IFRS

# STAFF PAPER

March 2019

IFRS® Interpretations Committee meeting

| **Project** | **Application of the highly probable requirement when a specific derivative is designated as a hedging instrument (IAS 39 and IFRS 9)** | | |
|---|---|---|---|
| Paper topic | Agenda decision to finalise | | |



| CONTACT(S) | Christos Sortsis | csortsis@ifrs.org | +44 (0) 20 7246 6964 |
|---|---|---|---|
| | Ross Turner | rturner@ifrs.org | +44 (0) 20 7246 6920 |
| | Kumar Dasgupta | kdasgupta@ifrs.org | +44 (0) 20 7246 6902 |



This paper has been prepared for discussion at a public meeting of the IFRS Interpretations Committee (Committee). Comments on the application of IFRS Standards do not purport to set out acceptable or unacceptable application of IFRS Standards—only the Committee or the International Accounting Standards Board (Board) can make such a determination. Decisions made by the Committee are reported in the IFRIC® *Update*. The approval of a final Interpretation by the Board is reported in the IASB® *Update*.

## Introduction

1. The IFRS Interpretation Committee (Committee) received a request regarding the requirement in IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 9 *Financial Instruments* that a forecast transaction must be 'highly probable' in order 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. In addition, the request asked whether, when assessing or measuring hedge effectiveness, the hedged item must be fixed (in volume terms) at the inception of the hedging relationship, and whether the answers to these questions depend on whether the entity applies IAS 39 or IFRS 9.

2. In September 2018, the Committee published a tentative agenda decision. In that tentative agenda decision, the Committee observed that:

   (a) when assessing whether a forecast transaction (in the request, the forecast energy sales) is highly probable, an entity needs to consider 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);

(b) the terms of the hedging instrument (in the request, the load following swap) do not affect this assessment because the highly probable requirement is applicable to the hedged item; and

(c) the entity must document the forecast energy sales with sufficient specificity in terms of magnitude and timing so that when such transactions occur the entity can identify whether the transaction is the hedged transaction. As a result, 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).

3. In addition, the Committee noted that the highly probable requirement in IFRS 9 is not new; IAS 39 includes the same requirement. The Committee noted that 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.

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

5. The purpose of this paper is to:

(a) analyse the comments received on the tentative agenda decision; and

(b) ask the Committee whether it agrees with our recommendation to finalise the agenda decision.

## Structure of the paper

6. This paper includes:

   (a) Comment letter summary and staff analysis; and

   (b) Staff recommendation

7. There are two appendices to this paper:

   (a) Appendix A – Proposed wording for final agenda decision; and

   (b) Appendix B – Comment letters

## Comment letter summary and staff analysis

8. We received twelve comment letters – four from large accounting firms, five from national standard setters, two from preparers, and one from an organisation that represents a group of academics.

9. Five respondents (ASBJ, MASB, Petrobras, Deloitte and Global Financial Reporting Collective) agreed with the Committee's decision not to add this matter to its standard-setting agenda for the reasons outlined in the tentative agenda decision.

10. Two respondents (Mazars, ANC) agreed with the Committee's technical analysis. However, they recommended that the Committee consider amending IAS 39 and IFRS 9 by removing the highly probable requirement to enable an entity to apply hedge accounting in situations such as the fact pattern provided where there is an economic match with the hedging instrument.

11. Five respondents (PwC, Macquarie, KPMG, OIC, and DRSC) made comments on the Committee's technical analysis.

12. Further details on these comments, together with our analysis, are presented in the following section.

## Comments raised by respondents

13. We have grouped comments raised by respondents into three categories:

    (a) Comments on the Committee's technical analysis (paragraphs 14 – 38);

    (b) Possible amendment to IAS 39 and IFRS 9 (paragraphs 39 – 42); and

    (c) Implementation Guidance accompanying IAS 39 (paragraph 43 – 46).

## Comments on the Committee's technical analysis

### *Objective of hedge accounting*

14. Macquarie say the objective of hedge accounting is to reflect the entity's risk management strategy. Therefore, in the fact pattern described in the submission, they say an entity should account for the relationship as a perfectly effective relationship.

15. PwC say that the hedge described in the submission is far more effective than a swap whose notional amount is a fixed volume and that such a hedge designation is not 'abusive'.

16. These respondents say, in economic terms, the hedging instrument is a near perfect hedge of the entity's exposure to the hedged risk. As a result, they say applying hedge accounting would potentially improve the relevance of financial information.

17. Nonetheless, PwC agrees with the conclusion in Agenda Paper 12 that, according to IAS 39 and IFRS 9, the terms of the hedging instrument do not affect the assessment of whether a forecast transaction is highly probable.

*Staff analysis*

18. When developing IFRS 9, the Board considered the usefulness of information about hedging instruments for which hedge accounting is applied. In particular, paragraph BC6.81 of IFRS 9 explains that the Board considered the objective of hedge accounting, which reflects a broad articulation of a principle-based approach with a focus on the purpose of the entity's risk management activities. However, paragraph BC6.82 of IFRS 9 also states that 'despite that an entity's risk management activities were central to the objective of hedge accounting, an entity would only achieve hedge

accounting if it met all the qualifying criteria'. Consequently, while an entity might achieve a 'near perfect hedge', the entity still needs to meet all the qualifying criteria to apply hedge accounting.

19. As discussed in Agenda Paper 12 of the Committee's September 2018 meeting, even if the hedge is a near perfect hedge in economic terms, this does not guarantee that the hedging relationship qualifies for hedge accounting. We note that paragraph 6.3.3 of IFRS 9 states that, to qualify for hedge accounting, a forecast transaction must be highly probable. As previously mentioned, the specific terms of a derivative designated as a hedging instrument (eg a notional amount that varies depending on the outcome of the hedged item) does not affect the assessment of whether a forecast transaction is highly probable.

20. For the reasons stated in paragraphs 18 and 19, we disagree with the view that a near perfect economic hedge automatically qualifies for hedge accounting.

### *Designation of all forecast sales of a specified type/source for a specified period as highly probable transaction*

21. Seven respondents agree with the Committee's analysis on this matter. Some of those respondents say the technical analysis provided in Agenda Paper 12 is the only reasonable reading of the requirements for a transaction to be highly probable.

