IFRS Accounting

Staff paper

Agenda reference: 26A

IASB® meeting

Date	**July 2026**
Project	**Post-implementation Review of IFRS 9—Hedge Accounting**
Topic	**Feedback analysis—Hedge accounting requirements and related disclosures**
Contacts	**Juliane-Rebecca Upmeier (jrupmeier@ifrs.org)** **Riana Wiesner (rwiesner@ifrs.org)**

Purpose and structure of this paper

1. This paper discusses the feedback from outreach with stakeholders in Phase 1 of the Post-implementation Review (PIR) of IFRS 9—Hedge Accounting project on the hedge accounting requirements in IFRS 9 *Financial Instruments* and the related disclosure requirements in IFRS 7 *Financial Instruments: Disclosures*. It also includes staff analysis, staff recommendations, and questions for the IASB on which matters to ask questions about in the request for information (RFI).

2. The paper is structured as follows:

   (a) background (paragraphs 3–12);

   (b) feedback summary (paragraphs 13–64);

   (c) staff analysis and recommendations (paragraphs 65–74); and

   (d) questions for the IASB.

Background

3. Consistent with the *Due Process Handbook*, the objective of a PIR is to assess whether the effects of applying the requirements of a new Standard on users of financial statements (users), preparers of financial statements (preparers), auditors and securities regulators are as intended when the new requirements were developed.

A post-implementation review involves the IASB assessing whether the new requirements are overall working as intended, that is, whether:

(a) the benefits to users of the information arising from applying the new requirements are not significantly lower than was expected; and

(b) the costs of applying the requirements and auditing and enforcing their application are not significantly greater than was expected.

4. This section discusses the IASB's expectations, as set out in the 'Analysis of the effects: Hedge Accounting' in paragraphs BCE.174–BCE.238 of the Basis for Conclusions on IFRS 9,[1] on:

(a) the overall expected effects of the hedge accounting requirements in IFRS 9 and the related disclosure requirements in IFRS 7 (paragraph 5);

(b) the costs for preparers of applying the requirements in IFRS 9 and IFRS 7 (paragraphs 6–9); and

(c) the benefits to users arising from entities providing information in accordance with the requirements (paragraphs 10–12).[2]

Overall expected effects

5. Overall, the IASB expected that the hedge accounting requirements in IFRS 9 would allow entities to better align accounting outcomes with their actual risk management activities. By introducing a principles-based model, the IASB sought to ensure that the financial statements reflect the economic substance of an entity's hedging strategies. Specifically, the IASB expected IFRS 9:

(a) to reduce the need for entities to provide non-GAAP measures in public communications to explain the performance and economic effects of their hedging activities; and

[1] The expected effects of the amendments to the hedge accounting disclosure requirements in IFRS 7 were also discussed in that section of the Basis for Conclusions on IFRS 9.

[2] Agenda Paper 26 for this meeting includes background on this project.

(b) to improve comparability and transparency of financial statements by requiring entities to provide information on their hedging activities and the impact of those activities on their primary financial statements in the notes to the financial statements (notes).

Costs for preparers

6. The IASB expected that entities would incur implementation costs on transition to the new requirements:

   (a) to set up systems and processes, including establishing better integration and structural links between the corporate treasury/risk management and accounting functions, and educating personnel;

   (b) to update and align the documentation of existing hedging relationships on transition; and

   (c) to communicate and explain changes in reported information to investors, analysts, and other external parties.

7. The IASB expected the ongoing costs of applying hedge accounting to be lower compared to IAS 39 *Financial Instruments: Recognition and Measurement*, in particular, for less complex hedging relationships, because the new principles-based model for testing hedge effectiveness is linked directly to how the hedge is designed and monitored for risk management purposes. This reduces the need for entities to run costly, parallel, accounting-specific calculations (such as the 80–125 per cent 'bright-line' effectiveness test required under IAS 39).

