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## Financial Instruments Consultative Group meeting

Date	May 2026
Project	Post-implementation Review of IFRS 9—Hedge Accounting
Topic	Phase 1—Identifying matters to be examined
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# PIR of IFRS 9—Hedge Accounting: Session overview

## **Purpose of this session**

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- Provide FICG members with a project overview, including:
  - the PIR objective, process and current status
  - the key differences between IFRS 9 and IAS 39 hedge accounting
- Seek FICG members' feedback on the implementation and application of the hedge accounting requirements in IFRS 9 and the related disclosure requirements in IFRS 7, to help the IASB identify matters to include in a Request for Information (RFI) – see our [questions on slides 4–6](#)

## **Background information to support the discussion**

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- PIR objective, process and current status (slides 8–11)
- Expected effects of IFRS 9 hedge accounting requirements and related IFRS 7 disclosure requirements (slides 12–16)
- IFRS 9 hedge accounting requirements and related IFRS 7 disclosure requirements (slides 17–28)
- Appendix A—Illustrative examples of the disclosure requirements

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# Questions for FICG members

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## Questions for FICG members with a preparer background (1/2)

**1**

**Are there fundamental questions on the clarity and suitability of the core objectives or principles in the requirements that indicate they are not working as intended?**

Please specify, separately for IFRS 9 and IFRS 7, whether the requirements achieve their objective of representing, in the financial statements, the effect of an entity's risk management activities that use financial instruments to manage exposures arising from particular risks?

**2**

**Are the costs of applying the requirements in IFRS 9 or IFRS 7 significantly greater than expected?**

- Do the actual effects differ from those expected in the Effects Analysis (e.g., the costs of providing information required by IFRS 7)?
- Have there been any significant effects (positive or negative) that were not identified in the Effects Analysis?

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## Questions for FICG members with a preparer background (2/2)

**3**

**Do you think the disclosure requirements in IFRS 7 result in useful information being provided to users of financial statements?**

- If not, please explain why not.
- Is there information not currently required that in your view would result in more useful information being provided? If so, do you currently disclose this information in the notes to the financial statements or elsewhere?

**4**

**Are there any other matters the IASB should investigate during Phase 1 of the PIR?**

- If yes, please explain:
- what that matter is;
  - why you think it requires further analysis

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## Questions for FICG members with a user background

**1** Do the additional disclosure requirements in IFRS 7, outlined in slide 28, help users understand an entity's risk management strategy?

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**2** Is there any hedge accounting related information that you need for your analysis that entities are currently not required to disclose?

If yes, please explain which information would be useful and how you would use that information

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**3** Are any of the hedge accounting related disclosures not useful for your analysis?

If yes, please explain which disclosures you do not use and why they are not useful

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**4** Are the benefits to users arising from entities applying the amended disclosure requirements in IFRS 7 significantly lower than expected?

For example, the additional disclosures are expected to help users understand:

- how an entity's hedging activities affect the amount, timing and uncertainty of its future cash flows
  - the effect that hedge accounting has had on an entity's financial statements
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\* This [article](#) explains how IFRS 9 and IFRS 7 were expected to improve users understanding of risk management and the information they receive.

\*\*Appendix A provides illustrative examples of the added disclosures.

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## PIR of IFRS 9—Hedge Accounting: Topic areas to explore

**1** Eligible hedged items and hedging instruments

**2** Hedge effectiveness requirements

**3** ‘Cost of hedging’ concept

**4** Basis adjustment, rebalancing & discontinuation

**5** Transition

**6** Disclosures

When responding to the questions, please specify which topic area your feedback relates to

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# PIR objective, process and current status

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## What is the objective of a PIR?



### OBJECTIVE

To **assess** whether the **effects** of applying new requirements on users, preparers, auditors and regulators of financial statements are **as intended** when the IASB developed those new requirements

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Overall, are the requirements working as intended?

**Fundamental questions** about the core objectives or principles—their clarity and suitability—would indicate that the new requirements are not working as intended

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Are there specific application questions?

**Specific application questions** would not necessarily prevent the IASB from concluding that the new requirements are working as intended, but might nonetheless need to be addressed if they meet the criteria for whether the IASB would take further action

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## How does the IASB respond to matters identified during a PIR?

1

Consider whether to take action based on extent to which...

- objective of the new requirements is not being met
- benefits to users are significantly lower than expected
- costs of application are significantly greater than expected

2

Determine prioritisation of matters based on extent to which...

