IASB Meeting

Staff Paper

Agenda reference	**16A**
Date	**Week beginning 13 September 2010**

Project	**Financial Instruments: Replacement of IAS 39**
Topic	**Hedge accounting – presentation: basis adjustments**

Introduction

Background

1. For hedges of a forecast transaction that will result in the recognition of a non-financial asset or a non-financial liability IAS 39 *Financial Instruments: Recognition and Measurement* allows entities an *accounting policy* choice to either:

   (a) remove the hedging gain or loss from other comprehensive income (OCI) and recognise it as part of the initial carrying amount of the non-financial item (commonly referred to as 'basis adjustment')[1] ; or

   (b) to leave the hedging gain or loss in OCI and recycle it to profit or loss in the same period(s) in which the non-financial item affects profit or loss.

Purpose

2. The purpose of this paper is to provide an analysis to the Board on:

[1] In future periods, the hedging gain or loss is automatically recognised in profit or loss by being included in amounts such as depreciation expense (for a fixed asset) or cost of sales (for inventories).

This paper has been prepared by the technical staff of the IASCF for discussion at a public meeting of the IASB.

The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the IASB.

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(a) the accounting policy choice in IAS 39 for hedges of a forecast transaction that will result in the recognition of a non-financial item; and

(b) other alternatives for the Board to consider in relation to these type of hedges.

3. This paper includes a staff recommendation but does not ask the Board for a decision. Because of the interaction of the issues addressed in papers 16A and 16B all questions in relation to this series of papers are included in one paper (agenda paper 16C).

4. Hence, the Board will be asked for a decision in agenda paper 16C whether to retain the requirement in IAS 39 or whether an alternative approach would be more appropriate.

5. The staff strongly encourages the Board to consider the illustrative examples in agenda paper 16D side-by-side when proceeding with this paper.

Structure

6. The rest of the paper is structured as follows:

(a) overview of the issue;

(b) staff analysis of the issue;

(c) alternatives for how to proceed;

(d) staff analysis of the alternatives; and

(e) staff recommendation.

The issue

7. As outlined in paragraph 1, for hedges of forecast transactions that will result in the recognition of a non-financial item IAS 39 permits an accounting policy

choice in relation to the treatment of the effective part of the hedging gain and loss. More specifically, paragraph 98 of IAS 39 states:

> If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, or a forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, then the entity shall adopt (a) or (b) below:
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> (a) It reclassifies the associated gains and losses that were recognised in other comprehensive income … to profit or loss as a reclassification adjustment (see IAS 1 (revised 2007)) in the same period or periods during which the asset acquired or liability assumed affects profit or loss (such as in the periods that depreciation expense or cost of sales is recognised). However, if an entity expects that all or a portion of a loss recognised in other comprehensive income will not be recovered in one or more future periods, it shall reclassify from equity to profit or loss as a reclassification adjustment the amount that is not expected to be recovered.
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> (b) It removes the associated gains and losses that were recognised in other comprehensive income … and includes them in the initial cost or other carrying amount of the asset or liability.

8. Paragraph 98(b) is commonly referred to as a 'basis adjustment'. Entities are required to elect either paragraph 98(a) or 98(b) above as its accounting policy and apply it consistently to all hedges[2].

Staff analysis of the issue

9. This section of the paper provides an analysis of the presentation choice in paragraph 98 of IAS 39. This section is divided into the following subsections:

    (a) operational issues;

    (b) comparability issues;

    (c) interaction with a foreign currency (FX) hedge of a firm commitment; and

    (d) feedback from outreach activities.

[2] IAS 39.99.

Operational issues

10. If an entity applies basis adjustments, the hedging gain or loss is *automatically* recognised in profit or loss (eg through depreciation expense (for fixed assets) or cost of sales (for inventories)) without additional tracking or adjustments because the hedging gain or loss is adjusted to the carrying amount of the non-financial item.

11. If an entity leaves the hedging gain or loss in OCI, the hedging gain or loss is recycled to profit or loss in the period(s) in which the acquired non-financial item affects profit or loss (ie in the same period as eg the depreciation expense or cost of sales). This recycling is not automatic. It requires separate tracking of the hedging gains and losses and matching those to the period(s) in which the acquired non-financial item affects profit or loss.