22. However, PwC, Macquarie Group and KPMG disagree. They say designating all (100%) forecast sales of a specified type/source in a specified period would meet the guidance on sufficient specificity outlined in paragraph F.3.10 of the Implementation Guidance accompanying IAS 39. According to these respondents, specifying all (100%) forecast sales from a specified type/source in a specified period clearly identifies the hedged transaction in this situation.

23. PwC also says this designation considers both the magnitude and timing of the forecast transaction because these sales are from a specified source during a specified period. Considering also that the terms of the hedging instrument do not affect the assessment of whether the forecast sales are highly probable, the respondent says this designation meets all the necessary conditions for hedge accounting outlined in Agenda Paper 12 of the Committee's September 2018 meeting.

24. In addition, two respondents (KPMG, PwC) say the Implementation Guidance accompanying IAS 39 does not prohibit an entity from designating a specified percentage of all forecast sales.

*Staff analysis*

25. The requirements in paragraphs 86(b) and 88(c) of IAS 39 state that, in a cash flow hedge, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss. Similarly, paragraphs 6.3.1 and 6.3.3 of IFRS 9 state that, in a cash flow hedge, the hedged item can be a forecast transaction, and that transaction must be highly probable.

26. Those paragraphs indicate that both IAS 39 and IFRS 9 allow cash hedge accounting to be applied to a forecast transaction if, and only if, that forecast transaction is highly probable. Implicit within this requirement is the need to identify a particular transaction, the probability of occurrence of which can be assessed both at inception and on an ongoing basis in order to apply the hedge accounting requirements. Additional guidance reflecting the level of specificity necessary is outlined in the Implementation Guidance accompanying IAS 39.

27. In that context, paragraph F.3.10 of the Implementation Guidance accompanying IAS 39 states that (emphasis added):

> The hedged forecast transaction must be identified and documented with sufficient specificity so that when the transaction occurs, it is clear whether the transaction is or is not the hedged transaction. Therefore, a forecast transaction may be identified as the sale of the first 15,000 units of a specific product during a specified three-month period, but it could not be identified as the last 15,000 units of that product sold during a three-month period because the last 15,000 units cannot be identified when they are sold. For the same reason, **a forecast transaction cannot be specified solely as a percentage of sales or purchases during a period.**

28. We continue to hold the view expressed in paragraph 23 of Agenda Paper 12 to the Committee's September 2018 meeting, which states that 'a forecast transaction cannot be specified solely as a percentage of sales or purchases (ie 100% of the sales during a period), because that would lack the required specificity'.

29. When an entity designates 100% of sales from a specified type/source for a specified period, it would document the forecast transaction as 100% of X unit of sales during a specified period at inception of the hedging relationship. However, the entity can identify whether that transaction is the hedged transaction only at the end of the specified period, rather than when the sales themselves occur. Therefore, the identification can be made only on a retrospective basis. This is problematic because at inception of the hedge the forecast transaction lacks sufficient specificity, ie X unit of sales remain unspecified.

30. We also highlight that designating 100% of sales of a specified period would result in an outcome where no distinction would be drawn between an entity with predictable sales and an entity whose sales are unpredictable. The lack of distinction implied appears inconsistent with the requirement of the IFRS Standards.

31. Regarding the references to paragraphs B6.3.16-B6.3.17 of IFRS 9, we acknowledge that an entity might designate a proportion or a layer component of an eligible hedged item. However, before an entity can designate a proportion of an item, the entire item itself needs to meet the hedge accounting qualifying criteria and, in this case, the highly probable requirement. Only then can the entity designate a proportion (eg 50%) of the entire highly probable forecast transaction. Specifying 100% of a transaction that, itself, does not meet the highly probable criteria does not ensure that the hedge accounting qualifying criteria are met.

32. Nonetheless, we think the wording in the tentative agenda decision could be improved by first setting out the applicable requirements in IAS 39 and IFRS 9, and then providing additional guidance on the level of specificity required using the wording in the relevant Implementation Guidance paragraphs.

### *Objective of the highly probable requirement*

33. Macquarie says a key objective of the highly probable requirement is to minimise ineffectiveness. Because the critical terms driving the fair value of the hedging instrument and hedged item are aligned, this results in a near perfect hedge with minimal ineffectiveness.

*Staff analysis*

34. We highlight that the highly probable requirement is applicable only in the context of determining the eligibility of a hedged item within a hedge accounting relationship. IAS 39 and IFRS 9 make no reference to the highly probable requirement in the context of measuring effectiveness. Therefore, we reject the notion that a key objective of the highly probable requirement is to minimise ineffectiveness.

### *Similar derivatives designated in cash flow hedges*

35. KPMG says although load following swaps on energy sales may not be common, there can be other derivatives with a variable notional amount (eg as described in IFRS 9 IG.B.8). KPMG says, in practice, entities have designated these derivatives in cash flow hedges, and would not support an agenda decision that would contradict this practice.

*Staff analysis*

36. We acknowledge there might be other contracts with a variable notional amount that meet the definition of a derivative (such as a foreign currency contract based on sales volume discussed in IFRS 9 IG.B.8). However, the matter the Committee is considering is whether the qualifying criteria for the hedged item are met, ie whether the transaction can be considered as highly probable. The Committee is not considering whether the hedging instrument meets the definition of a derivative. We note that meeting the definition of a derivative does not necessarily mean that the derivative can be used in a hedging relationship. Therefore, we continue to hold the view expressed in paragraph 21 of Agenda Paper 12 to the Committee's September 2018 meeting that the specific characteristics of a hedging instrument do not affect the assessment of whether the forecast transaction is highly probable.

### *Designation of risk components*

37. KPMG says if energy price is a separately identifiable and reliably measurable risk component, then IFRS 9 would appear to permit designation of the risk component in a hedging relationship. However, IAS 39 might not allow designation of such a risk component for a non-financial item.

*Staff analysis*

38. We agree that, to be eligible as a hedged item, a risk component must be separately identifiable and reliably measurable applying IFRS 9. We also acknowledge that the requirements for designation of risk components of non-financial items in IFRS 9 are different from those in IAS 39. However, the eligibility of risk components is not relevant for our analysis. Instead, the discussion is focused on the application of the highly probable requirement, and documentation of the hedged forecast transaction with sufficient specificity so that when the transaction occurs the entity is able to determine whether the transaction is the hedged transaction. For this reason, we recommend no change to the tentative agenda decision in this respect.

