

## **IAS 39 Financial Instruments: Recognition and Measurement (July 2009)**

### ***Hedging using more than one derivative as the hedging instrument***

The IFRIC received a request for guidance on how to apply the guidance in Q&A F.2.1 in the Guidance on Implementing IAS 39 *Whether a derivative can be designated as a hedged item* when an entity issues fixed interest rate foreign currency debt and then swaps it into floating interest rate local currency debt using a cross currency interest rate swap. The entity also enters into a local currency pay-fixed, receive-variable interest rate swap, which has a shorter duration than that of the cross-currency interest rate swap. The submission asks whether the guidance in Q&A F.2.1 prevents cash flows attributable to a derivative from being designated as the hedged cash flow in a hedge relationship.

The IFRIC noted that paragraph 77 of IAS 39 states that two or more derivatives may be viewed in combination *and jointly designated as the hedging instrument*, including when the risk(s) arising from some derivatives offset(s) those arising from others (emphasis added). Consequently, the IFRIC noted that although IAS 39 permits a combination of derivatives to be jointly designated as the hedging instrument in a hedging relationship, it does not allow a 'synthetic hedged item' created by combining one derivative with a non-derivative financial instrument to be designated as the hedged item in a hedging relationship with another derivative.

Given the requirements in IAS 39, the IFRIC concluded that any guidance it could provide would be in the nature of implementation guidance rather than an interpretation. Therefore, the IFRIC decided not to add this issue to its agenda.