- matter has substantial consequences
- matter is pervasive
- matter arises from a financial reporting issue that can be addressed by the IASB or IFRS Interpretations Committee (IC)
- benefits of any action are expected to outweigh the costs

3

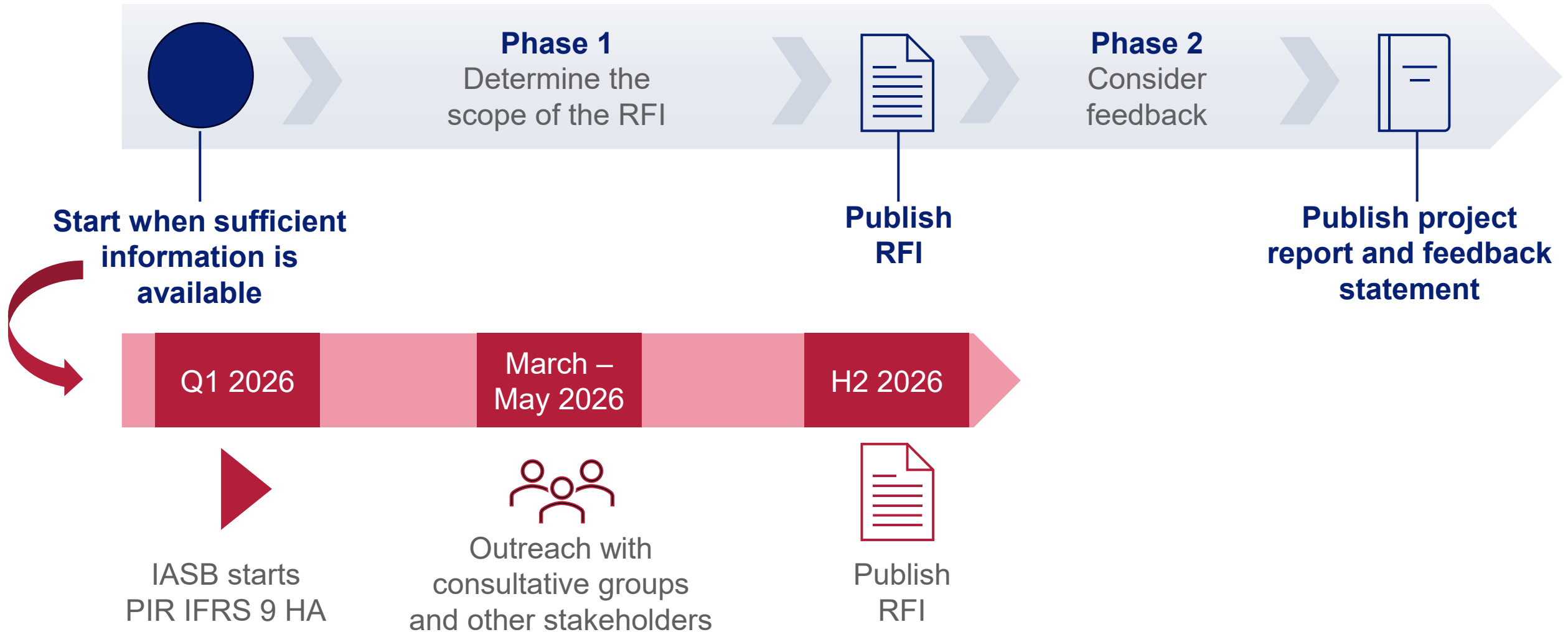
Actions could include:

- standard-setting
- referring a matter to the IC
- developing materials to support consistent application

The IASB might also conclude that no action is required

A PIR is not a standard-setting project and does not automatically lead to standard-setting

