



Project **Financial Instruments (Replacement of IAS 39) – Hedge Accounting**

Topic **Addendum to agenda paper 9C**

Purpose of this paper

1. Paragraph C2 of agenda paper 9C presents the income statement effect of the staff's recommendation in that paper (alternative 2). To support this analysis additional detail is provided below. This shows:
 - (a) the balance sheet impact of the staff recommendation;
 - (b) a reconciliation of the hedge reserve; and
 - (c) a sample breakdown of the amount reclassified from equity in T1.
2. The balance sheet:

£'000	T0	T1	T2	T3	T4	T5
Cash		(45.5)	(7.7)	(6.3)	10.0	15.0
Derivative FV		1.4	3.5	(3.8)	0	0
Net assets/(liabilities)		(44.1)	(4.2)	(10.1)	10	15
Retained earnings		(50)	(10)	(5)	10	15
Hedge reserve		5.9	5.8	(5.1)	0	0
Total reserves		(44.1)	(4.2)	(10.1)	10	15

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3. A reconciliation of the hedge reserve:

£'000	T0	T1	T2	T3	T4	T5
Balance b/f	-	0	5.9	5.8	(5.1)	0.0
Amounts deferred	-	1.4	9.1	(12.2)	5.1	0.8
Amounts reclassified	-	4.5	(9.2)	1.3	-	(0.8)
Balance c/f	0	5.9	5.8	(5.1)	0.0	0.0

4. A breakdown of the amount of £4.5k reclassified in T1:

	£'000	Workings
T2 FC (\$80k sales) FX gain/(loss)	(3.6)	(80/2.2)-(80/2.0)
T3 FC (\$30k sales) FX gain/(loss)	(1.4)	(30/2.2)-(30/2.0)
T3 FC (\$20k expenses) FX gain/(loss)	0.9	(-20/2.2)-(-20/2.0)
T4 FC (\$30k sales) FX gain/(loss)	(1.4)	(30/2.2)-(30/2.0)
T5 FC (\$10k sales) FX gain/(loss)	(0.4)	(10/2.2)-(10/2.0)
FX FWD (pay leg: \$30k) FV gain/(loss)	1.4	(-30/2.2)-(-30/2.0)
Subtotal	(4.5)	

5. The table in paragraph 4 demonstrates that the amount reclassified in T1 is the sum of the offsetting gain/loss arising on the other hedged items (ie the firm commitments that settle in T2 to T5) and the hedging instrument (ie the single forward contract) designated in the group hedge. Note that the gain/loss is a result of the change in FX rates from 2.0 at T0 to 2.2 at T1.