## Possible amendment to IAS 39 and IFRS 9

39. Two respondents (Mazars, ANC) recommend that the Committee consider amending IAS 39 and IFRS 9 to permit hedge accounting when a hedging instrument is designed in a way that ensures the actual quantity of the hedging instrument reflects the actual quantity of the hedged item. Whilst agreeing with the technical analysis outlined in Agenda Paper 12 of the Committee's September 2018 meeting, Mazars and ANC recommend an amendment of IAS 39 and IFRS 9. Specifically, Mazars is of the view that the current application of the Standard results in a rule-based approach that fails to reflect the economic position and hedging strategy of the entity. According to ANC, the fact that the quantity or timing of the hedged item is linked to a contingency does not create any ineffectiveness as long as such contingency is perfectly reflected into the hedging instrument.

*Staff analysis*

40. The highly probable requirement is not new requirement in IFRS 9; IAS 39 includes the same requirement. This requirement ensures discipline around the application of hedge accounting by permitting an entity to designate as hedged items only forecast transactions with a high probability of occurrence. Removing the highly probable requirement will also have a significant impact in cases where the entity needs to determine when discontinuation is required and subsequently determine the reclassification of the cash flow hedge reserve to the statement of profit or loss. We are not aware that this requirement has caused problems in the implementation of IFRS 9. Indeed, we have not received any comments or questions that indicate that the highly probable requirement is a significant matter in practice. Furthermore, stakeholders did not raise significant concerns about the highly probable requirement during the development of IFRS 9.

41. We think introducing a link between the hedging instrument and the hedged item would be a significant change to IAS 39 and IFRS 9. It would affect the requirement that the hedged item must be defined independently of the hedging instrument and consequently it would affect the measurement of the hedged item. We think such a significant change to the requirements of IAS 39 and IFRS 9 would be beyond a narrow-scope project, and also see little benefit in undertaking such a project at this time given the recent effective date of IFRS 9.

42. For these reasons, we think the Committee should not propose such an amendment to the Board.

## Implementation Guidance accompanying IAS 39

43. Five respondents (MASB, ASBJ, KPMG, Mazars and OIC) comment about the use of the Implementation Guidance accompanying IAS 39. Some question its use because it is not part of IFRS Standards. Others ask for clarity as to its status, noting that the guidance was deleted from the 2018 Bound Volume even though the Board did not reject it.

44. Two respondents (ASBJ, OIC) proposed to include the Implementation Guidance as material accompanying IFRS 9.

*Staff analysis*

45. The staff note that IAS 39 and IFRS 9 both explicitly require that to be an eligible hedged item a forecast transaction must be highly probable. The Implementation Guidance supports application by illustrating the specificity necessary in order to make the required assessment.

46. Although the Board decided not to carry forward any of the hedge accounting related Implementation Guidance that accompanied IAS 39, paragraph BC6.95 of the Basis for Conclusions on IFRS 9 emphasises that not carrying forward the Implementation Guidance did not mean that the Board had rejected that guidance. We do not recommend reconsidering the Board's decision in this respect.

## Staff recommendation

47. Based on our analysis, we recommend finalising the tentative agenda decision as published in IFRIC Update in September 2018, subject to clarifications noted in paragraphs 25 and 26. Appendix A to this paper sets out the proposed wording of the final tentative agenda decision.

| Question for the Committee |
| --- |
| 1. Does the Committee agree with our recommendation to finalise the agenda decision outlined in Appendix A to this paper? |

## Appendix A—Proposed wording for final agenda decision

A1. We propose the following wording for the final agenda decision (new text is underlined, and deleted text is struck through):

**~~IFRS 9 *Financial Instruments* and IAS 39 *Financial instruments: Recognition and Measurement*~~ IAS 39 *Financial instruments: Recognition and Measurement* and IFRS 9 *Financial Instruments* — Application of the highly probable requirement when a specific derivative is designated as a hedging instrument**

The Committee received a request about the requirement in IAS 39 and 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). In addition, the request asked whether, when assessing or measuring hedge effectiveness, the hedged item must be fixed (in volume terms) at the inception of the hedging relationship, and whether the answers to these questions depend on whether the entity applies IAS 39 or IFRS 9.

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 IAS 39 and IFRS 9.

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 86(b) and 88(c) of IAS 39 and paragraphs 6.3.1 and 6.3.3 of IFRS 9). ~~w~~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). ~~In addition, the Committee observed that the terms of the hedging instrument (in the request, the load following swap) do not affect this assessment because the highly probable requirement is applicable to the hedged item.~~

The Committee also observed that, for hedge accounting purposes, the entity must document the forecast energy sales with sufficient specificity in terms of magnitude and timing 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. ~~Although, t~~The Board decided not to carry forward any of the hedge accounting related Implementation Guidance that accompanied IAS 39, 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 IAS 39 and IFRS 9 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.

## Appendix B—Comment letters

# Deloitte.

Deloitte Touche Tohmatsu Limited
Hill House
1 Little New Street
London
EC4A 3TR

Phone: +44 (0)20 7936 3000
Fax: +44 (0)20 7583 0112
www.deloitte.com/about

Direct phone: +44 20 7007 0884
vepoole@deloitte.co.uk

21 November 2018

Sue Lloyd
Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London
United Kingdom
E14 4HD

Dear Ms Lloyd

**Tentative agenda decision – IFRS 9 *Financial Instruments*: Application of the highly probable requirement in a cash flow hedge relationship**

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the September IFRIC Update of the tentative decision not to take onto the Committee's agenda the request for clarification on how an entity applies the 'highly probable' criterion for cash flow hedging 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).

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda for the reasons set out in the tentative agenda decision.

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

Yours sincerely

**Veronica Poole**
Global IFRS Leader

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**KPMG IFRG Limited**
15 Canada Square
London E14 5GL
United Kingdom

Tel +44 (0) 20 7694 8871
Reinhard.Dotzlaw@kpmgifrg.com

Ms Sue Lloyd
International Accounting Standards Board
Columbus Building
7 Westferry Circus
London
E14 4HD

Our ref RD/288

21 November 2018

Dear Ms Lloyd

**Tentative agenda decision: IFRS 9 and IAS 39 — *Application of the highly probable requirement when a specific derivative is designated as a hedging instrument***

We appreciate the opportunity to comment on the IFRS Interpretations Committee (the Committee) tentative agenda decision *Application of the highly probable requirement when a specific derivative is designated as a hedging instrument* (IFRIC Update September 2018). We have consulted with, and this letter represents the views of, the KPMG network.

