



Project	Accounting for Financial Instruments – Hedge Accounting
Topic	Timetable for Hedge Accounting Discussions

Purpose of this paper

1. The purpose of this paper is to discuss which issues related to hedge accounting should be addressed as part of the Accounting for Financial Instruments project.
2. The IASB and FASB have agreed to work jointly on the hedge accounting portion of the project. Hedge accounting is Phase 3 of the IASB Financial Instruments project. The IASB plans to issue an exposure draft around hedge accounting in the first quarter of 2010. Similarly, the FASB expects to issue one comprehensive exposure draft that addresses accounting for financial instruments, including hedge accounting in the first quarter of 2010. This paper provides two timelines for addressing hedge accounting issues. One timeline includes a comprehensive list of hedge accounting issues and the other timeline includes a list of hedge accounting issues that may need to be resolved and that are more directly related to the classification and measurement decisions reached for accounting for financial instruments.
3. The staff requests the Boards to identify the issues they deem appropriate to be addressed as part of the Accounting for Financial Instruments project keeping in mind the expeditious nature of the project.
4. The staff plans to schedule two joint Board Meetings per month with additional FASB or IASB Board Meetings as needed for FASB only or IASB only issues to be addressed. In the event FASB only or IASB only Education Sessions or Board Meetings are required, the staff of the other Board will participate in those meetings/sessions.

This paper has been prepared by the technical staff of the FASB and the IASCF for discussion at a public meeting of the FASB and the IASB.

The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the FASB or the IASB.

Comments made in relation to the application of U.S. GAAP or IFRSs do not purport to be acceptable or unacceptable application of U.S. GAAP or IFRSs.

The tentative decisions made by the FASB or the IASB at its public meetings are reported in a FASB *Action Alert* and an IASB *Update*. Official pronouncements of the FASB or the IASB are published only after they have completed their full due process, including appropriate public consultation and formal voting procedures.

Timeline #1 – Comprehensive list of hedge accounting issues

5. The timeline below attempts to comprehensively address hedge accounting issues. However, the staff believes that realistically all issues can not be addressed by the end of March 2010. A more achievable (yet still aggressive) timetable might be May 2010.

Issues	Timeline
1. Objective of hedge accounting	February 2010
2. Hedge accounting mechanics <ul style="list-style-type: none"> a. Should fair value hedging be permitted? (IASB – due to fair value option, FASB – due to tentative model) b. Accounting mechanism for fair value hedges and cash flow hedges (basis adjustments, recycling, etc.) 	February 2010
3. Hedged items/transactions <ul style="list-style-type: none"> a. Financial items <ul style="list-style-type: none"> i. Should bifurcation by risk continue to be permitted? ii. Should there be any limit on the types of risks hedged? b. Non-financial items <ul style="list-style-type: none"> i. Should bifurcation by risk be permitted? ii. Should there be any limit on the types of risks hedged? c. Firm commitments (and other non-recognized items) d. Grouping of hedged items e. Exposures arising from combined derivative and non-derivative exposures f. Intragroup exposures 	February 2010

Issues	Timeline
4. Hedging Instruments <ul style="list-style-type: none"> a. Use of non-derivative hedging instruments b. Grouping and bifurcation of hedging instruments, including use of options c. Intragroup transactions 	February/March 2010
5. Hedge effectiveness <ul style="list-style-type: none"> a. Prospective and/or retrospective assessment for qualification, including whether qualitative or quantitative b. If quantitative, what threshold?: highly effective vs. another threshold (such as reasonably effective) at inception c. Consequences of a failed test if retrospective assessment is required 	March 2010
6. Measuring ineffectiveness and methods <ul style="list-style-type: none"> a. Fair value hedges b. Cash flow hedges 	March 2010
7. Designation, dedesignation and documentation	April 2010
8. Discontinuation <ul style="list-style-type: none"> a. Reclassification of gains/losses out of OCI 	April 2010
9. Should hedge accounting be mandatory or optional?	April 2010
10. Presentation <ul style="list-style-type: none"> a. Balance sheet b. Gains/losses on income statement (including disaggregation) 	April/May 2010
11. Disclosures	May 2010
12. Transition	May 2010

6. This timeline excludes any consideration of the interaction of scope with hedge accounting (for example, some types of contracts for non-financial items), and the issue of portfolio hedge accounting. The IASB has previously stated that the hedge accounting project will address portfolio hedge accounting following consideration of the overall hedge accounting model. Both of these issues could add considerable time to the timetable.

Timeline #2 – List of hedge accounting issues more directly related to changes in classification and measurement guidance for financial instruments

7. The timeline below focuses on hedge accounting issues that are more directly related to the Accounting for Financial Instruments project due to decisions reached regarding the classification and measurement of financial instruments. Therefore, if this list of issues is selected by the Board, guidance for non-financial items would remain unchanged by this project.
8. This timeline also does not include cash flow hedging and measuring ineffectiveness issues. The guidance on cash flow hedging and measuring ineffectiveness would remain unchanged if this list of issues is selected by the Board. Constituents would continue to apply current guidance for non-financial items, cash flow hedges, and measuring ineffectiveness.
9. Like timeline #1, this timeline also excludes any consideration by the IASB of the interaction of scope with hedge accounting (for example, some types of contracts for non-financial items), and the issue of portfolio hedge accounting.
10. The staff believes that the issues included in this timeline can be addressed by March 2010, barring any unexpected circumstances.

Issues	Timeline
1. Objective of hedge accounting (in the narrow context of the issues addressed)	February 2010
2. Fair Value Hedges <ol style="list-style-type: none"> a. Should fair value hedging be permitted? (IASB – due to fair value option, FASB – due to tentative model) b. Accounting mechanism for fair value hedges 	February 2010
3. Hedged risks – financial items only <ol style="list-style-type: none"> a. Should bifurcation by risk continue to be permitted? b. Should there be any limit on the types of risks hedged? 	February 2010

<p>4. Hedge effectiveness</p> <ul style="list-style-type: none"> a. Prospective and/or retrospective assessment for qualification, including whether qualitative or quantitative b. If quantitative, what threshold?: highly effective vs. another threshold (such as reasonably effective) at inception c. Consequences of a failed test if retrospective assessment is required 	February/March 2010
<p>5. Presentation</p> <ul style="list-style-type: none"> a. Balance sheet b. Gains/losses on income statement (including disaggregation) 	March 2010
<p>6. Disclosures</p>	March 2010
<p>7. Transition</p>	March 2010

11. The staff has presented two possible timelines for the hedge accounting portion of the Accounting for Financial Instruments project. The Boards may choose either timeline or add additional issues to timeline #2 that would be addressed within the project, as they deem appropriate.

Question for the Boards
<p>Do the Boards believe:</p> <p>A: hedge accounting should be addressed comprehensively (based on timeline #1), or</p> <p>B: only the hedge accounting issues that are more directly related to the classification and measurement decisions made should be addressed in this project (based on timeline #2), or</p> <p>C: additional issues (in addition to those listed in timeline #2) should be addressed within this project? If so, which ones and why?</p>