8. In addition, the IASB expected more entities to apply hedge accounting under IFRS 9 because:

   (a) aligning the accounting with actual risk management activities reduces the operational burden on entities to qualify and maintain hedge accounting;

   (b) allowing for more eligible hedged items (such as risk components of non-financial items or net positions) and more eligible hedging instruments increases the scope of hedging relationships that can qualify for hedge accounting.

9. The IASB expected the benefits of applying the new hedge accounting requirements to be ongoing and to justify the costs of implementing the requirements, which would likely be incurred mainly in transitioning from the hedge accounting requirements in IAS 39 to those in IFRS 9.

Benefits to users

10. The previous hedge accounting disclosure requirements in IFRS 7 often resulted in information perceived as fragmented, accounting-centric, and lacking business context. Consequently, users struggled to understand the economic reality of an entity's hedging activities, leading many to disregard hedge accounting results in their financial analyses. The IASB expected that the amended disclosure requirements would improve the usefulness of the information provided, specifically by:

    (a) aligning disclosures with risk management to provide a clearer, more transparent picture of the purpose, execution, and economic success of hedging strategies, thereby reducing users' reliance on non-GAAP measures; and

    (b) enabling users to better understand the actual costs of hedging (such as the time value of options, forward elements, and foreign currency basis spreads) by presenting them as costs of obtaining protection rather than as sources of unexplained profit or loss volatility.

11. The IASB also expected that the amended disclosure requirements would reduce the costs of analysis for users. Specifically, the IASB expected that requiring entities to present the information in a single note (or separate section) in the financial statements would allow users to easily locate and compare information across different entities.

12. The IASB expected users to incur some initial costs in educating themselves on the new hedge accounting requirements and in adjusting their analytical and financial

models but expected these costs to be mitigated by the preservation of the hedge accounting mechanics of IAS 39.

Feedback summary

13. This section summarises the feedback we received from stakeholders during outreach. Because entities may, as an accounting policy choice, decide to apply the hedge accounting requirements in IAS 39 rather than those in IFRS 9, we also received feedback from a few stakeholders with no practical experience with the requirements. The staff has considered this context in presenting the feedback to the IASB.[3]

Overall assessment from stakeholders

14. Most stakeholders said that the hedge accounting requirements in IFRS 9 are working as intended and are achieving the objective of better aligning the accounting with entities’ risk management activities. Preparers and auditors also said that the costs of applying and auditing the hedge accounting requirements in IFRS 9 are comparable to the costs of applying and auditing the hedge accounting requirements in IAS 39.

15. Many stakeholders said the removal of the 80–125 per cent ‘bright-line’ effectiveness test was a significant improvement compared to IAS 39 (paragraph 37). However, a few stakeholders also said that the removal of a quantitative threshold requires entities to apply more judgement in determining whether a hedge is effective (paragraph 38). Similarly, many stakeholders welcomed the ability to designate, as the hedged item, a risk component of a non-financial item (paragraphs 21–22).

16. In addition, many stakeholders welcomed the recent amendment to IFRS 9 for contracts referencing nature-dependent electricity (paragraph 23). Specifically, they said that allowing entities to designate, as the hedged item, variable nominal amounts of forecasted nature-dependent electricity significantly improves the alignment of accounting with risk management. Consequently, many stakeholders also said that the

[3] The hedge accounting disclosure requirements in IFRS 7 apply to all entities, regardless of whether they apply the hedge accounting model in IAS 39 or IFRS 9.

IASB should consider extending this exception to other types of transactions (paragraph 24).

17. However, many stakeholders also said that applying some of the requirements in IFRS 9 can be challenging for entities, in particular, but not limited to, those for:

(a) the ‘highly probable’ criterion for forecast transactions (paragraphs 26–31);

(b) the cost of hedging (paragraphs 40–44); and

(c) the rebalancing of hedging relationships (paragraph 48).