The original submission related to the requirement in IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement* that a forecast transaction must be 'highly probable' in order to qualify as a hedged item in a cash flow hedge relationship. Specifically, the submission questioned how an entity applies the highly probable requirement when the notional amount of the hedging instrument (a load following swap) varies depending on the outcome of the hedged item (forecast energy sales) and whether the hedged item must be fixed in volume terms at inception.

We do not believe that the tentative agenda decision ('TAD') effectively addresses that question because it is unclear how the Committee believes the various observations included should be applied in the particular example or other similar cases and/or how those observations interrelate and might lead to any particular answer. We believe that IAS 39 and IFRS 9 may allow hedge accounting for a highly probable hedged item and hedging instrument with a variable notional amount. The analysis will depend on the specification of the hedged item and hedged risk and, under IAS 39, may differ between financial and non-financial hedged items since, except for hedges of foreign currency risk, IAS 39 permits a non-financial asset or liability to be designated only in its entirety for all risks.

Although load following swaps on energy sales may not be "common", there can be other derivatives with a variable notional amount (e.g. as described in IAS 39/IFRS 9 IG.B.8). In our experience, under IAS 39, some entities have designated cash flow hedges of interest rate risk on financial items with respect to a variable notional amount (e.g. interest rate swaps with a notional amount that tracks the size of the hedged pool of assets). We do not support an agenda decision that would contradict this practice.

Regarding the Committee's observations in the TAD:

- We agree with the principle that the entity must document the forecast transaction(s) with sufficient specificity so that when the transactions occur the entity can identify whether the transaction is the hedged transaction. We acknowledge that IAS 39.F.3.10 states that a forecast transaction cannot be "specified solely as a percentage of sales or purchases during a period". In particular, designating the first X% of forecast transactions during a specified period would not allow the entity to identify the hedged transactions until the end of the period. Similarly, the same problem arises if the last Y% of forecast transactions during a specified period of time are designated. Also, an entity might have multiple operations or types of sales, and so simply stating an overall percentage could be unclear as to which of these revenue streams are covered. These are the mischiefs that F.3.10 is trying to prohibit. However, we do not believe this guidance was intended to prohibit hedging all (i.e. 100%) of the forecast sales or purchases of a specified type/source (e.g. electricity sales from a particular wind farm) for a specified period nor a clearly specified *pro rata* share of such because these designations would be compliant with the principle. We note that IFRS 9.B6.3.7 and 16-17 explicitly permit designation of a proportion of an item when this is consistent with the risk management objective and IFRS 9.BC6.198 states that this was permitted by IAS 39. The language in the TAD may be misinterpreted as a broad statement that precludes proportional designations.
- We agree that the terms of the hedging instrument (as designated) do not affect the assessment as to whether the forecast transaction(s) (as designated) is (or are) highly probable. However, the entity's risk management objective will dictate the nature of the hedging instrument it uses and how it designates the forecast transactions[1]. Forecast total sales for a specified future period (S) from an operation such as a wind farm may be considered as comprising an uncertain volume (V) of units being produced and sold at an uncertain unit price (P). The risk management strategy of a producer using a load following swap is presumably to hedge the cash flow variability of S (the hedged item) attributable to changes in P (the hedged risk) – this is because the load following swap is the hedging instrument that has the critical terms that achieve this objective. If P is a separately identifiable and reliably measurable risk component, then IFRS 9 would appear to permit a hedge accounting designation that reflects the risk management objective assuming the derivative effectively fixes P. However, this matter seems more problematic in this particular case under IAS 39 since IAS 39 does not allow designation of such a risk component for a non-financial hedged item. Arguably under IAS 39 it may therefore not be possible to designate an effective hedge in line with the risk management strategy for a non-financial item.
- We reject the idea that a forecast transaction needs always to have a fixed quantity in order to meet the highly probable criterion. For example, while the actual volume is unknown before the transactions occur, if the entity hedges the variability in total sales S arising from changes in the unit price P, the designated quantity of the forecast transactions is certain of occurring since the designation encompasses 100% of the actual volume. An entity might even be able to eliminate all of the variability in S by selling the total output for a fixed total (not unit) price – it seems entirely counterintuitive to say this could not be an effective hedge accounting relationship.

[1] This notion – and how it may support a variable volume of hedged "highly probable" forecast transactions - is reflected in IAS 39.IG F.2.12 which indicates that cash flows after the prepayment date of a prepayable financial asset may be designated as hedged items if a comparable option exists in the hedging instrument.

— We believe it is inappropriate to use or include in the TAD references to IAS 39 implementation guidance on hedge accounting that has been deleted by the IASB. The Board explicitly withdrew the implementation guidance in IAS 39, making clear that it neither endorsed nor rejected that guidance. Therefore, these references cannot be cited by the Committee as authority for its views and their use may create confusion in this regard.

We recommend that the Committee amend the TAD to provide a fuller and more easily understandable analysis of the issues consistent with our observations above, including indicating how a cash flow hedge might be validly designated as a hedge of all or a *pro rata* share of a specifically identified revenue or expense stream for a specified period. If the Committee disagrees with our view that an entity may designate the hedged item for a load following swap (or similar hedging instrument) in this way, then this conclusion would seem to detract from the stated objective of hedge accounting to represent the effect of an entity's risk management activities that could affect profit or loss[2] – e.g. the entity's risk management strategy would be to use the "perfect" derivative instrument to mitigate price risk from materially all of its sales but there would be an enormous accounting mismatch between the derivative instrument and the related sales revenues; therefore, in this case we recommend the Committee take action to remedy this conflict.

Please contact Reinhard Dotzlaw +44 (0)20 7694 8871 if you wish to discuss any of the issues raised in this letter.

