



Australian Government

Australian Accounting Standards Board

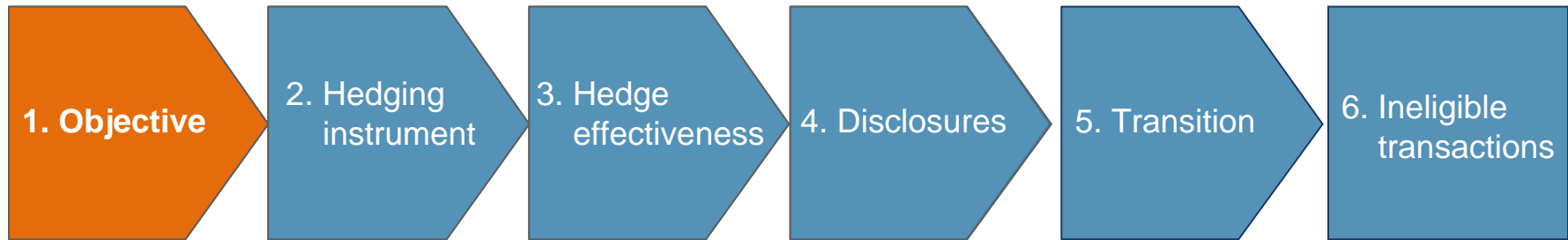
Hedge Accounting - Issues for consideration

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Areas for consideration

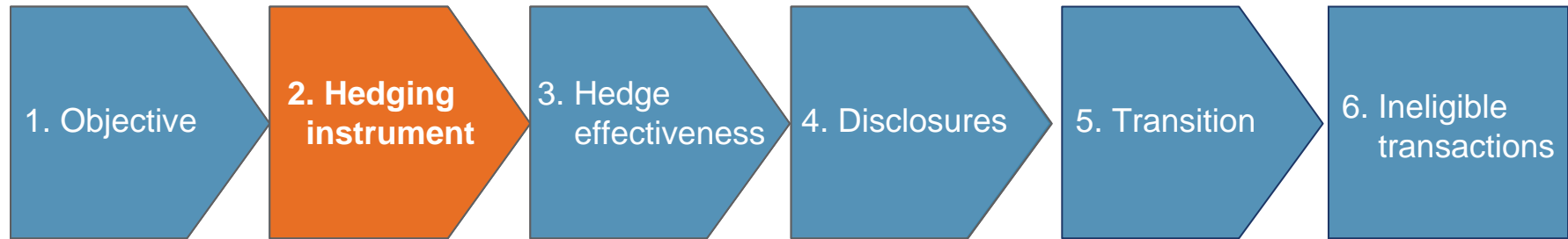
1. Hedge accounting objective
2. Hedging instruments
3. Hedge effectiveness
4. Disclosures
5. Transition issues
6. Transactions that cannot get hedge accounting



Paragraph 1 states that the objective of hedge accounting is:
“...to present 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.**”

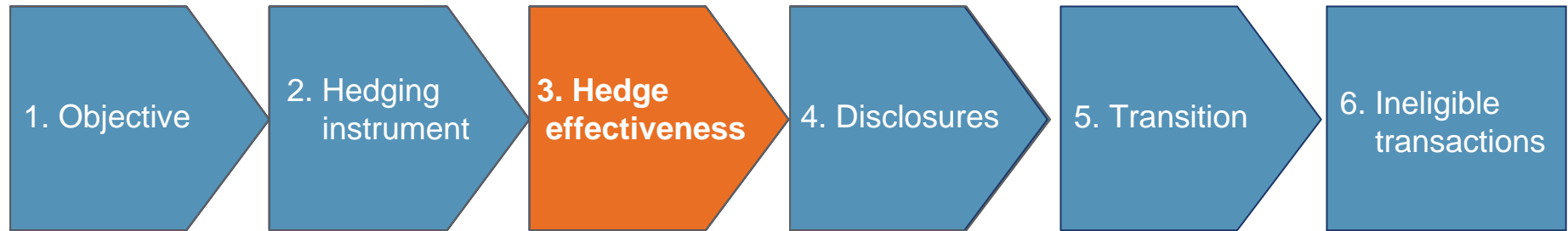
Issues

- Earnings management (issue 1)
- Focus on profit or loss (issue 2)



