

**Application of the Highly Probable Requirement when a Specific Derivative is Designated as a Hedging Instrument (IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement*)—March 2019**

The Committee received a request about the requirement in IFRS 9 and IAS 39 that a forecast transaction must be ‘highly probable’ to qualify as a hedged item in a cash flow hedge relationship. The request asked how an entity applies that requirement when the notional amount of the derivative designated as a hedging instrument (load following swap) varies depending on the outcome of the hedged item (forecast energy sales).

The responses to outreach performed on the request and those received in comment letters confirmed that the financial instrument described in the request is not common. The comment letters also confirmed the views expressed by some Committee members that the request relates to the broader matter of how uncertainty over the timing and magnitude of a forecast transaction affects the highly probable assessment applying IFRS 9 and IAS 39.

The Committee observed that, in a cash flow hedge, a forecast transaction can be a hedged item if, and only if, it is highly probable (paragraphs 6.3.1 and 6.3.3 of IFRS 9 and paragraphs 86(b) and 88(c) of IAS 39). When assessing whether a forecast transaction (in the request, the forecast energy sales) is highly probable, an entity considers uncertainty over both the timing and magnitude of the forecast transaction (paragraphs F.3.7 and F.3.11 of the Implementation Guidance accompanying IAS 39).

The Committee also observed that, for hedge accounting purposes, the entity must document the forecast energy sales with sufficient specificity in terms of timing and magnitude so that when such transactions occur the entity can identify whether the transaction is the hedged transaction. Consequently, the forecast energy sales cannot be specified solely as a percentage of sales during a period because that would lack the required specificity (paragraphs F.3.10 and F.3.11 of the Implementation Guidance accompanying IAS 39).

In addition, the Committee observed that the terms of the hedging instrument (in the request, the load following swap) do not affect the highly probable assessment because the highly probable requirement is applicable to the hedged item.

The Committee noted that the highly probable requirement in IFRS 9 is not new; IAS 39 includes the same requirement. The Board decided not to carry forward any of the hedge accounting related Implementation Guidance that accompanied IAS 39; nonetheless paragraph BC6.95 of IFRS 9 explains that not carrying forward the Implementation Guidance did not mean that the Board had rejected that guidance.

The Committee concluded that the requirements in IFRS 9 and IAS 39 provide an adequate basis for an entity to determine whether a forecast transaction is highly probable. Consequently, the Committee decided not to add this matter to its standard-setting agenda.