Yours sincerely

*KPMG IFRG Limited*

KPMG IFRG Limited

[2] IFRS 9.6.1.1

Mrs Sue Lloyd

IFRS Interpretations Committee
Columbus Building,
7 Westferry Circus, Canary Wharf
London E14 4HD
United Kingdom

Paris, November 23, 2018

**Tentative Agenda Decisions – IFRIC Update September 2018**

Dear Sue,

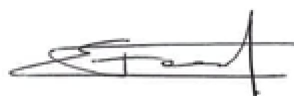
MAZARS is pleased to comment on the various IFRS Interpretations Committee tentative agenda decisions published in the September 2018 IFRIC Update.

We have gathered all our comments as appendices to this letter, which can be read separately and are meant to be self-explanatory.

We note that the Tentative Agenda Decisions are sometimes based on a strict reading of existing IFRSs without considering the relevance of the financial information resulting from the decision. In our opinion, this is especially the case for the step acquisition issue (IAS 27, see Appendix 4) and the cash flow hedge relationship (IFRS 9 and IAS 39, see Appendix 6). We consider it key to question the relevance of the accounting consequences of an Agenda Decision before finalizing it, to avoid some counterintuitive accounting and to enhance at the same time the credibility of the work undertaken by the Interpretations Committee.

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

Yours faithfully



**Michel Barbet-Massin** **Edouard Fossat**

*Financial Reporting Advisory*

# Appendix 6

## *Application of the highly probable requirement in a cash flow hedge relationship (IFRS 9 Financial Instruments and IAS 39 Financial instruments: Recognition and measurement) — Agenda Paper 12*

We can understand the reading of IFRS 9 that led the Committee to the conclusion provided in the tentative agenda decision. However, we consider that resulting impact on the financial statements of the entity is totally misleading for the users as it fails to reflect the actual economic position and hedging strategy of the entity.

As a general principle, we agree with IAS 39 and IFRS 9 requirements that a future cash flow has to be highly probable to be an eligible hedged item. However, we are convinced that, in the specific situation where the future cash flows uncertainty is perfectly mirrored by a symmetrical profile on the hedging instrument, this highly probable requirement should be disregarded as it becomes irrelevant.

Hedge accounting is an optional accounting treatment subject to several conditions. These conditions aim at ensuring that hedge accounting cannot be applied on derivatives that actually are a trading position. This would be the case if a vanilla foreign currency forward was hedging a future cash flow that is not probable enough. In this case we agree that the highly probable condition is critical to get the right accounting outcome and reflect the entity's economic position and strategy.

However, if we assume that the uncertainty of the hedged cash flows is perfectly mirrored in the characteristics of the hedging derivative (i.e. if the hedged cash flows do not occur, then the hedging instrument is cancelled at no cost) there is no scenario where the entity economic position could result in a trading position. The entity found the best and perfect hedging instrument available to manage its uncertain future cash flows. One can even consider that this situation is more robust than a situation where a vanilla derivative is hedging highly probable (but not certain) future cash flows. Therefore, not being able to get hedge accounting to such a perfect hedge is totally inconsistent and misleading for users.

Load following swaps are not common transactions. However, this concept of mirroring the uncertainty of hedged future cash flows in the characteristics of the hedging instrument exists in other more common types of risk management strategy, such as contracts hedging foreign currency exposure. Therefore, the position of the Committee may have significant unintended consequences on a wide range of situations.

We strongly encourage the Committee to address this issue and, if needed, recommend narrow scope standard setting to the Board to avoid having such a rule-based position impair the way IAS 39 and IFRS 9 are able to appropriately reflect the risk management strategy of an entity.

Besides, we would welcome a clarification of the status of former IAS 39 Implementation Guidance, since it has been deleted in its entirety in the 2018 Bound Volume, although IAS 39 hedging provisions have been retained for entities that have elected not to apply IFRS 9 hedging. We question the sustainability of such a guidance if its continuous validity is not clearly established and if it is no longer published.

Ms Sue Lloyd
Chair, IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
London E14 4HD

6 November 2018

Dear Sue

**Tentative agenda decision - Application of the highly probable requirement in a cash flow hedge relationship (IFRS 9 Financial Instruments and IAS 39 Financial instruments: Recognition and measurement)**

We are commenting on the above tentative agenda decision, published in the September 2018 edition of IFRIC Update, on behalf of PricewaterhouseCoopers. Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on the rejection. "PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We agree with the IC's observation that the fact pattern described in the request (a hedge of forecast sales of energy from a wind or solar farm with a Load Following Swap (LFS)) is not currently common, although we understand that in some territories the use of such swaps is becoming more common.

As regards the broader matter of how uncertainty over timing and magnitude of a forecast transaction affects the highly probable assessment, we agree with much of the tentative agenda decision. In particular we agree that:

- an entity considers uncertainty over both the timing and magnitude of the forecast transaction when considering if it is highly probable;
- the terms of the hedging instrument do not affect this assessment; and
- the entity must document the hedged transaction (the forecast energy sales) with sufficient specificity that when an energy sale occurs the entity can identify whether it is the hedged transaction.

However, we think that designating the hedged forecast transaction in terms of all energy sales from a specified wind or solar farm in a specified period (e.g. as "all energy sales from solar farm X in January 201X") meets these principles, and so a hedge of such sales with a LFS could qualify for hedge accounting. More specifically:

- both the magnitude (all energy sales from solar farm X) and timing (in January 201X) of the sales being hedged are considered in assessing if those sales are highly probable. That is, it must be highly probable that there will be sales from the specified farm (solar farm X) during the specified period (January 201X).
- the terms of the hedging instrument do not affect the assessment of whether the forecast sales are highly probable. In our view, it is not the case that the hedging instrument (the LFS) affects the hedged item (the future sales): conversely it is the hedged item (the future sales) that affects the hedging instrument (the LFS) since the notional amount of the LFS reflects these sales.
- the designation would meet the 'sufficient specificity' test. When a sale occurs, it can be objectively determined whether that sale was a hedged sale – i.e. whether it occurred from farm X and in January 20X1. We do not believe that either IAS 39 or IFRS 9 requires that the hedged item must be fixed in volume terms to meet the 'sufficient specificity' test – rather a designation in terms of all of the sales from a specified farm in a specified period would meet this test.

