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IFRS 9
CHAPTER 6
HEDGE ACCOUNTING

INTRODUCTION

**INTERNATIONAL FINANCIAL REPORTING
STANDARD 9 FINANCIAL INSTRUMENTS**

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**APPROVAL BY THE BOARD OF IFRS 9 ISSUED IN NOVEMBER
2009**

**APPROVAL BY THE BOARD OF IFRS 9 ISSUED IN OCTOBER
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**APPROVAL BY THE BOARD OF IFRS 9 ISSUED IN [INSERT DATE
2012]**

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International Financial Reporting Standard 9 *Financial Instruments* (IFRS 9) is set out in paragraphs 1.1–7.3.2 and Appendices A–C. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in Appendix A are in *italics* the first time they appear in the IFRS. Definitions of other terms are given in the Glossary for International Financial Reporting Standards. IFRS 9 should be read in the context of its objective and the Basis for Conclusions, the *Preface to International Financial Reporting Standards* and the *Conceptual Framework for Financial Reporting*. IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Introduction

Reasons for issuing the IFRS

- IN1 IAS 39 *Financial Instruments: Recognition and Measurement* sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. The International Accounting Standards Board inherited IAS 39 from its predecessor body, the International Accounting Standards Committee.
- IN2 Many users of financial statements and other interested parties told the Board that the requirements in IAS 39 were difficult to understand, apply and interpret. They urged the Board to develop a new standard for the financial reporting of financial instruments that was principle-based and less complex. Although the Board amended IAS 39 several times to clarify requirements, add guidance and eliminate internal inconsistencies, it had not previously undertaken a fundamental reconsideration of reporting for financial instruments.
- IN3 In 2005 the Board and the US Financial Accounting Standards Board (FASB) began working towards a long-term objective to improve and simplify the reporting for financial instruments. This work resulted in the publication of a discussion paper, *Reducing Complexity in Reporting Financial Instruments*, in March 2008. Focusing on the measurement of financial instruments and hedge accounting, the paper identified several possible approaches for improving and simplifying the accounting for financial instruments. The responses to the paper indicated support for a significant change in the requirements for reporting financial instruments. In November 2008 the Board added this project to its active agenda, and in December 2008 the FASB also added the project to its agenda.
- IN4 In April 2009, in response to the input received on its work responding to the financial crisis, and following the conclusions of the G20 leaders and the recommendations of international bodies such as the Financial Stability Board, the Board announced an accelerated timetable for replacing IAS 39. As a result, in July 2009 the Board published an exposure draft *Financial Instruments: Classification and Measurement*, followed by the first chapter of IFRS 9 *Financial Instruments* in November 2009.

The Board's approach to replacing IAS 39

- IN5 The Board intends that IFRS 9 will ultimately replace IAS 39 in its entirety. However, in response to requests from interested parties that the accounting for financial instruments should be improved quickly, the Board divided its project to replace IAS 39 into three main phases. As the Board completes each phase, it will delete the relevant portions of IAS 39 and create chapters in IFRS 9 that replace the requirements in IAS 39.
- IN6 The three main phases of the Board's project to replace IAS 39 are:
- (a) **Phase 1: Classification and measurement of financial assets and financial liabilities.** In November 2009 the Board issued the chapters of IFRS 9 relating to the classification and measurement of financial assets. In October 2010 the Board added to IFRS 9 the requirements related to the classification and measurement of financial liabilities. Those additional requirements are described further in paragraph IN7. In November 2011 the Board decided to consider limited modifications to the classification and measurement requirements.

- (b) **Phase 2: Impairment methodology.** In June 2009 the Board published a Request for Information on the feasibility of an expected loss model for the impairment of financial assets. This formed the basis of an exposure draft, *Financial Instruments: Amortised Cost and Impairment*, published in November 2009 and the supplement to the exposure draft, *Financial Instruments: Impairment*, published in January 2011. The Board is redeliberating the proposals in the exposure draft and the supplement to that exposure draft to address the comments received from respondents, and suggestions from an expert advisory panel and other outreach activities.
- (c) **Phase 3: Hedge accounting.** In [date] 2012 the Board added to IFRS 9 the requirements related to general hedge accounting. Those additional requirements are described further in paragraph IN8.

IN7 In October 2010 the Board added to IFRS 9 the requirements for classification and measurement of financial liabilities. Most of the requirements in IAS 39 for the classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. However, the requirements related to the fair value option for financial liabilities were changed to address own credit risk. Those improvements respond to consistent feedback from users of financial statements and others that the effects of changes in a liability's credit risk ought not to affect profit or loss unless the liability is held for trading. The improvements followed from the proposals published in May 2010 in the exposure draft *Fair Value Option for Financial Liabilities*.

