

Application of the effective interest rate method (IAS 39 *Financial Instruments: Recognition and Measurement*)—July 2008

The IFRIC was asked for guidance on the application of the effective interest rate method to a financial instrument whose cash flows are linked to changes in an inflation index. The submission suggested three possible approaches.

The IFRIC noted that paragraphs AG6–AG8 of IAS 39 *Financial Instruments: Recognition and Measurement* [now replaced by paragraphs B5.4.4–B5.4.6 of IFRS 9] provide the relevant application guidance. Judgement is required to determine whether an instrument is a floating rate instrument within the scope of paragraph AG7 or an instrument within the scope of paragraph AG8.

In view of the existing application guidance in IAS 39, the IFRIC decided not to add this issue to its agenda. However, the IFRIC referred the issue to the Board with a recommendation that the Board should consider clarifying or expanding that application guidance.