18. Stakeholders expressed mixed views on the hedge accounting disclosure requirements in IFRS 7. While some users said these requirements have improved transparency regarding entities’ risk management activities to some extent (paragraph 55), many users also said that they do not use the detailed disclosures in their models (paragraph 57). Furthermore, many preparers said that providing the disclosures can be unduly costly and burdensome (paragraph 58).

Detailed feedback

19. The detailed feedback in this section is grouped by topic area:

(a) eligible hedged items and hedging instruments (paragraphs 20–36);

(b) hedge effectiveness requirements (paragraphs 37–39);

(c) the ‘cost of hedging’ approach (paragraphs 40–44);

(d) basis adjustments, rebalancing and discontinuation of hedging relationships (paragraphs 45–51);

(e) transition (paragraphs 52–53);

(f) disclosures (paragraphs 54–59); and

(g) other feedback (paragraphs 60–64).

Eligible hedged items and hedging instruments

20. Many stakeholders provided feedback on:

(a) designating eligible hedged items, specifically on:

   (i) risk components of non-financial items (paragraphs 21–22);

   (ii) variable nominal amounts of forecast nature-dependent electricity (paragraphs 23–24);

   (iii) groups of items (including net positions) (paragraph 25); and

   (iv) applying the 'highly probable' criterion (paragraphs 26–31); and

(b) designating eligible hedging instruments, specifically on:

   (i) written options (and net written options) (paragraphs 32–34); and

   (ii) other restrictions on designating hedging instruments (paragraphs 35–36).

Designating eligible hedged items

Risk components of non-financial items

21. Many stakeholders, including many preparers and a national standard setter, said that the ability to designate a risk component of a non-financial item is a significant improvement compared to IAS 39. This is particularly relevant for entities that hedge commodity purchases.

22. However, some of these stakeholders also said that more examples (or more application guidance) would be helpful because:

(a) it can sometimes be difficult for risk components to meet the 'separately identifiable and reliably measurable' criteria, in particular, for non-contractually specified risk components; and

(b) it is unclear whether an entity is permitted to designate a risk component of a non-financial item that is reliably measurable (and separately identifiable) if the rest of the non-financial item is not reliably measurable.

Variable nominal amounts of forecast nature-dependent electricity

23. Many stakeholders, including preparers and national standard setters, welcomed the amendments to IFRS 9 regarding contracts referencing nature-dependent electricity. Specifically, they said that allowing entities to designate variable nominal amounts of forecast nature-dependent electricity significantly improved the alignment between accounting and entities' risk management activities.

24. In addition, many stakeholders, including auditors, national standard setters and IC members, said that the IASB should consider extending the exception for contracts referencing nature-dependent electricity to other types of transactions, for example, to:

    (a) load-following transactions more broadly—where the volume of the hedged item varies, with some standard setters suggesting that the March 2019 IFRS Interpretations Committee (IFRIC) agenda decision on this topic be reconsidered in light of the recent amendments for contracts referencing nature-dependent electricity; or

    (b) deal-contingent transactions—where the nominal amount of the hedged item is contingent on a transaction occurring (for example, a forecast acquisition of a business in a foreign currency that is contingent on regulatory approval and for which the entity has entered into a deal-contingent derivative).

Groups of items (including net positions)

25. Feedback on the ability to designate a net position as the hedged item was generally supportive. However, some preparers noted that presenting the gains or losses on the hedging instrument in a separate line item in the statement of profit or loss does not provide a faithful representation of their risk management activities and can distort margins. Specifically, they said they would prefer to present revenue and expenses at the hedged rate.

Applying the 'highly probable' criterion

26. A few stakeholders, including preparers and national standard setters, said that the 'highly probable' criterion can sometimes lead to the objective of aligning accounting

outcomes with entities' risk management activities not being met because entities often hedge forecast transactions that are 'reasonably expected' rather than 'highly probable' to occur.[4] These stakeholders also said that because any portion of a transaction that becomes unlikely to occur would be recognised as ineffectiveness, retaining a 'highly probable' criterion was unnecessary. In their view, entities should be allowed more flexibility in managing the volatility in the statement of profit or loss.