Issues

- Treatment of time value (issue 5)
 - Different treatment for transaction related hedged items v time period hedged item – is this necessary?
- Zero cost collar instruments



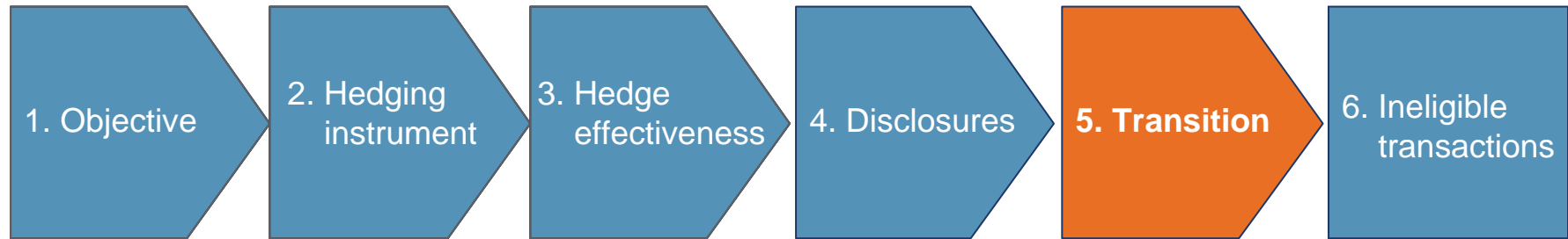
Issues

- Undefined terminology – biased v unbiased (issue 8)
- Need for guidance – what constitutes normal pricing fluctuation v new trend in assessing whether hedge ratio should be rebalanced



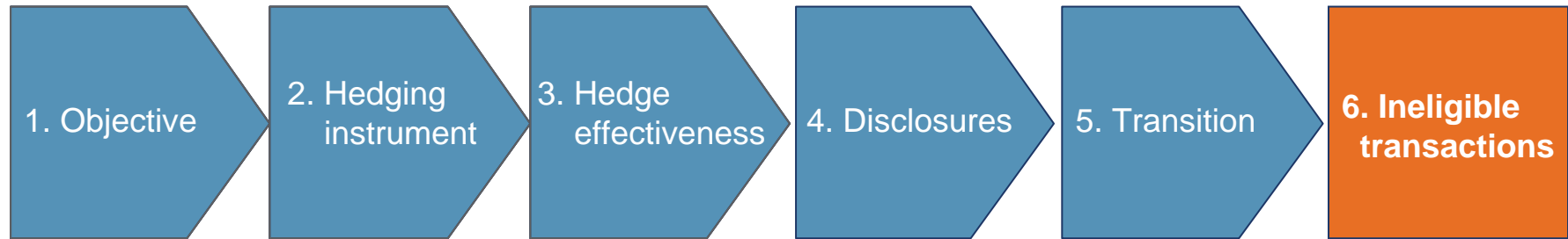
Issues

- Onerous requirements that will be narrowly applied (issue 12)
- Repetition of IFRS 7 requirements – paragraph 33 requires an entity to disclose (a) the exposures to risk and how they arise; (b) its objectives, policies and processes for managing the risk and the methods used to measure the risk.