12. If the forecast transaction subsequently results in recognition of inventory, for costing purposes, separate tracking of gains or loss is required to identify when the related inventory becomes cost of goods sold in accordance with the entity's predetermined inventory costing formula (eg first in first out or weighted average cost) so that the appropriate portion of the related hedging gain or loss is recycled and included within the cost of sales. Tracking mechanisms are required because the deferred hedging gain or loss in OCI could relate to different inventories acquired at different dates at different rates.

13. Furthermore, if the hedging gain or loss relates to inventory that is to be consumed in the self-construction of property plant and equipment, an entity would have to track the portion of the hedging gain or loss in OCI that relates to the acquisition of the inventory and monitor when the inventory is consumed in the construction of property plant and equipment. When the inventory is consumed in the process of construction of property plant and equipment the hedging gain or loss in OCI would now be tracked with reference to the self-constructed property plant and equipment. The entity would monitor when the self-constructed property plant and equipment affects profit or loss and recycle the appropriate amount of hedging gain or loss to profit or loss.

14. If an entity leaves the hedging gain or loss in OCI, the tracking mechanisms involved to track of the hedging gain or loss and recycle it to profit or loss at the appropriate period and at the appropriate amount may become extremely complicated. The Board acknowledged this operational complexity in the Basis for Conclusions on IAS 39[3].

Impairment testing of the subsequently recognised non-financial asset

15. If the non-financial asset is basis adjusted, the hedging gain or loss is *automatically* included in the carrying amount and considered when an entity tests for impairment of the non-financial asset.

16. If an entity leaves the hedging gain or loss in OCI, IAS 39.98(a) requires the entity to consider whether the remaining amount in OCI will not be recovered in one or more future periods. This is usually assessed with reference to the recoverable amount or the net realisable value of the non-financial asset. So, in assessing impairment for the recognised non-financial asset the entity should consider the remaining hedging gain or loss in OCI as well as the carrying amount of the non-financial asset. If an entity leaves the hedging gain or loss in OCI, in addition to tracking and reclassifying the hedging gains and losses, the entity would also have to monitor and include impairment adjustments.

17. If there is a subsequent improvement in the recoverable amount of the impaired non-financial asset IAS 36 *Impairment of Assets* and IAS 2 *Inventories* require reversal of previous impairment losses up to the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years[4]. If the entity leaves the hedging gain or loss in OCI, IAS 39 is silent on whether the amount of reversal is recognised at all and, if so, whether it is recognised in OCI so that in effect it achieves the same profit or loss impact as under the basis adjustment alternative. Where an entity applies the basis

[3] IAS 39.BC158.
[4] IAS 36.117. and IAS 2.33

adjustment alternative, any reversal of impairment would be made in reference to the basis adjusted cost of the asset.

18. The operational complexity of the alternative of leaving hedging gains and losses in OCI is amplified when the hedged item is included in a cash generating unit for the purpose of the impairment test under IAS 36, in particular if that cash generating unit changes over time.

19. Hence, the alternative of leaving the gains or losses in OCI involves significantly more operational complexity and requires separate tracking and additional systems than the basis adjustment alternative.

Comparability

20. The staff note that IAS 39.98 results in various comparability issues which will or may adversely affect users' ability to make sound economic decisions. The staff note that these include the following issues:
    (a) financial versus non-financial hedged items;
    (b) US GAAP;
    (c) financial statement presentation; and
    (d) basis adjustment.

Financial items versus non-financial items

21. The basis adjustment alternative is not available for financial items. The Board considered that allowing basis adjustments for financial items will cause the initial carrying amount of the financial item to move away from fair value and hence is inconsistent with the requirement in IAS 39 to measure financial instruments initially at its fair value[5]. The Board also recognised that financial items and non-financial items are not necessarily measured at the same amount

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[5] IAS 39.BC161.

on initial recognition, because financial items are measured at fair value and non-financial items are measured at cost[6].

US GAAP

22. US GAAP precludes basis adjustments because it is inconsistent with the accounting for financial items.

Financial statement presentation

Balance sheet

23. The two accounting alternatives result in different carrying amounts being presented for the recognised non-financial item on the balance sheet.

24. See agenda paper 16D example 1 in paragraphs 7 (no basis adjustment) and 8 (basis adjustment).

Statement of comprehensive income

25. Although the two accounting alternatives result in the same profit or loss impact they have different effects on total comprehensive income.

