Australian Government
Australian Accounting Standards Board

Cover Memo

Project:	**Post-implementation review of IFRS 9 and IFRS 7 – Hedge Accounting Requirements**	**Meeting:**	AASB November 2026 (M224)
Topic:	**Staff analysis of the feedback received on ITC 58**	**Agenda Item:**	6.0
		Date of this agenda paper:	19 November 2026
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		Decision-Making:	Low
		Project Status:	Developing comment letter to the IASB

Objective of this agenda item

1 The objectives of this agenda item are:

(a) to summarise the feedback received from Australian stakeholders on the Request for Information IASB/RFI/2026/1 *Post-implementation Review of IFRS 9 and IFRS 7 – Hedge Accounting Requirements* (the PIR);

(b) for the Board to consider the staff analysis of the feedback and decide on the matters for inclusion in the AASB comment letter to the IASB; and

(c) if appropriate, approve the comment letter (Agenda Paper 6.1) for finalisation out of session.

Attachments

Agenda Paper 6.1	Draft comment letter to the IASB
Agenda Paper 6.2	Chartered Accountants Australia and New Zealand (CA ANZ) Preliminary Views (Board-only, in supplementary folder)

Background

2 IFRS 9 *Financial Instruments* sets out requirements for the recognition and measurement of financial instruments, including classification and measurement, impairment and hedge accounting. Although IFRS 9 generally replaced IAS 39 *Financial Instruments: Recognition and Measurement*, certain IAS 39 hedge accounting requirements remain available as accounting policy choices.

3 The IFRS 9 hedge accounting requirements are designed to better reflect an entity's risk management activities in its financial statements. They are complemented by the related disclosure requirements in IFRS 7 *Financial Instruments: Disclosures*.

4 The current PIR will consider whether the requirements are working as intended and delivering the expected benefits for investors and other users of financial statements and whether the costs are in line with the IASB's expectations.

5 This review is the final part of the PIR of IFRS 9, following earlier reviews of the classification and measurement requirements and the impairment requirements. It addresses two aspects of hedge accounting under IFRS Accounting Standards:

(a) the hedge accounting requirements in IFRS 9; and

(b) the hedge accounting disclosure requirements in IFRS 7.

6 At its June 2026 meeting (M221), the AASB agreed to submit a comment letter to the IASB on the PIR.

7 In September 2026, the IASB published Request for Information IASB/RFI/2026/1 *Post-implementation Review of IFRS 9 and IFRS 7 – Hedge Accounting Requirements*. The due date for comments is 26 January 2027.

8 On 5 October 2026, the AASB issued the Australian equivalent Invitation to Comment ITC 58 *Request for Comment on IASB Request for Information on Post-implementation Review of IFRS 9 and IFRS 7 – Hedge Accounting Requirements*, with comments due by 9 November 2026. The shorter comment period was intended to enable the current Board to finalise the comment letter before its term ends on 30 November 2026.

Outreach activities

9 Staff have not received any submission letters on ITC 58. However, feedback has been received through the following outreach activities:

(a) AASB Financial Instruments Project Advisory Panel (FIPAP): seven FIPAP members provided feedback on the PIR at the panel meeting on 23 October 2026;

(b) Australian Prudential Regulation Authority (APRA): staff met with APRA representatives on 6 November 2026 to obtain their views on the PIR from a regulator and user perspective;

(c) Chartered Accountants Australia and New Zealand (CA ANZ): provided preliminary feedback by email on 9 November 2026.

10 Staff have prepared the draft comment letter (Agenda Paper 6.1) based on the analysis of feedback obtained through the FIPAP meeting and informal stakeholder feedback received.

Summary of the feedback received from stakeholders, staff analysis and recommendations

11 There are three sections in the PIR, each with explanatory material and corresponding numbered questions. Staff have considered all feedback received in providing their recommendations to the Board.

Question 1 – Overall assessment of the hedge accounting requirements in IFRS 9
The IASB wants to understand whether, in your view: (a) the hedge accounting requirements in IFRS 9 meet their objective. If not, please explain why not. (b) the overall initial and ongoing costs of applying the requirements in IFRS 9, and auditing and enforcing their application, are largely as the IASB expected. If your view is that the overall costs are significantly greater than expected, please explain why, how you would propose the IASB reduce these costs and how your proposals would affect the benefits of the requirements. (c) the overall benefits to users of the information resulting from entities applying the hedge accounting requirements in IFRS 9 are largely as the IASB expected. If your view is that the overall benefits are

significantly lower than expected, please explain why and what the IASB could do to improve the usefulness of that information.

The expected costs and benefits of the hedge accounting requirements in IFRS 9 are set out in paragraphs BCE.174-BCE.238 of the Basis for Conclusions on IFRS 9.

Respondents may also share their views on the timing and manner of the proposed withdrawal of IAS 39. In particular, please consider the transition requirements for applying the hedge accounting requirements in IFRS 9 and whether additional requirements would need to be added upon the withdrawal of IAS 39.

Please refer to the 'Guidance for responding to questions' on page 8.

Summary of stakeholders' feedback and staff analysis

Overall effectiveness

12 Stakeholders generally considered the hedge accounting requirements in IFRS 9 to be working as intended and to better align hedge accounting with entities' risk management activities than IAS 39. Stakeholders identified the removal of the 80–125% effectiveness threshold and the broader eligibility of items for hedge accounting as key improvements under IFRS 9.

13 Staff consider that the stakeholder feedback received to date provides evidence that the hedge accounting requirements in IFRS 9 are, overall, achieving the objective in IFRS 9 paragraph 6.1.1.[1] The stakeholder views are consistent with the IASB's preliminary feedback, which indicates that stakeholders generally consider the requirements to be working as intended and have welcomed, in particular, the removal of the 80–125% 'bright-line' effectiveness test and the ability to designate risk components of non-financial items.[2]

Costs

14 Stakeholders provided the following feedback on the costs of applying the IFRS 9 hedge accounting requirements:

(a) **initial implementation costs:** one preparer noted that implementation costs have largely already been incurred and did not identify significant incremental ongoing costs; and

(b) **ongoing costs:** another stakeholder questioned whether those savings have actually occurred to the extent expected, because although the 80–125% testing costs was removed, entities still incur costs from ongoing monitoring of hedge relationships.

1 IFRS 9 paragraph 6.1.1 states:

> The objective of hedge accounting is to represent, 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 (or other comprehensive income, in the case of investments in equity instruments for which an entity has elected to present changes in fair value in other comprehensive income in accordance with paragraph 5.7.5). This approach aims to convey the context of hedging instruments for which hedge accounting is applied in order to allow insight into their purpose and effect.

2 IFRS 9 paragraph B6.3.10 provides four examples on designating risk components as hedged items. One of the examples related to a long-term supply contract for natural gas is as follows:

> Entity A has a long-term supply contract for natural gas that is priced using a contractually specified formula that references commodities and other factors (for example, gas oil, fuel oil and other components such as transport charges). Entity A hedges the gas oil component in that supply contract using a gas oil forward contract. Because the gas oil component is specified by the terms and conditions of the supply contract it is a contractually specified risk component. Hence, because of the pricing formula, Entity A concludes that the gas oil price exposure is separately identifiable. At the same time, there is a market for gas oil forward contracts. Hence, Entity A concludes that the gas oil price exposure is reliably measurable. Consequently, the gas oil price exposure in the supply contract is a risk component that is eligible for designation as a hedged item.

15 In relation to initial implementation costs, in paragraph BCE.228 of the Basis for Conclusions on IFRS 9, the IASB noted that initial application would give rise to costs, including changes to processes, systems and controls, updating hedge documentation and educating accounting functions. The IASB expected some of those costs to be one-off costs of transition.[3] Accordingly, staff consider that our stakeholder feedback on the initial implementation costs is broadly consistent with the IASB's expectations regarding the one-off cost of implementing IFRS 9.

16 In relation to ongoing costs, in paragraph BCE.230 to IFRS 9, the IASB expected the objective-based hedge effectiveness assessment to substantially reduce ongoing compliance costs compared with IAS 39, particularly because entities would no longer need to perform accounting-specific effectiveness testing, such as the 80–125% effectiveness test.[4] Accordingly, staff consider that our stakeholder feedback on ongoing costs suggests that the reduction in ongoing costs may be less substantial than the IASB expected.

Rebalancing and discontinuation of a hedging relationship

17 Stakeholders identified areas where further clarity would be helpful in applying the requirements for rebalancing and discontinuation of hedge accounting. One preparer considered that the rebalancing requirements could be clearer and that further guidance would be helpful. CA ANZ similarly identified a need for greater clarity about the interaction between rebalancing and changes in an entity's risk management objective (RMO), including the evidence needed to demonstrate that an RMO has genuinely changed. A preparer and a practitioner also questioned how an entity distinguishes a genuine change in RMO from a change made to achieve a favourable accounting outcome.

18 A user supported the principle underlying IFRS 9 that discontinuation is linked to changes in an entity's risk management activities rather than being voluntary, as was permitted under IAS 39. The user observed that a genuine change in RMO would ordinarily be reflected in the entity's broader governance and internal approval processes and would therefore reflect a risk management decision, rather than a decision made solely within the accounting function to achieve a preferred accounting outcome.

