

**EMBEDDED DERIVATIVES ON RECLASSIFICATION OF  
FINANCIAL ASSETS**

**Amendments to:**

**FINANCIAL INSTRUMENTS — RECOGNITION  
AND MEASUREMENT, Section 3855**



This Typescript has been posted to assist entities that, in accordance with the transitional provisions in this Section, choose to adopt the amendment to Section 3855 before it is issued in the CICA Handbook – Accounting. The contents, style and format are expected to be used when the Section is issued in the CICA Handbook – Accounting. Paragraphs that do not contain changes have been omitted. New text is underlined.

## **Amendments to Section 3855, FINANCIAL INSTRUMENTS — RECOGNITION AND MEASUREMENT**

### **EMBEDDED DERIVATIVES**

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.38 When an entity is required by this Section to separate an embedded derivative from its host contract, but is unable to measure the fair value of the embedded derivative separately, either at acquisition or at a subsequent financial reporting date, it treats the entire combined contract as a financial asset or financial liability that is held for trading. Similarly, if an entity is unable to measure separately the embedded derivative that would have to be separated on reclassification of a combined contract out of the held-for-trading category, that reclassification is prohibited. In such circumstances, the combined contract remains classified as held for trading in its entirety.

.38A 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 held-for-trading category, in accordance with paragraph 3855.38, is 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;
- (b) a change in the terms of the contract that significantly modifies the cash flows that otherwise would have been required under the contract; and
- (c) the transition date for embedded derivative instruments previously selected in accordance with paragraph 3855.88(e)(ii).

For the purpose of this assessment, paragraph 3855.37(c) is not applied (i.e., the combined contract is treated as if it had not been measured at fair value with changes in fair value recognized in net income). If an entity is unable to make this assessment the combined contract remains classified as at held-for-trading in its entirety.

### **TRANSITIONAL PROVISIONS**

.87F Paragraphs 3855.38-.38A apply to reclassifications made on or after July 1, 2009. Earlier adoption is permitted.