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Dear Sir/Madam

**RESPONSE OF THE ACCOUNTING COMMITTEE OF CHARTERED ACCOUNTANTS  
IRELAND**

**ED/2010/13: HEDGE ACCOUNTING**

The Accounting Committee ('AC') of Chartered Accountants Ireland is pleased to have the opportunity to comment on the matters contained in the above document.

The appendix to this letter provides responses to the questions asked in the document.

Should you wish to contact us about any of our comments please feel free to do so.

Yours faithfully

Mark Kenny  
Secretary to the Accounting Committee

## APPENDIX

### Question 1 (paragraph 1)

**Do you agree with the proposed objective of hedge accounting? Why or why not? If not, what changes do you recommend and why?**

AC agrees with the proposed objective of hedge accounting ‘to represent in the financial statements the effect of an entity’s risk management activities that use financial instruments to manage exposures arising from particular risks that could affect profit or loss.’ The inclusion of this as the overall objective of hedge accounting is a useful starting point for helping entities ensure that their financial statements better reflect the economics of their derivative and hedging transactions.

AC notes that the current ED does not cover the more complex situations where risk management assesses risks on open portfolios and on a continuous basis. Therefore, the above objective will not necessarily be fully achieved by entities operating in those more complex situations.

### Question 2 (paragraphs 5-7)

**Do you agree that a non-derivative financial asset and a non-derivative financial liability measured at fair value through profit or loss should be eligible hedging instruments? Why or why not? If not, what changes do you recommend and why?**

AC has concerns around the appropriateness of allowing the unrestricted use of these assets and liabilities as hedging instruments. As explained in more detail below, AC’s view is that non-derivative financial assets and liabilities that are designated at fair value through profit or loss should not be available for use as hedging instruments. Regarding other items at fair value through profit or loss, it may be necessary to highlight that these may not be suitable for use in cash flow hedging relationships where the intended holding period for these items is short. AC considered each of the situations where non-derivative financial instruments are, in accordance with IFRS 9, measured at fair value through profit or loss, and documents its concerns regarding the use of these as hedging instruments in the following paragraphs.

#### **1. Financial Assets:**

- (i) Where the asset is not held in a business model whose objective is to hold assets in order to collect contractual cash flows and/or the contractual terms do not give rise on specified dates solely to payments of principal and interest on the principal outstanding. This group of financial assets would then be further reduced to exclude any equities for which the entity had made an irrevocable election to present fair value changes in other comprehensive income.
- (ii) Where the entity has on initial recognition designated a financial asset as measured at fair value through profit or loss in order to eliminate or significantly reduce an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on different bases.

*Comments:*

- Regarding assets within group (i) above, if the reason for categorisation at fair value through profit or loss was because the entity was not necessarily holding the assets in order to collect contractual cash flows (e.g. an item held for trading purposes), care would be needed if these were to then be used as hedging instruments in cash flow hedges as there could be an inconsistency in the stated intention of holding such instruments. In addition, AC notes that paragraph 9 of the exposure draft says that ...'a hedging relationship may not be designated for only a portion of the time period during which a hedging instrument remains outstanding'. Therefore, it would be necessary to ensure that this was taken in to account in defining the hedging relationship.
- Regarding assets within group (ii) above, the rationale for including these at fair value through profit or loss is to avoid an accounting mismatch that would otherwise arise. Therefore these assets are, in essence, already being used as economic hedging instruments. It is, therefore, difficult to see how they could then be 're-used' in another formal hedging arrangement.

**2. Financial Liabilities:**

- (i) Where they are held for trading purposes, or
- (ii) Where the entity designates them to be at fair value through profit or loss in order to eliminate an accounting mismatch, or because they are part of a portfolio managed on a fair value basis, or because they contained substantive embedded derivatives that the entity is opting not to accounting for separately. In these situations, IFRS 9 would expect that fair value changes related to credit would ordinarily be measured through other comprehensive income and not through profit or loss.