19 Under IAS 39 paragraphs 91(c) and 101(d), an entity could voluntarily discontinue a fair value hedge and cash flow hedge designation respectively. When developing IFRS 9, the IASB decided not to retain this free choice to revoke a hedging relationship. The IASB considered voluntary discontinuation to be arbitrary and unjustifiable where an entity continued to hedge the exposure in accordance with its RMO. Removing this choice improved the link between hedge accounting and an entity's risk management activities.[5]

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3 IFRS 9 paragraph BCE.228 notes that initial application of the new hedge accounting model would result in costs associated with, among other things, processes, systems and controls, hedge documentation and educating accounting functions. The IASB noted that some systems changes and the updating of hedge documentation would constitute one-off costs of transition.

4 IFRS 9 paragraph BCE.230 states that the objective-based hedge effectiveness assessment was expected to substantially reduce ongoing compliance costs compared with IAS 39, including by removing the need to perform accounting-specific quantitative effectiveness testing solely for accounting purposes.

5 IFRS 9 paragraph BC6.319 states:

> In view of its aim to better link hedge accounting to risk management and provide more useful hedge accounting information, the IASB also discussed whether it should retain an entity's choice to revoke the designation of a hedging relationship, taking into consideration that the designation of a hedging relationship (and hence the discontinuation of hedge accounting) at will does not result in useful information. The IASB noted that this would allow hedge accounting to be discontinued even if the entity for risk management purposes continued to hedge the exposure in accordance with its risk management objective that was part of the qualifying criteria that initially allowed the entity to achieve hedge accounting. The IASB considered that, in such situations, voluntary discontinuation of hedge accounting would be arbitrary and unjustifiable. Hence, the IASB decided to propose not to allow entities a free choice to revoke the designation of a hedging relationship in this situation. The IASB also noted that if the hedging relationship no longer reflected the risk management objective for that particular hedging relationship, discontinuation of hedge accounting was not a choice but

20 Staff note that IFRS 9 already establishes the principles for rebalancing and discontinuation and provides guidance and examples on those requirements. Specifically, IFRS 9 provides that an existing hedging relationship:

(a) continues without adjustment if it continues to meet the qualifying criteria, including the hedge effectiveness requirements in paragraph 6.4.1(c) of IFRS 9;

(b) is rebalanced if the hedge ratio needs to be adjusted to continue meeting the hedge effectiveness requirements and the RMO remains unchanged (paragraph 6.5.5 and B6.5.7–B6.5.21 of IFRS 9); or

(c) is discontinued, in whole or in part, if the RMO for the hedging relationship has changed or the hedging relationship otherwise ceases to meet the qualifying criteria after taking into account any applicable rebalancing (paragraph 6.5.6 and B6.5.22–B6.5.28 of IFRS 9, particularly paragraph B6.5.23 of IFRS 9).

See Appendix A for details and examples of the rebalancing and discontinuation requirements, including relevant extracts from IFRS 9.

21 However, this guidance is largely directed at the accounting treatment once it has been determined whether the RMO remains unchanged or has changed.

22 Applying the requirements therefore requires an entity to assess the nature and circumstances of a change in an existing hedging relationship to determine whether the RMO has changed and whether the qualifying criteria continue to be met. Stakeholder feedback indicated that additional guidance would be helpful in making this assessment, including on the evidence needed to demonstrate that an RMO has genuinely changed.

23 The draft NZASB comment letter identifies a comparable application issue, distinguishing between continuation of an existing relationship without rebalancing, rebalancing, discontinuation when the qualifying criteria or RMO change, and discontinuation followed by designation of a new relationship. It proposes a decision framework and targeted examples covering circumstances such as instrument rollover, counterparty replacement, changes in forecast volumes or timing, changes in notional amounts and partial termination.

24 Staff consider that the decision framework and targeted examples proposed by the NZASB could assist in addressing the Australian stakeholder concerns, particularly by illustrating how entities determine whether changes arising in those examples indicate a change in the RMO or otherwise. This could support more consistent application of the existing rebalancing and discontinuation requirements.

25 The draft NZASB comment letter also suggested that the IASB consider reintroducing voluntary discontinuation, as permitted under IAS 39. Australian stakeholder feedback, however, supported the IFRS 9 approach of linking discontinuation to changes in an entity's risk management. Staff therefore consider that the existing RMO-based approach should be retained, with additional guidance provided to assist entities in determining whether an RMO has changed and the evidence needed to support that assessment.

IAS 39 and Risk Mitigation Accounting (RMA)

26 Some Australian banks that continue to apply IAS 39 raised concerns about whether and when IAS 39 will be withdrawn and about the IASB's plans for the RMA project. One stakeholder questioned whether the IASB would continue with the RMA project in light of the recent HSBC submission and, if RMA does not proceed, whether IAS 39 would continue to be available.

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was required because the qualifying criteria would no longer be met. The IASB considered that applying hedge accounting without a risk management objective would not provide useful information.

27 If the RMA project proceeds, one stakeholder considered that any withdrawal of IAS 39 should coincide with, or occur after, RMA model becomes available. Otherwise, entities currently applying IAS 39 could be required to transition first to the general IFRS 9 hedge accounting requirements and subsequently transition relevant activities to the RMA model, resulting in the costs and operational disruption of two successive transitions.

28 Another stakeholder sought clarity about which risk management activities would be accounted for under the general IFRS 9 hedge accounting requirements and which would be addressed through the RMA model if IAS 39 is withdrawn.

29 Staff note that the RFI acknowledges that the timing and manner of withdrawing IAS 39 depend on the progress of the RMA project. However, it is unclear whether the IASB could withdraw IAS 39 if the RMA project does not proceed. Staff consider that the IASB should clarify the circumstances in which IAS 39 would be withdrawn, including the implications for IAS 39 if the RMA project does not proceed.

30 If the RMA project proceeds, staff consider that IAS 39 should remain available until the RMA model is available, thereby avoiding unnecessary successive transitions for affected entities.

31 Staff note that the RMA proposals already distinguish between repricing risk managed on a net basis, which may qualify for RMA, and hedging relationships accounted for under the general IFRS 9 hedge accounting requirements. Staff consider that, before IAS 39 is withdrawn, entities that continue to apply IAS 39 should have a clear basis for determining how their existing risk management activities would transition to IFRS 9 and RMA. This would allow those entities to identify which existing hedging relationships should transition to IFRS 9 and which portfolio repricing risk-management activities would instead be addressed through RMA.

32 The draft NZASB comment letter considers that IAS 39 should not be withdrawn until the IASB has established a clear and operational RMA framework and a coordinated transition pathway for affected entities. NZASB also recommends that the IASB clearly distinguish between identifiable closed hedging relationships that should be addressed by IFRS 9 and open, dynamically managed portfolios whose composition changes continuously and are more appropriately addressed through RMA.

33 Staff consider that the NZASB's suggested distinction between hedging relationships addressed by IFRS 9 and portfolio risk-management activities addressed through RMA would be helpful for Australian entities transitioning from IAS 39. However, Australian feedback did not indicate a strong view that IAS 39 should remain available if the RMA project does not proceed. Staff therefore consider that the IASB should clarify what would happen to IAS 39 in those circumstances.

Proxy hedge Implementation Guidance examples

34 One stakeholder noted that the Implementation Guidance (IG) accompanying IAS 39 included guidance on proxy hedging. Currently, proxy hedging is only in the Basis for Conclusions to IFRS 9.[6] The stakeholder asked whether the IG examples would be included in IFRS 9 when IAS 39 is withdrawn.

35 Staff note that the proxy-hedging guidance referred to by the stakeholder has already been removed from the Implementation Guidance accompanying IAS 39. The 2022 version states that Sections A–G are deleted, and the latest version identified by staff that included the relevant guidance was the 2012 version. The decision to remove the relevant Implementation Guidance has therefore already been made and appears separate from any future decision by the IASB to completely withdraw the IAS 39 Standard.

6 IFRS 9 paragraphs BC6.96–BC6.101 discuss proxy hedging in the context of open portfolios. See Appendix B for the relevant extracts.

36 When developing IFRS 9, IASB staff recommended that the IASB not carry forward the IAS 39 hedge-accounting Implementation Guidance. IASB staff noted that the detailed Q&A-style guidance was widely perceived as rules-based and therefore inconsistent with the move to a more principles-based hedge-accounting model. IASB staff also considered that selectively carrying forward some guidance could imply that guidance not carried forward had been rejected. Further, Implementation Guidance could not override the requirements of IFRS 9 or validate a practice that did not comply with those requirements.[7]

37 The IASB subsequently decided not to carry forward any additional guidance from IAS 39 or its accompanying Implementation Guidance into IFRS 9. Instead, the IASB clarified that proxy hedge designations need not correspond exactly to an entity's actual risk-management view but must be directionally consistent with it, and that not carrying forward the Implementation Guidance did not mean that the guidance had been rejected.[8]

38 Staff consider that the IASB's previous decision not to carry forward the former IAS 39 Implementation Guidance, together with the clarification in paragraph BC6.95 of IFRS 9, remains appropriate. Staff therefore do not recommend raising this matter in the AASB's comment letter. The stakeholder's question may indicate that there is limited awareness that the application guidance had previously been removed and was not carried forward into IFRS 9.