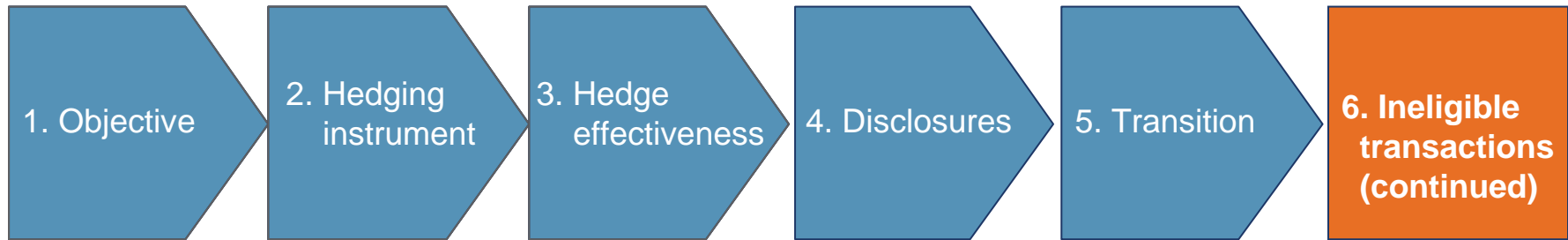
Issues

- Prospective v once-off retrospective adjustment
 - Aggregated exposures (issue 6)
 - Use of options as hedging instruments (issue 13)
 - Hedge of sales v hedge of net position

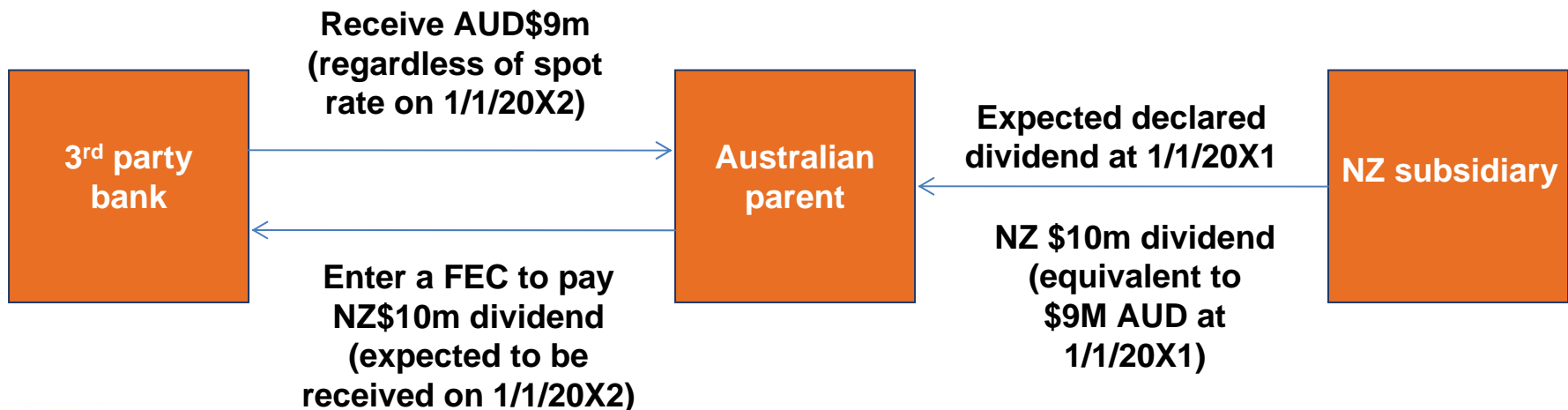


Issues

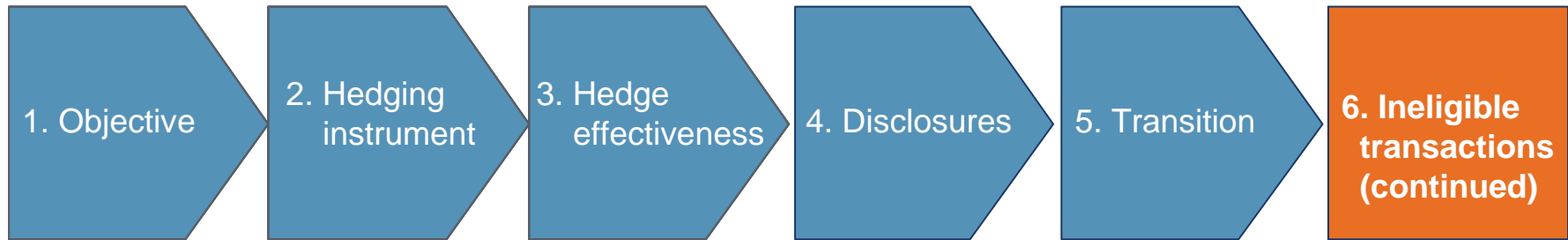
- Forecast intra-group dividends (issue 11)
- Basis swaps



