Project	**Financial Instruments (Replacement of IAS 39)—Hedge Accounting**
Topic	**Hedge accounting disclosures—Effects of hedge accounting on the income statement, OCI and the cash flow hedge reserve**

Purpose of this paper

1. This paper provides the Board with a summary of possible hedge accounting disclosures that provide information on the effect of hedge accounting on an entity's income statement, other comprehensive income (OCI) and cash flow hedge reserve.

2. The proposals in this paper help to achieve the objective identified in agenda paper 20. That objective is to help users of financial statements to understand the effect that hedge accounting had on the entity's balance sheet, income statement and statement of comprehensive income.

3. The appendix to this paper provides an illustrative example of the proposed disclosure requirements. The staff is not proposing a specific format for the table. The table is just an example of what it could look like.

How does hedge accounting affect the income statement and OCI?

4. At the July 2010 IASB meeting, the Board decided that fair value hedges are accounted for differently from cash flow hedges[1].

[1] Agenda paper 8A of the July 2010 meeting.

Fair value hedges

5. The Board tentatively decided to present the cumulative gain or loss on the hedged item attributable to the hedged risk as a separate line item in the balance sheet. That line item is presented within assets (or liabilities) for those periods for which the hedged item is an asset (or liability). The fair value changes of the hedging instrument and the hedged item that are attributable to the hedged risk are taken to OCI. Any ineffectiveness (ie difference) is transferred to profit or loss.

6. In contrast, IAS 39 requires the gain or loss on the hedged item attributable to the hedged risk to be shown as a (direct) adjustment to the carrying amount of the hedged item and to be recognised in profit or loss.

7. This means that fair value hedges result in a zero net effect in OCI with ineffectiveness recognised in profit or loss.

Cash flow hedges

8. The Board did not propose any changes to the mechanics of cash flow hedges in IAS 39. Consequently, the balance sheet reflects the fair value of the hedging instrument. The effective portion of the gains or losses on the hedging instrument is recognised in OCI and the ineffective portion of the gain or loss is recognised in profit or loss.

How should the information be disclosed?

9. The staff recommend that disclosures that provide information on the effects of hedge accounting on the income statement and OCI should be done in a tabular format that separates the information by risk category and by type of hedge (ie cash flow hedges or fair value hedges).

10. The entity should also disclose by risk a reconciliation of the cash flow hedge reserve (which is a component in the statement of changes in equity—see paragraphs 13-15 below).

Tabular format

11. See paragraphs 9-10 of agenda paper 20A for the rationale.

By type of hedge

12. See paragraphs 11-14 of agenda paper 20A for the rationale.

Cash flow hedge reserve

13. IAS 1 *Financial Statement Presentation* requires that an entity prepares a reconciliation for each component of equity between the carrying amount at the beginning and at the end of the period.

14. As mentioned above, the objective of the disclosures is for users to understand the effects of hedge accounting on the income statement and OCI. This paper proposes disclosure requirements that help to identify the effects of hedge accounting on the income statement and OCI. However, for users to be able to relate the information presented as part of the proposed disclosures in this paper to the statement of changes in equity, the information should be provided using the same level of granularity.

15. In other words, the reconciliation of the cash flow hedge reserve should be done in such a way that the items disclosed as part of the proposals in this paper can be linked to the statement of changes in equity. Such a reconciliation should also be done by type of risk. An entity could do the breakdown of this reconciliation by type of risk either on the face of the statement of changes in equity or in the notes. This flexibility is needed because of the number of risks that need to be disaggregated and the resulting level of detail.

What information should be disclosed?

16. Based on the accounting requirements, a disclosure requirement that explains the effects of cash flow hedges and fair value hedges on the income statement and OCI could require disclosure of:

Cash flow hedges and fair value hedges

(a) the changes in the value of the hedging instrument;

(b) the ineffectiveness recognised in profit or loss;

(c) the line item(s) in profit or loss in which hedge ineffectiveness is included;

Cash flow hedges only (additional)

(d) effective hedging gain or loss recognised in a separate line item in the income statement for hedges of net positions;

(e) the amount transferred out of accumulated OCI to profit or loss (differentiating between amounts for which hedge accounting had previously been used, but for which the hedged transaction is no longer expected to occur, and amounts that have been transferred because the hedged item has affected profit or loss);

(f) the line item affected in profit or loss because of the transfer;

Fair value hedges only (additional)

(g) changes in the value of the recognised hedged item.

17. A disclosure requirement that explains the effect of cash flow hedge accounting on the cash flow hedge reserve in the statement of changes in the equity could require:

(a) a reconciliation of the cash flow hedge reserve to be presented with disaggregation by risk in the notes or on the face of the statement of changes in equity;

(b) that such a reconciliation should be done in a way that the amounts disclosed as part of the requirements in paragraph 16 can be linked to the amounts disclosed as part of a reconciliation of the cash flow hedge reserve (where applicable). The reconciliation should also include the basis adjustment transfer.

18. All of the proposed disclosures should be provided in a table format and by risk category.

Effect of hedging activities on the statement of profit or loss and other comprehensive income

Cash flow hedges[2]	Separate line item recognised in profit or loss as a result of a hedge of a net position	Change in the value of the hedging instrument	Ineffectiveness in profit or loss	Line item in profit or loss (that includes ineffectiveness)	Amount transferred out of AOCI to profit or loss	Line item affected in profit or loss because of transfer
- commodity price risk	xx	xx	xx	Line item X	xx	Line item Y

Fair value hedges	Change in the value of the recognised hedged item	Change in the value of the hedging instrument	Ineffectiveness in profit or loss	Line item in profit or loss (that includes ineffectiveness)
- interest rate risk	xx	xx	xx	Line item X
- foreign exchange risk	xx	xx	xx	Line item X

[2] The information disclosed in the statement of changes in equity (cash flow hedge reserve) should be done using the same level of granularity as the proposed disclosure requirements.