27. Stakeholders, including auditors, national standard setters and IC members, said it can be difficult for preparers to demonstrate to auditors that forecast transactions are (or remain) 'highly probable to occur' in the following cases:

(a) for transactions affected by geopolitical challenges and market disruptions;

(b) for long-term contracts under which transactions are expected to occur, but for which the timing of the transactions is uncertain (that is, the transaction does not qualify as a firm commitment);

(c) for transactions that are contingent on regulatory approval or are otherwise deal-contingent; or

(d) for transactions with variable volumes (for example, energy purchases or sales in the renewable energy sector that are hedged using load-following swaps).

28. One national standard setter also said that there is inconsistency in how entities apply the 'highly probable' criterion to forecast transactions. Similarly, feedback from a few stakeholders was that while entities would generally welcome greater flexibility in applying the 'highly probable' criterion to their forecast transactions, auditors are generally seeking greater discipline.

29. A few IC members also said that there is a perceived inconsistency between the 'highly probable' criterion in IFRS 9, and the more flexible approach proposed in the

[4] For example, a preparer and an IC member said that applying the 'highly probable' criterion is difficult for entities in the insurance sector because insurers operate on a 'best estimate' probability model. Consequently, insurers are forced to restrict the volume of cash flows they designate as the hedged item.

Risk Mitigation (RMA) Exposure Draft (ED). For the purposes of determining the net repricing risk exposure in the RMA ED, the highly probable criterion is assessed on an aggregated/portfolio basis and not on an individual item basis as required in IFRS 9.

30. Furthermore, one auditor said that, for commodity purchases where the price is determined on the day of delivery, there is uncertainty over whether these transactions should be treated as highly probable forecast transactions or firm commitments. Specifically, they said that:

(a) some do not view these transactions as firm commitments because not every feature is specified (that is, the price is determined on the day of delivery); and

(b) even if one would conclude that these transactions represent firm commitments, IFRS 9 appears to limit the designation of a cash flow hedge of a firm commitment to foreign exchange risk (thereby excluding commodity price risk).

31. To resolve this tension, this auditor suggested that the IASB consider explicitly allowing firm commitments of commodity purchases to be designated as cash flow hedges, which would eliminate the need to determine whether such transactions are highly probable forecast transactions or firm commitments.

Designating eligible hedging instruments

Written options (and net written options)

32. A few preparers and auditors said that some entities frequently use written options in their risk management strategy. However, because written options do not qualify as eligible hedging instruments under IFRS 9, the financial statements of these entities do not reflect their actual risk management activities.

33. In addition, one auditor said that there is a lack of guidance in IFRS 9 on how to determine a net written option (for which hedge accounting is prohibited), specifically when entities use collars or callable interest rate swaps. These stakeholders suggested

that the IASB consider incorporating the explanatory material on written options in the Basis for Conclusions on IFRS 9 in the Standard itself.

34. One preparer also said that for options that are 'deeply out-of-the-money', entities often struggle to prove the existence of an economic relationship and as a result they are unable to designate these options as hedging instruments in a hedging relationship.

Other restrictions on designating hedging instruments

35. Some stakeholders, including auditors, national standard setters and IC members, said that restricting specific instruments from being eligible hedging instruments prevents entities from aligning the accounting with their risk management activities. Specific examples include:

(a) an intragroup loan to hedge foreign exchange risk in consolidated financial statements; and

(b) an entity's own shares to hedge risk arising from share-based payment obligations under IFRS 2 *Share-based Payment*.

36. One national standard setter also said that risk management is often conducted at a more granular level than the derivative contract (for example, by specific risk type, specific time bands or specific days of the week). Consequently, they suggested that the IASB reassess the unit of account for designating hedging instruments to allow similar granularity to that permitted for hedged items.

