

Accounting for embedded foreign currency derivatives in host contracts (IAS 39 *Financial Instruments: Recognition and Measurement*)—January 2015

The Interpretations Committee received a request related to the ‘closely related’ criterion in paragraph 11 of IAS 39 *Financial Instruments: Recognition and Measurement* [now replaced by paragraph 4.3.3 of IFRS 9] to determine whether an embedded derivative should be separated from a host contract and accounted for as a derivative in accordance with IAS 39.

More specifically, the Interpretations Committee was asked to consider whether an embedded foreign currency derivative in a licence agreement is closely related to the economic characteristics of the host contract, on the basis that the currency in which the licence agreement is denominated is the currency in which commercial transactions in that type of licence agreement are routinely denominated around the world (ie the ‘routinely-denominated’ criterion in paragraph AG33(d)(ii) of IAS 39 [now replaced by paragraph B4.3.8(d)(ii) of IFRS 9]).

The Interpretations Committee noted that the issue related to a contract for a specific type of item and observed that an assessment of the routinely-denominated criterion is based on evidence of whether or not such commercial transactions are denominated in that currency all around the world and not merely in one local area. The Interpretations Committee further observed that the assessment of the routinely denominated criterion is a question of fact and is based on an assessment of available evidence.

On the basis of the analysis above, the Interpretations Committee determined that, in the light of the existing IFRS requirements, sufficient guidance exists and that neither an Interpretation nor an amendment to a Standard was necessary. Consequently, the Interpretations Committee decided not to add this issue to its agenda.