*Comments:*

- In relation to liabilities held for trading purposes (in 2(i) above), as in the case of financial assets (see 1(i) above), use of these in cash flow hedges appears likely to be difficult and contrary to the proposition that they are held for trading.
- As in the case of financial assets (see 1(ii) above), where liabilities were at fair value through profit or loss to avoid an accounting mismatch, the 're-use' of the liabilities in formal hedges does not appear appropriate.
- Where liabilities are designated at fair value through profit or loss in one of the other situations noted in 2(ii) above, the expectation is that changes in fair value due to credit risk will be reflected in other comprehensive income (OCI). If the entity was to then use one of these liabilities as a hedging instrument it would (in accordance with paragraph 8 of the ED) be required to designate the instrument in its entirety in any such hedging relationship, including the element relating to credit. While both the cash flow and fair value hedging models require the effective portion of the hedging instruments to go through OCI, reclassifications and any ineffectiveness are taken through profit or loss. Therefore, the changes in fair value of the financial liability hedging instruments that relate to credit would be presented through profit or loss either as ineffectiveness or reclassification adjustment. This seems to be inconsistent with the intent of IFRS 9 (as issued in 2010).

### Question 3 (paragraph 15)

**Do you agree that an aggregated exposure that is a combination of another exposure and a derivative may be designated as a hedged item? Why or why not? If not, what changes do you recommend and why?**

AC understands the rationale for the more flexible approach proposed to define a hedged item. However, AC has concerns that this paragraph may imply that amortised cost accounting is to be permitted for the derivative that forms part of the hedged item. The ED includes (in B9(b)) an example of a 10-year fixed rate debt denominated in a foreign currency for which the entity has taken out a 10-year fixed-to-floating cross currency interest rate swap (CCIRS), thus economically giving rise to a 10-year floating rate debt in the entity's functional currency. It is these two combined instruments that would be the hedged item, for which a variable-to-fixed functional currency interest rate would then be used to hedge for perhaps a 2-year period in a cash flow hedge arrangement. This could be read to imply that the CCIRS derivative would not need to be fair valued, i.e. the synthetic floating loan could instead be accounted for at amortised cost, consistent with the accounting treatment of 10-year floating debt. Concerns on this include:

- Given that it is likely that the CCIRS will be swapping a benchmark fixed to floating rate, it is unlikely that the instruments will be matched from a credit point of view. Thus, changes in fair value of the CCIRS relating to the changes in the counterparty credit risk would end up not being measured and recorded. Further, it may also be difficult to say that critical terms match where the debt has early repayment options that are not then reflected in the CCIRS itself.
- The apparent permission to allow the two instruments to be combined and regarded as a synthetic loan instrument is inconsistent with BC11 which has concluded (in the context of presentation in the statement of financial position) that linking is not permitted.
- If appropriate restrictive criteria were to be found, the question arises as to whether it would be a requirement for the entity to then seek to apply cash flow hedging accounting to then reduce its exposure to variability to interest rates. The example in B9(b) assumes an intended strategy of fixing interest rates on a 2-year rolling basis 'if the interest level is such that the entity wants to fix interest rates.' If the entity decided not to hedge account after the first 2-year period, would it then be allowed to continue with its synthetic accounting of the debt as a variable functional currency liability or not?
- If an entity's risk management requirements were to have floating functional currency debt, could it apply the synthetic accounting (debt plus the CCIRS) to then circumvent 'normal' hedge accounting documentation and testing requirements?

AC would, therefore, support allowing the two instruments to be viewed together as the hedged item, in documenting the hedge and in assessing effectiveness, but would welcome clarification that the CCIRS must be measured separately at fair value in the statement of financial position and the related adjustment to the underlying debt also recorded in the statement of financial position. AC believes that it is necessary to emphasise that the accounting for the FX loan and the CCIRS that are in a fair value hedge should be accounted for as a fair value hedge and that the interest swap would be accounted for as a cash flow hedge.

#### Question 4 (paragraph 18)

**Do you agree that an entity should be allowed to designate as a hedged item in a hedging relationship changes in the cash flows or fair value of an item attributable to a specific risk or risks (i.e. a risk component), provided that the risk component is separately identifiable and reliably measurable? Why or why not? If not, what changes do you recommend and why?**

AC supports allowing an entity designating a specific risk component provided the particular component is separately identifiable and reliably measurable. In particular, AC supports the ability to apply this to non-financial items such as commodity and fuel contracts as it will assist in resolving practice difficulties that have arisen in this area under IAS 39. However, AC has concerns in relation to allowing the designation of non-contractually specified risk components. In the example set out in paragraph B15(b), a key assumption is that both the crude oil price and the 'cracking spreads' are reliably measurable. While AC understands that these items may well be measurable, it is concerned that this is likely to be the exception rather than the rule. AC considers that where commodity prices are not contractually specified in a contract, it will be highly unusual to be able to reliably measure effectiveness. For example, if an entity wished to hedge its purchases of a commodity by entering into a derivative over one of the main ingredients in the commodity, it will generally not be possible to determine the extent to which a move in the price of the commodity is driven by changes in the price of the ingredient or changes in other conversion costs applied to the ingredient. Given this difficulty in isolating the reasons behind a change in price, it would be impossible to measure effectiveness. AC considers that more consideration should be given to the practicality of the proposal to permit non-contractually specified amounts to be the hedged item.