Forecast intra-group dividends (issue 11)

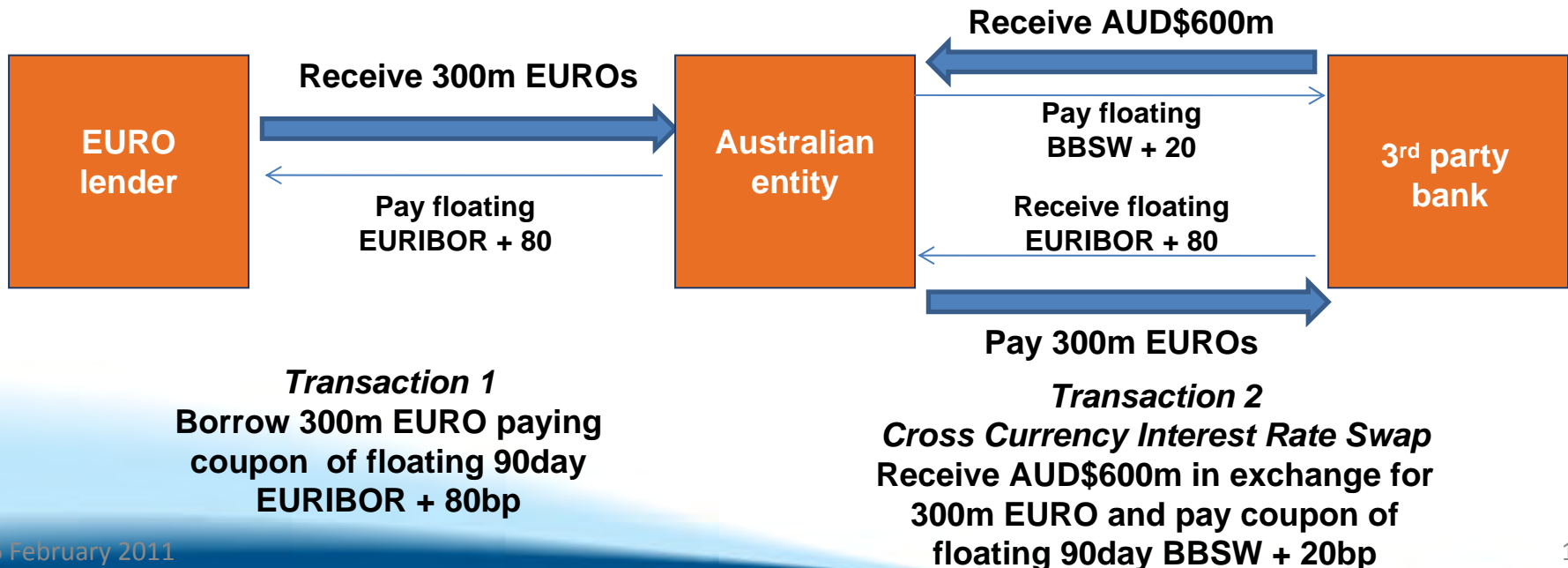


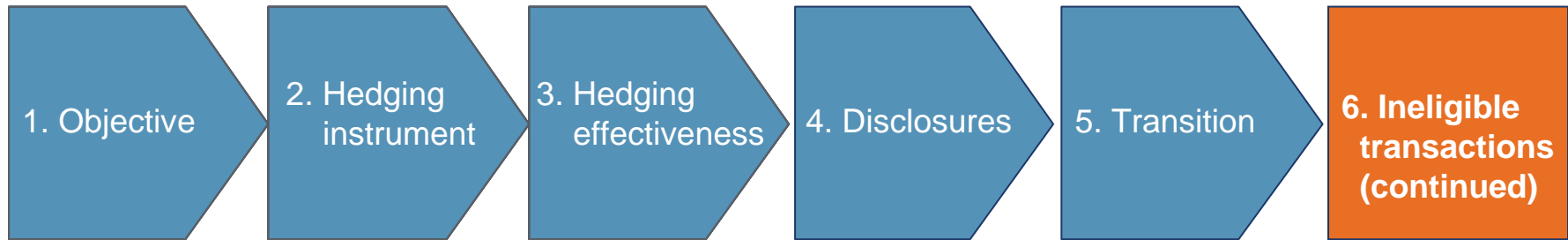
- Cannot achieve hedge accounting – therefore, document a different hedge relationship in order to achieve hedge accounting