IN8 In [date] 2012 the Board added to IFRS 9 the requirements related to hedge accounting:

- (a) The Board comprehensively reviewed the hedge accounting requirements in IAS 39 and replaced them with the requirements in IFRS 9.
- (b) The hedge accounting requirements in IFRS 9 align hedge accounting more closely with risk management, resulting in more useful information to users of financial statements. The requirements also establish a more principle-based approach to hedge accounting and address inconsistencies and weaknesses in the hedge accounting model in IAS 39.
- (c) The Board did not address specific accounting for open portfolios or macro hedging as part of the general hedge accounting requirements in IFRS 9. The Board is discussing proposals for accounting for open portfolios and macro hedging as part of its active agenda with the objective of issuing a discussion paper. Consequently, the Board has not reconsidered the exception in IAS 39 for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities. That exception continues to apply (see paragraphs 81A, 89A and AG114-AG132 of IAS 39).

IN9 In addition to the three phases described above, the Board published in March 2009 an exposure draft *Derecognition* (proposed amendments to IAS 39 and IFRS 7 *Financial Instruments: Disclosures*). However, in June 2010 the Board revised its strategy and work plan and decided to retain the existing requirements in IAS 39 for the derecognition of financial assets and financial liabilities but to finalise improved disclosure requirements. The new requirements were issued in October 2010 as an amendment to IFRS 7 and have an effective date of 1 July 2011. Later in October 2010 the requirements in IAS 39 related to the derecognition of financial assets and financial liabilities were carried forward unchanged to IFRS 9.

IN10 As a result of the added requirements described in paragraphs IN7 and IN9, IFRS 9 (as issued in 2009) and its Basis for Conclusions (as issued in 2009) were restructured. Many paragraphs were renumbered and some were re-sequenced. New paragraphs were added to accommodate the guidance that was carried forward unchanged from IAS 39. Also, new sections were added to IFRS 9 as placeholders for the guidance that will result from subsequent phases of this project. Otherwise, the restructuring did not change the requirements in IFRS 9 issued in 2009. The Basis for Conclusions on IFRS 9 has been expanded to include material from the Basis for Conclusions on IAS 39 that discusses guidance that was carried forward without being reconsidered. Minor necessary edits have been made to that material.

Option to designate a financial asset at fair value through profit or loss

- 4.1.5** Despite paragraphs 4.1.1–4.1.4, an entity may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an ‘accounting mismatch’) that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases (see paragraphs B4.1.29–B4.1.32).
- 4.1.6** IFRS 7 *Financial Instruments: Disclosures* requires the entity to provide disclosures about financial assets it has designated as at fair value through profit or loss.

Option to designate a financial liability at fair value through profit or loss

- 4.2.2** An entity may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss when permitted by paragraph 4.3.5, or when doing so results in more relevant information, because either:
- (a) it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as ‘an accounting mismatch’) that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases (see paragraphs B4.1.29–B4.1.32); or
 - (b) a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity’s key management personnel (as defined in IAS 24 *Related Party Disclosures*), for example the entity’s board of directors and chief executive officer (see paragraphs B4.1.33–B4.1.36).
- 4.2.3** IFRS 7 requires the entity to provide disclosures about financial liabilities it has designated as at fair value through profit or loss.
- 4.4.3** The following changes in circumstances are not reclassifications for the purposes of paragraphs 4.4.1 and 4.4.2:
- (a) An item that was previously a designated and effective hedging instrument in a cash flow hedge or net investment hedge no longer qualifies as such.
 - (b) An item becomes a designated and effective hedging instrument in a cash flow hedge or net investment hedge.
 - (c) Changes in measurement in accordance with section 6.7.

5.2 Subsequent measurement of financial assets

- 5.2.1** After initial recognition, an entity shall measure a financial asset in accordance with paragraphs 4.1.1–4.1.5 at fair value or amortised cost (see paragraphs 9 and AG5–AG8 of IAS 39).

- 5.2.2** An entity shall apply the impairment requirements in paragraphs 58–65 and AG84–AG93 of IAS 39 to financial assets measured at amortised cost.
- 5.2.3** An entity shall apply the hedge accounting requirements in paragraphs 6.5.8–6.5.14 (and, if applicable, paragraphs 89–94 of IAS 39 for fair value hedge accounting for a portfolio hedge of interest rate risk) to a financial asset that is designated as a hedged item.