#### Question 5 (paragraph 18)

- (a) **Do you agree that an entity should be allowed to designate a layer of the nominal amount of an item as the hedged item? Why or why not? If not, what changes do you recommend and why?**
- (b) **Do you agree that a layer component of a contract that includes a prepayment option should not be eligible as a hedged item in a fair value hedge if the option's fair value is affected by changes in the hedged risk? Why or why not? If not, what changes do you recommend and why?**

AC supports permitting a layer of the nominal amount of an item to be designated as the hedged item if this is consistent with the risk management objective of the entity.

In relation to (b) above, AC is of the view that when dealing with a closed portfolio of, for example, loans and receivables, where there is information available on the prepayment experience, it may be possible to permit the hedging of a layer. Therefore, AC would welcome some further consideration of this matter.

AC considers that the guidance given in paragraphs B24 – B26 is confusing and unclear. Paragraph B24 states that a risk component designated as a hedged item must be less than or equal to the cash flows of the full item. However, paragraph B25 says an entity may designate all of the cash flows of the entire financial asset/liability as the hedged item for only one particular risk, which seems to permit designation of a risk component that is greater than the full item as the hedged risk. Also, the example in B26, in relation to fair value hedging, is very unclear and guidance is requested on how the accounting entries would work in practice.

#### Question 6 (paragraph 19)

**Do you agree with the hedge effectiveness requirements as a qualifying criterion for hedge accounting? Why or why not? If not, what do you think the requirements should be?**

AC supports the overall hedge effectiveness requirements included in the proposals, particularly the removal of the retrospective 80-125% test. The guidance on assessing effectiveness is linked to an entity's risk management policies, which may be set at a general or quite a high level. This emphasises the importance of the requirement in paragraph 19(b) to document 'the entity's risk management objective and strategy for undertaking the hedge' and how precisely it will assess whether the hedge relationship meets the hedge effectiveness requirements. AC notes that there is, in practice, likely to be a significant amount of judgement to be applied in determining whether a particular hedge relationship is still 'effective enough' to allow the entity to continue with the relationship, without addressing the need to rebalance.

B34 says that it may be possible to assess effectiveness on a qualitative test, citing the situation where the '*critical terms*' of the hedging instrument and the hedged item either match or are '*closely aligned*'. It would be helpful if some guidance on the meaning of these two terms (in italics above) were provided, as it will be an area of significant judgement.

As regards disclosure requirements in paragraphs 40-52, they do not appear to specifically ask for information on how the entity assesses whether its hedging relationships meet the hedge effectiveness requirements of the ED. In AC's view, this would be a helpful addition, particularly as to whether the entity undertakes qualitative assessments or quantitative assessments on the judgements it has used to determine the appropriate approach to use.

#### Question 7 (paragraph 23)

- (a) **Do you agree that if the hedging relationship fails to meet the objective of the hedge effectiveness assessment an entity should be required to rebalance the hedging relationship, provided that the risk management objective for a hedging relationship remains the same? Why or why not? If not, what changes do you recommend and why?**
- (b) **Do you agree that if an entity expects that a designated hedging relationship might fail to meet the objective of the hedge effectiveness assessment in the future, it may also proactively rebalance the hedge relationship? Why or why not? If not, what changes do you recommend and why?**

Regarding (a) above, AC supports the proposal that rebalancing should be done without the need to discontinue an old hedge relationship entirely and establish a new one. AC would welcome further guidance to clarify that if, in practice, an entity has not undertaken the appropriate rebalancing, including updating of its hedging documentation, it would then be required to do so effective from the date that the hedge relationship ceased to meet the hedge effectiveness objective.

In relation to (b) above, AC supports allowing rebalancing if the entity can identify reasonable support for its assertion that the hedge relationship might fail to meet the objective of effectiveness in the future.



#### Question 8 (paragraph 24)

- (a) Do you agree that an entity should discontinue hedge accounting prospectively only when the hedging relationship (or part of a hedging relationship) ceases to meet the qualifying criteria (after taking into account any rebalancing of the hedging relationship, if applicable)? Why or why not? If not, what changes do you recommend and why?
- (b) Do you agree that an entity should not be permitted to discontinue hedge accounting for a hedging relationship that still meets the risk management objective and strategy on the basis of which it qualified for hedge accounting and that continues to meet all other qualifying criteria? Why or why not? If not, what changes do you recommend and why?

