Project **Accounting for financial instruments – hedge accounting**

Topic **Cover note – The objective of hedge accounting**

1. The following papers relating to the objective of hedge accounting will be discussed at this joint meeting:

   (a) Agenda paper 4A: **The objective of hedge accounting (proposed objective #1 and proposed objective #2)**

   (b) Agenda paper 4B: **The objective of hedge accounting (proposed objective #3)**

Agenda paper 4A

2. This paper was discussed at the 21 January 2010 IASB *only* meeting (agenda paper 8A of the January meeting). The paper has not been discussed at a FASB meeting. The paper has been revised as a joint paper for purposes of the joint session. There are no changes in content. The question for the Boards has been moved to Agenda paper 4B.

Agenda paper 4B

3. This paper is an addendum to agenda paper 4A and incorporates feedback the IASB staff received from IASB members at the 21 January 2010 IASB *only* meeting. Neither the IASB nor the FASB have discussed this paper.

Agenda paper 4C

4. This paper was discussed at the 21 January 2010 IASB *only* meeting (agenda paper 8C of the January meeting). The paper has not been discussed at a FASB

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meeting. **The paper has been revised as a joint paper and updated to include how proposed objective #3 (agenda paper 4B) would apply to risk components.**

5. Agenda paper 4C discusses whether hedging components (bifurcation-by-risk) should be permitted. The agenda paper also illustrates how the three objectives would or could be applied to risk components.

6. As discussed in the paper, Objective #1 would argue in favor of a bifurcation by risk approach. Objective #2 would not be determinative. Objective #3 would seem to support a bifurcation by risk, but probably less so than Objective #1.

7. There are two parts to paper 4C. Part A addresses bifurcation by risk for financial hedged items. The timeline decision reached by the boards at their January 19, 2010 joint meeting means that financial hedged items will be addressed first. However, in considering the choice of an objective (in particular, #1 and #3) the staff believes that the boards should consider the possible implications for non-financial hedged items. Hence, part B of paper 4C contains a preliminary discussion about non-financial items.