## PIR process and current status

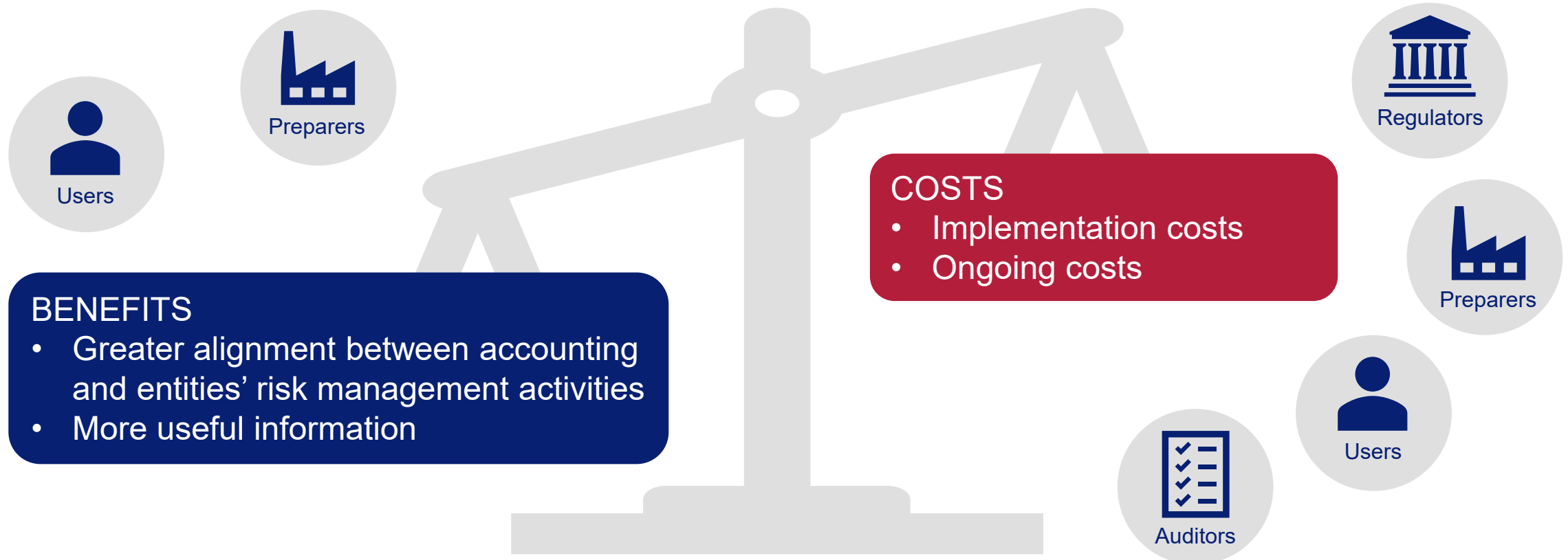


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# Expected effects of IFRS 9 hedge accounting requirements & related IFRS 7 disclosure requirements

## Expected effects—an overview

The IASB expected the benefits of the hedge accounting requirements in IFRS 9 and the related disclosure requirements in IFRS 7 to outweigh the costs



## Expected benefits

 **Preparers**

### Greater alignment between accounting and entities' risk management

- Reduced need to produce information solely for accounting purposes (i.e., entities can use some of the information already being produced for risk management purposes)

### Reduced volatility in financial statements

- Reduced need to produce non-GAAP measures for reporting on hedging activities

 **Users**

### More useful information for decision-making, allowing users to understand:

- an entity's risk management strategy
- how an entity's hedging activities affect the amount, timing and uncertainty of its future cash flows
- the effect that hedge accounting has had on an entity's financial statements

## Expected implementation costs



### Preparers

#### Communication and education

- Accounting & Treasury functions, management
- Analysts, investors



#### Adjustments to systems, processes and controls

- New eligible hedging relationships
- Updates to hedge documentations
- Updates to internal policies



#### Adjustments to financial reporting

- Notes to the financial statements
- Tagging of digital reports, if applicable



### Users/auditors/regulators

#### Education and updates to methodologies to analyse, audit or enforce financial statements

- Hedge accounting mechanics remain unchanged
- Some changes to accounting (e.g., 'cost of hedging' concept or basis adjustment)
- Some new eligible hedging relationships

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## Expected ongoing costs



**Capturing of data for disclosure in the notes to the financial statements**



**Some costs to maintain hedging relationships, but expected to be substantially lower than under IAS 39, e.g.:**

- Testing of hedge effectiveness requirements
- Updates to hedge documentation or other documents/policies



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# IFRS 9 hedge accounting requirements & related IFRS 7 disclosure requirements

## IFRS 9 and related PIRs at a glance



- IFRS 9 was issued in three phases
    - Classification and measurement
    - Impairment
    - **Hedge accounting**
  - Final version of IFRS 9 was issued in July 2014 and became effective for annual reporting periods beginning on or after 1 January 2018\*
  - IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* except for hedge accounting requirements (for which entities may continue to apply IAS 39)
- 
- Status of PIRs of IFRS 9
    - PIR of classification and measurement requirements (completed in December 2022)
    - PIR of impairment requirements (completed in July 2024)
    - **PIR of hedge accounting requirements (starting in Q1 2026)**