5.3 Subsequent measurement of financial liabilities

- 5.3.1** After initial recognition, an entity shall measure a financial liability in accordance with paragraphs 4.2.1–4.2.2 (see paragraphs 9 and AG5–AG8 of IAS 39).
- 5.3.2** An entity shall apply the hedge accounting requirements in paragraphs 6.5.8–6.5.14 (and, if applicable, paragraphs 89–94 of IAS 39 for fair value hedge accounting for a portfolio hedge of interest rate risk) to a financial liability that is designated as a hedged item.

5.7 Gains and losses

- 5.7.1** A gain or loss on a financial asset or financial liability that is measured at fair value shall be recognised in profit or loss unless:
- (a) it is part of a hedging relationship (see paragraphs 6.5.8–6.5.14 and, if applicable, for fair value hedge accounting for a portfolio hedge of interest rate risk paragraphs 89–94 of IAS 39);
 - (b) it is an investment in an *equity instrument* and the entity has elected to present gains and losses on that investment in other comprehensive income in accordance with paragraph 5.7.5; or
 - (c) it is a financial liability designated as at fair value through profit or loss and the entity is required to present the effects of changes in the liability's *credit risk* in other comprehensive income in accordance with paragraph 5.7.7.
- 5.7.2** A gain or loss on a financial asset that is measured at amortised cost and is not part of a hedging relationship (see paragraphs 6.5.8–6.5.14 and, if applicable, for fair value hedge accounting for a portfolio hedge of interest rate risk, paragraphs 89–94 of IAS 39) shall be recognised in profit or loss when the financial asset is derecognised, impaired or reclassified in accordance with paragraph 5.6.2, and through the amortisation process. A gain or loss on a financial liability that is measured at amortised cost and is not part of a hedging relationship (see paragraphs 6.5.8–6.5.14 and, if applicable, for fair value hedge accounting for a portfolio hedge of interest rate risk, paragraphs 89–94 of IAS 39) shall be recognised in profit or loss when the financial liability is derecognised and through the amortisation process.
- 5.7.3** A gain or loss on financial assets or financial liabilities that are hedged items in a hedging relationship shall be recognised in accordance with paragraphs 6.5.8–6.5.14 and, if applicable, for fair value hedge accounting for a portfolio hedge of interest rate risk in accordance with paragraphs 89–94 of IAS 39.
- 5.7.4** If an entity recognises financial assets using settlement date accounting (see paragraphs 3.1.2, B3.1.3 and B3.1.6), any change in the fair value of the asset to be received during the period between the trade date and the settlement

date is not recognised for assets measured at amortised cost (other than impairment losses). For assets measured at fair value, however, the change in fair value shall be recognised in profit or loss or in other comprehensive income, as appropriate under paragraph 5.7.1.

Chapter 6 Hedge accounting

6.1 Objective and scope of hedge accounting

- 6.1.1 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.
- 6.1.2 An entity may choose to designate a hedging relationship between a hedging instrument and a hedged item in accordance with paragraphs 6.2.1–6.3.7 and B6.2.1–B6.3.25. For hedging relationships that meet the qualifying criteria, an entity shall account for the gain or loss on the hedging instrument and the hedged item in accordance with paragraphs 6.5.1–6.5.14 and B6.5.1–B6.5.28. When the hedged item is a group of items, an entity shall comply with the additional requirements in paragraphs 6.6.1–6.6.6 and B6.6.1–B6.6.16.
- 6.1.3 For a fair value hedge of the interest rate exposure of a portfolio of financial assets or financial liabilities (and only for such a hedge), an entity may apply the hedge accounting requirements in IAS 39 instead of those in this IFRS. In that case, the entity must also apply the specific requirements for fair value hedge accounting for a portfolio hedge of interest rate risk and designate as the hedged item a portion that is a currency amount (see paragraphs 81A, 89A and AG114–AG132 of IAS 39).

6.2 Hedging instruments

Qualifying instruments

- 6.2.1 **A derivative measured at fair value through profit or loss may be designated as a hedging instrument, except for some written options (see paragraph B6.2.4).**
- 6.2.2 **A non-derivative financial asset or non-derivative financial liability measured at fair value through profit or loss may be designated as a hedging instrument unless it is a financial liability designated as at fair value through profit or loss for which the amount of its change in fair value that is attributable to changes in the credit risk of that liability is presented in other comprehensive income in accordance with paragraph 5.7.7.**
- 6.2.3 **For hedge accounting purposes, only contracts with a party external to the reporting entity (ie external to the group or individual entity that is being reported on) can be designated as hedging instruments.**