Hedge effectiveness requirements

37. Many stakeholders, including preparers, auditors, national standard setters and IC members, said that the introduction of a principles-based model for testing hedge effectiveness introduced by IFRS 9 was an improvement compared to the 80–125 per cent 'bright-line' effectiveness test under IAS 39. Specifically, feedback from a national standard setter and an IC member was that this has simplified the initial designation of whether a hedging relationship qualifies for hedge accounting, in particular, for less complex hedging relationships.

38. However, a few preparers, a national standard setter and an IC member also said that the removal of the 80–125 per cent 'bright-line' effectiveness test sometimes leads to more judgement being needed, requiring greater effort from preparers to justify and support their hedge effectiveness assessments during the audit process. That IC member also said that the removal of the quantitative threshold can lead to inconsistency in determining whether a hedging relationship continues to be effective.

39. In addition, one preparer said it is unclear how rigorous the assessment of the economic relationship between the hedged item and the hedging instrument needs to be. In their view, the IASB should consider providing more application guidance or examples on when an economic relationship is considered to be established.

'Cost of hedging' approach

40. Feedback from stakeholders, including preparers, auditors and IC members, was that the cost of hedging approach was a significant improvement compared to IAS 39 as it allowed entities to reduce the volatility in the statement of profit or loss. An example includes the ability to recognise fair value changes in the time value component of options or the foreign currency basis spread in other comprehensive income (OCI).

41. However, many stakeholders, including preparers and auditors, also said that there are significant operational complexities in applying the approach and that additional guidance is needed. Specifically:

    (a) it can be burdensome to split the actual cost of hedging into an 'aligned' and a 'non-aligned' portion as this requires conducting two separate fair value measurement tests—one to value the excluded component of the actual derivative and another to value the excluded component of the hypothetical (aligned) derivative; and

    (b) there is limited guidance in IFRS 9 on how to construct the hypothetical (aligned) derivative as IFRS 9 only mentions three critical terms (amount, underlying, and timing). This lack of guidance is particularly challenging for complex instruments (e.g., derivatives with a pre-existing fair value or complex option features) and leads to diversity in practice in accounting outcomes.

42. Some preparers and an auditor also said that foreign currency basis spreads are often immaterial (for example, when swapping major currencies). Preparer feedback was that the IASB should consider introducing a simplification, allowing entities to recognise the entire actual cost in OCI, rather than requiring them to calculate and separate the aligned portion.

43. One auditor also said the 'lower-of' requirement (when comparing the actual versus the aligned cost of hedging) is one-sided and appears to penalise entities when the actual costs of hedging are high (but does not provide a symmetrical relief when the costs of hedging are low). Specifically:

(a) if the actual cost is **higher** than the aligned cost, entities are required to recognise the difference in the statement of profit or loss (that is, only the aligned portion is recognised in OCI); whereas

(b) if the actual cost is **lower** than the aligned cost, entities cannot recognise the aligned cost in OCI (as they cannot defer costs that they did not actually incur).

44. Furthermore, one auditor said there is a lack of clarity in IFRS 9 regarding how to account for the cost of hedging when the hedged item is an equity instrument designated at fair value through OCI without recycling. Specifically, it is not clear whether the cost of hedging should eventually be recognised in profit or loss or remain in the cost of hedging reserve indefinitely (that is, never be recycled to profit or loss, matching the treatment of the fair value changes of both the hedged item and the hedging instrument).

Basis adjustments, rebalancing and discontinuation of hedging relationships

Basis adjustments

45. Stakeholders provided mixed feedback on the requirement to include in the initial cost or other carrying amount of a non-financial asset or non-financial liability the gain or

loss previously accumulated in the cash flow hedge reserve upon recognition of that asset or liability in the statement of financial position ('basis adjustment').

46. Some preparers said that while the requirement is conceptually welcomed, the operational complexity associated with making such basis adjustments makes it difficult to apply, in particular, to inventory, because of how entities track inventory and subsequently release it from the statement of financial position.