## Key differences between IFRS 9 and IAS 39 hedge accounting

### IFRS 9 (principles-based requirements)

- Greater alignment between accounting and entities' risk management activities, e.g.:
  - more eligible hedged items and hedging instruments
  - principles-based effectiveness test
  - rebalancing allowed to meet effectiveness (continuation of hedging relationship)
- Disclosures more closely aligned with entities' risk management activities

### IAS 39 (rules-based requirements)

- Stronger focus on meeting technical eligibility criteria, e.g.:
  - retrospective effectiveness test (80–125% 'bright line' quantitative threshold)
  - rebalancing not allowed, instead forced de-designation and re-designation (no continuation of hedging relationship)
- Disclosures focused on demonstrating technical effectiveness rather than explaining entities' risk management activities



Slides 20–28 explain in more detail—for the six topic areas on slide 7—the changes to the hedge accounting requirements and related disclosure requirements

## Topic area 1—Eligible hedged items (1/2)

More eligible hedged items under IFRS 9, for example, IFRS 9 allows...

individual **risk components of non-financial items** to be designated as hedged item if they are separately identifiable and can be measured reliably (e.g., the oil price component of jet fuel)

Under IAS 39, only the foreign exchange risk components of non-financial items can be designated as hedged items

a **net position of a group of items** containing offsetting risk positions to be designated as the hedged item

Under IAS 39, the net position of a group of items cannot be designated as the hedged item except in specific circumstances

**net nil positions** to be designated in a hedging relationship that does not include a hedging instrument in specific circumstances

Under IAS 39, net nil positions cannot be designated as the hedged item except in specific circumstances

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## Topic area 1—Eligible hedged items (2/2)

More eligible hedged items under IFRS 9, for example, IFRS 9 allows...

an entity to designate as the hedged item a **variable nominal amount of forecast electricity transactions** that is **aligned** with the variable amount of nature dependent electricity expected to be delivered by the generation facility as referenced in the contract referencing nature-dependent electricity that is **used as the hedging instrument\***

Under IAS 39 (and before the amendment to IFRS 9 in December 2024), entities are required to designate the hedged item as a specified nominal amount or volume (or as a component of such a nominal amount or volume)

\* In December 2024, the IASB issued [\*Contracts Referencing Nature-dependent Electricity\*](#)

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## Topic area 1—Eligible hedging instruments

More eligible hedging instruments under IFRS 9,  
for example, IFRS 9 allows...

**non-derivative** financial assets and liabilities at  
fair value through profit or loss to be designated  
as hedging instruments

Under IAS 39, non-derivative financial  
instruments are only allowed to be designated  
as hedging instruments for hedging foreign  
currency risk

## Topic area 2—Hedge effectiveness requirements

IFRS 9 introduces principles-based hedge effectiveness criteria that require:

- the existence of an **economic relationship** between the hedged item and the hedging instrument;
- that the **effect of credit risk does not dominate the value changes** that result from that economic relationship; and
- that the **hedge ratio** of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item

Under IAS 39, a retrospective assessment of hedge effectiveness is required, with hedge effectiveness needing to be within the 80–125% ‘bright line’ quantitative threshold for hedge accounting to be continued

## Topic area 3—‘Cost of hedging’ concept

IFRS 9 introduces a ‘cost of hedging’ concept for the accounting treatment of changes in the value of an excluded component of a hedging instrument, specifically, IFRS 9:

- requires that entities account for changes in the value of an excluded time-value component of a purchased option in other comprehensive income (OCI)
- allows entities to account for changes in the value of an excluded forward component (forward points) or foreign currency basis spread either in:
  - profit or loss; or
  - OCI

Under IAS 39, changes in the value of an excluded component are accounted for in profit or loss

## Topic area 4—Basis adjustment

IFRS 9 requires a ‘basis adjustment’ for specific hedging relationships, specifically, that...

the **carrying amount of a non-financial hedged item** (e.g., a cash flow hedge of a forecast transaction which results in the recognition of inventory) be **adjusted** for the accumulated gains or losses recognised in equity at initial recognition of the non-financial item in the statement of financial position



**Mandatory ‘basis adjustment’**

Under IAS 39, entities can—as an accounting policy choice—either:

- adjust the carrying amount of a non-financial item upon its recognition in the statement of financial position; or
- maintain the accumulated gains or losses in equity and reclassify them to profit or loss at the same time the non-financial item affects profit or loss

## Topic area 4—Rebalancing & discontinuation

### IFRS 9...

- **removes the option to voluntary de-designate** a hedging relationship; and
- **introduces** the concept of ‘**rebalancing**’ which allows entities to **adjust** the designated quantities of either the hedged item or the hedging instrument of an existing hedging relationship for the **purpose of maintaining a hedge ratio that complies with the hedge effectiveness** requirements