Staff recommendation on the AASB response to the IASB

39 Staff recommend that the AASB's comment letter include the following Australian stakeholder feedback and related recommendations:

(a) **objective:** the IFRS 9 hedge accounting requirements are generally working as intended and better align hedge accounting with entities' risk-management activities compared to IAS 39. However, stakeholder noted some areas for improvement.

(b) **costs:** initial implementation costs appear broadly consistent with the IASB's expectations, although the reduction in ongoing costs may have been less substantial than expected;

(c) **benefits:** stakeholders supported linking discontinuation to changes in an entity's risk management rather than permitting voluntary discontinuation, consistent with the intended closer alignment between hedge accounting and risk management. However, preparers and practitioners would benefit from further guidance on how to determine when rebalancing is required, including whether the RMO has changed and, if it remains unchanged, whether the hedge ratio needs to be adjusted to ensure that the qualifying criteria continue to be met; and

(d) **withdrawal of IAS 39:** the IASB should clarify the implications for IAS 39 if RMA does not proceed and, if RMA proceeds, coordinate any withdrawal of IAS 39 with the availability of RMA and provide a clear transition pathway.

Question for Board members

Q1 Do Board members agree with the staff recommendation in paragraph 39? If not, how do Board members want to respond to the questions?

7 See IASB January 2013 Agenda Paper 4B.

8 See IASB January 2013 Meeting Summary for IASB's tentative decision on carrying forward any additional guidance from IAS 39 or its accompanying Implementation Guidance into IFRS 9. IFRS 9 paragraphs BC6.93–BC6.95 discuss the IASB's reasoning behind its decision. See Appendix B for the relevant extracts.

Question 2 – Overall assessment of the hedge accounting disclosure requirements in IFRS 7

The IASB wants to understand whether, in your view:

(a) the hedge accounting disclosure requirements in IFRS 7 meet their objective. If not, please explain why not.

(b) the overall initial and ongoing costs of applying the requirements in IFRS 7, and auditing and enforcing their application, are largely as the IASB expected. If your view is that the overall costs are significantly greater than expected, or providing the required information requires undue cost or effort, please explain:

  (i) why (identifying the specific requirement and cost drivers);

  (ii) how you would propose the IASB reduce these costs; and

  (iii) how your proposals would affect the benefits of the requirements.

(c) the overall benefits to users of the information resulting from entities applying the hedge accounting disclosure requirements in IFRS 7 are largely as the IASB expected. Specifically, please explain:

  (i) which of the disclosures provided are most useful and why;

  (ii) whether, in your view, the information provided is sufficient to meet the objective of enabling users to understand an entity's hedging activities; and

  (iii) if the overall benefits of the information are significantly lower than expected, why, and what the IASB could do to improve the usefulness of that information.

The expected costs and benefits of the hedge accounting disclosure requirements in IFRS 7 are set out in paragraphs BCE.174-BCE.238 of the Basis for Conclusions on IFRS 9.

Please refer to the 'Guidance for responding to questions' on page 8.

Summary of stakeholders' feedback and staff analysis

Overall disclosure objective

40 Stakeholders identified benefits from the IFRS 7 hedge accounting disclosure requirements, including bringing the disclosures together in one note and the resulting greater consistency. However, stakeholders provided additional observations for the IASB to consider.

41 When developing the requirements, the IASB considered that presenting hedge accounting disclosures in one location would make the information more transparent and easier for users to understand.[9] The IASB also expected the single-note requirement to reduce users' costs of analysis by making the information easier to locate and compare across entities.

9 IFRS 7 paragraph BC35L states:

> In its redeliberations of the 2010 Hedge Accounting Exposure Draft, the Board also considered a disclosure that would allow understanding how the hedge ineffectiveness that is recognised in the statement of comprehensive income relates to the changes in the values of the hedging instruments and the hedged items. The Board decided to require disclosure of the change in fair value of the hedging instruments and the change in the value of the hedged items on the basis that is used to calculate the hedge ineffectiveness that is recognised in the statement of comprehensive income. Those are the changes in value during the period (after taking into account the effect of the 'lower of' test for cash flow hedges and hedges of a net investment in a foreign operation). This means that the difference between the amount included in the table for hedged items and the amount included in the table for hedging instruments equals the hedge ineffectiveness recognised in the statement of comprehensive income.

42 Staff consider that the feedback provides support for the overall disclosure requirements in paragraphs 21A–21D of IFRS 7.[10] In particular, stakeholders' positive feedback about bringing hedge accounting disclosures together in one note is consistent with the IASB's rationale for paragraph 21B of IFRS 7.

Completeness of the hedging picture

43 Some stakeholders commented that the disclosure requirements may not provide a complete picture of an entity's economic hedging activities that are not designated in accounting hedge relationships. A regulator described hedging activities as broadly falling into three categories:

(a) **hedge accounting** that reflects the entity's risk management activities;

(b) **proxy hedges**, where the accounting designation may not fully reflect the entity's risk management activities; and

(c) **economic hedges** that are not captured by either of the first two categories.

44 The regulator acknowledged that the third category is not fully visible through the financial statements, which may limit a financial statement user's view of the entity's overall hedging activities. However, this information gap is less relevant for the regulator, as they have their own reporting collections which gives them a broad holistic view.

45 A professional body provided a related observation. It noted that the cost and complexity of applying IFRS 9 hedge accounting may influence whether entities elect to apply hedge accounting, with some entities using derivatives to manage risks economically without applying hedge accounting. Consequently, economic hedging activities may exist even though the related transactions are not captured by the specific IFRS 7 hedge accounting disclosures.

46 The IFRS 7 hedge accounting disclosures apply only to risk exposures for which hedge accounting is applied and therefore do not capture all economic hedging activities. The IASB considered this limitation when developing the requirements and deliberately retained this scope. The IASB acknowledged the concerns and considered that the broader IFRS 7 risk disclosures would provide information enabling users to understand how an entity manages risk exposures for which hedge accounting is not applied.[11]

47 Accordingly, staff consider that the stakeholder feedback raises a question about whether the broader IFRS 7 risk disclosures provide users with sufficient information about material risk management activities for which hedge accounting is not applied.

Usefulness, transparency and streamlining of disclosures

48 Stakeholders raised questions about whether the usefulness of some hedge accounting disclosures justifies the effort required to prepare them. Two preparers noted that hedge accounting disclosures can be costly to prepare but that they have received little or no feedback from users on those

10 See Appendix C for the relevant extracts.

11 IFRS 7 paragraph BC35I states:

> Most respondents to the 2010 Hedge Accounting Exposure Draft agreed with the Board's proposed scope for hedge accounting disclosures (ie to provide information about risk exposures that an entity hedges and for which hedge accounting is applied). However, some did raise concerns about the potential lack of information that will be available to users of financial statements about those risk exposures an entity hedges but for which hedge accounting is not applied.

IFRS 7 paragraph BC35J states:

> The Board noted that IFRS 7 requires entities to provide qualitative and quantitative disclosure about the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period and how those risks are being managed. The Board believes that, as part of these disclosures, entities would provide information for users of financial statements to understand how it manages risk exposures for which hedge accounting is not applied.

disclosures. Another stakeholder raised a related concern about whether some disclosures, including notional amounts and maturity tables, provide meaningful information to users. Stakeholders suggested obtaining further user feedback on whether, and how, the disclosures are used and whether there are opportunities to streamline disclosures that provide limited decision-useful information.

49 A regulator observed that the usefulness of hedge accounting disclosures may differ between users. Specialist users, such as investors or banks, may examine the disclosures in detail, whereas general-purpose users may make less use of them. Accordingly, any consideration of opportunities to streamline the disclosures should balance the transparency provided to users against the effort required to prepare them.

50 Staff thinks that preparers not receiving direct feedback or questions from users does not necessarily indicate that the disclosures are not useful, and the IASB's PIR provides an opportunity to help bridge this information gap. Based on the user feedback gathered, the IASB could then consider whether there are opportunities to streamline particular disclosure requirements, while balancing preparation effort against the benefits of transparency and visibility for users.

Materiality, granularity and boilerplate disclosures

51 Stakeholders identified challenges associated with applying materiality and determining the appropriate level of detail in hedge accounting disclosures. One stakeholder observed that disclosures can be lengthy and boilerplate, particularly for corporate entities compared with banks. In that stakeholder's experience, corporate entities may focus on demonstrating compliance with individual disclosure requirements without always having the same conceptual understanding of how the requirements fit together, making it more difficult to determine what information is material and should be disclosed.

52 A preparer observed that differences in the level of detail of hedge accounting disclosures across entities are not necessarily indicative of inconsistent application. The level of detail disclosed depends on entity-specific materiality judgements and the nature of an entity's hedging activities. Accordingly, changing the disclosure requirements would not necessarily result in greater consistency in the level of detail.

53 Paragraph 21D of IFRS 7 requires an entity to determine the amount of detail to disclose, the emphasis placed on different aspects of the requirements, the appropriate level of aggregation or disaggregation, and whether additional explanations are necessary to enable users to evaluate the quantitative information disclosed.[12]

54 Staff consider that differences in the level of detail of hedge accounting disclosures are not, in themselves, a concern, as they may appropriately reflect entity-specific materiality judgements and differences in hedging activities. Rather, the concern is the observation that some entities may have difficulty applying materiality and determining the appropriate level of detail, resulting in lengthy or boilerplate disclosures.