Designation of hedging instruments

- 6.2.4 A hedging instrument must be designated in its entirety in a hedging relationship. The only exceptions permitted are:
- (a) separating the intrinsic value and time value of an option contract and designating as the hedging instrument only the change in intrinsic value of an

option and not the change in its time value (see paragraph 6.5.15 and B6.5.29–B6.5.33);

- (b) separating the forward element and the spot element of a forward contract and designating as the hedging instrument only the change in the spot element of a forward contract and not the forward element (see paragraph 6.5.16 and B6.5.34–B6.5.35);
- (c) for a hedge of foreign currency risk, the foreign currency risk component of a non-derivative financial asset or non-derivative financial liability may be designated as a hedging instrument provided that it is not an investment in an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income in accordance with paragraph 5.7.5; and
- (d) a proportion of the entire hedging instrument, such as 50 per cent of the nominal amount, may be designated as the hedging instrument in a hedging relationship. However, a hedging instrument may not be designated for a part of its change in fair value that results from only a portion of the time period during which the hedging instrument remains outstanding.

6.2.5 An entity may view in combination, and jointly designate as the hedging instrument, any combination of the following (including those circumstances in which the risk or risks arising from some hedging instruments offset those arising from others):

- (a) derivatives or a proportion of them; and
- (b) non-derivatives or a proportion of them.

6.2.6 However, a derivative instrument that combines a written option and a purchased option (eg an interest rate collar) does not qualify as a hedging instrument if it is, in effect, a net written option at the date of designation (unless it qualifies in accordance with paragraph B6.2.4). Similarly, two or more instruments (or proportions of them) may be jointly designated as the hedging instrument only if, in combination, they are not, in effect, a net written option at the date of designation (unless it qualifies in accordance with paragraph B6.2.4).

6.3 Hedged items

Qualifying items

6.3.1 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 paragraph 6.3.7 and B6.3.7–B6.3.25).

6.3.2 The hedged item must be reliably measurable.

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

6.3.4 An aggregated exposure that is a combination of an exposure that could qualify as a hedged item under paragraph 6.3.1 and a derivative may be designated as a hedged item (see paragraphs B6.3.3 and B6.3.4). This

includes a forecast transaction of an aggregated exposure (ie uncommitted but anticipated future transactions that would give rise to an exposure and a derivative) if that aggregated exposure is highly probable and, once it has occurred and therefore is no longer forecast, is eligible as a hedged item.

- 6.3.5 For hedge accounting purposes, only assets, liabilities, firm commitments or highly probable forecast transactions with a party external to the reporting entity can be designated as hedged items. Hedge accounting can be applied to transactions between entities in the same group only in the individual or separate financial statements of those entities and not in the consolidated financial statements of the group.**
- 6.3.6 However, as an exception to paragraph 6.3.5, the foreign currency risk of an intragroup monetary item (eg a payable/receivable between two subsidiaries) may qualify as a hedged item in the consolidated financial statements if it results in an exposure to foreign exchange rate gains or losses that are not fully eliminated on consolidation in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates*. In accordance with IAS 21, foreign exchange rate gains and losses on intragroup monetary items are not fully eliminated on consolidation when the intragroup monetary item is transacted between two group entities that have different functional currencies. In addition, the foreign currency risk of a highly probable forecast intragroup transaction may qualify as a hedged item in consolidated financial statements provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated profit or loss.

Designation of hedged items

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

6.4 Qualifying criteria for hedge accounting

- 6.4.1 A hedging relationship qualifies for hedge accounting only if all of the following criteria are met:**
- (a) The hedging relationship consists only of eligible hedging instruments and eligible hedged items.**

- (b) At the inception of the hedging relationship there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the entity will assess whether the hedging relationship meets the hedge effectiveness requirements (including its analysis of the sources of hedge ineffectiveness and how it determines the hedge ratio).
- (c) The hedging relationship meets all of the following hedge effectiveness requirements:
- (i) there is an economic relationship between the hedged item and the hedging instrument (see paragraphs B6.4.3–B6.4.5);
 - (ii) the effect of credit risk does not dominate the value changes that result from that economic relationship (see paragraphs B6.4.6 and B6.4.7); and
 - (iii) the *hedge ratio* of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item. However, that designation shall not reflect an imbalance between the weightings of the hedged item and the hedging instrument that would create hedge ineffectiveness (irrespective of whether recognised or not) that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting. (See paragraphs B6.4.8–B6.4.10).

