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**International
Accounting Standards
Board**

This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.

These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

Board Meeting: 21 March 2007, London

Project: Annual improvement process

Topic: **Consequential amendment to IAS 39 *Financial Instruments: Recognition and Measurement* as a result of IFRS 8 *Segment Reporting***
(Agenda Paper 6A)

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1. The staff have identified that the following issue would be most appropriately resolved via the annual improvements process (as agreed by the Board in July 2006).

Issue: Should the references to segment reporting in IAS 39 *Financial Instruments: Recognition and Measurement* be removed?

Staff recommendation

2. The staff recommend that the Board:
 - should add this issue to the annual improvements project; and
 - should amend IAS 39 as proposed in paragraph 8 of this paper.

Background

3. There is a perceived conflict between IAS 39 and IFRS 8 *Segment Reporting*. IAS 39.73 discusses the need for hedging instruments to involve a party external to the reporting entity if hedge accounting is allowed. The final sentence states ‘However, they [intragroup transactions] may qualify for hedge accounting in segment reporting provided that they are external to the segment that is being reported on.’ Under the previous segment reporting standard, IAS 14, this was read as requiring an entity to designate and document hedges at the segment level as well as at the consolidated level.
4. IFRS 8 takes a different approach to the measurement of segment results and specifically requires disclosure of information that is reported to the chief operating decision maker even if this is on a non-GAAP basis. This implies that an entity that reports its segments to the chief operating decision maker on the basis of its risk management strategy would not be required to designate and document hedge relationships in order to achieve hedge accounting at the segment level. There is potential for confusion as to the relevance of the references to segments in paragraph 73 of IAS 39.
5. The staff believe that the references to segment reporting in paragraph 73 of IAS 39 should have been removed as part of the consequential amendments when IFRS 8 was adopted.

Staff recommendation

6. IAS 39 should be amended as proposed in paragraph 8.
7. **Does the Board agree?**

Drafting

8. The staff recommend that IAS 39 should be amended as follows:

Hedging

Hedging instruments

Qualifying instruments

- 73 For hedge accounting purposes, only instruments that involve a party external to the reporting entity (ie external to the group, ~~segment~~ or individual entity that is being reported on) can be designated as hedging instruments. Although individual entities within a consolidated group or divisions within an entity may enter into hedging transactions with other entities within the group or divisions within the entity, any such intragroup transactions are eliminated on consolidation. Therefore, such hedging transactions do not qualify for hedge accounting in the consolidated financial statements of the group. However, they may qualify for hedge accounting in the individual or separate financial statements of individual entities within the group ~~or in segment reporting~~ provided that they are external to the individual entity ~~or segment~~ that is being reported on.

**Basis for Conclusions on
Proposed Amendment to IAS 39 *Financial Instruments:
Recognition and Measurement***

This Basis for Conclusions accompanies, but is not part of, the draft amendment.

Segment reporting

BC1 Paragraph 73 of IAS 39 refers to the need to designate hedge instruments at the segment level. IFRS 8 *Segment Reporting* requires disclosure of information that is reported to the chief operating decision maker even if this is on a non-GAAP basis. Therefore, the two standards appear to be in conflict. The Board proposes to remove references to the need to designate hedge instruments at the segment level in paragraph 73 of IAS 39.