- We think the prohibition in IAS 39 IG F.3.10 on designating a percentage of sales during a period prevents an entity from designating an amount of sales that equals a stated percentage of all sales in a period without being specific as to which individual sales are hedged. However, it does not prevent an entity from designating all sales in a period, nor does it prevent an entity from designating a specified percentage of each and every sale. We also note that IFRS 9 contains additional guidance as compared to IAS 39 on what components can be designated as hedged items and paras B6.3.16 and B6.3.17 specifically permit the hedged item to be "a proportion of an entire item", an example of which is "50 per cent of the contractual cash flows of a loan".

Finally we note that, since the notional amount of the LFS matches the actual sales, the hedge is expected to be highly effective (IAS 39) or there is an economic relationship (IFRS 9). Economically, the hedging instrument is a near perfect hedge of the entity's exposure to the hedged risk and indeed far more effective than a swap whose notional amount is a fixed volume. Whilst this is not sufficient for hedge accounting to be applied, it does indicate that such a hedge designation is not 'abusive' and that applying hedge accounting would improve rather than reduce the relevance of the financial statements.

If you have any questions in relation to this letter please do not hesitate to contact Henry Daubeney, PwC Head of Reporting and Chief Accountant (+44 7841 569635), or Sandra Thompson (+ 44 7921 106900).

Yours sincerely,

PricewaterhouseCoopers

PricewaterhouseCoopers

**Accounting Standards Board of Japan (ASBJ)**

Fukoku Seimei Building 20F, 2-2, Uchisaiwaicho 2-chome, Chiyoda-ku, Tokyo 100-0011, Japan
Phone +81-3-5510-2737 Facsimile +81-3-5510-2717 URL http://www.asb.or.jp/

21 November 2018

IFRS Interpretations Committee
International Accounting Standards Board
Columbus Building 7 Westferry Circus
London E14 4HD
United Kingdom

**Comments on the Tentative Agenda Decision Relating to IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement*—Application of the Highly Probable Requirement in a Cash Flow Hedge Relationship**

1. The Accounting Standards Board of Japan (the “ASBJ” or ”we”) welcomes the opportunity to comment on the IFRS Interpretation Committee (the “Committee”)’s tentative agenda decision relating to IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement*—Application of the highly probable requirement in a cash flow hedge relationship proposed in the September 2018 IFRIC Update.

2. The tentative agenda decision relates to a request regarding how to apply the requirement in IFRS 9 and IAS 39 which state that a forecast transaction must be ‘highly probable’ to qualify as a hedged item in a cash flow hedge relationship under a specific fact pattern. We agree with the Committee’s decision not to add this issue to its agenda because the financial instrument described in the request is not common.

3. The tentative agenda decision also addresses the additional question regarding 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 tentative agenda decision concludes 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, mainly based on the Implementation Guidance that accompanies

IAS 39 (“the Guidance”) with a reference to paragraph BC6.95 of IFRS 9, which explains that not carrying forward the Guidance did not mean that the Board had rejected the Guidance.

4. However, because neither the basis for conclusions that accompany the IFRS standards nor agenda decisions are authoritative, the Guidance, which was deleted when IAS 39 was revised due to the issuance of IFRS 9, lacks authority. We think that issues in practice should not be addressed based on descriptions in the basis for conclusions or in agenda decisions (both of which are not authoritative) and we would prefer that the IASB clarifies the status of the Guidance in authoritative guidance.

5. We also think that the reference to the Guidance in the tentative agenda decision indicates that the existing requirements in IFRS 9 and IAS 39 do not provide an adequate basis for an entity to determine whether a forecast transaction is highly probable.

6. For the reasons stated above, we propose the Committee reconsider whether it would be more appropriate to add the Guidance referred to in the agenda decision into both IFRS 9 and IAS 39 by revisiting the reasons for not carrying forward the Guidance when IFRS 9 was issued.

7. We hope our comments are helpful for the Committee’s and the IASB’s consideration in the future. If you have any questions, please feel free to contact us.

Yours sincerely,

Yukio Ono

Chairman

Accounting Standards Board of Japan

Deutsches Rechnungslegungs Standards Committee e.V.

Accounting Standards Committee of Germany

ASCG • Zimmerstr. 30 • 10969 Berlin

Sue Lloyd
Chair of the IFRS Interpretations Committee
7 Westferry Circus, Canary Wharf
London E14 4HD

United Kingdom

**IFRS Technical Committee**

Phone: +49 (0)30 206412-12

E-Mail: info@drsc.de

Berlin, 30 October 2018

Dear Sue,

**IFRS IC's tentative agenda decisions in its September 2018 meeting**

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on the tentative agenda decisions taken by the IFRS Interpretations Committee (IFRS IC) and published in the September 2018 IFRIC Update.

We agree with all four final agenda decisions. In respect of the tentative agenda decisions, we do not, or only in part, agree with the reasons behind three of these.

Please find our specific comments in the appendix to this letter. If you would like to discuss our views further, please do not hesitate to contact Jan-Velten Große (grosse@drsc.de) or me.

Yours sincerely,

*Andreas Barckow*

President

## Appendix – Detailed Comments

***Tentative decision on IFRS 9 – Highly probable requirement for hedge accounting***

We basically agree with the main conclusions as to when the highly probable requirement applies, that uncertainty comprises timing and magnitude, and – most notably – that it depends on what was precisely designated/documented as the hedged (part of the) forecast transaction.

However, we do not fully understand the principle of whether (and to what extent) in a partial designation the hedged forecast transaction can be identified when being sold. More precisely, we are not fully clear about the IFRS IC's view on which designations would lead to the hedged forecast transaction being identified and which would not. From the wording in the *IFRIC Update* (incl. the reference to IAS 39.IG F.3.10 et seq.) we infer that:

- designating the first 15,000 sales units of the forecast transaction (i.e. "a bottom layer") would be admissible (see IG F.3.10);
- designating the last 15,000 sales units of the forecast transaction (i.e. "a top layer") would be **detrimental** (see IG F.3.10);
- designating a percentage of the forecast transaction would be **detrimental** (see IG F.3.10 and IFRIC Update wording).

Provided our reading is correct, we wonder whether designating a percentage of 100% of the forecast transaction – which is the case in a load-following swap – would not meet the requirement. This would look odd to us, as, economically speaking, the hedge would be perfect but fail for accounting purposes.