26. In 2007 the Board issued a revised version of IAS 1 *Presentation of Financial Statements* (IAS 1 (2007)) in which the statement of comprehensive income includes profit or loss and non-owner changes in equity[7]. The effective part of the hedging gain or loss is a non-owner change in equity and hence is now recognised in OCI within the statement of comprehensive income rather than in the statement of changes in equity.

27. As a result of the 2007 revision to IAS 1, the two accounting policy choices result in different presentation outcomes in the statement of comprehensive income.

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[6] IAS 39.BC163.

[7] IAS 1 (2007) requires entities to present non-owner changes in OCI and only owner changes in equity are included in the statement of changes in equity.

28. Under the basis adjustment alternative, the transfer of the gain or loss out of OCI to the hedged item does not have an offsetting effect in profit or loss in the same period as the transfer. More specifically, the basis adjustment alternative results in the following OCI impacts:

    (a) in the period in which the non-financial item is recognised – where the *entire* amount of hedging gain or loss is transfer out of OCI and included in the carrying amount of the non-financial item; *and*

    (b) in later periods where the non-financial item affects profit or loss (eg through depreciation expense or cost of sales).

29. Hence, basis adjustment produces a distorting effect in the period in which the non-financial item is first recognised. This effect is illustrated in agenda paper 16D example 1 under the basis adjustment alternative (paragraph 8) where in the first period that the entity recognises the truck (ie year ended 2010), the entity reports CU50 of total comprehensive income as a result of the basis adjustment.

30. If an entity does no basis adjustment and leaves the hedging gain or loss in OCI, it only affects total comprehensive income in later periods when the non-financial item affects profit or loss. In agenda paper 16D example 1, the no basis adjustment alternative (paragraph 7) shows that CU10 is released each year to depreciation expense (from 2011 to 2015). Hence, under the non basis adjustment alternative, there is no impact on other comprehensive income when the non-financial item is recognised.

31. Allowing an accounting policy choice results in amounts presented differently in the balance sheet and the statement of comprehensive income for different entities and hence might significantly impair comparability across entities for hedges of forecast transactions that will result in the recognition of non-financial items.

Basis adjustment

32. The staff note that some respondents to the exposure draft leading to IAS 39 (2003) commented that a basis adjustment impairs comparability. They argued that two identical assets that are purchased at the same time and in the same way, except for the fact that one was hedged, should not be recognised at different amounts[8].

33. On the other hand, the staff note that a basis adjustment allows identical assets for which the acquisitions are subject to the same risk be presented in the same way.

34. In agenda paper 16D example 2, Entity A is able to secure the contract to purchase a ship in its functional currency.

35. Conversely, Entity B cannot manage to secure the contract to purchase the ship in its functional currency and is therefore exposed to the variability in cash flows to the exchange rate movement between Entity B's functional currency and the foreign currency. Entity B hedges its exposure to foreign currency risk using a foreign currency forward thus in effect fixing the price of the purchase in its functional currency. By taking out a derivative to hedge the variability in cash flows, Entity B has in effect the same FX exposure as Entity A.

36. Entity C, like Entity B, did not secure the contract in its functionary currency but, unlike Entity B, did not hedge.

37. The balance sheets for entities A, B and C are set out in paragraph 11 of agenda paper 16D.

38. If Entity B accounts for the hedge as *a cash flow hedge* (scenario 1)and applies basis adjustment, the carrying amount of the ship is presented the same as Entity A. Basis adjustment allows Entity B to present the economic outcomes of the transaction the same way as Entity A. If Entity B does not apply a basis

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[8] IAS 39.BC159.

adjustment (scenario 2), the carrying amount of the ship is presented the same way was Entity C.

Interaction with hedges of FX risk of firm commitments

39. Paragraph 87 of IAS 39 today permits hedges of FX risk of a firm commitment to be accounted for as a cash flow hedge or a fair value hedge. This accounting choice is further discussed in agenda paper 16B.

40. The staff however notes that for hedges of FX risk of a firm commitment the basis adjustment at the end of the cash flow hedge *has the same effect on the presentation of the hedged item as accounting for the hedge as a fair value hedge*[9].

41. Go back to agenda paper 16D example 2 (scenario 3).

42. In this scenario a basis adjustment results in the same carrying amount as if Entity B accounts for the hedge of the FX exposure of the commitment to purchase a ship as a fair value hedge.