AC supports the proposals set out in the ED in relation to (a) and (b) above.

#### Question 9 (paragraphs 26-28)

- (a) Do you agree that for a fair value hedge the gain or loss on the hedging instrument and the hedged item should be recognised in other comprehensive income with the ineffective portion of the gain or loss transferred to profit or loss? Why or why not? If not, what changes do you recommend and why?
  - (b) Do you agree that the gain or loss on the hedged item attributable to the hedged risk should be presented as a separate line item in the statement of financial position? Why or why not? If not, what changes do you recommend and why?
  - (c) Do you agree that linked presentation should not be allowed for fair value hedges? Why or why not? If you disagree, when do you think linked presentation should be allowed and how should it be presented?
- (a) AC appreciates the advantage of presenting fair value movements relating to fair value hedges in other comprehensive income to achieve consistency with the approach applied in cash flow hedges. However, AC notes that it does not see this as a particularly substantive or key change.
  - (b) AC does not support the requirement to show the gain or loss on the hedged item attributable to the hedged risk as a separate line item in the statement of financial position. Where there are a number of different lines in the statement of financial position that include hedged items (set up in individual or group hedge relationships), the requirement to show the various fair value adjustments on the face of the statement of financial position could cause a significant amount of 'clutter', in some cases for relatively small value amounts. AC considers it preferable to continue with the current approach of reflecting the adjustment in the relevant line item on the statement of financial position with an added requirement that the notes separately identify the adjustment. An acceptable alternative might be to have one adjustment line on each of the asset and liability side of the statement of financial position. The notes could then analyse this single amount and specify the particular assets and liabilities to which it related.

At present, AC notes that no standard (IAS 1, IFRS 7 or, indeed, any other standards) currently requires the measurement basis for any line item to be directly evident from looking solely at the statement of the financial position. Therefore, it is always going to be necessary to look at the related accounting policies and note disclosures to get an understanding of how items have been measured. While there is an on-going project to

replace IAS 1, AC is of the view that any consequential revisions that may affect the presentation of gains or losses in relation to hedged risks should be addressed as part of that overall project. Should the Financial Statement Presentation project eventually require that assets and liabilities with different measurement bases should not be amalgamated on the face of the SoFP, consideration could at that time be given to the adjustment to items that are in fair value hedge arrangements.

- (c) AC agrees that it is not appropriate to allow linked (net) presentation of any hedged item and the related hedged instruments, for the reasons set out by the Board in BC128. Also, AC notes that any decisions in relation to offsetting should be considered in light of the on-going offsetting project being undertaken by the IASB.

As regards the presentation of the ineffectiveness arising on both fair value and cash flow hedges, AC would welcome guidance in the revised standard on where this should be presented in profit or loss. For example, if there is ineffectiveness relating to the currency exposure arising on a highly probable forecast sale, AC is of the view that it is not appropriate to include it in the revenue line. Similarly, AC is of the view that for entities operating in the financial sector, ineffectiveness relating to interest expense should not be included in that line item in the statement of comprehensive income. In both instances, AC's view is that it is only the effective portion that should be included in the revenue and interest expense, respectively.

AC has also considered the revised guidance on cash flow hedges, which result in the recognition of a non-financial asset or liability, and the fact that the basis adjustment made to the asset in question should not be treated as a reclassification adjustment and, consequently, would not impact OCI. AC acknowledges the fact that there has to be some inconsistency in the statement of comprehensive income. There were two differing views amongst AC members on this matter as follows:

- (i) Certain AC members supported the proposed approach of not recording the gain or loss in other comprehensive income as a reclassification for the reasons set out in BC139, i.e. (a) that the amount would affect comprehensive income twice but in different periods, but more significantly (b) it would create the misleading impression that the basis adjustment was itself a performance event.
- (ii) Other AC members consider that the inconsistency is less where the adjustment is treated as a reclassification adjustment forming part of comprehensive income. Taking all periods together, this will result in the correct net amount being included in comprehensive income. By excluding the recycling of the basis adjustment from OCI, the cumulative impact on comprehensive income is to double the credit or debit which these AC members consider to be incorrect.