Continuation of hedge accounting

Under IAS 39, entities:

- can decide to discontinue a hedging relationship
- need to de-designate and re-designate a hedging relationship if the hedge ratio needs to be changed (because it fell outside the 80–125% ‘bright line’ quantitative threshold)

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## Topic area 5—Transition

### Accounting policy choice to apply IFRS 9 hedge accounting requirements

Entities may continue to apply IAS 39 to all hedging relationships or apply IFRS 9, either to:

- all hedging relationships; or
- all hedging relationships except for fair value hedges of the interest rate exposure of a portfolio of financial assets or financial liabilities (macro hedge accounting), for which it may apply the specific requirements in IAS 39

### Prospective application of IFRS 9 hedge accounting requirements

Requirements are generally applied prospectively, with some exceptions (e.g., mandatory retrospective application for options for which only the intrinsic value was designated under IAS 39)

### Continuation of existing hedging relationships

Hedging relationships that meet the qualifying criteria in IFRS 9 at transition continue without de-designation (after any possible rebalancing)

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## Topic area 6—Disclosures

IFRS 9 introduces amendments to IFRS 7 *Financial Instruments: Disclosures*, in particular the requirement to disclose:

- for each risk category, information on:
  - an entity's **risk management strategy**
  - how the entity's hedging activities might **affect the amount, timing and uncertainty of its future cash flows**
  - the **effect** that hedge accounting has had on the entity's **financial statements**

Under IAS 39, IFRS 7 disclosures focused on measurement and effectiveness testing rather than an entity's risk management strategy

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# Appendix A—Illustrative examples of the disclosure requirements

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## Example disclosure: Risk management strategy

### **Risk management strategy—Commodity price risk**

Entity A uses coffee as a raw material to manufacture and sell finished coffee products. It purchases Arabica coffee from suppliers, processes it, and then sells the resulting products to customers. The amount Entity A pays for coffee can fluctuate for several reasons. The main driver is changes in the USD Arabica coffee price, which is the primary pricing component in coffee purchase contracts.

Entity A's risk management objective is to stabilise the cost of its future coffee purchases (i.e., to reduce the cash flow risk). To accomplish its risk management objective, Entity A's risk management strategy is to enter into derivative contracts, specifically Arabica coffee futures contracts.

Entity A applies cash flow hedge accounting to reduce profit or loss volatility (which would result from fair value changes in the derivatives being recognised in profit or loss) by designating hedging relationships between its futures contracts and its forecast coffee purchases expected within the next 12 months.

Entity A hedges only the coffee price component of its purchase contracts even though the price it pays for coffee is also determined by other components (e.g., quality, transport). This is because the coffee price component represents the most significant and observable driver of the price Entity A pays.

## Example disclosure: Amount, timing & uncertainty of future cash flows

### Effect on future cash flows—Commodity price risk

The following table includes the notional amount and average hedged rate of Entity A's coffee futures contracts (hedging instruments), which it uses to hedge the exposure on its coffee purchases over the next 12 months.

Maturity of hedging instruments	January	February	...	December	Total
Notional amount (in lbs thousands)	2,500	2,300	...	2,500	18,000
Average hedged rate (in US cents per lb)	122	121	...	119	120

## Example disclosure: effect on financial position & performance (1/2)

### Effect on statement of financial position—Commodity price risk

The following tables illustrate the impact of the coffee futures (hedging instruments) and forecast coffee purchases (hedged items) designated in hedging relationships as of 31 December 202X on Entity A’s statement of financial position.

Type of hedging instrument	Notional amount (in lbs thousands)	Carrying amount (in EUR m)	Line item in the statement of financial position	Change in the fair value (in EUR m)
Arabica coffee futures	18,000	(6.0)	Short-term derivative financial liabilities	(1.5)

Type of hedged item	Change in the fair value (in EUR m)	Cash flow hedge reserve (in EUR m)
Forecast coffee purchases	1.5	6.0

## Example disclosure: effect on financial position & performance (2/2)

### Effect on statement of financial performance—Commodity price risk

The following table illustrates the hedging relationships impact on Entity A’s statement of financial performance as of 31 December 202X.

Hedging gain or loss recognised in OCI (in EUR m)	Ineffectiveness recognised in profit or loss (in EUR m)	Line item in the statement of financial performance	Amount reclassified from OCI to profit or loss (in EUR m)	Line item in the statement of financial performance
(1.0)	-	-	-	-

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