6.5 Accounting for qualifying hedging relationships

- 6.5.1 An entity applies hedge accounting to hedging relationships that meet the qualifying criteria in paragraph 6.4.1 (which include the entity's decision to designate the hedging relationship).
- 6.5.2 There are three types of hedging relationships:
- (a) **fair value hedge:** a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or a component of any such item, that is attributable to a particular risk and could affect profit or loss.
 - (b) **cash flow hedge:** a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with all, or a component of, a recognised asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction, and could affect profit or loss.
 - (c) **hedge of a *net investment in a foreign operation*** as defined in IAS 21.
- 6.5.3 If the hedged item is an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income in accordance with paragraph 5.7.5, the hedged exposure referred to in paragraph 6.5.2(a) must be one that could affect other comprehensive income. In that case, and only in that case, the recognised hedge ineffectiveness is presented in other comprehensive income.

- 6.5.4 A hedge of the foreign currency risk of a firm commitment may be accounted for as a fair value hedge or as a cash flow hedge.
- 6.5.5 If a hedging relationship ceases to meet the hedge effectiveness requirement regarding the hedge ratio (see paragraph 6.4.1(c)(iii)) but the risk management objective for that designated hedging relationship remains the same, an entity shall adjust the hedge ratio of the hedging relationship so that it meets the qualifying criteria again (“rebalancing”—see paragraphs B6.5.7–B6.5.21).**
- 6.5.6 An entity shall discontinue hedge accounting prospectively only when the hedging relationship (or a part of a hedging relationship) ceases to meet the qualifying criteria (after taking into account any rebalancing of the hedging relationship, if applicable). This includes when the hedging instrument expires or is sold, terminated or exercised (for this purpose, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such replacement or rollover is part of, and consistent with, the entity’s documented risk management objective). Discontinuing hedge accounting can affect a hedging relationship in its entirety or only a part of it (in which case hedge accounting continues for the remainder of the hedging relationship).**
- 6.5.7 An entity shall apply:
- (a) paragraph 6.5.10 when it discontinues hedge accounting for a fair value hedge for which the hedged item is (or is a component of) a financial instrument measured at amortised cost; and
 - (b) paragraph 6.5.12 when it discontinues hedge accounting for cash flow hedges.

Fair value hedges

- 6.5.8 As long as a fair value hedge meets the qualifying criteria in paragraph 6.4.1, the hedging relationship shall be accounted for as follows:**
- (a) The gain or loss on the hedging instrument shall be recognised in profit or loss (or other comprehensive income, if the hedging instrument hedges an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income in accordance with paragraph 5.7.5).**
 - (b) The hedging gain or loss on the hedged item shall adjust the carrying amount of the hedged item (if applicable) and be recognised in profit or loss. However, if the hedged item is an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income in accordance with paragraph 5.7.5, those amounts shall remain in other comprehensive income. When a hedged item is an unrecognised firm commitment (or a component thereof), the subsequent cumulative change in the fair value of the hedged item is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss.**
- 6.5.9 When a hedged item in a fair value hedge is a firm commitment (or a component thereof) to acquire an asset or assume a liability, the initial carrying amount of the asset or liability that results from the entity meeting the firm commitment is adjusted to include the cumulative change in the fair value of the hedged item that was recognised in the statement of financial position.
- 6.5.10 Any adjustment arising from paragraph 6.5.8(b) shall be amortised to profit or loss if the hedged item is a financial instrument (or a component thereof) measured at

amortised cost. Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for hedging gains and losses. The amortisation is based on a recalculated effective interest rate at the date amortisation begins.

Cash flow hedges

6.5.11 As long as a cash flow hedge meets the qualifying criteria in paragraph 6.4.1, the hedging relationship shall be accounted for as follows:

- (a) The separate component of equity associated with the hedged item (cash flow hedge reserve) is adjusted to the lower of the following (in absolute amounts):
 - (i) the cumulative gain or loss on the hedging instrument from inception of the hedge; and
 - (ii) the cumulative change in fair value (present value) of the hedged item (ie the present value of the cumulative change in the hedged expected future cash flows) from inception of the hedge.
- (b) The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge (ie the portion that is offset by the change in the cash flow hedge reserve calculated in accordance with (a)) shall be recognised in other comprehensive income.
- (c) Any remaining gain or loss on the hedging instrument (or any gain or loss required to balance the change in the cash flow hedge reserve calculated in accordance with (a)), is hedge ineffectiveness that shall be recognised in profit or loss.
- (d) The amount that has been accumulated in the cash flow hedge reserve in accordance with (a) shall be accounted for as follows:
 - (i) If a hedged forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or a hedged forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the entity shall remove that amount from the cash flow hedge reserve and include it directly in the initial cost or other carrying amount of the asset or liability. This is not a reclassification adjustment (see IAS 1 Presentation of Financial Statements) and hence it does not affect other comprehensive income.
 - (ii) For cash flow hedges other than those covered by (i), that amount shall be reclassified from the cash flow hedge reserve to profit or loss as a reclassification adjustment (see IAS 1) in the same period or periods during which the hedged expected future cash flows affect profit or loss (for example, in the periods that interest income or interest expense is recognised or when a forecast sale occurs).
 - (iii) However, if that amount is a loss and an entity expects that all or a portion of that loss will not be recovered in one or more future periods, it shall immediately reclassify the amount that is not expected to be recovered into profit or loss as a reclassification adjustment (see IAS 1).

