STAFF PAPER

January 2016

IFRS Interpretations Committee Meeting

Project	**Review of tentative agenda decision**		
Paper topic	IFRS 9 *Financial instruments*—transition for hedge accounting		
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Introduction

1. In May 2015, the IFRS Interpretations Committee ('the Interpretations Committee') received a request for guidance in respect of two related issues pertaining to hedge accounting in situations in which an entity makes the transition from IAS 39 *Financial Instruments: Recognition and Measurement* to IFRS 9 *Financial Instruments.*

2. More specifically, the Interpretations Committee was asked to consider whether an entity can:

   (a) treat a hedging relationship as a continuing hedging relationship on transition from IAS 39 to IFRS 9 if that entity changes the hedged item from an entire non-financial item to a component of the non-financial item, in order to align the accounting with its risk management objective (Issue 1); and

   (b) continue with its original hedge designation of the entire non-financial item under IFRS 9 (Issue 2).

3. In the tentative agenda decision, the Interpretations Committee observed that:

(a) in relation to Issue 1, the Interpretations Committee noted that when an entity changes the hedged item in a hedging relationship from an entire non-financial item to a component of the non-financial item upon transition to IFRS 9, it is required to do so on a prospective basis as described in paragraph 7.2.22 of IFRS 9. The Interpretations Committee also noted that changing the hedged item while continuing the original hedge relationship would be equivalent to the retrospective application of the hedge accounting requirements in IFRS 9, which is prohibited except in the limited circumstances described in paragraph 7.2.26 of IFRS 9. The Interpretations Committee observed that in the example presented in Issue 1, the exceptions in paragraph 7.2.26 did not apply and therefore the original hedge relationship could not be treated as a continuing hedge relationship on transition to IFRS 9; and

(b) in relation to Issue 2:

(i) paragraphs BC6.97, BC6.98 and BC6.100 of IFRS 9 support the use of hedge designations that are not exact copies of actual risk management ('proxy hedging') as long as they reflect risk management in that they relate to the same type of risk that is being managed and the same type of instruments that are being used for that purpose; and

(ii) the use of proxy hedging in cases in which it reflects the entity's risk management (that is, where it relates to the same type of risk that is being managed and the same type of instruments that are being used for that purpose) did not appear to be restricted to instances in which IFRS 9 had prohibited an entity from designating hedged items in accordance with its actual risk management.

4. Consequently, the Interpretations Committee determined that in the light of the existing IFRS guidance, an interpretation or an amendment to Standards was not necessary.

5. The Interpretations Committee's full tentative agenda decision can be found in the *IFRIC Update* (September 2015).

6. Our analysis of this issue was included in Agenda Paper 7 of September 2015.

Comment letter summary

7. The comment period for the tentative agenda decision ended on 23 November 2015. We received **two responses (**reproduced in Appendix B).[1]

8. One respondent (Mazars) agrees with the tentative agenda decision as drafted.

9. Another respondent (Deloitte) agrees with the tentative agenda decision but recommends that further context should be added by way of an explanation of the circumstances giving rise to both questions detailed in paragraph 2.

10. The staff think that the proposed wording for the tentative agenda decision provides sufficient detail about the circumstances relating to both Issue 1 and Issue 2. The tentative agenda decision outlines that:

    (a) Issue 1 relates to instances in which an entity changes the hedged item in a hedging relationship from an entire non-financial item to a component of the non-financial item upon transition to IFRS 9; and

    (b) Issue 2 relates to instances in which an entity uses hedge designations that are not exact copies of actual risk management, or 'proxy hedging'.

[1] The comment letter received from Mazars included comments on several tentative agenda decisions published in the IFRIC Update from September 2015. In Appendix B, we have included only the excerpt from the letter that is relevant to this tentative agenda decision.

Staff recommendation

11. We recommend confirming the tentative agenda decision without any changes. We have set out the wording for the final agenda decision in **Appendix A** of this paper for the Interpretations Committee's approval.

Question for the Interpretations Committee

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Does the Interpretations Committee agree with the staff recommendation?

Appendix A—Finalisation of agenda decision

A1. We propose the following wording to finalise the agenda decision (deleted text is struck through):

IFRS 9 *Financial Instruments*—Transition for hedge accounting

The Interpretations Committee received a request for guidance in respect of two issues pertaining to hedge designation and hedge accounting in situations in which an entity makes the transition from IAS 39 *Financial Instruments: Recognition and Measurement* to IFRS 9 *Financial Instruments*.

