IASB Meeting

Agenda reference 1

Staff Paper

Date 28 July 2011

Project	**Financial Instruments: Hedge Accounting**
Topic	**Disclosures—Cover note**

Introduction

1. In its exposure draft *Hedge Accounting*, the Board proposed a series of disclosure requirements related to the risk exposures an entity decides to hedge and for which hedge accounting is applied. The proposals in the exposure draft would require information to be provided about:

   (a) an entity's risk management strategy and how it is applied to manage risk;

   (b) how the entity's hedging activities may affect the amount, timing and uncertainty of its future cash flows; and

   (c) the effect that hedge accounting has had on the entity's statement of financial position, statement of comprehensive income and statement of changes in equity.

2. This paper:

   (a) lists the agenda papers that will be presented to the Board; and

   (b) asks the Board to confirm two non-contentious issues with regard to the proposed hedge accounting disclosures.

Papers being presented

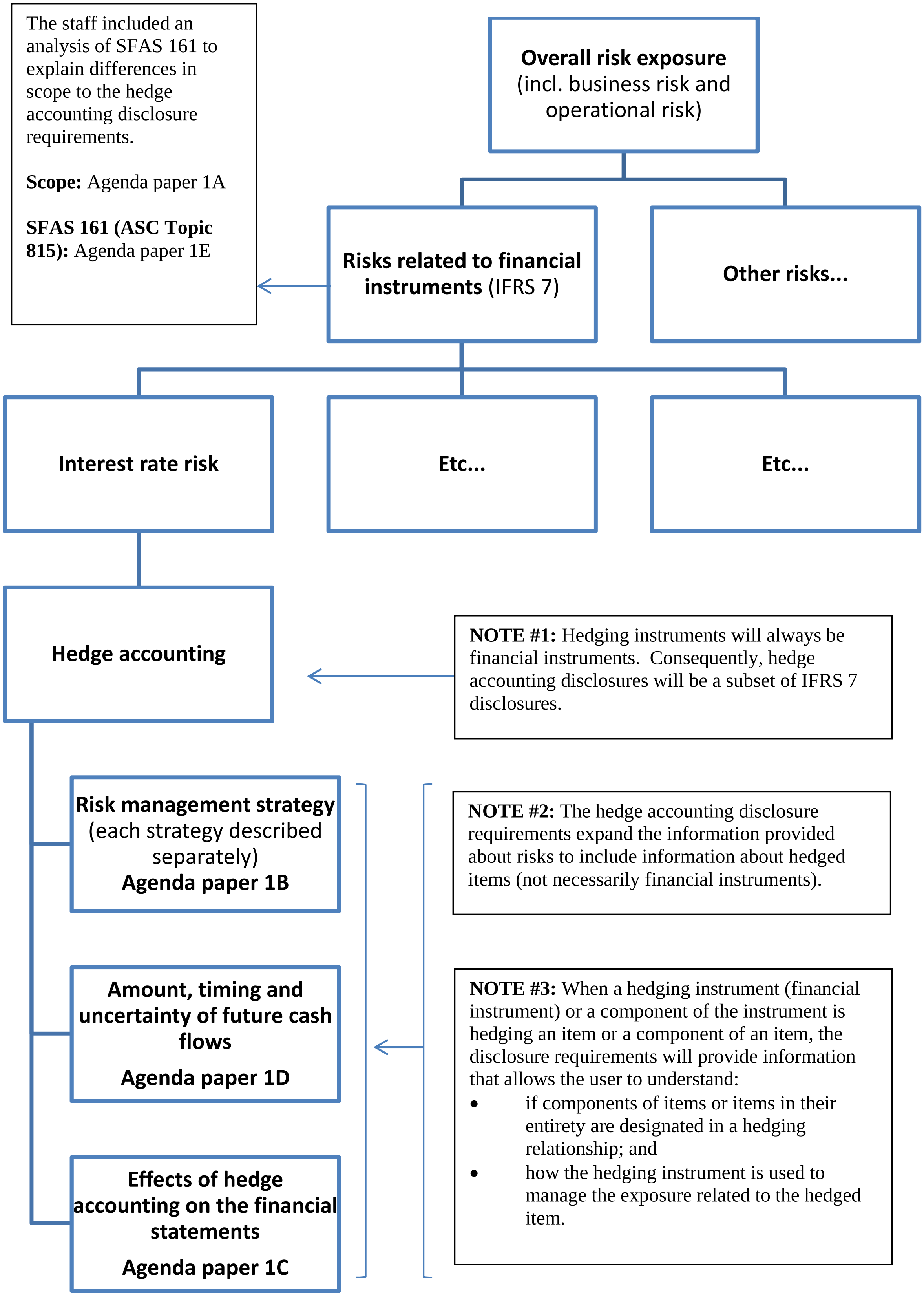
3. In this series of papers the staff will ask the Board to:

Confirm the scope of hedge accounting disclosures in the exposure draft.	Agenda paper 1A
Confirm the disclosure requirements related to the entity's risk management strategy in the exposure draft.	Agenda paper 1B
Confirm the disclosure requirements related to the effects of hedge accounting on the primary financial statements in the exposure draft.	Agenda paper 1C
Consider the disclosure requirements related to the amount, timing and uncertainty of future cash flows in the exposure draft.	Agenda paper 1D

4. Agenda paper 1E provides the Board with a summary of the differences between the FASB Statement of Financial Accounting Standards No. 161 *Disclosures about Derivative Instruments and Hedging Activities* (SFAS 161) [1], the IASB's exposure draft on hedge accounting and IFRS 7 *Financial Instruments: Disclosures*. That paper does not ask the Board for any decisions.

5. The diagram below illustrates the relationship between each of the agenda papers and illustrates the scope of the disclosure requirements.

[1] SFAS 161 has been included in topic ASC 815 *Derivatives and Hedging* in the FASB's codification. This paper refers to SFAS 161 for ease of reference.


The staff included an analysis of SFAS 161 to explain differences in scope to the hedge accounting disclosure requirements.
Scope: Agenda paper 1A
SFAS 161 (ASC Topic 815): Agenda paper 1E
Overall risk exposure (incl. business risk and operational risk)
Risks related to financial instruments (IFRS 7)
Other risks...
Interest rate risk
Etc...
Etc...
Hedge accounting
NOTE #1: Hedging instruments will always be financial instruments. Consequently, hedge accounting disclosures will be a subset of IFRS 7 disclosures.
Risk management strategy (each strategy described separately) Agenda paper 1B
NOTE #2: The hedge accounting disclosure requirements expand the information provided about risks to include information about hedged items (not necessarily financial instruments).
Amount, timing and uncertainty of future cash flows
Agenda paper 1D
NOTE #3: When a hedging instrument (financial instrument) or a component of the instrument is hedging an item or a component of an item, the disclosure requirements will provide information that allows the user to understand:
• if components of items or items in their entirety are designated in a hedging relationship; and
• how the hedging instrument is used to manage the exposure related to the hedged item.
Effects of hedge accounting on the financial statements
Agenda paper 1C

Proposed disclosure requirements that were not contentious

6. Some of the proposed disclosure requirements were not contentious—ie those respondents that commented on the proposed disclosure requirements did not raise any concerns with these proposals. These proposals were not raised as topics of concern during outreach either.

7. The staff would like to confirm these disclosures before discussing each of the bigger topics in the separate agenda papers. The non-contentious issues were:

   (a) Paragraph 41 of the exposure draft proposed that an entity present the required disclosures in a single note or separate section in the notes to its financial statements. However, an entity need not duplicate information that is already presented elsewhere, provided that the information is incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report that is available to users of financial statements on the same terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete.

   (b) Appendix D of the exposure draft proposed to carry forward the requirement in paragraph 23(b) in IFRS 7. The requirement in that paragraph is to provide a description of any forecast transactions that have been designated as hedged items in prior periods, but which are no longer expected to occur.

8. The staff recommends that the Board confirm the proposed disclosure requirements in paragraphs 41 and appendix D of the exposure draft *Hedge Accounting*.

Question
Does the Board agree with the staff recommendation in paragraph 8? If not, why not and what would the Board prefer instead and why?