

**Accounting Standard**

**AASB 2008-8**

August 2008

# **Amendments to Australian Accounting Standards – Eligible Hedged Items**

**[AASB 139]**



**Australian Government**

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**Australian Accounting  
Standards Board**

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Australian Accounting Standard AASB 2008-8 <i>Amendments to Australian Accounting Standards – Eligible Hedged Items</i> is set out in paragraphs 1 – 8. All the paragraphs have equal authority.
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## **PREFACE**

### **Standards Amended by AASB 2008-8**

This Standard makes amendments to AASB 139 *Financial Instruments: Recognition and Measurement*.

These amendments arise from the issuance, by the International Accounting Standards Board in July 2008, of amendments to IAS 39 *Financial Instruments: Recognition and Measurement* regarding eligible hedged items.

### **Main Features of this Standard**

#### **Application Date**

This Standard is applicable to annual reporting periods beginning on or after 1 July 2009, with early adoption permitted for annual reporting periods beginning on or after 1 January 2005 but beginning before 1 July 2009.

#### **Main Requirements**

The amendments to AASB 139 clarify how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation as a hedged item, should be applied in particular situations.

## **ACCOUNTING STANDARD AASB 2008-8**

The Australian Accounting Standards Board makes Accounting Standard AASB 2008-8 *Amendments to Australian Accounting Standards – Eligible Hedged Items* under section 334 of the *Corporations Act 2001*.

Dated 27 August 2008

D.G. Boymal  
Chair – AASB

## **ACCOUNTING STANDARD AASB 2008-8**

### ***AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – ELIGIBLE HEDGED ITEMS***

#### **Objective**

- 1 The objective of this Standard is to make amendments to AASB 139 *Financial Instruments: Recognition and Measurement*.

#### **Application**

- 2 In respect of AASB 139, this Standard applies to:
  - (a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity; and
  - (b) general purpose financial statements of each other reporting entity; and
  - (c) financial statements that are, or are held out to be, general purpose financial statements.
- 3 This Standard applies to annual reporting periods beginning on or after 1 July 2009.
- 4 This Standard may be applied to annual reporting periods beginning on or after 1 January 2005 but beginning before 1 July 2009. When an entity applies this Standard to such an annual reporting period, it shall disclose that fact.

## Amendments to AASB 139

- 5 A note concerning paragraph 103G is inserted as follows:
- 103G [Deleted by the AASB]
- 6 Paragraph AG99BA is added after paragraph AG99B:
- AG99BA An entity can designate all changes in the cash flows or fair value of a hedged item in a hedging relationship. An entity can also designate only changes in the cash flows or fair value of a hedged item above or below a specified price or other variable (a one-sided risk). The intrinsic value of a purchased option hedging instrument (assuming that it has the same principal terms as the designated risk), but not its time value, reflects a one-sided risk in a hedged item. For example, an entity can designate the variability of future cash flow outcomes resulting from a price increase of a forecast commodity purchase. In such a situation, only cash flow losses that result from an increase in the price above the specified level are designated. The hedged risk does not include the time value of a purchased option because the time value is not a component of the forecast transaction that affects profit or loss (paragraph 86(b)).
- 7 Paragraphs AG99E and AG99F are added after paragraph AG99D:
- AG99E Paragraph 81 permits an entity to designate something other than the entire fair value change or cash flow variability of a financial instrument. For example:
- (a) all of the cash flows of a financial instrument may be designated for cash flow or fair value changes attributable to some (but not all) risks; or
  - (b) some (but not all) of the cash flows of a financial instrument may be designated for cash flow or fair value changes attributable to all or only some risks (ie a 'portion' of the cash flows of the financial instrument may be designated for changes attributable to all or only some risks).

AG99F To be eligible for hedge accounting, the designated risks and portions must be separately identifiable components of the financial instrument, and changes in the cash flows or fair value of the entire financial instrument arising from changes in the designated risks and portions must be reliably measurable. For example:

- (a) for a fixed rate financial instrument hedged for changes in fair value attributable to changes in a risk-free or benchmark interest rate, the risk-free or benchmark rate is normally regarded as both a separately identifiable component of the financial instrument and reliably measurable.
- (b) inflation is not separately identifiable and reliably measurable and cannot be designated as a risk or a portion of a financial instrument unless the requirements in (c) are met.
- (c) a contractually specified inflation portion of the cash flows of a recognised inflation-linked bond (assuming there is no requirement to account for an embedded derivative separately) is separately identifiable and reliably measurable as long as other cash flows of the instrument are not affected by the inflation portion.

8 Paragraphs AG110A and AG110B are added after paragraph AG110:

AG110A Paragraph 74(a) permits an entity to separate the intrinsic value and time value of an option contract and designate as the hedging instrument only the change in the intrinsic value of the option contract. Such a designation may result in a hedging relationship that is perfectly effective in achieving offsetting changes in cash flows attributable to a hedged one-sided risk of a forecast transaction, if the principal terms of the forecast transaction and hedging instrument are the same.

AG110B If an entity designates a purchased option in its entirety as the hedging instrument of a one-sided risk arising from a forecast transaction, the hedging relationship will not be perfectly effective. This is because the premium paid for the option includes time value and, as stated in paragraph AG99BA, a designated one-sided risk does not include the time value of an option. Therefore, in this situation, there will be no offset between the cash flows relating to the time value of the option premium paid and the designated hedged risk.

## **DELETED IFRS TEXT**

*Deleted IFRS text is not part of AASB 2008-8*

### ***IAS 39 Financial Instruments: Recognition and Measurement***

*Deleted IAS 39 text is not part of AASB 139.*

#### **Paragraph 103G**

An entity shall apply paragraphs AG99BA, AG99E, AG99F, AG110A and AG110B retrospectively for annual periods beginning on or after 1 July 2009, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Earlier application is permitted. If an entity applies *Eligible Hedged Items* (Amendment to IAS 39) for periods beginning before 1 July 2009, it shall disclose that fact.