55 Staff think that these challenges may, in part, reflect an information gap between preparers and users. Preparers may have limited insight into which hedge accounting information users find most useful and the level of detail at which that information is most useful, including where greater disaggregation is needed and where aggregation is sufficient.

12 IFRS 7 paragraph 21D states:

> To meet the objectives in paragraph 21A, an entity shall (except as otherwise specified below) determine how much detail to disclose, how much emphasis to place on different aspects of the disclosure requirements, the appropriate level of aggregation or disaggregation, and whether users of financial statements need additional explanations to evaluate the quantitative information disclosed. However, an entity shall use the same level of aggregation or disaggregation it uses for disclosure requirements of related information in this Standard and IFRS 13 *Fair Value Measurement*.

Staff recommendation on the AASB response to the IASB

56 Staff recommend that the AASB make the following comments and recommendations to the IASB:

(a) **Overall disclosure objective.** The overall objective of the IFRS 7 hedge accounting disclosure requirements remain appropriate. Stakeholder feedback supports presenting hedge accounting disclosures together in one note. However, stakeholders provided additional observations for the IASB to consider.

(b) **Completeness of the hedging picture.** Staff recommend that the IASB seek feedback on whether the broader IFRS 7 risk disclosure requirements are resulting in entities providing information about risk exposures for which hedge accounting is not applied. If entities are already providing sufficient information about those exposures, we do not consider additional disclosure requirements would be necessary. If they are not, we recommend the IASB to investigate why. If the issue reflects a lack of understanding that the broader IFRS 7 risk disclosure requirements apply to exposures outside designated hedge accounting relationships, the IASB could amend the hedge accounting disclosure requirements to cross-reference more clearly to those broader requirements or otherwise identify the broader scope of the risk-based disclosure requirements.

(c) **Usefulness and streamlining for disclosures.** Staff recommend that the IASB continue to gather user feedback through the PIR on the usefulness of hedge accounting disclosures and communicate those findings in its feedback statement to help address this information gap between preparers and users. Based on the user feedback gathered, the IASB could then consider whether there are opportunities to streamline particular disclosure requirements, while balancing preparation effort against the benefits of transparency and visibility for users.

(d) **Materiality, granularity and boilerplate disclosures.** Similar to the above recommendation, staff recommend the IASB to continue gathering user feedback through the PIR and to communicate in its feedback statement how users use the hedging information disclosed. This could help bridge the information gap and support preparers in making more effective materiality and aggregation or disaggregation judgements.

Question for Board members
Q2 Do Board members agree with the staff recommendation in paragraph 56? If not, how do Board members want to respond to the questions?

Question 3 – Other matters relevant to this post-implementation review
Are there any other matters the IASB should examine as part of the post-implementation review of the hedge accounting requirements in IFRS 9 and related disclosure requirements in IFRS 7? If so, please explain why, considering the objective of a post-implementation review as set out on page 6. Please refer to the 'Guidance for responding to questions' on page 8.

Summary of stakeholders' feedback and staff analysis

Variable-volume hedges

57 Some stakeholders mentioned that the IASB should consider whether the existing exception for nature-dependent electricity contracts could be extended to other hedges where volume variability is

outside both parties' control and the arrangement otherwise represents a sound economic hedge, such as certain load-following swaps.

58 Staff acknowledge the March 2019 Agenda Decision on load-following swaps and the subsequent introduction of variable-volume hedge accounting requirements in the 2024 *Contracts Referencing Nature-dependent Electricity amendments*. Although the load-following swap raised by the stakeholder relates to electricity that is not nature-dependent and therefore falls outside the scope of those requirements, there may be similarities in the characteristics of the hedging relationships.

See Appendix D for details on the March 2019 Agenda Decision on load-following swaps and the 2024 *Contracts Referencing Nature-dependent Electricity* amending Standard.

59 Staff therefore recommend that the IASB explore whether, and if so in what circumstances, the variable-volume hedge accounting requirements could have broader application to other hedging relationships. Given that Australian stakeholders also raised broader application of these requirements during consultation on the *Contracts Referencing Nature-dependent Electricity* amendments, staff consider that it would be helpful for the IASB to explain the reasons for its conclusion, including if it concludes that broader application is not appropriate.

Proxy hedging that may not reflect the underlying risk-management activity

60 A user identified a concern with proxy hedge designations from a risk-management perspective. The user observed that an interest-rate swap economically intended to manage the interest-rate risk of a bank's deposit portfolio might instead be designated, for hedge-accounting purposes, against variable-rate loans because the deposits cannot be designated as the hedged item. The resulting accounting designation could appear to portray the bank as increasing its fixed-rate exposure and taking on additional interest-rate risk, even though the economic purpose of the swap is to reduce the bank's interest-rate risk. The user described this outcome as counterintuitive from a risk-management perspective.

61 The user considered that RMA could reduce the need for such proxy hedging to a significant extent because deposits could be included and repricing risk managed on a net basis, although proxy hedging would not necessarily be eliminated completely.

62 Staff consider that the user's example is relevant to the objective of the IFRS 9 hedge accounting requirements to more closely align hedge accounting with an entity's risk-management activities. In the example, the proxy designation does not reflect the exposure being managed for economic purposes and, more significantly, can appear to portray a risk position that is counter to the entity's underlying economic risk-management objective.

63 While RMA may reduce the need for this type of proxy hedging, it is unclear how such circumstances would be addressed if RMA project does not proceed. In particular, it is not evident whether the IASB intends that entities would continue to use proxy hedge designations under the general IFRS 9 hedge accounting requirements in these circumstances. Staff consider that the IASB should clarify whether this is an intended outcome if the RMA project does not proceed.

Staff recommendation on the AASB response to the IASB

64 Staff recommend that the AASB's comment letter make the following recommendations to the IASB:

(a) **Variable-volume hedges**: the IASB explore whether, and if so in what circumstances, the variable-volume hedge accounting requirements could have broader application to other hedging relationships. It would be most helpful if the IASB explained its conclusion in this respect, even if that is not to propose broader application of those hedge accounting requirements; and

(b) **Proxy hedging that may not reflect the underlying risk-management activity:** the IASB should clarify whether, if RMA does not proceed, the continued use of proxy hedge designations that may not reflect the underlying economic risk-management activity is an intended outcome.

Question for Board members

Q3 Do Board members agree with the staff recommendation in paragraph 64? If not, how do Board members want to respond to the questions?

Next steps

65 The comment period to the IASB Request for Information closes on 26 January 2027. Staff recommend a comment letter reflecting the Board's decisions from this meeting be finalised out-of-session by the Chair prior to 1 December 2026.

Questions for Board members

Q4 Do Board members have any comments on the draft comment letter presented as Agenda Paper 6.1?

Q5 Subject to any amendments agreed at this meeting, do Board members agree to delegate the Chair to finalise the comment letter out of session by 30 November 2026?

Appendix A Rebalancing and discontinuation requirements in IFRS 9

A1 Building on the summary provided in paragraph 20, Appendix A provides details on the rebalancing and discontinuation requirements, including extracts of examples in IFRS 9.

Rebalancing

A2 IFRS 9 introduced rebalancing so that some changes to an existing hedging relationship can be accounted for as a continuation of that relationship, rather than requiring discontinuation and designation of a new relationship as under IAS 39. The IASB explained that circumstances may change such that adjustments are needed to re-align a hedging relationship with risk management, even though the original RMO has not changed. IFRS 9 refers to such adjustments as rebalancing.[13]

A3 Accordingly, paragraph 6.5.5 of IFRS 9 requires rebalancing when a hedging relationship ceases to meet the hedge-effectiveness requirement relating to the hedge ratio, but the RMO for the designated hedging relationship remains unchanged. In practical terms, rebalancing adjusts the quantities of the hedged item or hedging instrument used for hedge accounting so that the hedge ratio appropriately reflects the relationship between them, while allowing the existing hedging relationship to continue. Rebalancing does not encompass a change made simply because an entity decides to hedge more or less than it originally intended.[14]

A4 IFRS 9 paragraph B6.5.10 provides an example of a hedging relationship in which the hedging instrument and the hedged item have different but related underlyings changes in response to a change in the relationship between those two underlyings. The paragraph states:

> For example, an entity hedges an exposure to Foreign Currency A using a currency derivative that references Foreign Currency B and Foreign Currencies A and B are pegged (ie their exchange rate is maintained within a band or at an exchange rate set by a central bank or other authority). If the exchange rate between Foreign Currency A and Foreign Currency B were changed (ie a new band or rate was set), rebalancing the hedging relationship to reflect the new exchange rate would ensure that the hedging relationship would continue to meet the hedge effectiveness requirement for the hedge ratio in the new circumstances.
>
> …

A5 Rebalancing is also not required merely because some hedge ineffectiveness arises. IFRS 9 distinguishes temporary fluctuations in the extent of offset around an otherwise appropriate hedge ratio from changes indicating that the hedge ratio itself needs adjustment. Consequently, some changes result only in the measurement and recognition of hedge ineffectiveness, whereas others require rebalancing of the existing relationship.[15]

A6 Paragraph B6.5.16 of IFRS 9 details how an entity can make adjustments to the hedge ratio if a hedging relationship is rebalanced. Paragraphs B6.5.17-B6.5.20 of IFRS 9 provide examples to illustrate these adjustments.

