AASB Standard **AASB 2009-3**
April 2009

Amendments to Australian Accounting Standards – Embedded Derivatives

[AASB 139 & Interpretation 9]

Australian Government
Australian Accounting Standards Board

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CONTENTS

Australian Accounting Standard AASB 2009-3 *Amendments to Australian Accounting Standards – Embedded Derivatives* is set out in paragraphs 1 – 8. All the paragraphs have equal authority.

PREFACE

Standards Amended by AASB 2009-3

This Standard makes amendments to the following Australian Accounting Standard and Interpretation:

1. AASB 139 *Financial Instruments: Recognition and Measurement*; and

2. Interpretation 9 *Reassessment of Embedded Derivatives*.

These amendments arise from the issuance of *Embedded Derivatives (Amendments to IFRIC 9 and IAS 39)* by the International Accounting Standards Board in March 2009.

The amendments clarify the requirements in AASB 139 and Interpretation 9 in relation to the treatment of embedded derivatives within a host contract that is reclassified out of the fair value through profit or loss category in accordance with the amendments made to AASB 139 in October 2008.

Main Features of this Standard

Application Date

This Standard is applicable to annual reporting periods ending on or after 30 June 2009. Early adoption of this Standard is not permitted.

Main Requirements

The amendments require:

(a) an entity to assess whether an embedded derivative is required to be separated from a host contract when the entity reclassifies a hybrid (combined) financial asset out of the fair value through profit or loss category;

(b) the assessment to be made on the basis of the circumstances that existed on the later date of:

    (i) when the entity first became a party to the contract; and

    (ii) a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract; and

(c) if the fair value of an embedded derivative that would have to be separated cannot be reliably measured, the entire hybrid financial instrument must remain in the fair value through profit or loss category.

ACCOUNTING STANDARD AASB 2009-3

The Australian Accounting Standards Board makes Accounting Standard AASB 2009-3 *Amendments to Australian Accounting Standards – Embedded Derivatives* under section 334 of the *Corporations Act 2001*.

Bruce Porter
Dated 22 April 2009 Acting Chair – AASB

ACCOUNTING STANDARD AASB 2009-3

AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – EMBEDDED DERIVATIVES

Objective

1 The objective of this Standard is to make amendments to:

(a) AASB 139 *Financial Instruments: Recognition and Measurement*; and

(b) Interpretation 9 *Reassessment of Embedded Derivatives*;

as a consequence of the issuance of *Embedded Derivatives (Amendments to IFRIC 9 and IAS 39)* by the International Accounting Standards Board in March 2009.

Application

2 This Standard applies to:

(a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;

(b) general purpose financial statements of each other reporting entity; and

(c) financial statements that are, or are held out to be, general purpose financial statements.

3 **This Standard applies to annual reporting periods ending on or after 30 June 2009. Early adoption of this Standard is not permitted.**

4 **This Standard uses underlining, striking out and other typographical material to identify some of the amendments to the Standard, in order to make the amendments more understandable. However, the amendments made by this Standard do not include that underlining, striking out or other typographical material.**

Amendments to AASB 139

5 Paragraph 12 is amended (new text is underlined).

Embedded Derivatives

12 **If an entity is required by this Standard to separate an embedded derivative from its host contract, but is unable to measure the embedded derivative separately either at acquisition or at the end of a subsequent financial reporting period, it shall designate the entire hybrid (combined) contract as at fair value through profit or loss. <u>Similarly, if an entity is unable to measure separately the embedded derivative that would have to be separated on reclassification of a hybrid (combined) contract out of the fair value through profit or loss category, that reclassification is prohibited. In such circumstances the hybrid (combined) contract remains classified as at fair value through profit or loss in its entirety.</u>**

6 The heading "Effective Date of AASB 139 and Transition" above paragraph 103 is amended to read "Effective Date and Transition". Paragraph 103J is added.

Effective Date and Transition

103J An entity shall apply paragraph 12, as amended by AASB 2009-3 *Amendments to Australian Accounting Standards – Embedded Derivatives*, issued in April 2009, for annual reporting periods ending on or after 30 June 2009.

Amendments to Interpretation 9

7 Paragraph 7 is amended (new text is underlined and deleted text is struck through). Paragraph 7A is added.

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 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 category, in which cases an ~~re~~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 AASB 139 shall not be applied (i.e. 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 The heading "Effective date and transition re IFRIC 9" above paragraph 9 is amended to read "Effective date and transition". Paragraph 10 is added.

Effective date and transition

10 AASB 2009-3 *Amendments to Australian Accounting Standards – Embedded Derivatives* issued in April 2009 amended paragraph 7 and added paragraph 7A. An entity shall apply those amendments for annual reporting periods ending on or after 30 June 2009.