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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: **January 2008, London**

Project: **IAS21 - Hedges of a Net Investment in a Foreign Operation
(Agenda Paper 6A)**

PAPER 6A — COVER NOTE

Purpose of this meeting

- 1 The IFRIC issued Draft Interpretation D22 *Hedges of a Net Investment in a Foreign Operation* in July 2007 and asked for comments by 19 October 2007. The IFRIC received 44 comment letters.
- 2 The staff's approach to the redeliberations is to ask the IFRIC to reconsider its conclusions on the fundamental issues before considering subsidiary and drafting issues. The analysis of the fundamental issues raised in the comment letters is set out in Agenda Paper 6B. If the IFRIC's conclusions are confirmed in this meeting, the staff will present the remainder of the issues and a revised interpretation for approval in March.

Issues to be discussed in March

- 3 The remainder of the issues which will be discussed in March include:
- (a) Is an intra-group loan defined by IAS 21 paragraph 15¹ in scope of this interpretation? Could such an intra-group loan be a part of the net investment?
 - (b) Could a parent entity apply hedge accounting in its separate financial statements? How should the hedged amounts be accounted for?
 - (c) How should an entity account for the ineffectiveness resulting from a decrease in a net investment value during the term of hedge²?
 - (d) How should an entity account for various fact patterns such as:
 - a foreign operation is held jointly by two intermediate parents with different currencies
 - a combination of instruments is held by one or several entities within the group to hedge one exposure
 - Where Parent A holds subsidiaries B (100%) and C (70%) AND B holds 30% of C, could B's 30% interest qualify as part of the hedged item in A's consolidated financial statements?
 - (e) Does a hedge relation on a lower group level require hedge documentation also on the higher group levels in order for the lower level hedge to qualify for hedge accounting at any higher level?
- 4 Drafting issues will include:
- (a) Whether the interpretation should indicate that the location of hedging instrument should have no effect on the amounts actually deferred in equity as an effective hedge.
 - (b) Whether the interpretation should avoid reference to Implementation Guidance in IAS39 as a justification because IFRIC is in a higher position than IG in the IFRS hierarchy.
 - (c) Whether the interpretation should include the reason why the hedging instruments may not be held by the foreign operation that is being hedged.
 - (d) Whether the interpretation should include how the transition should be done if hedge accounting has been applied to hedge the presentation currency risk.

¹ IAS 21 paragraph 15 stipulates that a monetary item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, a part of the entity's net investment in that foreign operation.

² A commentator believes, the draft interpretation presumes that the net investment does not decrease during the term of the hedge and does not address the impact of such a change.

- (e) Whether the interpretation should further clarify possible difference in the amounts of the foreign currency translation reserve caused by the method of the consolidation.
- (f) Whether the interpretation and the accompanying examples should clarify that “foreign operation” is a legal entity or a branch.