The previous definition of a business combination was 'the bringing together of separate entities or businesses into one reporting entity'. The revised definition of a business combination is 'a transaction or other event in which an acquirer obtains control of one or more businesses'.

BC2 The Board was advised that the changes to that definition caused the accounting for the reassessment of embedded derivatives acquired during the formation of a joint venture to be within the scope of IFRIC 9. The Board noted that common control transactions may also be within the scope of IFRIC 9 depending on which level of the group reporting entity is assessing the combination.

BC3 The Board noted that during the development of revised IFRS 3 it did not discuss whether it intended IFRIC 9 to apply to these types of transactions. The Board also noted that the reason for excluding common control transactions and the accounting by a joint venture upon its formation from the scope of revised IFRS 3 was to give the Board more time to consider the relevant accounting issues. When the Board revised IFRS 3, it did not intend to change existing practice by bringing such transactions within the scope of IFRIC 9, which does not specifically address them.

BC4 Accordingly, the Board proposes to amend paragraph 5 of IFRIC 9 to confirm that embedded derivatives in contracts acquired in the formation of a joint venture and common control transactions are not within the scope of IFRIC 9.

Proposed amendment to IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*

Invitation to comment

The International Accounting Standards Board invites comments on the proposed amendment to IFRIC 16, particularly on the questions set out below.

Comments are most helpful if they contain a clear rationale and, when applicable, provide a suggestion for alternative wording the Board should consider.

The Board is not seeking comments on other aspects of IFRIC 16.

Comments should be submitted in writing so as to be received no later than 2 March 2009.

Question 1 – Removal of the restriction on the entity that can hold hedging instruments

The Board proposes to amend paragraph 14 of IFRIC 16 to remove the restriction on the entity that can hold hedging instruments.

Do you agree with the proposal? If not, why?

Question 2 – Effective date

IFRIC 16 is effective for annual periods beginning on or after 1 October 2008 with prospective application. The Board concluded that this amendment should apply in the same way.

Do you agree that this amendment should apply for annual periods beginning on or after 1 October 2008 with prospective application? If not, why?

Proposed amendment to IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*

Paragraphs 14 and 18 are amended (new text is underlined and deleted text is struck through).

Where the hedging instrument can be held

14 A derivative or a non-derivative instrument (or a combination of derivative and non-derivative instruments) may be designated as a hedging instrument in a hedge of a net investment in a foreign operation. The hedging instrument(s) may be held by any entity or entities within the group ~~(except the foreign operation that itself is being hedged)~~, as long as the designation, documentation and effectiveness requirements of IAS 39 paragraph 88 that relate to a net investment hedge are satisfied. In particular, the hedging strategy of the group should be clearly documented because of the possibility of different designations at different levels of the group.

Effective date

18 An entity shall apply this Interpretation <u>(including the amendment to paragraph 14 made in [month] 2009)</u> for annual periods beginning on or after 1 October 2008. Earlier application is permitted. If an entity applies this Interpretation for a period beginning before 1 October 2008, it shall disclose that fact.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the proposed amendment to IFRIC 16.

BC1 Paragraph 14 of IFRIC 16 states that the hedging instrument cannot be held by the foreign operation whose net investment is being hedged. The restriction was included in draft Interpretation D22 (from which IFRIC 16 was developed) and attracted little comment from respondents. The IFRIC concluded, as part of its redeliberations, 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 (paragraph BC24 of the Basis for Conclusions on IFRIC 16).

BC2 It has been brought to the attention of the International Accounting Standards Board that this conclusion is not correct. Without hedge accounting, part of the foreign exchange difference arising from the hedging instrument would be included in consolidated profit or loss. Therefore, the Board proposes to amend paragraph 14 of IFRIC 16 to remove the restriction on the entity that can hold hedging instruments, and to delete paragraph BC24 of the Basis for Conclusions.

BC3 IFRIC 16 is effective for annual periods beginning on or after 1 October 2008 with prospective application. The Board concluded that this amendment should apply in the same way.

Approval by the Board of *Post-implementation Revisions to IFRIC Interpretations* (proposed amendments to IFRIC 9 and IFRIC 16) published in January 2009

Post-implementation Revisions to IFRIC Interpretations (proposed amendments to IFRIC 9 and IFRIC 16) was approved for publication by the fourteen members of the International Accounting Standards Board, except that Mr Kalavacherla abstained from voting on the proposed amendment to IFRIC 9 in view of his recent appointment to the Board.

Sir David Tweedie	Chairman
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