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13 See IFRS 9 Basis for Conclusions paragraphs BC6.300–BC6.304. The IASB observed that adjustments to a hedging relationship may be necessary because circumstances relating to the underlying or risk variables change even though the RMO remains the same. The IASB referred to adjustments that allow the relationship to continue in those circumstances as “rebalancing”.

14 See IFRS 9 paragraph 6.5.5 and paragraphs B6.5.7–B6.5.21. See also paragraphs BC6.300–BC6.313 of the Basis for Conclusions. The IASB clarified that rebalancing concerns adjustments to the designated quantities of the hedging instrument or hedged item needed to maintain a hedge ratio that complies with the hedge-effectiveness requirements, rather than changes made simply because the entity decides to hedge more or less.

15 See IFRS 9 paragraphs B6.5.12–B6.5.14. Those paragraphs distinguish changes in the extent of offset that represent fluctuations around an otherwise appropriate hedge ratio, for which hedge ineffectiveness is measured and recognised, from changes indicating that the hedge ratio needs to be adjusted.

A7 IFRS 9 Paragraph B6.5.17 states:

> Adjusting the hedge ratio by increasing the volume of the hedged item does not affect how the changes in the fair value of the hedging instrument are measured. The measurement of the changes in the value of the hedged item related to the previously designated volume also remains unaffected. However, from the date of rebalancing, the changes in the value of the hedged item also include the change in the value of the additional volume of the hedged item. These changes are measured starting from, and by reference to, the date of rebalancing instead of the date on which the hedging relationship was designated. For example, if an entity originally hedged a volume of 100 tonnes of a commodity at a forward price of CU80 (the forward price at inception of the hedging relationship) and added a volume of 10 tonnes on rebalancing when the forward price was CU90, the hedged item after rebalancing would comprise two layers: 100 tonnes hedged at CU80 and 10 tonnes hedged at CU90.

A8 IFRS 9 Paragraph B6.5.18 states:

> Adjusting the hedge ratio by decreasing the volume of the hedging instrument does not affect how the changes in the value of the hedged item are measured. The measurement of the changes in the fair value of the hedging instrument related to the volume that continues to be designated also remains unaffected. However, from the date of rebalancing, the volume by which the hedging instrument was decreased is no longer part of the hedging relationship. For example, if an entity originally hedged the price risk of a commodity using a derivative volume of 100 tonnes as the hedging instrument and reduces that volume by 10 tonnes on rebalancing, a nominal amount of 90 tonnes of the hedging instrument volume would remain (see paragraph B6.5.16 for the consequences for the derivative volume (ie the 10 tonnes) that is no longer a part of the hedging relationship).

A9 IFRS 9 Paragraph B6.5.19 states:

> Adjusting the hedge ratio by increasing the volume of the hedging instrument does not affect how the changes in the value of the hedged item are measured. The measurement of the changes in the fair value of the hedging instrument related to the previously designated volume also remains unaffected. However, from the date of rebalancing, the changes in the fair value of the hedging instrument also include the changes in the value of the additional volume of the hedging instrument. The changes are measured starting from, and by reference to, the date of rebalancing instead of the date on which the hedging relationship was designated. For example, if an entity originally hedged the price risk of a commodity using a derivative volume of 100 tonnes as the hedging instrument and added a volume of 10 tonnes on rebalancing, the hedging instrument after rebalancing would comprise a total derivative volume of 110 tonnes. The change in the fair value of the hedging instrument is the total change in the fair value of the derivatives that make up the total volume of 110 tonnes. These derivatives could (and probably would) have different critical terms, such as their forward rates, because they were entered into at different points in time (including the possibility of designating derivatives into hedging relationships after their initial recognition).

A10 IFRS 9 Paragraph B6.5.20 states:

> Adjusting the hedge ratio by decreasing the volume of the hedged item does not affect how the changes in the fair value of the hedging instrument are measured. The measurement of the changes in the value of the hedged item related to the volume that continues to be designated also remains unaffected. However, from the date of rebalancing, the volume by which the hedged item was decreased is no longer part of the hedging relationship. For example, if an entity originally hedged a volume of 100 tonnes of a commodity at a forward price of CU80 and reduces that volume by 10 tonnes on rebalancing, the hedged item after rebalancing would be 90 tonnes hedged at CU80. The 10 tonnes of the hedged item that are no longer part of the hedging relationship would be accounted for in accordance with the requirements for the discontinuation of hedge accounting (see paragraphs 6.5.6–6.5.7 and B6.5.22–B6.5.28).

Discontinuation

A11 Paragraph 6.5.6 of IFRS 9 addresses discontinuation. An entity discontinues hedge accounting prospectively only when the hedging relationship, or part of it, ceases to meet the qualifying criteria, after taking into account any applicable rebalancing. Importantly, an entity cannot voluntarily de-designate a relationship that continues to meet the RMO on which it qualified for hedge accounting and continues to meet the other qualifying criteria.[16] The IASB removed the voluntary discontinuation as it created a disconnect between hedge accounting and risk management.

A12 Paragraph B6.5.24 of IFRS 9 provides examples to illustrate situations in which an entity can discontinue hedge accounting. This paragraph states:

> For the purposes of this Standard, an entity's risk management strategy is distinguished from its risk management objectives. The risk management strategy is established at the highest level at which an entity determines how it manages its risk. Risk management strategies typically identify the risks to which the entity is exposed and set out how the entity responds to them. A risk management strategy is typically in place for a longer period and may include some flexibility to react to changes in circumstances that occur while that strategy is in place (for example, different interest rate or commodity price levels that result in a different extent of hedging). This is normally set out in a general document that is cascaded down through an entity through policies containing more specific guidelines. In contrast, the risk management objective for a hedging relationship applies at the level of a particular hedging relationship. It relates to how the particular hedging instrument that has been designated is used to hedge the particular exposure that has been designated as the hedged item. Hence, a risk management strategy can involve many different hedging relationships whose risk management objectives relate to executing that overall risk management strategy. For example:
>
> (a) an entity has a strategy of managing its interest rate exposure on debt funding that sets ranges for the overall entity for the mix between variable-rate and fixed-rate funding. The strategy is to maintain between 20 per cent and 40 per cent of the debt at fixed rates. The entity decides from time to time how to execute this strategy (ie where it positions itself within the 20 per cent to 40 per cent range for fixed-rate interest exposure) depending on the level of interest rates. If interest rates are low the entity fixes the interest for more debt than when interest rates are high. The entity's debt is CU100 of variable-rate debt of which CU30 is swapped into a fixed-rate exposure. The entity takes advantage of low interest rates to issue an additional CU50 of debt to finance a major investment, which the entity does by issuing a fixed-rate bond. In the light of the low interest rates, the entity decides to set its fixed interest-rate exposure to 40 per cent of the total debt by reducing by CU20 the extent to which it previously hedged its variable-rate exposure, resulting in CU60 of fixed-rate exposure. In this situation the risk management strategy itself remains unchanged. However, in contrast the entity's execution of that strategy has changed and this means that, for CU20 of variable-rate exposure that was previously hedged, the risk management objective has changed (ie at the hedging relationship level). Consequently, in this situation hedge accounting must be discontinued for CU20 of the previously hedged variable-rate exposure. This could involve reducing the swap position by a CU20 nominal amount but, depending on the circumstances, an entity might retain that swap volume and, for example, use it for hedging a different exposure or it might become part of a trading book. Conversely, if an entity instead swapped a part of its new fixed-rate debt into a variable-rate exposure, hedge accounting would have to be continued for its previously hedged variable-rate exposure.

16 See IFRS 9 paragraph 6.5.6 and paragraphs B6.5.22–B6.5.28. Paragraph B6.5.23 provides that an entity cannot de-designate a hedging relationship that still meets the RMO on the basis of which it qualified for hedge accounting and continues to meet all other qualifying criteria after taking into account any applicable rebalancing.

(b) some exposures result from positions that frequently change, for example, the interest rate risk of an open portfolio of debt instruments. The addition of new debt instruments and the derecognition of debt instruments continuously change that exposure (ie it is different from simply running off a position that matures). This is a dynamic process in which both the exposure and the hedging instruments used to manage it do not remain the same for long. Consequently, an entity with such an exposure frequently adjusts the hedging instruments used to manage the interest rate risk as the exposure changes. For example, debt instruments with 24 months' remaining maturity are designated as the hedged item for interest rate risk for 24 months. The same procedure is applied to other time buckets or maturity periods. After a short period of time, the entity discontinues all, some or a part of the previously designated hedging relationships for maturity periods and designates new hedging relationships for maturity periods on the basis of their size and the hedging instruments that exist at that time. The discontinuation of hedge accounting in this situation reflects that those hedging relationships are established in such a way that the entity looks at a new hedging instrument and a new hedged item instead of the hedging instrument and the hedged item that were designated previously. The risk management strategy remains the same, but there is no risk management objective that continues for those previously designated hedging relationships, which as such no longer exist. In such a situation, the discontinuation of hedge accounting applies to the extent to which the risk management objective has changed. This depends on the situation of an entity and could, for example, affect all or only some hedging relationships of a maturity period, or only part of a hedging relationship.

