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

Topic **Eligibility of ‘cash instruments’ as hedging instruments—Cover paper**

Introduction

Background

1. This is a series of papers that address the issue of eligibility of non-derivative financial instruments (cash instruments) as hedging instruments.
2. The exposure draft (ED) on the general hedge accounting model proposed extending the eligibility of cash instruments as hedging instruments (for risks other than foreign exchange risk[1]) provided that these instruments are measured at fair value through profit or loss[2].

Summary of the comment letters and outreach

3. The comment letters and the outreach confirmed overwhelming support for this proposal.
4. Outreach activities confirmed that the use of cash instruments is relevant in some jurisdictions particularly in Asia-Pacific and South America where there are legal and regulatory restrictions on the use of derivative financial instruments.

[1] In accordance with IAS 39.72 cash instruments are already eligible as hedging instruments for a hedge of foreign exchange risk.
[2] Refer to paragraphs BC34 to BC40 of the ED and agenda papers 2 and 5 presented at the October 5 and October 27 IASB meetings.

5. Entities that we consulted during the targeted outreach activities showed support for this proposal because the current IAS 39 *Financial Instruments: Recognition and Measurement* artificially excludes hedging instruments that are sometimes used in their risk management strategies solely because the IAS 39 model generally limits hedging instruments to those that meet the definition of a derivative.

6. In their comment letters respondents requested that the Board consider two related issues:

    (a) the restriction on the use of cash instruments that are not at fair value through profit or loss (for risks other than foreign exchange risk), and

    (b) the interaction between the eligibility criteria for cash instruments and the fair value option.

7. The staff's view is that these are two different issues and hence they are addressed in separate papers:

    (a) **Paper 10A—**Eligibility of cash instruments that are not at fair value through profit or loss as hedging instruments; and

    (b) **Paper 10B**—Interaction between the eligibility criteria for cash instruments and the use of the fair value option.

8. Each paper will ask for a decision from the Board.