

Dr. Alexander Schaub
Director General
European Commission
Directorate General for the Internal Market

1049 Brussels

6 April 2006

Dear Dr. Schaub,

Adoption of IFRIC 9 *Reassessment of Embedded Derivatives*

Based on the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards we are pleased to provide our opinion on the adoption of IFRIC 9 *Reassessment of Embedded Derivatives*, which was published by IFRIC on 1 March 2006. It was issued in draft as IFRIC D15 and EFRAG commented on that draft.

EFRAG supports the objective of IFRIC 9. The Interpretation clarifies that 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 a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required.

IFRIC 9 becomes effective for annual periods beginning on or after 1 June 2006, with early application encouraged.

EFRAG has evaluated IFRIC 9 based on input from standard setters and market participants in accordance with EFRAG's due process.

EFRAG supports IFRIC 9 and has concluded that it meets the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards that:

- i. it is not contrary to the 'true and fair principle' set out in Article 16(3) of Council Directive 83/349/EEC and Article 2(3) of Council Directive 78/660/EEC; and
- ii. it meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

For the reasons given above, EFRAG believes that it is in the European interest to adopt IFRIC 9 *Reassessment of Embedded Derivatives* and, accordingly, EFRAG recommends its adoption.

On behalf of the members of EFRAG, I should be happy to discuss our advice with you, other officials of the EU Commission or the Accounting Regulatory Committee as you may wish.

Yours sincerely,

Stig Enevoldsen
EFRAG, Chairman