**IAS 39 Financial Instruments: Recognition and Measurement** (July 2007)

***Hedging multiple risks with a single derivative hedging instrument***
The IFRIC was asked to provide guidance on how an entity should apply the requirements of paragraph 76(b) of IAS 39 to demonstrate hedge effectiveness when it designates a single derivative hedging instrument as a hedge of more than one type of risk.

The answer to Question F.1.13 of the Guidance on Implementing IAS 39 requires an entity to assess the hedge effectiveness of each different risk position separately. In order to satisfy this requirement, IG F.1.13 imputed equal and opposite functional currency legs, which did not exist in the contractual terms of the derivative hedging instrument, as a basis to split the fair value of the derivative hedging instrument into multiple components. In addition, IG F.1.12 permits an entity to designate a derivative simultaneously as a hedging instrument in both a cash flow hedge and a fair value hedge. The submission asked whether the approach set out in IG F.1.13 can be extended to other circumstances.

The IFRIC noted that, although IG F.1.12 and IG F.1.13 allow an entity to impute a notional leg as a means of splitting the fair value of a derivative hedging instrument into multiple components for assessing hedge effectiveness, the split should not result in the recognition of cash flows that do not exist in the contractual terms of a financial instrument (see Question C.1 of the Guidance on Implementing IAS 39).

In addition, the IFRIC noted that IAS 39 requires an entity to document, at the inception of the hedge, how it will assess hedge effectiveness. IAS 39 requires the entity to apply the chosen method consistently over the life of the hedging relationship.

The IFRIC noted that the issue concerned how to assess hedge effectiveness. Therefore, the IFRIC decided not to take the issue on to the agenda because any guidance developed would be more in the nature of application guidance than an interpretation.