If one agrees that designating 100% of a forecast transaction should and would qualify as a hedged item, the question arises whether a hedge of designating any unspecified percentage below 100% (say 95% in order to avoid entering into materiality discussions) would then not meet the criterion. Whilst we do understand the conceptual argument of the hedged item not being entirely specified, again, from an economic perspective, it looks odd that something that is generally perceived as being close to perfect will be deemed a miss.

***[...]***

**Organismo Italiano di Contabilità – OIC**
**(The Italian Standard Setter)**
Italy, 00187 Roma, Via Poli 29
Tel. +39 06 6976681 fax +39 06 69766830
E-mail: presidenza@fondazioneoic.it

IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom
ifric@ifrs.org

23 November 2018

**Re: IFRS Interpretations Committee tentative agenda decisions published in the September 2018 IFRIC Update**

Dear Ms Lloyd,

We are pleased to have the opportunity to provide our comments on the IFRS Interpretations Committee ("the Committee") tentative agenda decisions included in the September 2018 IFRIC Update.

Our comments refer to the following tentative agenda decisions:

- Assessment of promised goods or services (IFRS 15 – Revenue from Contracts with Customers);
- Liabilities in relation to a joint operator's interest in a joint operation (IFRS 11 – Joint Arrangements);
- Investment in a subsidiary accounted for at cost: step acquisition (IAS 27 - Separate Financial Statements);
- Deposits relating to taxes other than income tax (IAS 37 – Provisions, Contingent Liabilities and Contingent Assets);
- Load following swap (IFRS 9/IAS 39 Financial Instruments).

**[...]**

*[...]*

### *Load following swap*

The Committee observes that the terms of the hedging instrument (in the request, the load following swap) do not affect the assessment of whether a forecast transaction is highly probable. We think that this is in line with the requirements of IFRS 9 or IAS 39; however, we think that in this specific situation these requirements do not lead to the right conclusion, because the entity has fully eliminated the hedged risk. In our view, in this case, applying hedge accounting would provide relevant information

In addition, we acknowledge that the highly probable requirements in IFRS 9 is not new as IAS 39 includes the same requirement and that the paragraph BC6.95 of IFRS 9, explains that the IASB decision not to carry forward the IAS 39 Implementation Guidance on hedge accounting, did not mean that the Board had rejected that guidance.

However, we think that it would be simpler to include that guidance in IFRS 9, instead of requiring an entity to apply the Implementation Guidance of a superseded Standard (IAS 39).

Should you need any further information, please do not hesitate to contact us.

Yours sincerely,

Angelo Casò
(Chairman)

[1] Please see our comment letter on the January 2014 IFRS IC tentative agenda decision IAS 12 – *Threshold of recognition of an asset in the situation in which the tax position is uncertain.*

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**AUTORITÉ DES NORMES COMPTABLES**
**5, PLACE DES VINS DE FRANCE**
**75573 PARIS CÉDEX 12**
**Phone** (+ 33 1) 53.44.28 53
**Internet** http://www.anc.gouv.fr/
**Mel** patrick.de-cambourg@anc.gouv.fr
**Chairman**
**PDC/CT**
**N° 115**

Paris, 21 November 2018

Mrs Lloyd
IFRS Interpretations Committee Chair
7 Westferry Circus, Canary Wharf
LONDON, UK, E14 4HD

**September 2018 - IFRS-IC tentative agenda decisions**

Dear Mrs Lloyd, Dear Sue,

I am writing on behalf of the Autorité des Normes Comptables (ANC) to express our views on the IFRS-IC tentative decisions published in September 2018 IFRIC Update regarding IFRS 9 / IAS 39 – *Application of the highly probable requirement in a cash flow hedge relationship* as well as IFRS 11 / IFRS 16 – *Liabilities in relation to a joint operator's interest in a joint operation*. This letter sets out two critical comments raised by interested stakeholders involved in ANC's due process.

**Application of the Highly Probable Requirement in a Cash Flow Hedge Relationship (IFRS 9 and IAS 39)**

ANC concurs with the conclusion of the Committee which is a relative straight forward application of IFRS 9 as written. Our constituents have also confirmed that load-following swaps are currently not common in our jurisdiction.

We however are concerned that the case raises a broader application issue. Those load-following swaps as well as certain "deal contingent derivatives" (that cease to exist if the hedged transaction does not materialise) do provide a perfect hedge even if the occurrence of the hedged transaction is not highly probable. This is for instance the case when an instrument hedges the foreign currency risk on a forecasted business combination or forecasted cash flows from a tender. This is because in those cases, the hedge is perfect, i.e. there is no mismatch between the hedged item and the hedging instruments. The fact that the quantity or the timing of the hedged item is linked to a contingency doesn't create any ineffectiveness as long as such contingency is perfectly reflected into the hedging instrument.
We are of the view that the issue raised would require an amendment of IFRS 9 and IAS 39 allowing to skip the "highly probable" test when a hedging instrument is designed in a way that ensures that the quantity of the hedging instrument reflects the quantity of the hedged item: in those specific limited circumstances, we do not see the need for the highly probable test.

[...]

Yours sincerely, Kind regards.

Patrick de Cambourg

21 November 2018

Ms. Sue Lloyd
Chair
IFRS Interpretations Committee (Committee)
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Ms. Lloyd

**Tentative Agenda Decision – Application of the highly probable requirement in a cash flow hedge relationship (IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement*)**

The Malaysian Accounting Standards Board (MASB) welcomes the opportunity to provide comments on the above Tentative Agenda Decision.

We agree with the Interpretations Committee's conclusion.

However, we are concerned that the reference made to paragraph BC6.95 of IFRS 9 may confuse users. In this regard we recommend the Committee to explain in the Agenda Decision the International Accounting Standards Board's (IASB) rationale for deleting the Implementation Guidance accompanying IAS 39, albeit the IASB had not rejected that guidance. Alternatively, the Committee could consider reproducing the guidance in the Agenda Decision.

If you need further clarification, please contact the undersigned by email at beeleng@masb.org.my or at +603 2273 3100.

Thank you.

Yours sincerely,

**TAN BEE LENG**
*Executive Director*

**Global Financial Reporting Collective**
*incorporating the Pacioli Initiative*

globalfrcollective@gmail.com

17 November 2018

IFRS Interpretations Committee
IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London
E14 4HD
United Kingdom

The Global Financial Reporting Collective is pleased to offer its comments on the Tentative Agenda Decision— Application of the Highly Probable Requirement in a Cash Flow Hedge Relationship (IFRS 9 and IAS 39).