#### Question 10 (paragraph 33)

- (a) Do you agree that for transaction related hedged items, the change in fair value of the option's time value accumulated in other comprehensive income should be reclassified in accordance with the general requirements (e.g. like a basis adjustment if capitalised into a non-financial asset or into profit or loss when hedged sales affect profit or loss)? Why or why not? If not, what changes do you recommend and why?
- (b) Do you agree that for period related hedged items, the part of the aligned time value that relates to the current period should be transferred from accumulated other comprehensive income to profit or loss on a rational basis? Why or why not? If not, what changes do you recommend and why?
- (c) Do you agree that the accounting for the time value of options should only apply to the extent that the time value relates to the hedged item (i.e. the 'aligned time value' determined using the valuation of an option that would have critical terms that perfectly match the hedged item)? Why or why not? If not, what changes do you recommend and why?

In relation to (a) above, AC does not support the proposed treatment of the time value of an option as transaction cost that would be capitalised. In addition, AC is of the view that the proposal adds significantly to the complexity of the project. Therefore, in response to questions 10(a), (b) and (c), AC considers that the time value of an option should be expensed through profit or loss in each period.

#### Question 11 (Paragraphs 34-39)

**Do you agree with the criteria for the eligibility of groups of items as a hedged item? Why or why not? If not, what changes do you recommend and why?**

AC is supportive of the eligibility criteria for these groups of items, as it allows entities to achieve hedge accounting in line with the approaches they use for risk management purposes.

#### Question 12 (Paragraphs 37, 38)

**Do you agree that for a hedge of a group of items with offsetting risk positions that affect different line items in the income statement (e.g. in a net position hedge), any hedging instrument gains or losses recognised in profit or loss should be presented in a separate line from those affected by the hedged items? Why or why not? If not, what changes do you recommend and why?**

Certain AC members have concerns around this as the presentation of hedges of net positions differs from that achieved from hedges of gross positions. For consistency, these AC members are of the view that the individual line items should be adjusted (grossed up) to the extent that the hedging arrangements is effective.

For example, an entity may have a fairly constant level of foreign currency (FC) purchases each month, but only expects to have to have sales in that currency in the month of December (with all other sales being in the functional currency). In that instance, to manage its exposure to FC, at the start of the year it takes out forward contracts based on its net exposure to FC in each month. The view set out in the ED would imply that that it was appropriate to reflect in cost of sales the purchases at the forward rate each month except December. It would appear

to these AC members to be inconsistent to have to treat December's cost of sales on a different basis and to show the impact of the forward as a separate line item. However, if the alternative view were adopted (i.e. on the grossed up basis), the cost of sales line would be consistent.

On the other hand, the alternative view of certain AC members is that in all cases it would be appropriate to present the foreign currency denominated revenue and cost of sales lines at the spot rate at the date of the recording of those transactions, thereby including the impact of all hedging arrangements (whether hedged individually or as a group of items) in a separate line in the income statement. The rationale here is that are two separate activities being undertaken by the entity, i.e. (i) sales/revenue generation and (ii) treasury/foreign currency risk management, and therefore the income statement should deal with these separately.

#### **Question 13 (Paragraphs 40-52)**

- (a) Do you agree with the proposed disclosure requirements? Why or why not? If not, what changes do you recommend and why?**
- (b) What other disclosures do you believe would provide useful information (whether in addition to or instead of the proposed disclosures) and why?**

AC supports the proposed disclosure requirements and in particular the requirement to incorporate a specific cross reference from the proposed single note/section of the financial statements to any of the required information if it is included elsewhere in the annual report.

#### **Question 14 (BC208-218)**

**Do you agree that if it is in accordance with the entity's fair value-based risk management strategy derivative accounting would apply to contracts that can be settled net in cash that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements? Why or why not? If not, what changes do you recommend and why?**

AC would support this requirement to fair value such contracts as derivatives. It is noted that there judgement will be required in determining if the entity had a 'fair value risk management strategy'. The example noted in Appendix C to the ED (page 63) states that an entity would account for such a contract as a derivative if that accounting is in accordance with the entity's underlying business model and how the contracts are managed. "That would be the case for a fair value-based risk management strategy, i.e. the entire business is managed on a fair value basis and the net exposure is maintained close to nil." Clarification would, in AC's view, be needed to better understand why the entity must have a 'close to nil' exposure. It is possible that an entity, while holding the contracts for own use and monitoring that exposure on a fair value basis, may choose to eliminate some but not all of that risk (due to its view on future price changes). In that situation, it would appear that fair valuing the 'own use' contracts would not be permitted.