43. Hence, allowing firm commitments to be accounted for as a fair value hedge is akin to simultaneous basis adjustment. Or worded another way, basis adjustment is similar to a 'one time' fair value hedge adjustment.

44. Hence, in example 2 (paragraph 11 of agenda paper 16D), the balance sheet presentation is the same when Entity B basis adjusts at the end of the *cash flow hedge* of the FX firm commitment (scenario 1) and when Entity B accounts for the firm commitment as a *fair value hedge* (scenario 3).

45. Agenda paper 16D example 3 illustrates an example in which the FX hedge of a forecast transaction becomes a firm commitment.

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[9] IAS 39.94 requires that when an entity enters into a firm commitment to acquire an asset or assume a liability that is a hedged item in a fair value hedge, the initial carrying amount of the asset or liability that results from the entity meeting the firm commitment is adjusted to include the cumulative change in the fair value of the firm commitment attributable to the hedged risk.

46. If the FX hedge of a firm commitment is accounted for as a fair value hedge, precluding a basis adjustment when the forecast transaction becomes a firm commitment will result in the hedging gain or loss of the forecast transaction phase of the hedge remaining in OCI whereas the hedging gain or loss from the firm commitment phase of the same hedge will be recognised on the balance sheet and subsequently adjusted to the carrying amount of the non-financial item when it is recognised (see scenario 1B in example 3 (paragraph 16)).

47. This results in an accounting that artificially splits the hedging gain or loss from one hedging instrument where one part of the hedging gain or loss is reflected in OCI and another part is reflected on the balance sheet as a fair value hedge adjustment that ultimately adjusts the cost of the hedged item[10].

Feedback from outreach activities

48. We have received limited feedback[11] to date on the accounting policy alternative in IAS 39.98. Constituents who have raised this issue, support retaining the accounting policy choice. However, if the choice has to be eliminated, they recommend making basis adjustments mandatory.

49. Some respondents to the discussion paper *Reducing Complexity in Reporting Financial Instruments* published in March 2008 commented that they do not support eliminating the accounting policy choice. Some commented that basis adjustment should be maintained for practical convenience and is a useful alternative for cash flow hedges of commodity risk.

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[10] For hedges of *FX risk* such an artificial split that results from precluding basis adjustments may be avoided if the alternative to account for the hedge of FX risk of firm commitment as fair value hedge or a cash flow hedge in IAS 39.87 remains.

[11] From the outreach activities that the staff began in September 2009.

Alternatives

50. This section of the paper sets out the alternatives as to how the Board could proceed.

51. The staff thinks the Board has at least the following alternatives for hedges of forecast transactions that result in the recognition of a non-financial item:

    (a) **alternative 1:** continue to permit the accounting policy choice in paragraph 98 of IAS 39;

    (b) **alternative 2:** require entities to leave hedging gains and losses in OCI;

    (c) **alternative 3:** require basis adjustments; and

    (d) **aternative 4:** require basis adjustments from accumulated other comprehensive income (AOCI) or equity *directly*, ie without affecting the performance statement (OCI).

Staff analysis

Alternative 1: permit the accounting policy choice

52. Alternative 1 is to retain the requirement in IAS 39.98 and continue to permit the accounting policy choice. The following table summaries the advantages and disadvantages of alternative 1:

Advantages	**Disadvantages**
• Provides entities a choice to align with financial items and US GAAP • Allows entities to apply the operationally simpler alternative • Allows entities to apply the most consistent alternative in line with the entity's accounting for FX hedges of firm commitments	• Might significantly impair comparability of the amounts presented and recognised in the balance sheet and statement of comprehensive income across different entities for identical transactions

53. Retaining the accounting policy choice allows entities the flexibility to choose the alternative that would suit best for their circumstances, whether they would like to achieve comparability with US GAAP and financial items, or whether they would adopt the operationally simpler alternative or the alternative that is most consistent with how the entity would account for hedges of FX risk of firm commitments.

54. The disadvantage of providing the accounting policy choice is that it might significantly impair comparability across entities and hence reduce the usefulness of financial statements to users.

55. The staff note that to improve comparability, the Board could require entities that leave the hedging gain or loss in OCI to disclose in the notes the amount that would have been recognised had basis adjustment been applied. However, the staff notes that this would add more operational complexity to the already more complex alternative.

