

STAFF PAPER

29 January – 1 February 2013

IASB Meeting

Project	Hedge Accounting (IFRS 9)		
Paper topic	Measurement of the hedged item—‘hypothetical derivatives’: cover paper		
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Introduction

1. One of the issues that was most frequently raised by those commenting on the draft hedge accounting requirements for IFRS 9 *Financial Instruments*¹ was the application guidance on measuring hedge ineffectiveness. The comments related specifically to the application guidance in paragraph B6.5.5 of the draft on calculating the change in the value of the hedged item using a so called ‘hypothetical derivative’. The particular issue raised was the effect of this guidance on hedge accounting when foreign currency risk is hedged using cross-currency swaps.
2. The feedback received varied in terms of the arguments and reasons cited for commentators’ concerns. It can broadly be categorised as follows:
 - (a) due process aspects;
 - (b) conceptual considerations; and
 - (c) implications for existing hedge accounting practice.

¹ See draft of the forthcoming hedge accounting requirements posted on the IASB website on 7 September 2012 (<http://www.ifrs.org/Current-Projects/IASB-Projects/Financial-Instruments-A-Replacement-of-IAS-39-Financial-Instruments-Recognitio/Phase-III-Hedge-accounting/Pages/Draft-of-IFRS-General-Hedge-Accounting.aspx>). The papers of the 4A series refer to this as “draft requirements” or “draft IFRS 9”.

Overview of staff papers that address ‘hypothetical derivatives’

3. This feedback is addressed in a paper series as follows:
 - (a) **Paper 4A1**: addresses due process aspects raised by the feedback;
 - (b) **Paper 4A2**: analyses conceptual considerations;
 - (c) **Paper 4A3**: analyses the issue raised regarding implications for existing hedge accounting practice; and
 - (d) **Paper 4A4**: provides the staff recommendation and asks the Board whether it wants to revisit its tentative decision and, if so, what alternative it prefers instead.