(c) an entity has a risk management strategy whereby it manages the foreign currency risk of forecast sales and the resulting receivables. Within that strategy the entity manages the foreign currency risk as a particular hedging relationship only up to the point of the recognition of the receivable. Thereafter, the entity no longer manages the foreign currency risk on the basis of that particular hedging relationship. Instead, it manages together the foreign currency risk from receivables, payables and derivatives (that do not relate to forecast transactions that are still pending) denominated in the same foreign currency. For accounting purposes, this works as a 'natural' hedge because the gains and losses from the foreign currency risk on all of those items are immediately recognised in profit or loss. Consequently, for accounting purposes, if the hedging relationship is designated for the period up to the payment date, it must be discontinued when the receivable is recognised, because the risk management objective of the original hedging relationship no longer applies. The foreign currency risk is now managed within the same strategy but on a different basis. Conversely, if an entity had a different risk management objective and managed the foreign currency risk as one continuous hedging relationship specifically for that forecast sales amount and the resulting receivable until the settlement date, hedge accounting would continue until that date.

A13 IFRS 9 Paragraph B6.5.26 states:

A hedging relationship is discontinued in its entirety when, as a whole, it ceases to meet the qualifying criteria. For example:

(a) the hedging relationship no longer meets the risk management objective on the basis of which it qualified for hedge accounting (ie the entity no longer pursues that risk management objective);

(b) the hedging instrument or instruments have been sold or terminated (in relation to the entire volume that was part of the hedging relationship); or

(c) there is no longer an economic relationship between the hedged item and the hedging instrument or the effect of credit risk starts to dominate the value changes that result from that economic relationship.

A14 IFRS 9 Paragraph B6.5.27 states:

> A part of a hedging relationship is discontinued (and hedge accounting continues for its remainder) when only a part of the hedging relationship ceases to meet the qualifying criteria. For example:
>
> (a) on rebalancing of the hedging relationship, the hedge ratio might be adjusted in such a way that some of the volume of the hedged item is no longer part of the hedging relationship (see paragraph B6.5.20); hence, hedge accounting is discontinued only for the volume of the hedged item that is no longer part of the hedging relationship; or
>
> (b) when the occurrence of some of the volume of the hedged item that is (or is a component of) a forecast transaction is no longer highly probable, hedge accounting is discontinued only for the volume of the hedged item whose occurrence is no longer highly probable. However, if an entity has a history of having designated hedges of forecast transactions and having subsequently determined that the forecast transactions are no longer expected to occur, the entity's ability to predict forecast transactions accurately is called into question when predicting similar forecast transactions. This affects the assessment of whether similar forecast transactions are highly probable (see paragraph 6.3.3) and hence whether they are eligible as hedged items.

Staff observation

A15 Staff observe that IFRS 9 already provides guidance and examples on applying rebalancing and discontinuation. Much of this guidance applies once an entity has determined whether the RMO remains unchanged or has changed. Staff think further guidance on how to determine when rebalancing is required, including whether the RMO has changed and, if it remains unchanged, whether the hedge ratio needs to be adjusted to ensure that the qualifying criteria continue to be met.

Appendix B Proxy hedge Implementation Guidance examples

B1 This appendix provides extracts of relevant IFRS 9 Basis for Conclusion paragraphs relating to the IASB's decision not to carry forward any of the hedge accounting Implementation Guidance that accompanied IAS 39.and the discussion of proxy hedging in the context of open portfolios.

Decision not to carry forward IAS 39 Implementation Guidance

B2 IFRS 9 paragraphs BC6.93–BC6.95 explain why the IASB decided not to carry forward the hedge accounting Implementation Guidance that accompanied IAS 39. The IASB considered that selectively carrying forward particular examples could create the perception that it had endorsed some parts of the Implementation Guidance and rejected others. It also noted that the Implementation Guidance was not part of IAS 39 and did not override the requirements of the Standard. The IASB therefore decided not to carry forward any of the hedge accounting Implementation Guidance, while emphasising that this did not mean that it had rejected that guidance.

B3 IFRS 9 paragraph BC6.93 states:

> However, the IASB received feedback that some entities were unsure whether and how 'macro cash flow hedge accounting' could also be applied under the hedge accounting requirements of IFRS 9. In response, the IASB considered whether it could address those concerns by carrying forward the Implementation Guidance that accompanied IAS 39 and that illustrated 'macro cash flow hedge accounting'. The IASB noted that to do so would be inconsistent with its decision not to carry forward any of the hedge accounting Implementation Guidance that accompanied IAS 39. The IASB also noted that making an exception by carrying forward some parts of the Implementation Guidance but not others could have unintended consequences because it would inevitably create the perception that the IASB had endorsed some parts while it had rejected others.

B4 IFRS 9 paragraph BC6.94 states:

> The IASB also noted that carrying forward Implementation Guidance could not be justified as a means to address any concerns about whether a particular accounting practice complies with the hedge accounting requirements. Implementation Guidance only accompanies, but is not part of, a Standard, which means that it does not override the requirements of a Standard.

B5 IFRS 9 paragraph BC6.95 states:

> Consequently, the IASB decided to retain its original approach of not carrying forward any of the hedge accounting related Implementation Guidance that accompanied IAS 39. However, the IASB emphasised that not carrying forward the Implementation Guidance did not mean that it had rejected that guidance.

Proxy hedging under IFRS 9

B6 IFRS 9 Paragraphs BC6.96–BC6.101 discuss proxy hedging under IFRS 9. The IASB acknowledged that hedge accounting designations may not exactly represent an entity's risk management, but concluded that proxy hedging remains possible provided the designation reflects the entity's risk management.

B7 IFRS 9 paragraph BC6.96 states:

> The IASB also received feedback that some entities were concerned that 'proxy hedging' would not be possible under the hedge accounting model in IFRS 9— a concern that was highlighted by the 'macro cash flow hedge accounting' related Implementation Guidance that accompanied IAS 39 not being carried forward. 'Proxy hedging' is a colloquial reference to the use of designations of hedging relationships that do not exactly represent an entity's actual risk management. Examples include using a designation of a gross amount of an exposure (gross designation) when risks are actually managed on a net position basis, and using designations of variable-rate debt instruments in cash flow hedges when risk management is based on

managing the interest rate risk of prepayable fixed-rate debt instruments or deposits (such as core deposits). Similarly, 'proxy hedging' can involve designating fixed-rate debt instruments in fair value hedges when risk management is based on managing the interest rate risk of variable-rate debt instruments.

B8 IFRS 9 paragraph BC6.97 states:

> The IASB noted that its rationale for not including a scope exception from the IFRS 9 hedge accounting requirements for 'macro cash flow hedge accounting' reflected that designations of hedging relationships that represent 'proxy hedging' are possible. The IASB was aware that many financial institutions use 'proxy hedging' as described in paragraph BC6.96.

B9 IFRS 9 paragraph BC6.98 states:

> The IASB considered that in those situations the designation for hedge accounting purposes was inevitably not the same as the entity's risk management view of its hedging, but that the designation reflects risk management in that it relates to the same type of risk that was being managed and the instruments used for that purpose. For example, like IAS 39, IFRS 9 also does not allow cash flow hedges of interest rate risk to be designated on a net position basis but entities must instead designate gross positions. This requires so called 'proxy hedging' because the designation for hedge accounting purposes is on a gross position basis even though risk management typically manages on a net position basis. This 'proxy hedging' also includes approaches that for risk management purposes determine the net interest rate risk position on the basis of fixed-rate items. A cash flow hedge designation can still reflect those approaches in that the net interest rate risk position can be viewed as having a dual character: the hedges bridge, for example, the economic mismatch between fixed-rate assets and variable-rate funding (existing variable-rate funding as well as funding to be obtained in the future to continue to fund the assets as existing funding matures). Such an economic mismatch can be regarded as fair value interest rate risk when looking at the assets and as cash flow interest rate risk when looking at the funding. The net position hedging combines the two aspects because both affect the net interest margin. Hence, both fair value and cash flow interest rate risk are inherent aspects of the hedged exposure. However, hedge accounting requires the designation of the hedging relationship as either a fair value hedge or as a cash flow hedge. The IASB noted that in that sense, even if a fair value hedge designation better represented a risk management perspective that considers the fixed-rate assets as the primary or leading aspect, a cash flow hedge designation would still reflect the risk management because of the dual character of the risk position. Consequently, the IASB regarded 'proxy hedging' as an eligible way of designating the hedged item under IFRS 9 as long as that still reflected risk management, which was the case in this situation.

B10 IFRS 9 paragraph BC6.99 states:

> The IASB noted that in such situations entities have to select some items that give rise to interest rate risk and that qualify for designation as a hedged item and designate them as a gross exposure in order to achieve hedge accounting. The IASB acknowledged that in those circumstances there is typically no obvious link between any particular designated hedged item and the designated hedging instrument, and that entities select items for designation that are most suitable for hedge accounting purposes. This means that different entities can have different ways of selecting those items depending on their situation (for example, whether designating an interest rate risk exposure related to a financial asset or a financial liability).

B11 IFRS 9 paragraph BC6.100 states:

> The IASB also noted that designations of hedging relationships that reflect 'proxy hedging' were not unique to hedging of interest rate risk by banks in, for example, a 'macro' context. Despite the objective of the project to represent, in the financial statements, the effect of an entity's risk management activities, the IASB considered that this would in many situations not be

possible as a simple, exact '1:1 copy' of the actual risk management perspective. In the IASB's view this was already apparent from other aspects of the hedge accounting model of IFRS 9, for example:

(a) the mere fact that the IASB had limited net position cash flow hedges to foreign currency risk meant that for all other types of hedged risks an entity would have to designate gross amounts (gross designation). But this did not mean that cash flow hedge accounting was prohibited for all other risks that are managed on a net position basis.