#### Question 15 (BC219-246)

- (a) Do you agree that all of the three alternative accounting treatments (other than hedge accounting) to account for hedges of credit risk using credit derivatives would add unnecessary complexity to accounting for financial instruments? Why or why not?
- (b) If not, which of the three alternatives considered by the Board in paragraphs BC226–BC246 should the Board develop further and what changes to that alternative would you recommend and why?

AC is of the view that the hedging of credit risk would add complexity of any hedge accounting standard and its inclusion could result in delay in finalising the standard. However, AC would welcome the Board's continued discussions with interested parties (e.g. through roundtable meetings) as there would appear to be no reason, in principle, why credit risk is not a hedgeable risk.

#### Question 16 (Paragraphs 53-55)

**Do you agree with the proposed transition requirements? Why or why not? If not, what changes do you recommend and why?**

AC supports the transitional requirement proposals.

#### Other comments

In addition to the responses to the specific items above, AC would also like to note the following matters for consideration by the IASB.

- Paragraph 32 of the ED addresses the accounting for any gain or loss on the hedging instrument in a net investment hedge. Firstly, it assumes that the gain or loss will be accumulated in the 'cash flow hedge reserve (CFHR)' and not in the foreign currency translation reserve (FCTR). This is not in line with current practice, where most companies include the effective portion in the FCTR. Secondly, the paragraph notes that the cumulative gain or loss in OCI will be reclassified from equity to profit or loss as a reclassification adjustment "in accordance with paragraphs 48-49 of IAS 21 on the disposal or partial disposal of the foreign operation". However, paragraph 48C states that when there is the partial disposal of a subsidiary that contains a foreign operation, the FCTR should be reattributed between non-controlling interest (NCI) and parent rather than being reclassified to profit. AC believes that the hedging standard should be consistent with the underlying requirements in IAS 21. AC also notes an anomaly that arises when applying this guidance to the repayment of a foreign currency denominated intercompany loan that forms part of the net investment in a foreign operation and that may or may not have been hedged. If there is no NCI, nothing is reclassified or reattributed from FCTR. If, however, there is an NCI in relation to that foreign operation, IAS 21 would see a re-attribution to NCI being made as a consequence of the repayment. Thus, there would be a movement in NCI as a result of a transaction between the parent and the subsidiary, which in AC's view does not appear appropriate.
- The second sentence of paragraph 17 of the ED would, in AC's view, need to be expanded by adding the wording in italics as follows to align the requirements with IAS 21.32: *'In accordance with IAS 21, foreign exchange rate gains and losses on intragroup monetary items are not fully eliminated on consolidation when the intragroup monetary item is*

*transacted between two group entities that have different functional currencies and it is not designated as part of the net investment in the foreign operation.'*

3. Paragraph 29(d) appears to require clarification to include a reference to firm commitments, as follows (in italics): *'.....the entity shall remove that amount from the cash flow hedge reserve and include it directly in the initial cost of other carrying amount of the asset or liability or firm commitment.'* Please refer to our response to Question 9 on this wider question of reclassification of cash flow hedging amounts.
4. AC would also welcome guidance on the interaction of the cash flow hedging requirements with IFRS 5. Specifically, it would be helpful to have clarity as to whether the decision to hold a particular disposal group for sale results in the immediate cessation of any cash flow hedging accounting achieved (i) with instruments that form part of that disposal group or (ii) instruments held by businesses being retained. For example, subsidiary S has sales denominated in a foreign currency and it has historically entered into forward contracts to hedge the FX risks for approximately 12 months ahead. Assume that S also has a foreign currency denominated borrowing and that group treasury have taken out a forward contract to hedge the FX risk on the bullet repayment of the debt in 24 months' time. If S is classified as held for sale, the net assets that will be disposed of include the forward contracts relating to future sales but not the forward relating to the debt. It is difficult to see from the standard whether all cash flow hedging should cease when the subsidiary is classified as held for sale or could it be argued that the cash flows for the future sales are still highly probable (though they will be carried out for the new owners). It appears clear that it would be necessary to discontinue cash flow hedge accounting for the FX risk on the repayment of the debt as the entity holding the derivative will not have a 'highly probable' transaction. AC would welcome guidance on whether or not to discontinue hedge accounting when IFRS 5 is applied to a hedged item.
5. AC would welcome further consideration as to whether hedge accounting should be permitted for equity instruments that will be designated at fair value through other comprehensive income. In addition, consideration of whether hedging of elements of non-controlling interests should be permitted.
6. Is the Board agreed on whether pension liabilities recognised under IAS 19 can be a hedged item?