47. One auditor questioned whether users appreciated the nuance of making a basis adjustment to the initial cost or other carrying amount of a non-financial item in the statement of financial position (as opposed to reclassifying accumulated gains or losses in OCI to the statement of profit or loss when the hedged item affects the statement of profit or loss).

Rebalancing and discontinuation of hedging relationships

48. Feedback on the rebalancing requirements was mixed. While a few preparers said the concept of rebalancing was helpful, many other preparers and auditors said that entities hardly apply this concept to their hedging relationships because it is not well understood. One preparer also said that the rebalancing requirements appear to be applied inconsistently by entities, specifically, that the requirements appear to be applied more flexibly by some entities than intended by the IASB. However, this preparer did not specify how these entities apply the rebalancing requirements.

49. Many stakeholders also commented on the removal of the ability to voluntarily de-designate and re-designate a hedging relationship in IFRS 9. One IC member said that there is a tension between the requirement to rebalance hedging relationships and the prohibition on voluntary de-designation. Specifically, this IC member said that, as a workaround to the prohibition, some entities deliberately fail the hedge effectiveness requirements to force a discontinuation when a hedging relationship is no longer desirable.

50. Similarly, one auditor said that for general corporates the prohibition on voluntary de-designation is generally not a concern because many of these entities use 'plain

vanilla' derivatives, making it easy to cancel them and enter into new contracts (as a workaround to the prohibition). That auditor also said that the prohibition on voluntary de-designation has made hedging relationships easier to audit.

51. In addition, many stakeholders, including preparers and auditors, said that the prohibition on voluntary de-designation was one of the reasons some entities continue to apply the hedge accounting requirements in IAS 39. Specifically, they said that:

    (a) some non-financial entities that are dual reporters (that is, publish financial statements in accordance with IFRS and US GAAP) have not yet transitioned to the hedge accounting requirements in IFRS 9 because voluntary de-designation (and re-designation) continues to be allowed under US GAAP; and

    (b) the ability to voluntarily de-designate (and re-designate) was one of the main reasons for entities with dynamic portfolios, in particular, banks, to continue applying IAS 39. The preparer also said that the ability to voluntarily de-designate and re-designate hedging relationships provides operational flexibility for managing dynamic portfolios, which they believe cannot be achieved through the rebalancing requirements in IFRS 9.

Transition

52. We received only limited feedback on the costs of transitioning from the hedge accounting requirements in IAS 39 to those in IFRS 9, specifically:

    (a) one IC member said that the benefits of applying the hedge accounting requirements in IFRS 9 outweighed the transition costs;

    (b) one IC member said that the transition costs were significant but did not specify why the costs were significant; and

    (c) one national standard setter said that many banks in the jurisdictions they represent (South America) still apply IAS 39 and expect the transition costs to be significant (in particular, due to the necessary changes required for systems, processes, and documentation).

53. One auditor said that the transition relief (allowing entities to continue their existing qualifying hedging relationships when moving from the hedge accounting requirements in IAS 39 to those in IFRS 9) was welcomed be entities who have already transitioned to IFRS 9.

Disclosures

54. Many stakeholders, including users, preparers, auditors, national standard setters, IC members and a securities regulator, provided feedback on the usefulness of the amended hedge accounting disclosure requirements in IFRS 7 for users and the costs for entities of disclosing such information.

55. A few stakeholders, including a user and an IC member, said that the amendments to IFRS 7 resulted in more decision-useful information on entities' risk management activities being disclosed to users. However, some stakeholders, including users, auditors, national standard setters, an IC member and a securities regulator, said that entities' disclosures:

   (a) can vary significantly in their granularity and that the information provided is sometimes too aggregated to be decision-useful for users (for example, some entities present or disclose hedge effectiveness together with other expenses);

   (b) are often overly lengthy and boilerplate rather than concise and informative; and

   (c) often lack context or connections to the primary financial statements, which limits their usefulness, for example:

      (i) average prices (or rates) of hedging instruments are often disclosed in isolation, providing little decision-useful information unless compared to spot rates or market benchmarks; or

      (ii) disclosures on the changes in the fair value of the hedged item and the hedging instrument do not always reconcile to the amount of hedge ineffectiveness recognised in the statement of profit or loss. Stakeholders attribute this to the confusion among entities on whether

IFRS 7 requires an entity to disclose the cumulative change in fair value or the change in fair value of the reporting period.