Alternative 2: require entities to leave hedging gains and losses in OCI

56. Alternative 2 is to eliminate the basis adjustment alternative and require entities to leave the hedging gains and losses in OCI upon recognition of the non-financial item (ie to retain IAS 39.98(a) and eliminate IAS 39.98(b)). The following table summaries the advantages and disadvantages of alternative 2:

Advantages	**Disadvantages**
• Balance sheet comparability • Statement of comprehensive income comparability • Comparable with financial items and US GAAP • Does not distort comprehensive income • Consistent with the view that two identical assets purchased at the same time and in the same way are presented in the same way (irrespective of whether one was hedged)	• Operationally complex • If the Board decides to require FX hedge of firm commitments to be accounted for as fair value hedges, it would result in accounting that artificially splits the hedging gain or loss • For FX hedge of a firm commitment, results in a different carrying amount being recognised for the non-financial item under *fair value* hedge accounting and *cash flow* hedge accounting (if that choice continues to be permitted. See paper 16B.)

57. Alternative 2 achieves comparability for presentation in the financial statements across different types of hedge items (financial vs non-financial) and across

different accounting standards (IFRSs vs US GAAP), and it also does not have any distortion of comprehensive income.

58. However, alternative 2 is also the most operationally burdensome alternative, and results in an accounting that artificially splits gains or losses of a hedge if an FX hedge of a firm commitment is required to be accounted for as a fair value hedge.

Alternative 3: require basis adjustment

59. Alternative 3 is to require basis adjustments (ie to retain IAS 39.98(b) and eliminate IAS 39.98(a)). The following table summaries the advantages and disadvantages of alternative 3:

Advantages	**Disadvantages**
• Balance sheet comparability • Statement of comprehensive income comparability • Operationally simpler • Consistent with the view that entities with the same risk exposure to the asset acquisition present the hedged item the same way • For FX hedges of firm commitments, it results in the same presentation for the non-financial item under fair value hedge accounting and cash flow hedge accounting	• Not comparable with financial items and US GAAP • Distorts comprehensive income • If the Board decides to require FX hedges of firm commitments to be accounted for as cash flow hedges, it would result in accounting that artificially splits the hedging gain or loss

60. Alternative 3 achieves comparability across entities for the same hedge transaction (although it is not comparable with hedges of forecast transactions

that will result in the recognition of financial items and US GAAP). It is also operationally simpler than alternative 2.

61. As discussed in paragraphs 33 to 38 alternative 3 presents the non-financial asset the same way for entities that have eliminated the cash flow volatility regarding the purchase price of the non-financial asset albeit using different ways to hedge the same risk exposure (ie fixing the cash flows using the contractual terms of the purchase contract or alternatively a derivative).

62. On the other hand, the staff notes that alternative 3 causes a distortion in comprehensive income in the period that the basis adjustment is applied as discussed in paragraphs 28 and 29.

63. If hedges of FX firm commitments are accounted for only as cash flow hedges, requiring basis adjustment for the forecast transaction results in an accounting that artificially splits the gain or loss from a *single* hedging instrument.

Alternative 4: require basis adjustment from AOCI or equity directly

64. Alternative 4 is to require basis adjustments similar to alternative 3, however, the adjustment is posted *directly* from AOCI or equity to the carrying amount of the non-financial item and not via OCI (ie without affecting the performance statement). Paragraph 9 in agenda paper 16D example 1 illustrates this alternative.

65. The following table summaries the advantages and disadvantages of alternative 4:

Advantages	Disadvantages
• Balance sheet comparability • Statement of comprehensive income comparability • Operationally simpler • Consistent with the view that entities with the same risk exposure to the asset acquisition present the hedged item in the same way • Does not distort comprehensive income • For FX hedges of firm commitments, it results in the same presentation for the non-financial item under fair value hedge accounting and cash flow hedge accounting	• Not comparable with financial items and US GAAP • Total comprehensive income over time will be different to alternatives 2 and 3 • If the Board decides to require FX hedges of firm commitments to be accounted for as *cash flow hedges*, it would result in accounting that artificially splits the hedging gain or loss. See paper 16B. • Change from current practice

66. Alternative 4 has the same advantages and disadvantages as alternative 3.

67. The major difference to alternative 3 is that alternative 4 attempts to address the distortion in comprehensive income in the period that the basis adjustment is applied. However, the staff notes where total comprehensive income over time is the same under alternatives 2 and 3, it is not the same under alternative 4. In agenda paper 16D example 1 *total* comprehensive income over the life of the truck for alternatives 2 and 3 is CU (150) but for alternative 4 it is CU (200).

