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International
Accounting Standards
Board

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Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items

Project Updates are provided for the information and convenience of constituents who wish to follow the IASB's deliberations. All conclusions reported are tentative and may be changed at future IASB meetings. Decisions become final only after completion of a formal ballot to issue an International Financial Reporting Standard, Interpretation, or Exposure Draft.

Introduction

This project report is structured as follows:

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Objective

1. The objective of the project is to clarify how principles underlying hedge accounting should be applied in particular situations. Specifically, the amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations.

Next steps

2. On 31 July 2008, the IASB issued the Amendment to IAS 39 *Financial Instruments: Recognition and Measurement- Eligible Hedged Items*.

Background

3. The IFRIC received a number of submissions requesting guidance on what can be designated as a hedged portion under IAS 39. For example, the IFRIC was asked whether inflation could be designated as a hedged portion of an interest bearing asset or liability.
4. Rather than dealing with these submissions on a case-by-case basis the IFRIC attempted to develop a principle that could be used to produce guidance on what can be designated as a hedged portion under IAS 39. However, the IFRIC concluded that the requirements of IAS 39 in this area were unclear.
5. At its October 2006 meeting, the Board acknowledged that additional guidance regarding the designation of hedged items was required. A number of proposals regarding the form and content of any additional guidance were discussed at the December 2006 meeting.

Tentative decisions to date

6. The Board first considered whether to amend IAS 39 to specify the risks that qualify for designation as a hedged risk under IAS 39. The Board concluded that specifying eligible risks would help clarify the Board's original intentions regarding what can be designated as a hedged item. Consequently, the Board decided to propose an amendment to IAS 39 to specify the eligible risks.
7. The Board then discussed four possible approaches to providing guidance on what can be designated as an 'other portion' under IAS 39, namely:
 - Approach 1 – Remove the ability to hedge a portion of a financial instrument (“Abolish **other portions**”);
 - Approach 2 - Develop a principle which could be used to determine what ‘**other portions**’ can be designated as hedged items (“Develop a principle for **other portions**”);
 - Approach 3 - Converge with US GAAP in this area (“Converge with US GAAP”); or

- Approach 4 – Specify ‘**other portions**’ of a financial instrument that are commonly understood by the Board to qualify as hedged items (“Specify **other portions**”).
8. The Board decided to adopt approach 4 described above. That is, the Board decided to amend IAS 39 to restrict the use of ‘other portions to specified situations. It was concluded that the risks eligible for designation as a hedged item would form the basis for the identification of ‘other portions’.
 9. The Board published an exposure draft of amendments to IAS 39 in September 2007. The comment deadline for the exposure draft was 11 January 2008.
 10. The proposed amendments specified:
 - the risks that qualify for designation as a hedged item for a financial instrument
 - the portions of the cash flows that qualify for designation as a hedged item for a financial instrument
 11. At the March Board meeting, the Board considered an analysis of the 75 comment letters on the exposure draft.
 12. Based on comments received, the Board tentatively decided that any amendments to IAS 39 should address only two situations:
 - the designation of a one-sided risk in a hedged item
 - the hedging of inflation in particular situations.

The comment letters confirmed that diversity in practice existed, or was likely to occur in these two situations.

13. In May 2008, the Board tentatively decided to confirm the proposals for these two situations. It also tentatively decided on an effective date of 1 January 2009, and that the amendments should be applied retrospectively. The Board instructed the staff to prepare a pre-ballot draft of the amendments.
14. In June 2008, the Board confirmed that the amendments should be applied retrospectively. The Board tentatively decided that the amendments should be applied for periods beginning on or after 1 July 2009.

15. In July 2008, the Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items was approved by the Board. The Amendment was published on 31 July 2008.

Contact Information

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