30 Cannon Street, London EC4M 6XH, United Kingdom
Tel: +44 (0)20 7246 6410 Fax: +44 (0)20 7246 6411
Email: iasb@iasb.org Website: www.iasb.org

International
Accounting Standards
Board

This observer note is provided as a convenience to observers at IFRIC meetings, to assist them in following the IFRIC's discussion. Views expressed in this document are identified by the staff as a basis for the discussion at the IFRIC meeting. This document does not represent an official position of the IFRIC. Decisions of the IFRIC are determined only after extensive deliberation and due process. IFRIC positions are set out in Interpretations.

Note: The observer note is based on the staff paper prepared for the IFRIC. Paragraph numbers correspond to paragraph numbers used in the IFRIC paper. However, because the observer note is less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

IFRIC meeting:	**July 2007, London**
Project:	**Review of tentative agenda decision published in May IFRIC Update** **IAS 39 *Financial Instruments: Recognition and Measurement* – Hedging multiple risks with a single derivative hedging instrument (Agenda Paper 7D)**

Tentative agenda decision published in May 2007 IFRIC Update

The IFRIC was asked to provide guidance on how to apply paragraph 76(b) of IAS 39. One of the conditions for an entity to designate a single derivative hedging instrument as a hedge of more than one type of risk is that the entity has to demonstrate hedge effectiveness (see IAS 39 paragraph 76(b)).

The answer to Question F.1.13 of the Guidance on Implementing IAS 39 requires an entity to assess hedge effectiveness of each different risk position separately. The IFRIC noted, in IG F.1.13, that an imputed functional currency leg, that did not exist in the contractual terms of the derivative hedging instrument, was created as a base to split the fair value of the derivative hedging instrument into multiple components for assessing hedge effectiveness of each risk position separately. The submission asked whether the approach set out in IG F.1.13 can be extended to other circumstances.

The IFRIC noted that IG F.1.13 requires hedge effectiveness of each risk position to be considered separately. To do so, an entity has to impute a notional leg to split the fair value of a derivative hedging instrument into multiple components for assessing hedge effectiveness of each separate risk position. In addition, the IFRIC noted that 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 IFRIC noted that the illustrative examples in the IG consider all changes in the fair value of the entire derivative hedging instrument. In addition, the IFRIC noted that C.1 of the Guidance on Implementing IAS 39 does not allow notional cash flows that do not exist in the contractual terms of a financial instrument to be recognised. In view of this requirement, the imputation of a notional leg for assessing and measuring hedge effectiveness should not result in any notional cash flows that do not exist in the contractual terms of the derivative hedging instrument being recognised.

Furthermore, the IFRIC noted that IAS 39 requires an entity to document, at 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 demonstrate hedge effectiveness. Therefore, the IFRIC [decided] not to take the issue on to the agenda because any guidance developed on this issue would be more in the nature of application guidance than an interpretation.