Staff recommendation

68. In coming to a decision, the staff recommend the Board give careful consideration to the following issues:

    (a) operational issues;

    (b) comparability with financial items and US GAAP;

    (c) financial statement presentation comparability;

    (d) the Board's view of the statement of comprehensive income presentation; and

    (e) interaction with firm commitments and the alternative to use fair value hedge or cash flow hedge accounting for FX hedges of firm commitments.

The staff notes that different alternatives present different trade-offs for the above issues.

69. The staff notes that there are different views of whether basis adjustments impair or enhance comparability.

    - *View 1*: A Board member has previously argued that two identical assets purchased at the same time and in the same way should be presented in the same way. The fact that one was hedged should not result in the two assets being recognised at different amounts. Furthermore, the hedging gain or loss is not cost and therefore should not be adjusted to the cost of the non-financial item[12]. The staff note that under this view, a basis adjustment impairs comparability.

    - *View 2*: Basis adjustments allow transactions with the same risk exposure that result in purchasing the identical assets to be presented in the same way (as explained in paragraphs 33 to 38). From this perspective, basis adjustments enhance comparability.

[12] IAS 39.DO5.

70. Alternative 2 is consistent with view 1, whilst alternatives 3 and 4 are consistent with view 2.

71. The staff are of view 2.

72. The staff notes that alternative 2 is comparable with hedges of forecast transactions that result in recognition of financial items and US GAAP requirements. The staff notes that alternative 2 presents the 'cleanest' comprehensive income statement presentation, where hedging gains and losses are transferred from OCI to profit or loss in the period in which for example depreciation expense or cost of sales is recognised and there is no one-off distortion in comprehensive income in the period for which the non-financial item is recognised.

73. On the other hand, there are different possible views as to which accounting alternative achieves better comparability (see view 2 above). Hence, which alternative is preferable regarding the comparability aspect is a question of perspective rather than an 'objective' one. Alternative 2 is also the most operational complex for preparers. The staff also notes that one of the objectives of this phase of the project to replace IAS 39 is to reduce complexity hence the staff is hesitant to recommend the Board to adopt alternative 2 due to its operational burden that it will place on preparers.

74. The staff further notes, that if a choice of fair value hedge or cash flow hedge continues to be permitted for hedges of FX risk of firm commitments, precluding basis adjustments would result in different carrying amounts being recognised on the balance sheet for the non-financial item depending on whether an entity chooses to account for the hedge as a fair value or cash flow hedge.

75. Alternatives 3 and 4 (ie requiring basis adjustments) are the most operational alternatives and hence reduce that type of complexity. Alternatives 3 and 4 also do not result in different presentation for non-financial items resulting from hedged firm commitments in a foreign currency irrespective of whether an entity chooses to fair value or cash flow hedge.

76. However, alternative 3 produces a one time distorting effect when the hedging gain or loss is transferred out of comprehensive income in the period when the basis adjustment is applied. Alternative 4 does not produce such a distorting effect on comprehensive income as alternative 3. However, total comprehensive income over time in alternative 4 is not the same as under alternative 2 or 3. There is a trade-off between alternatives 3 and 4 and the staff are of the view that because alternative 4 avoids the one time distorting effecting on OCI it is likely to be more useful to users.

77. The staff notes that retaining the current accounting policy choice (ie alternative 1) might significantly impair financial statement presentation comparability across entities and thus reduce the usefulness of financial statements to users.

78. On balance, the staff recommend alternative 4. That is, the entity should remove the associated gains or losses that were recognised in equity (AOCI) and *directly* (ie without affecting OCI) include them in the initial cost or other carrying amount of the non-financial item.

79. However, the staff also acknowledge the different views on which alternative best achieves comparability as discussed in paragraph 69 above, the staff therefore consider retaining the current accounting policy choice may be the second best alternative to the staff recommendation.

80. As explained in paragraph 3, the question to the Board is included in paper 16C.