56. Some stakeholders, including users, auditors and an IC member, also said that users would benefit from additional information on entities':

(a) rebalancing decisions and the reasons for terminating hedging relationships;

(b) economic and structural hedge activities; and

(c) expectations regarding the duration of hedges and their approach to renewing hedges (that is, users would benefit from additional information that is forward-looking).

57. In addition, many users said that they do not use the detailed disclosures provided by entities in their models, although they welcome entities applying hedge accounting because it serves as an indicator for effective risk management. Similarly, some preparers and a national standard setter said that entities generally do not receive questions from users on their hedge accounting activities.

58. Many preparers said that preparing the disclosures can be unduly costly and burdensome for entities, in particular, because:

(a) IT systems are often not configured to generate this data automatically, making manual calculations necessary; and

(b) these disclosures are subject to extensive audit procedures, which increases audit fees.

59. One preparer also said that commercial sensitivity can sometimes make it challenging for entities to disclose decision-useful information (for example, the exact hedged rate on a specified commodity).

Other feedback

60. This section summarises other feedback received from stakeholders on:

(a) digital reporting of hedge accounting information (paragraph 61); and

(b) the requirements in IFRS 18 *Presentation and Disclosure in Financial Statements* (paragraphs 62–64).

61. A few ITCG members provided feedback on digital reporting of hedge accounting information. Specifically, these stakeholders said that:

(a) regarding the statement of financial position:

(i) entities sometimes create entity-specific extension elements for a 'cost of hedging reserve', although the IFRS Accounting Taxonomy includes narrower elements (for example, for the foreign currency basis spreads reserve), suggesting that a wider common practice element should be added to the IFRS Accounting Taxonomy; or

(ii) entities sometimes use existing (narrower) elements to tag line items that represent a combination of items (for example, use the element for the foreign currency basis spreads reserve to tag a line item that includes both that reserve and the forward element of forward contracts reserve); and

(b) regarding the statement(s) of financial performance: entities sometimes create entity-specific extension elements for the total 'cost of hedging', although the IFRS Accounting Taxonomy includes narrower elements (for example, for foreign currency basis spreads), suggesting that a wider common practice element should be added to the IFRS Accounting Taxonomy.

62. Many stakeholders, including preparers, auditors, national standard setters and IC members, commented on the expected effects from the implementation of IFRS 18.[5] In particular, they commented on the classification of:

(a) income or expenses related to non-derivative financial instruments used as natural hedges of underlying items;

[5] Because IFRS 18 is effective for annual reporting periods beginning on or after 1 January 2027, the feedback was primarily based on theoretical analysis rather than practical application.

(b) gains and losses on either of the following, where the related income or expenses of the underlying (or hedged item) are classified in more than one category in the statement of profit or loss:

(i) derivatives used to economically hedge an underlying item; and

(ii) designated hedging instruments; and

(c) undesignated parts of a derivative (for example, when a component of a derivative is excluded from a hedging relationship or only a proportion of a derivative is designated).

63. Some stakeholders also commented on the presentation of specific income or expenses in the statement of profit or loss when applying the principles of aggregation and disaggregation and the concept of providing a useful structured summary as well as on the labelling of line items.

64. While many stakeholders said that they did not expect IFRS 18 to have an impact on the hedge accounting information entities disclose, a few preparers and an auditor noted that IFRS 18 might lead to an increase in the volume of disclosures provided, for example, because of the requirement to:

(a) identify the line item(s) in the primary financial statements in which amounts disclosed in the notes are included; and

(b) disaggregate information if the items have characteristics that are not shared.