6.5.12 When an entity discontinues hedge accounting for a cash flow hedge (see paragraphs 6.5.6 and 6.5.7(b)) it shall account for the amount that has been accumulated in the cash flow hedge reserve in accordance with paragraph 6.5.11(a) as follows:

- (a) If the hedged future cash flows are still expected to occur, that amount shall remain in the cash flow hedge reserve until the future cash flows occur or paragraph 6.5.11(d)(iii) applies. When the future cash flows occur, paragraph 6.5.11(d) applies.
- (b) If the hedged future cash flows are no longer expected to occur, that amount shall be immediately reclassified from the cash flow hedge reserve to profit or loss as a reclassification adjustment (see IAS 1). A hedged future cash flow that is no longer highly probable to occur may still be expected to occur.

Hedges of a net investment in a foreign operation

6.5.13 Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment (see IAS 21), shall be accounted for similarly to cash flow hedges:

- (a) **The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge shall be recognised in other comprehensive income (see paragraph 6.5.11).**
- (b) **The ineffective portion shall be recognised in profit or loss.**

6.5.14 The cumulative gain or loss on the hedging instrument relating to the effective portion of the hedge that has been accumulated in the foreign currency translation reserve shall be reclassified from equity to profit or loss as a reclassification adjustment (see IAS 1) in accordance with paragraphs 48–49 of IAS 21 on the disposal or partial disposal of the foreign operation.

Accounting for the time value of options

6.5.15 When an entity separates the intrinsic value and time value of an option contract and designates as the hedging instrument only the change in intrinsic value of the option (see paragraph 6.2.4(a)), it shall account for the time value of the option as follows (see paragraphs B6.5.29–B6.5.33):

- (a) An entity shall distinguish the time value of options by the type of hedged item that the option hedges (see paragraphs B6.5.29 and B6.5.30):
 - (i) a transaction related hedged item; or
 - (ii) a time–period related hedged item.
- (b) The change in fair value of the time value of an option that hedges a transaction related hedged item shall be recognised in other comprehensive income to the extent that it relates to the hedged item and shall be accumulated in a separate component of equity. The cumulative change in fair value arising from the time value of the option that has been accumulated in a separate component of equity (the amount) shall be accounted for as follows:
 - (i) If the hedged item subsequently results in the recognition of a non-financial asset or non-financial liability, or a firm commitment for which fair value hedge accounting is applied, the entity shall remove the amount from the separate component of equity and include it directly in

the initial cost or other carrying amount of the asset or liability. This is not a reclassification adjustment (see IAS 1) and hence does not affect other comprehensive income.

- (ii) For hedging relationships other than those covered by (i), the amount shall be reclassified from the separate component of equity to profit or loss as a reclassification adjustment (see IAS 1) in the same period or periods during which the hedged expected future cash flows affect profit or loss (for example, when a forecast sale occurs).
 - (iii) However, if all or a portion of that amount is not expected to be recovered in one or more future periods, the amount that is not expected to be recovered shall be immediately reclassified into profit or loss as a reclassification adjustment (see IAS 1).
- (c) The change in fair value of the time value of an option that hedges a time–period related hedged item shall be recognised in other comprehensive income to the extent that it relates to the hedged item and shall be accumulated in a separate component of equity. The time value at the date of designation of the option as a hedging instrument, to the extent that it relates to the hedged item, shall be amortised on a systematic and rational basis over the period during which the hedge adjustment for the option’s intrinsic value could affect profit or loss (or other comprehensive income, if the hedged item is an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income in accordance with paragraph 5.7.5). Hence, in each reporting period, the amortisation amount shall be reclassified from the separate component of equity to profit or loss as a reclassification adjustment (see IAS 1). However, if hedge accounting is discontinued for the hedging relationship that includes the change in intrinsic value of the option as the hedging instrument, the net amount (ie including cumulative amortisation) that has been accumulated in the separate component of equity shall be immediately reclassified into profit or loss as a reclassification adjustment (see IAS 1).