(b) an entity that actually hedges on a risk component basis in accordance with its risk management view might not meet the criteria for designating the hedged item as a risk component. But this did not mean that the entity was prohibited from applying hedge accounting altogether. Instead, it was only prohibited from using that particular designation of a risk component. Consequently, the entity could designate the item in its entirety as the hedged item and apply hedge accounting (if it met the qualifying criteria on the basis of that designation).

(c) for many entities the actual risk management is based on a 'flow perspective' for cash flow hedges, which only considers mismatches in the variable cash flows of the hedging instrument and the hedged item as a source of hedge ineffectiveness. However, the measurement of hedge effectiveness for hedge accounting purposes does not allow an entity to assume perfect hedge effectiveness in those circumstances (or limiting the analysis to only the variable cash flows of the hedging instrument). However, this did not mean that hedge accounting was prohibited. Instead, it meant that the entity had to measure hedge ineffectiveness as required for accounting purposes.

(d) the presentation of hedges of net positions requires the use of a separate line item in the income statement instead of directly adjusting the line items affected by the hedged items (for example, grossing up revenue and cost of sales). In contrast, entities' actual risk management often considers the respective line items as hedged at the respective rates that were locked in by the hedges. This difference between the risk management and accounting views did not mean that an entity was prohibited from using hedge accounting. Instead, it meant that the entity had to follow the presentation requirements for accounting purposes if it wanted to apply hedge accounting.

B12 IFRS 9 paragraph BC6.101 states:

Consequently, the IASB did not agree that designations of hedging relationships under IFRS 9 could not represent 'proxy hedging'. The IASB also decided to provide further guidance on how 'proxy hedging' is related to the discontinuation of hedge accounting (see paragraph BC6.331).

Appendix C Hedge accounting disclosure objectives

C1 This appendix provides extracts of relevant IFRS 7 paragraphs relating to the objectives of the hedge accounting disclosure requirements.

C2 IFRS 7 paragraph 21A states:

> An entity shall apply the disclosure requirements in paragraphs 21B–24F for those risk exposures that an entity hedges and for which it elects to apply hedge accounting. Hedge accounting disclosures shall provide information about:
>
> (a) an entity's risk management strategy and how it is applied to manage risk;
>
> (b) how the entity's hedging activities may affect the amount, timing and uncertainty of its future cash flows; and
>
> (c) the effect that hedge accounting has had on the entity's statement of financial position, statement of comprehensive income and statement of changes in equity.

C3 IFRS 7 paragraph 21B states:

> An entity shall present the required disclosures in a single note or separate section in its financial statements. However, an entity need not duplicate information that is already presented elsewhere, provided that the information is incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete.

C4 IFRS 7 paragraph 21C states:

> When paragraphs 22A–24F require the entity to separate by risk category the information disclosed, the entity shall determine each risk category on the basis of the risk exposures an entity decides to hedge and for which hedge accounting is applied. An entity shall determine risk categories consistently for all hedge accounting disclosures.

C5 IFRS 7 paragraph 21D states:

> To meet the objectives in paragraph 21A, an entity shall (except as otherwise specified below) determine how much detail to disclose, how much emphasis to place on different aspects of the disclosure requirements, the appropriate level of aggregation or disaggregation, and whether users of financial statements need additional explanations to evaluate the quantitative information disclosed. However, an entity shall use the same level of aggregation or disaggregation it uses for disclosure requirements of related information in this Standard and IFRS 13 *Fair Value Measurement*.

Appendix D Variable-volume hedges

D1 This appendix provides background relevant to stakeholder feedback on whether the variable-volume hedge accounting requirements introduced for contracts referencing nature-dependent electricity could be extended to load-following swaps. It summarises the March 2019 IFRS Interpretation Committee Agenda Decision and the subsequent 2024 *Contracts Referencing Nature-dependent Electricity* amendments, including extracts of the relevant IFRS 9 requirements and Basis for Conclusions.

D2 Staff note that a similar issue was considered by the IFRS Interpretations Committee in its March 2019 Agenda Decision - *Application of the Highly Probable Requirement when a Specific Derivative is Designated as a Hedging Instrument*. The fact pattern involved a load-following swap whose notional amount varied based on the actual quantity of electricity sold. The Committee concluded that, applying IFRS 9 paragraphs 6.3.1 and 6.3.3, the forecast transaction must itself be highly probable and sufficiently specific as to timing and magnitude. The fact that the load-following swap economically followed the actual volume of the forecast transaction did not, of itself, enable the variable forecast volume to qualify as the hedged item.[17]

D3 IFRS 9 paragraph 6.3.1 states:

> A hedged item can be a recognised asset or liability, an unrecognised *firm commitment*, a *forecast transaction* or a net investment in a foreign operation. The hedged item can be:
>
> (a) a single item; or
>
> (b) a group of items (subject to paragraphs 6.6.1–6.6.6 and B6.6.1–B6.6.16).
>
> A hedged item can also be a component of such an item or group of items (see paragraphs 6.3.7 and B6.3.7–B6.3.25).

D4 IFRS 9 paragraph 6.3.3 states:

> If a hedged item is a forecast transaction (or a component thereof), that transaction must be highly probable.

D5 The IASB subsequently reconsidered a closely related issue when developing the 2024 *Contracts Referencing Nature-dependent Electricity* amendments.[18] In IFRS 9 paragraphs BC6.662–BC6.663, the IASB referred to the 2019 Agenda Decision and noted that applying the existing designation requirements in IFRS 9 paragraph 6.3.7 could result in only a small portion of variable forecast electricity transactions being eligible for designation. The IASB concluded that this issue could be addressed by permitting designation of a variable nominal amount.

D6 IFRS 9 paragraph 6.3.7 states:

> An entity may designate an item in its entirety or a component of an item as the hedged item in a hedging relationship. An entire item comprises all changes in the cash flows or fair value of an item. A component comprises less than the entire fair value change or cash flow variability of an item. In that case, an entity may designate only the following types of components (including combinations) as hedged items:
>
> (a) only changes in the cash flows or fair value of an item attributable to a specific risk or risks (risk component), provided that, based on an assessment within the context of the particular market structure, the risk component is separately identifiable and reliably measurable (see paragraphs

17 For a cash flow hedge of a forecast transaction, an entity ordinarily identifies prospectively the transactions it expects to occur and demonstrates that those transactions are highly probable. Uncertainty about both the timing and magnitude of the forecast transaction is relevant to that assessment. The terms of the hedging instrument do not determine whether the hedged forecast transaction is highly probable because that assessment applies to the hedged item itself.

18 The link is to the Australian equivalent amending Standard.

B6.3.8–B6.3.15). Risk components include a designation of only changes in the cash flows or the fair value of a hedged item above or below a specified price or other variable (a one-sided risk).

(b) one or more selected contractual cash flows.

(c) components of a nominal amount, ie a specified part of the amount of an item (see paragraphs B6.3.16–B6.3.20).

D7 Accordingly, IFRS 9 paragraph 6.10.1 permits, for qualifying nature-dependent electricity contracts, a variable nominal amount of forecast electricity transactions to be designated as the hedged item, aligned with the variable amount expected from the referenced generation facility. IFRS 9 Paragraph 6.10.2 also presumes the forecast transaction to be highly probable in specified circumstances.

D8 IFRS 9 paragraph 6.10.1 states:

> Some contracts referencing nature-dependent electricity are designated as hedging instruments in hedges of forecast electricity transactions. In addition to the requirements in paragraph 6.3.7, for such a hedging relationship an entity is permitted to designate as the hedged item a variable nominal amount of forecast electricity transactions that is aligned with the variable amount of nature-dependent electricity expected to be delivered by the generation facility as referenced in the hedging instrument. The other hedge accounting requirements of this chapter continue to apply to such a hedging relationship.

D9 IFRS 9 paragraph 6.10.2 states:

> If the cash flows of the contract referencing nature-dependent electricity designated as the hedging instrument are conditional on the occurrence of a forecast transaction that is designated as the hedged item in accordance with paragraph 6.10.1, this forecast transaction is presumed to be highly probable as required by paragraph 6.3.3.

D10 In IFRS 9 paragraphs BC6.664–BC6.675, the IASB explained why the variable-volume designation could still identify the hedged item with sufficient specificity. The source of the designated volume is objectively linked to the output expected from the referenced generation facility, and the hedged transactions occur within specified periods. The entity is therefore hedging the price risk associated with the electricity volume generated, rather than designating an unrestricted amount based solely on whichever transactions ultimately occur.

D11 IFRS 9 paragraph BC6.664 states:

> Stakeholders told the IASB that entities' risk management objective is to hedge only the price risk of forecast electricity purchases and not the uncertainty about the variable amount of electricity to be delivered. Therefore, designating a (variable) amount of forecast purchases that is aligned to the (variable) amount expected to be delivered by the generation facility is consistent with the entity's risk management objective. This risk management objective therefore includes accepting that the nominal amount designated as the hedged item might not always align with the expected forecast purchases. The IASB concluded that when an entity assesses whether an economic relationship exists, the entity is assessing only value changes that relate to the hedged risk of the designated (variable) amount (in this case, the price risk). The IASB also noted that IFRS 9 does not require that a hedging relationship be perfectly effective (for example, in hedging price risk) to qualify for hedge accounting.