More specifically, the Interpretations Committee has been asked to consider:

(a) whether an entity can treat a hedging relationship as a continuing hedging relationship on transition from IAS 39 to IFRS 9 if that entity changes the hedged item in a hedging relationship from an entire non-financial item (as permitted by IAS 39) to a component of the non-financial item (as permitted by IFRS 9) in order to align the hedge with the entity's risk management objective (Issue 1); and

(b) whether an entity can continue with its original hedge designation of the entire non-financial item under IFRS 9 (Issue 2).

In relation to Issue 1, the Interpretations Committee noted that when an entity changes the hedged item in a hedging relationship from an entire non-financial item to a component of the non-financial item upon transition to IFRS 9, it is required to do so on a prospective basis as described in paragraph 7.2.22 of IFRS 9. The Interpretations Committee also noted that changing the hedged item while continuing the original hedge relationship would be equivalent to the retrospective application of the hedge accounting requirements in IFRS 9, which is prohibited except in the limited circumstances described in paragraph 7.2.26 of IFRS 9. The Interpretations Committee observed that in the example presented in Issue 1, the exceptions in paragraph 7.2.26 did not apply and therefore the original hedge relationship could not be treated as a continuing hedge relationship on transition to IFRS 9.

In relation to Issue 2, the Interpretations Committee observed that:

(a) paragraphs BC6.97, BC6.98 and BC6.100 of IFRS 9 support the use of hedge designations that are not exact copies of actual risk management ('proxy hedging') as long as they reflect risk management in that they relate to the same type of risk that is being managed and the same type of instruments that are being used for that purpose; and

(b) the use of proxy hedging in cases in which it reflects the entity's risk management (that is, where it relates to the same type of risk that is being managed and the same type of instruments that are being used for that purpose) did not appear to be restricted to instances in which IFRS 9 had prohibited an entity from designating hedged items in accordance with its actual risk management.

As a result, the Interpretations Committee noted that hedge designations of an entire non-financial item could continue on transition to IFRS 9 as long as they meet the qualifying criteria in IFRS 9.

In the light of existing IFRS requirements, the Interpretations Committee determined that neither an Interpretation nor an amendment to a Standard was necessary. Consequently, the Interpretations Committee ~~[~~decided~~]~~ not to add this issue to its agenda.

Appendix B—Comment letters received

M A Z A R S

Mr. Wayne Upton

IFRS Interpretation
Committee 30
Cannon Street
London EC4M
6XH United
Kingdom

Paris, November 23,
2015

RE: IFRS Interpretations Committee tentative agenda decisions, September 2015

Dear Wayne,

MAZARS is pleased to comment on the various IFRS Interpretations Committee tentative agenda decisions published in the September IFRIC Update.

We have gathered all our comments as appendices to this letter. Should you prefer us to prepare separate comment letter for each tentative agenda decision, please let us know.

Should you have any questions regarding our comments, please do not hesitate to contact Michel Barbet-Massin (+33 1 49 97 62 27) or Edouard Fossat (+33 1 49 97 65 92).

Best regards,

Michel Barbet-Massin

Appendix 5

IFRS 9 – *Financial Instruments* – Transition for hedge accounting (Agenda Paper 7)

We agree with the IFRS Interpretations Committee's decision not to add this issue onto its agenda, and with the rationale expressed in the tentative agenda decision.

Deloitte.

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Wayne Upton
Chairman
IFRS Interpretations Committee
30 Cannon Street
London
United Kingdom
EC4M 6XH

23 November 2015

Dear Mr Upton

Tentative agenda decision -IFRS 9 *Financial Instruments:* Transition for hedge accounting

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the September IFRIC Update of the tentative decision not to take onto the Committee's agenda the questions of whether, in a circumstance when the entity's risk management objective relates to hedging a component of a non-financial item, but under IAS 39 *Financial Instruments: Recognition and Measurement,* the entire item has been designated as the hedged item, an entity can:

- change the hedged item to a component of the non-financial item (as permitted by IFRS 9) and treat this as a continuing hedging relationship on transition from IAS 39 to IFRS 9; or
- continue with its original hedge designation of the entire non-financial item under IFRS 9.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda for the reasons set out in the tentative agenda decision but recommend that context be added to the tentative agenda decision by an explanation of the circumstances giving rise to both questions (i.e. transition to IFRS 9 by an entity with an entire non-financial item designated as the hedged item under IAS 39 but a risk management objective relating only to a component of that item).

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Deloitte.

Yours sincerely

Veronica Poole
Global IFRS Leader

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