Basis Swap – interest rate

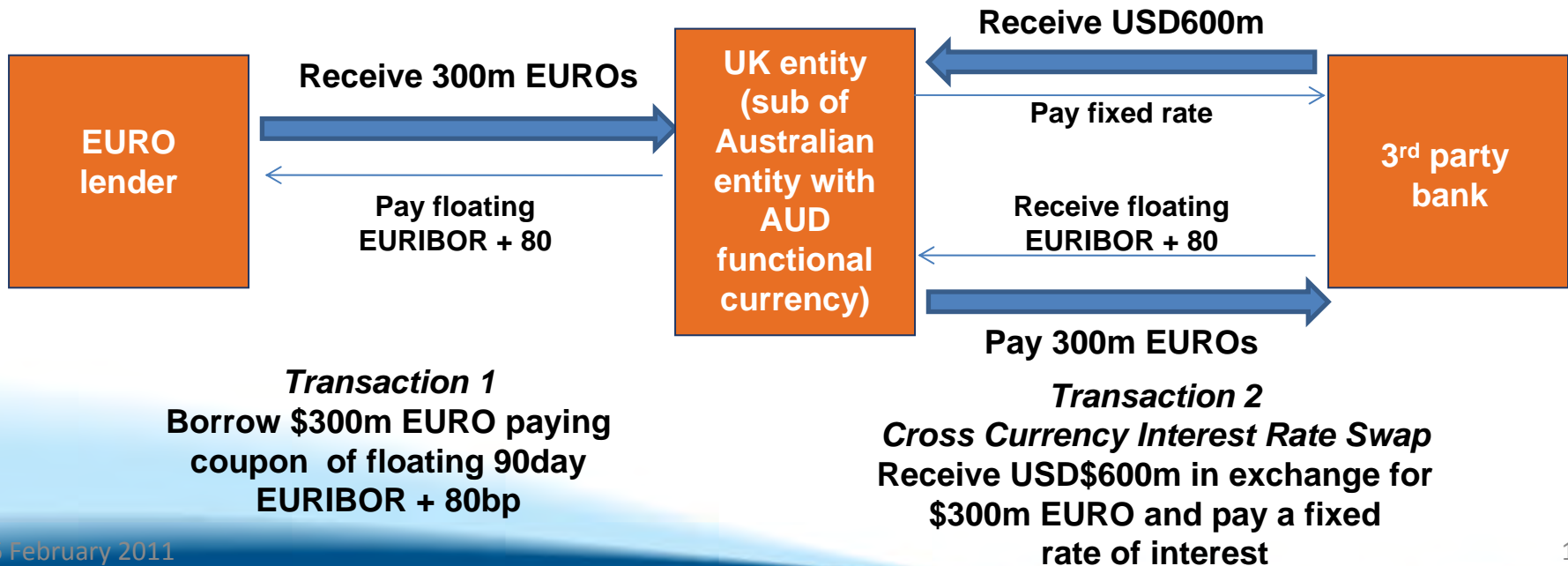
- Does not meet the definition of a fair value or cash flow hedge





Basis Swap – FX

- Does not meet the definition of a fair value or cash flow hedge





Other issues

- Discontinuing hedge accounting (issue 3)
- Presentation of fair value adjustments in the balance sheet (issue 7)
- Rebalancing (issue 9)
- Credit risk (issue 4)
- Component hedging (issue 10)
- Inflation as a risk component (proposed paragraph B18)
- Optional v mandatory application of hedge accounting requirements
- Implementation Guidance



What's next

- Sub-committee to consider draft AASB submission and to be finalised out-of-session
- IASB expected to consider some issues as early as at its March 2011 Board meeting
- Amendments to IFRS 9 expected by end of Q2 2011
- Effective date 1 January 2013