Project **Agenda decisions**

Topic **IAS 39 – Hedging using more than one derivative as the hedging instrument**

Background

1. In March 2009 the IFRIC received a request for guidance on how to apply IAS 39 Guidance on Implementing F.2.1 *Whether a derivative can be designated as a hedged item* (IAS 39 IG F.2.1.) when an entity issues fixed interest rate foreign currency debt and then swaps it into floating interest rate local currency debt using a cross currency interest rate swap (CCIRS). The entity also enters into a local currency pay-fixed, receive-variable interest rate swap (IRS), which has a shorter duration than that of the cross currency interest rate swap.

2. At the May meeting the IFRIC tentatively decided not to add the issues to its agenda and published the decision for comment in *IFRIC Update*.

3. One comment letter was received supporting the tentative decision and its reasons.

Recommendation and question for the IFRIC
The staff recommends that the IFRIC finalise the agenda decision as published. Wording is included in the Appendix. Does the IFRIC agree?

Appendix A – proposed wording for the agenda decision

A1. The staff proposes the following wording as published in *IFRIC Update* for the final agenda decision:

> The IFRIC received a request for guidance on how to apply the guidance in Q&A F.2.1 in the Guidance on Implementing IAS 39 *Whether a derivative can be designated as a hedged item* when an entity issues fixed interest rate foreign currency debt and then swaps it into floating interest rate local currency debt using a cross currency interest rate swap. The entity also enters into a local currency pay-fixed, receive-variable interest rate swap, which has a shorter duration than that of the cross-currency interest rate swap. The submission asks whether the guidance in Q&A F.2.1 prevents cash flows attributable to a derivative from being designated as the hedged cash flow in a hedge relationship.
>
> The IFRIC noted that paragraph 77 of IAS 39 states that two or more derivatives may be viewed in combination *and jointly designated* as *the hedging instrument*, including when the risk(s) arising from some derivatives offset(s) those arising from others (emphasis added). Consequently, the IFRIC noted that although IAS 39 permits a combination of derivatives to be jointly designated as the hedging instrument in a hedging relationship, it does not allow a 'synthetic hedged item' created by combining one derivative with a non-derivative financial instrument to be designated as the hedged item in a hedging relationship with another derivative.
>
> Given the requirements in IAS 39, the IFRIC concluded that any guidance it could provide would be in the nature of implementation guidance rather than an interpretation. Therefore, the IFRIC decided not to add this issue to its agenda.