AASB Standard

AASB 2013-4
July 2013

Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting

[AASB 139]

Australian Government
Australian Accounting Standards Board

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ISSN 1036-4803

CONTENTS

Australian Accounting Standard AASB 2013-4 *Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting* is set out in paragraphs 1 – 7. All the paragraphs have equal authority.

PREFACE

Introduction

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

These amendments arise from the issuance of *Novation of Derivatives and Continuation of Hedge Accounting* (Amendments to IAS 39) by the International Accounting Standards Board in June 2013.

Main Features of this Standard

Application Date

This Standard applies to annual reporting periods beginning on or after 1 January 2014. Early application is permitted for annual reporting periods beginning on or after 1 January 2005 but before 1 January 2014.

Main Requirements

This Standard makes amendments to AASB 139 to permit the continuation of hedge accounting in circumstances where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations.

ACCOUNTING STANDARD AASB 2013-4

The Australian Accounting Standards Board makes Accounting Standard AASB 2013-4 *Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting* under section 334 of the *Corporations Act 2001*.

Kevin M. Stevenson
Dated 19 July 2013 Chair – AASB

ACCOUNTING STANDARD AASB 2013-4

AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – NOVATION OF DERIVATIVES AND CONTINUATION OF HEDGE ACCOUNTING

Objective

1 The objective of this Standard is to make amendments to AASB 139 *Financial Instruments: Recognition and Measurement* as a consequence of the issuance of *Novation of Derivatives and Continuation of Hedge Accounting* (Amendments to IAS 39) by the International Accounting Standards Board in June 2013.

Application

2 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;

(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 January 2014.

4 This Standard may be applied to annual reporting periods beginning on or after 1 January 2005 but before 1 January 2014. When an entity applies this Standard to such an annual reporting period, it shall disclose that fact.

5 This Standard uses underlining, striking out and other typographical material to identify some of the amendments to a Standard, in order to make the amendments more understandable. However, the amendments made by this Standard do not include that underlining, striking out or other typographical material.

Amendments to AASB 139

6 Paragraphs 91 and 101 are amended as follows (new text is underlined and deleted text is struck through) and paragraph 108D is added:

> **91 An entity shall discontinue prospectively the hedge accounting specified in paragraph 89 if:**
>
> **(a) the hedging instrument expires or is sold, terminated or exercised. ~~(f~~For this purpose, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such replacement or rollover is part of the entity's documented hedging strategy~~);~~. Additionally, for this purpose there is not an expiration or termination of the hedging instrument if:**
>
> **(i) as a consequence of laws or regulations or the introduction of laws or regulations, the parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. For this purpose, a clearing counterparty is a central counterparty (sometimes called a 'clearing organisation' or 'clearing agency') or an entity or entities, for example, a clearing member of a clearing organisation or a client of a clearing member of a clearing organisation, that are acting as counterparty in order to effect clearing by a central counterparty. However, when the parties to the hedging instrument replace their original counterparties with different counterparties this paragraph shall apply only if each of those**

parties effects clearing with the same central counterparty;

(ii) other changes, if any, to the hedging instrument are limited to those that are necessary to effect such a replacement of the counterparty. Such changes are limited to those that are consistent with the terms that would be expected if the hedging instrument were originally cleared with the clearing counterparty. These changes include changes in the collateral requirements, rights to offset receivables and payables balances, and charges levied;

(b) …

101 In any of the following circumstances an entity shall discontinue prospectively the hedge accounting specified in paragraphs 95–100:

(a) The hedging instrument expires or is sold, terminated or exercised ~~(for this purpose, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such replacement or rollover is part of the entity's documented hedging strategy)~~. In this case, the cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income from the period when the hedge was effective (see paragraph 95(a)) shall remain separately in equity until the forecast transaction occurs. When the transaction occurs, paragraph 97, 98 or 100 applies. For the purpose of this subparagraph, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such replacement or rollover is part of the entity's documented hedging strategy. Additionally, for the purpose of this subparagraph there is not an expiration or termination of the hedging instrument if:

(i) as a consequence of laws or regulations or the introduction of laws or regulations, the parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. For this purpose, a clearing counterparty is a central counterparty

(sometimes called a 'clearing organisation' or 'clearing agency') or an entity or entities, for example, a clearing member of a clearing organisation or a client of a clearing member of a clearing organisation, that are acting as counterparty in order to effect clearing by a central counterparty. However, when the parties to the hedging instrument replace their original counterparties with different counterparties this paragraph shall apply only if each of those parties effects clearing with the same central counterparty.

(ii) other changes, if any, to the hedging instrument are limited to those that are necessary to effect such a replacement of the counterparty. Such changes are limited to those that are consistent with the terms that would be expected if the hedging instrument were originally cleared with the clearing counterparty. These changes include changes in the collateral requirements, rights to offset receivables and payables balances, and charges levied.

(b) …

108D AASB 2013-4 *Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting*, issued in July 2013, amended paragraphs 91 and 101 and added paragraph AG113A. An entity shall apply those paragraphs for annual reporting periods beginning on or after 1 January 2014. An entity shall apply those amendments retrospectively in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. Earlier application is permitted. If an entity applies those amendments for an earlier period it shall disclose that fact.

7 In Appendix A, paragraph AG113A is added:

AG113A For the avoidance of doubt, the effects of replacing the original counterparty with a clearing counterparty and making the associated changes as described in paragraphs 91(a)(ii) and 101(a)(ii) shall be reflected in the measurement of the hedging instrument and therefore in the assessment of hedge effectiveness and the measurement of hedge effectiveness.