Accounting for the forward element of forward contracts

6.5.16 When an entity separates the forward element and the spot element of a forward contract and designates as the hedging instrument only the change in the value of the spot element of the forward contract (see paragraph 6.2.4(b)), it may recognise the change in fair value of the forward element in other comprehensive income to the extent that it relates to the hedged item and accumulate that change in a separate component of equity (see paragraphs B6.5.34 and B6.5.35). The forward element that exists at the inception of the hedging relationship, to the extent that it relates to the hedged item, is amortised on a systematic and rational basis over the period to which the forward element relates. Hence, in each reporting period the amortisation amount shall be reclassified from the separate component of equity to profit or loss as a reclassification adjustment (see IAS 1). However, if hedge accounting is discontinued for the hedging relationship that includes the change in the spot element as the hedging instrument, the net amount (ie including cumulative amortisation) that has been accumulated in the separate component of equity shall be immediately reclassified into profit or loss as a reclassification adjustment (see IAS 1).

6.6 Hedges of a group of items

Eligibility of a group of items as the hedged item

- 6.6.1 A group of items (including a group of items that constitute a net position, see paragraphs B6.6.1–B6.6.8) is an eligible hedged item only if:**
- (a) it consists of items (including components of items) that individually are eligible hedged items;**
 - (b) the items in the group are managed together on a group basis for risk management purposes; and**
 - (c) in the case of a cash flow hedge of a group of items whose variabilities in cash flows are not expected to be approximately proportional to the overall variability in cash flows of the group so that an offsetting risk position arises:**
 - (i) it is a hedge of foreign currency risk; and**
 - (ii) the designation of that net position specifies the reporting period in which the forecast transactions are expected to affect profit or loss, as well as their nature and volume (see paragraphs B6.6.7–B6.6.8).**

Designation of a component of a nominal amount

- 6.6.2 A component that is a proportion of an eligible group of items is an eligible hedged item provided that designation is consistent with the entity's risk management objective.**
- 6.6.3 A layer component of an overall group of items (eg a bottom layer) is eligible for hedge accounting only if:**
- (a) it is separately identifiable and reliably measurable;**
 - (b) the risk management objective is to hedge a layer component;**
 - (c) the items in the overall group from which the layer is identified are exposed to the same hedged risk (so that the measurement of the hedged layer is not significantly affected by which particular items from the overall group form part of the hedged layer);**
 - (d) for a hedge of existing items (eg an unrecognised firm commitment or a recognised asset) an entity can identify and track the overall group of items from which the hedged layer is defined (so that the entity is able to comply with the requirements regarding the accounting for qualifying hedging relationships); and**
 - (e) any items in the group that contain prepayment options meet the requirements for components of a nominal amount (see paragraph B6.3.20).**

Presentation

- 6.6.4 For a hedge of a group of items with offsetting risk positions (ie in a hedge of a net position), whose hedged risk affects different line items in the statement of profit or loss and other comprehensive income any hedging gains or losses in that statement shall be presented in a separate line from those affected by the hedged items. Hence, in that statement the amount in the line item that relates to the hedged item itself (eg revenue or cost of sales) remains unaffected.**

- 6.6.5 For assets and liabilities that are hedged together as a group in a fair value hedge, the gain or loss in the statement of financial position on the individual assets and liabilities shall be recognised as an adjustment of the carrying amount of the respective individual items comprising the group in accordance with paragraph 6.5.8(b).

Nil net positions

- 6.6.6 When the hedged item is a group that is a nil net position (ie the hedged items among themselves fully offset the risk that is managed on a group basis), an entity is permitted to designate it in a hedging relationship that does not include a hedging instrument, provided that:
- (a) the hedge is part of a rolling net risk hedging strategy, whereby the entity routinely hedges new positions of the same type as time moves on (eg when transactions move into the time horizon for which the entity hedges);
 - (b) the hedged net position changes in size over the life of the rolling net risk hedging strategy and the entity uses eligible hedging instruments to hedge the net risk (ie when the net position is not nil);
 - (c) hedge accounting is normally applied to such net positions when the net position is not nil and it is hedged with eligible hedging instruments; and
 - (d) not applying hedge accounting to the nil net position would give rise to inconsistent accounting outcomes, because the accounting would not recognise the offsetting risk positions that would otherwise be recognised in a hedge of a net position.