D12 IFRS 9 paragraph BC6.665 states:

> The IASB considered that permitting an entity to designate a variable nominal amount of electricity as the hedged item is not the same as designating an absolute amount that varies from one period to the next (for example, 100 megawatt hours (MWh) for Period 1 and 130 megawatt hours (MWh) for Period 2). The IASB clarified that the variable nominal amount of forecast transactions to be designated as the hedged item relates to the forecast electricity transactions, which must be aligned with the nominal amount expected to be delivered by the

generation facility referenced in the hedging instrument. In such a case the nominal amount expected to be delivered might refer either to the delivery by a referenced facility to the counterparty (for example a physical power purchase agreement) or to the delivery by the referenced facility to the market.

D13 IFRS 9 paragraph BC6.666 states:

> The IASB also noted that IFRS 9 does not require the timing and amount of the cash flows under the hedged item to be perfectly aligned with the cash flows on the hedging instrument. Therefore, the IASB was of the view that if an entity were permitted to align the nominal amount of forecast transactions designated as the hedged item with the variable amount of nature-dependent electricity expected to be delivered by the facility referenced in the hedging instrument, an economic relationship could still exist.

D14 IFRS 9 paragraph 6.667 states:

> The IASB concluded that such a designation is consistent with IFRS 9, which requires that the hedged item be documented with enough specificity in terms of timing and magnitude. Using this designation option an entity specifies the period during which the variable nominal amount of the forecast transaction designated as the hedged item is expected to occur within a reasonably specific and generally narrow range of time from a most probable date, as a basis for assessing hedge effectiveness. At the same time the entity specifies the magnitude of the hedged item through its origin (that is, the variable amount expected to be delivered by the generation facility). Despite permitting the designation of a variable nominal amount of the forecast transaction as the hedged item, the IASB was of the view that the hedged item can still be identified with enough specificity because it occurs in each period —the facility referenced in the hedging instrument delivers nature-dependent electricity to the market or to a counterparty directly and therefore the nominal amount of the hedged item is confirmed periodically.

D15 IFRS 9 paragraph 6.668 states:

> The IASB also considered it important to not conflate the designation and identification of the hedged item with the requirement to assess whether forecast electricity transactions are highly probable, which is a separate analysis.

D16 IFRS 9 paragraph 6.669 states:

> Stakeholders asked the IASB to clarify how an entity would assess whether future electricity purchases are highly probable if the entity is using a contract referencing nature-dependent electricity as the hedging instrument. Stakeholders were uncertain how an entity would make this assessment because such contracts are typically negotiated for a very long duration. Respondents to the Exposure Draft Contracts for Renewable Electricity asked whether entities are expected to make detailed estimates of future electricity purchases for every potential purchase interval or for periods far into the future. A few other respondents asked how granular the estimated purchase time intervals the entity uses should be when assessing whether future electricity purchases are highly probable.

D17 IFRS 9 paragraph 6.670 states:

> The IASB noted that paragraph 6.3.3 of IFRS 9 requires the hedged item to be highly probable and considered that, in most hedging relationships, assessing whether the hedged item is highly probable usually involves a straightforward probability assessment.

D18 IFRS 9 paragraph 6.671 states:

> The IASB acknowledged that the longer the hedge period, the more complex it is to assess whether forecast transactions are highly probable. However, this challenge is not new—and it has been carried forward from IAS 39. Although IFRS 9 does not include specific application guidance on how to assess whether a transaction is highly probable, paragraph 6.3.3 of IFRS 9 is

clear. An entity considers uncertainty about the timing and magnitude of a forecast transaction by using probabilities.

D19 IFRS 9 paragraph 6.672 states:

> For any hedging relationship, the length of the hedged term is a factor in the assessment of a transaction's probability. Generally, the more distant a forecast transaction, the less likely it is that the transaction would be considered highly probable. However, the IASB noted that entities that currently purchase and use electricity will continue to do so in the future. Therefore, in the absence of evidence to the contrary (for example, an entity is aware at the time of the assessment that electricity demand in one location will decline) an entity would expect its electricity purchases based on its past and current purchase practice to continue for the hedged term, even if the hedged term extends far into the future. The IASB also noted that an entity entering into a long-dated contract referencing nature-dependent electricity has to make estimates and assumptions about its electricity purchases and therefore consumption over the contract period. An entity could use these estimates and assumptions in its assessment of whether future electricity purchases are highly probable.

D20 IFRS 9 paragraph 6.673 states:

> The IASB considered how an entity decides on the frequency of the time intervals for the estimates of purchases it makes as part of its assessment. The IASB noted that although electricity purchases might occur on a near-continuous basis, an entity is not required to make detailed estimates of the amount of electricity it expects to purchase for every minute of every day. IFRS 9 does not require an entity to specify the accurate time and date of a forecast transaction for the purposes of hedge accounting (see paragraph BC6.667).

D21 IFRS 9 paragraph 6.674 states:

> The IASB confirmed that the assessment of whether future electricity purchases are highly probable applies equally to forecast sales and purchases. However, if a contract referencing nature-dependent electricity requires net settlement only when an entity buys or sells electricity, any or all of the entity's forecast transactions would be covered by the contract. Therefore, the IASB clarified that if cash flows under the contract referencing nature-dependent electricity can arise only when there is a hedged sale or purchase, such forecast transactions could be deemed highly probable by nature or by design of the hedging relationship.

D22 IFRS 9 paragraph 6.675 states:

> The IASB concluded that no further clarifications to the requirements in paragraph 6.3.3 are needed as noted in paragraph BC6.674.

D23 The 2024 amendments were deliberately narrow. IFRS 9 paragraph 2.3A limits the requirements to contracts referencing nature-dependent electricity and IFRS 9 paragraph 2.3B expressly prohibits their application by analogy to other contracts, items or transactions. The IASB explained in IFRS 9 paragraphs BC2.17B and BC2.17D–BC2.17G that this restriction was intended to provide a timely solution to the specific characteristics of nature-dependent electricity contracts while minimising unintended consequences for other contracts within IFRS 9.

D24 IFRS 9 paragraph BC2.17B states:

> The IASB decided to amend IFRS 9 to enable entities to include information in its financial statements that more faithfully represent contracts referencing nature-dependent electricity. The IASB also decided to amend IFRS 7 to include complementary disclosure requirements. With these amendments, the IASB aimed to balance the need for a timely solution with the importance of minimising the risk of unintended consequences any amendments could have on how an entity applies IFRS 9 to other contracts. It was, therefore, important to the IASB that an entity would not be permitted to apply the amendments by analogy to other contracts, items or transactions.

D25 IFRS 9 paragraph BC2.17D states:

> Contracts referencing nature-dependent electricity are characterised by contractual features exposing an entity to variability in the underlying amount of electricity because the electricity is generated from a source dependent on uncontrollable natural conditions. This variability is typically associated with renewable electricity sources, such as sun and wind. For example, solar electricity generation varies with uncontrollable natural conditions like daylight availability and weather conditions like cloud cover. The IASB decided to set the scope of the amendments to contracts referencing nature-dependent electricity because, in doing so, it would meet the objective of finding a timely solution while minimising the risk of unintended consequences.

D26 IFRS 9 paragraph BC2.17E states:

> The submitter of the request asked about contracts to buy and take delivery of electricity generated from nature-dependent sources. However, stakeholders said that if the IASB were to consider narrow-scope standard-setting for the own-use exception that applies to such contracts, it should also consider how an entity applies the hedge accounting requirements to contracts referencing nature-dependent electricity that are accounted for as financial instruments. Stakeholders said that the economic outcomes of these types of contracts referencing nature-dependent electricity are similar to those of own-use contracts. These stakeholders explained that, in many cases, the design and operation of an electricity market determines the types of contracts entities can enter into. Because of these factors, the IASB decided to include within the scope of the amendments both contracts to buy or sell nature-dependent electricity and financial instruments that reference such electricity.

D27 IFRS 9 paragraph BC2.17F states:

> Contracts referencing nature-dependent electricity might be accounted for in accordance with IFRS Accounting Standards other than IFRS 9 or result in the application of other Standards; for example, IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 16 *Leases*, IAS 28 *Investments in Associates and Joint Ventures* or IFRIC 12 *Service Concession Arrangements*. Stakeholders did not express concerns about contracts referencing nature-dependent electricity that entities account for applying other IFRS Accounting Standards. The IASB, therefore, decided to limit the scope of the amendments to contracts to which the requirements in IFRS 9 apply.

D28 IFRS 9 paragraph BC2.17G states:

> The IASB also considered whether to include in the amendments other types of electricity contracts. However, stakeholders did not raise the same concerns for other types of contracts as they did for contracts that have the characteristics described in paragraph 2.3A. For example, the IASB did not intend to include contracts for electricity generated from biofuel within the scope of the amendments because such electricity generation is not subject to the same uncertainty as those within the scope. Stakeholders said that biofuel power plants can operate more like traditional fossil fuel power plants, because the source of electricity generation is controllable. Biofuel, which is derived from organic materials such as plant biomass, animal waste, and recycled waste, can be stored until used to generate electricity. These characteristics allow biofuel power plants to generate electricity on demand, unlike, for example, wind power, which depends on uncontrollable natural conditions.