We agree with the Conclusion reached by the Committee and the Tentative Agenda Decision.

Thank you.

**Global Financial Reporting Collective**

**17 November 2018**

**Macquarie Group Limited**
ABN 94 122 169 279

50 Martin Place
Sydney NSW 2000
GPO Box 4294
Sydney NSW 1164

Telephone (61 2) 8232 3333
Facsimile (61 2) 8232 3019
Internet http://www.macquarie.com.au
SWIFT MACQAU2S

21 November 2018

Ms Sue Lloyd
Chair, IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
London E14 4HD

Dear Ms Lloyd,

**Tentative agenda decision - Application of the highly probable requirement in a cash flow hedge relationship (IFRS 9 *Financial instruments* and IAS 39 *Financial Instruments: Recognition and measurement*)**

We are commenting on the above tentative agenda decision, published by the IFRS Interpretations Committee ("the Committee") in September 2018, on behalf of Macquarie Group Limited ("Macquarie").

***Background***

Macquarie is a diversified financial group listed on the Australian Securities Exchange with a presence in over 25 countries. Macquarie (and its managed funds) is one of the world's largest investors in renewable energy, having invested or arranged more than $A20 billion of investment into renewable energy projects since 2010[1]. Macquarie has a longstanding commitment to the renewable energy sector and participates in this sector in various capacities such as project manager, fund manager, advisor, and principal investor.

Macquarie is active in the development, construction and operation of wind farms and solar farms ("renewable generators"). Our experience is that "load following swaps" of energy sales are becoming increasingly common globally, in line with the maturing of the sector and the increasing level of capital attracted to the renewable energy sector. For the purposes of this letter, references to Load Following Swaps are those where the notional amount on which settlements will be based is the actual quantity of electricity sold. Therefore, clarification of how to apply the "highly probable" requirement in a cash flow hedge relationship would help ensure consistency of application.

***Comments on the IFRIC tentative decision***

In accordance with the tentative agenda decision, we have assumed that the Load Following Swap is a derivative financial instrument in scope of IFRS 9 and, as such, is an eligible hedging instrument. The key drivers of the value of the swap are the volumes of energy sales (i.e. the notional) defined in megawatt-hours (MWh) and the spot energy price.

We acknowledge that one of the criteria for achieving hedge accounting is the requirement for forecast energy sales (the hedged item) to be "highly probable" with respect to their

[1] https://www.macquarie.com/au/about/company/renewable-energy

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magnitude and timing. Our view is that forecast energy sales are designated with sufficient specificity with respect to magnitude and timing for the following reasons:

- As the notional of the Load Following Swap adjusts to actual sales volume (rather than merely forecast volumes), our view is that a Load Following Swap is clearly a hedge of a "highly probable" forecast transaction. This is because the notional amount of both the hedging instrument and hedged item will always reference the specified amount of energy actually produced and sold.

- A key objective of the "highly probable" requirements is to minimise ineffectiveness. In this case, the critical terms driving the fair value of the hedging instrument and hedged item (forecast sale volumes and spot energy prices) are aligned. This results in a near perfect hedge with minimal ineffectiveness.

- Paragraph F.3.10 of the Implementation Guidance accompanying IAS 39 ("the IG") states that *"The hedged forecast transaction must be identified and documented with sufficient specificity so that when the transaction occurs, it is clear whether the transaction is or is not the hedged transaction."* In our view, this objective is met by specifying 100% of each unit of sales (e.g. each MWh of energy sold during the period), because it is clear that each unit of sales is a hedged transaction.

- Additionally, while the IFRIC tentative decision states that *"energy sales cannot be specified solely as a percentage of sales during a period because that would lack the required specificity"*, paragraph F.3.10 of the IG states that one cannot designate the *"last 15,000 units of a product in a specific period"* but acknowledges that the *"first 15,000 units of a specified product during a specific three-month period"* could be a hedged forecast transaction. Therefore, we believe that paragraph F.3.10 would also allow less than 100% (e.g. the first 80%) of each MWh sold during a specified period to be specified as the hedged forecast transaction.

Our view is that a hedge of up to 100% of each unit of energy sales from a specified renewable generator using a Load Following Swap could be designated into a hedging relationship for the reasons noted above. This approach is consistent with the objective of hedge accounting, which is to reflect the entity's risk management strategy. Clearly an economic relationship exists between the hedging instrument and the hedged item, as the values of both move in equal and opposite directions in line with spot electricity prices.

Designating such a Load Following Swap into a hedging relationship results in an accounting outcome that reflects the commercial substance of the arrangement; that is, to "lock in" a fixed sales price for an identified output of energy. The potential volatility created by re-measuring such a Load Following Swap derivative through P&L (rather than hedge accounting) does not reflect the substance of the arrangement or provide relevant information to users of financial statements in assessing the financial performance of the generator.

Please contact me or Mary-Anne Matthews on +61 2 8232 3333 if you wish to discuss any aspect of this submission.

Yours sincerely

Stuart Dyson
*Group Financial Controller*

PETROBRAS

Rio de Janeiro, Nov 21, 2018

CONTRIB 0063/2018

Ms Lloyd
International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London
E14 4HD, UK.

Subject: Tentative Agenda Decision and comment letters - Application of the Highly Probable Requirement in a Cash Flow Hedge Relationship (IFRS 9 and IAS 39)

Reference: IFRS 9 - Financial Instruments and IAS 39 and IAS 39 Financial Instruments: Recognition and Measurement

Dear Ms Lloyd,

Petróleo Brasileiro S.A. - Petrobras welcomes the opportunity to comment on the IFRS Interpretations Committee's tentative agenda decision - Application of the Highly Probable Requirement in a Cash Flow Hedge Relationship (IFRS 9 and IAS 39). We believe this is an important opportunity for all parties interested in the future of IFRS and we hope to contribute to the progress of the Board's activities.

We generally agree with the Interpretations Committee's conclusion and we support the decision not to add this item to its agenda

If you believe we can be of any assistance regarding this matter, do not hesitate to contact us (contrib@petrobras.com.br).

Respectfully,

/s/Rodrigo Araujo Alves

______________________________

Rodrigo Araujo Alves

Chief Accounting and Tax Officer