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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:	**September 2007, London**
Project:	**Review of tentative agenda decision published in July IFRIC Update** **IAS 39 *Financial Instruments: Recognition and Measurement*—Hedging future cash flows with purchased options (Agenda Paper 7C)**

Tentative agenda decision published in July 2007 IFRIC Update

This is a re-exposure of reasons for the IFRIC not taking this item on to its agenda, first published in the May 2007 IFRIC Update.

In the May 2007 IFRIC *Update*, the IFRIC mentioned that, on the basis of the requirements in IAS 39, the approach for assessing hedge effectiveness suggested in the requests is not allowed under IAS 39. At this meeting, the IFRIC reviewed its tentative agenda decision and did not change its view. However, the IFRIC changed its reasons for not taking the issue on to its agenda because (i) some respondents to the tentative agenda decision identified other similar approaches they believed were allowed, (ii) some respondents thought the wording of the tentative agenda decision was interpretative, and (iii) the IFRIC was advised that the Board would specifically clarify the issue in its upcoming exposure draft on what risks and portions can be designated as hedged risks and hedged items respectively. The exposure draft is expected to be published by the end of the third quarter this year.

The revised tentative agenda decision is as follows:

The IFRIC received requests relating to a situation in which an entity designates an option, in its entirety, as a hedging instrument to hedge a one-sided variability in future cash flows in a cash flow hedge. All changes in the fair value of the option (including changes in the time value component) are considered in assessing and measuring hedge effectiveness.

The requests suggested the following approach to assessing and measuring hedge effectiveness. An entity could compare all changes in the fair value of the purchased option with changes in the fair value of a hypothetical written option that has the same maturity date and notional amount as the hedged item. The requests noted that such an approach would minimise or eliminate hedge ineffectiveness when the terms of the purchased option and the hypothetical written option perfectly matched. The IFRIC was asked whether IAS 39 allows such an approach.

The IFRIC noted that some respondents to its tentative agenda decision believed that the issue was complex and that there was diversity in practice regarding whether the approach suggested or other similar approaches are allowed under IAS 39.

However, the IFRIC [decided] not to take the issue on to its agenda because the Board has recently decided to propose an amendment to IAS 39 to clarify what risks and cash flows can be designated as hedged risks and hedged portions of risks for hedge accounting purposes. The IFRIC noted that the Board’s project will specifically address the issue discussed in this agenda decision.