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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: 20 May 2008, London

Project: *IAS 39 Financial Instruments: Recognition and Measurement, Exposures Qualifying for Hedge Accounting (ED)*

Subject: Cover note (Agenda paper 10)

1. The comment letter period for the Exposure Draft on Exposures Qualifying for Hedge Accounting (ED) ended on 11 January 2008. The staff presented a summary of the comments received at the March 2008 Board meeting.
2. At the April 2008 meeting the Board discussed how to proceed with this project. The Board decided to make limited amendments to IAS 39 addressing two issues:
 - a) the hedging of inflation risk in particular situations.
 - b) the designation of a purchased option in its entirety as a hedging instrument of an item that contains no optionality, in such a way that no ineffectiveness results (paragraph AG99E of the ED).
3. The responses to the ED illustrated the desire of some to permit issue (a), although there appears to be little current diversity in practice. Permitting issue (a) would allow hedge accounting to be applied in many more situations than is the case in practice today.
4. The responses to the ED illustrated that diversity in practice exists for issue (b).

5. The staff noted at the April meeting that the approach adopted by the Board could result in future requests for guidance regarding eligible hedged items. The staff also noted that the approach adopted by the Board responds to the criticisms of the rules-based approach of the ED. The staff would like to re-iterate that the Board could revert to the ED approach at a future date, should future requests for guidance make it necessary.
6. This series of papers addresses the issues that the staff thinks are necessary for the Board to re-deliberate to finalise the amendments:
 - a) Paper 10A addresses the hedging of inflation risk in particular situations.
 - b) Paper 10B addresses the designation of a purchased option in its entirety as the hedging instrument of a hedged item that contains no optionality, in such a way that no ineffectiveness arises (paragraph AG99E of the ED).
 - c) Paper 10C addresses the transition requirements for the proposed amendments.
7. Following the decisions taken at this meeting, the staff will finalise a pre-ballot draft of the proposed amendments.