Staff analysis and recommendations

65. This section analyses the feedback and makes recommendations to the IASB on which questions to ask in the RFI. It is structured as follows:

(a) staff analysis (paragraphs 66–70); and

(b) staff recommendations (paragraphs 71–74).

Staff analysis

66. Most stakeholders said that the hedge accounting requirements in IFRS 9 are overall working as intended, and that IFRS 9 has achieved its objective of enabling better alignment of accounting outcomes with entities' risk management activities compared to IAS 39. In contrast, feedback on the hedge accounting disclosure requirements in IFRS 7 was mixed in this regard.

67. From the feedback it appears that there are areas in both IFRS 9 and IFRS 7 for which judgement is necessary in applying the requirements, for example, in determining whether:

    (a) a forecast transaction is 'highly probable to occur' (paragraph 27);

    (b) an economic relationship between a hedged item and a hedging instrument exists (paragraph 39); or

    (c) a specific piece of information provides decision-useful information to users (paragraphs 55 and 59).

68. Other feedback relates to specific or discrete areas in IFRS 9 and IFRS 7 for which complying with the requirements is viewed as (unduly) costly or burdensome by some preparers, for example:

    (a) determining the 'aligned cost' when applying the 'cost of hedging' approach (paragraph 41);

    (b) applying a basis adjustment to inventory when individual items are not tracked (paragraph 46); or

    (c) disclosing a specific piece of information (paragraph 58).

69. In addition, for some areas in both IFRS 9 and IFRS 7 feedback was such that more application guidance or educational material might be needed, for example, on:

    (a) applying the rebalancing requirements (paragraph 48); or

(b) determining whether to disclose, for the hedged item and hedging instrument, the fair value changes of the reporting period or the cumulative change in fair value (paragraph 55).

70. Further, some feedback on the application of the 'highly probable' criterion to forecast transactions relates to a desire to expand the scope of eligible hedged items, for example, to deal-contingent forecast transaction that currently often fail hedge accounting (paragraphs 24 and 26).

Staff recommendations

71. Although the initial feedback obtained through our research and outreach activities was positive about the requirements working as intended, the *Due Process Handbook* requires the IASB to formally consult stakeholders on their overall assessment of the requirements in a public consultation.

72. While we acknowledge the feedback on specific areas in IFRS 9 and IFRS 7 (paragraphs 67–70), we do not recommend including detailed questions on specific requirements in the RFI because the feedback does not suggest that any of these requirements are overall not working as intended.[6]

73. In addition, while we acknowledge the feedback on digital reporting of hedge accounting information (paragraph 61) and on IFRS 18 (paragraphs 62–64), we recommend the IASB not include a related question in the RFI because:

(a) for digital reporting of hedge accounting information, the feedback relates to entities' common practice in tagging digital financial statements rather than missing elements in the IFRS Accounting Taxonomy (and should thus be addressed by the IFRS Accounting Taxonomy common practice review cycle).

(b) for IFRS 18, the scope of this PIR is limited to the hedge accounting requirements in IFRS 9 and the related disclosure requirements in IFRS 7 and

[6] This does not mean the IASB might not explore ways to help support the consistent application of the requirements.

asking a question on IFRS 18 would appear as if the IASB were conducting a PIR on that Standard.

74. Therefore, we recommend the IASB include questions in the RFI to assist it in determining whether the effects of applying the hedge accounting requirements in IFRS 9 and the related disclosure requirements in IFRS 7 are as intended when it developed the requirements. We recommend the RFI ask stakeholders whether:

(a) the hedge accounting requirements in IFRS 9 and the related disclosure requirements in IFRS 7 are meeting their objective;

(b) the benefits to users of the information arising from applying the requirements are as expected; and

(c) the costs of applying the requirements and auditing and enforcing their application are as expected.

Questions for the IASB

Questions for the IASB
1. Do IASB members agree with the staff recommendations in paragraph 74 of this paper?
2. Are there any additional matters that the IASB should ask questions about in the RFI?