6.7 Option to designate a credit exposure as measured at fair value through profit or loss

Eligibility of credit exposures for designation at fair value through profit or loss

- 6.7.1 If an entity uses a credit derivative that is measured at fair value through profit or loss to manage the credit risk of all, or a part of, a financial instrument (credit exposure) it may designate that financial instrument to the extent that it is so managed (ie all or a proportion of it) as measured at fair value through profit or loss if:
- (a) the name of the credit exposure (eg the borrower, or the holder of a loan commitment) matches the reference entity of the credit derivative ('name matching'); and
 - (b) the seniority of the financial instrument matches that of the instruments that can be delivered in accordance with the credit derivative.

An entity may make this designation irrespective of whether the financial instrument that is managed for credit risk is within the scope of this IFRS (eg an entity may designate loan commitments that are outside the scope of this IFRS). The entity may designate that financial instrument at initial recognition or subsequently, or while it is unrecognised. The entity shall document the designation concurrently.

Accounting for credit exposures designated at fair value through profit or loss

- 6.7.2 If a financial instrument is designated as measured at fair value through profit or loss after its initial recognition, or was previously not recognised, the difference at the time of designation between the carrying amount, if any, and the fair value shall immediately be recognised in profit or loss.
- 6.7.3 An entity shall discontinue measuring the financial instrument that gave rise to the credit risk, or a proportion of that financial instrument, at fair value through profit or loss if:
- (a) the qualifying criteria in paragraph 6.7.1 are no longer met, for example:
 - (i) the credit derivative or the related financial instrument that gives rise to the credit risk expires or is sold, terminated or settled; or
 - (ii) the credit risk of the financial instrument is no longer managed using credit derivatives. For example, this could occur because of improvements in the credit quality of the borrower or the loan commitment holder or changes to capital requirements imposed on an entity; and
 - (b) the financial instrument that gives rise to the credit risk is not otherwise required to be measured at fair value through profit or loss (ie the entity's business model has not changed in the meantime so that a reclassification in accordance with paragraph 4.4.1 was required).
- 6.7.4 When an entity discontinues measuring the financial instrument that gives rise to the credit risk, or a proportion of that financial instrument, at fair value through profit or loss, that financial instrument's fair value at the date of discontinuation becomes its new carrying amount. Subsequently, the same measurement that was used before designating the financial instrument at fair value through profit or loss shall be applied (including amortisation that results from the new carrying amount). For example, a financial asset that had originally been classified as measured at amortised cost would revert to that measurement and its effective interest rate would be recalculated based on its new carrying amount on the date of discontinuing measurement at fair value through profit or loss. Similarly, a loan commitment or a financial guarantee contract would be measured at the higher of:
- (a) the amount determined in accordance with IAS 37; and
 - (b) the new carrying amount at the date of discontinuation less cumulative amortisation. The amortisation period is the remaining life of the instrument.

Chapter 7 Effective date and transition

7.1 Effective date

- 7.1.1 An entity shall apply this IFRS for annual periods beginning on or after 1 January 2015. Earlier application is permitted. However, if an entity elects to apply this IFRS it must apply all of the requirements in this IFRS at the same time (see also paragraph 7.3.2). If an entity applies this IFRS in its financial statements for a period beginning before 1 January 2015, it shall disclose that fact and at the same time apply the amendments in Appendix C.
- 7.1.2 IFRS 10 and IFRS 11 *Joint Arrangements*, issued in May 2011, amended paragraphs 3.2.1, B3.2.1–B3.2.3, B4.3.12(c), B5.7.15, C11 and C30 and deleted paragraphs C23–C28 and the related headings. An entity shall apply those amendments when it applies IFRS 10 and IFRS 11.

7.2 Transition

- 7.2.1 An entity shall apply this IFRS retrospectively, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, except as specified in paragraphs 7.2.4–7.2.15 and 7.2.17–7.2.21. This IFRS shall not be applied to items that have already been derecognised at the date of initial application.
- 7.2.2 For the purposes of the transition provisions in paragraphs 7.2.1, 7.2.3–7.2.16 and 7.2.18, the date of initial application is the date when an entity first applies the requirements of this IFRS. The date of initial application may be:
- any date between the issue of this IFRS and 31 December 2010, for entities initially applying this IFRS before 1 January 2011; or
 - the beginning of the first reporting period in which the entity adopts this IFRS, for entities initially applying this IFRS on or after 1 January 2011.
- 7.2.3 If the date of initial application is not at the beginning of a reporting period, the entity shall disclose that fact and the reasons for using that date of initial application.
- 7.2.4 At the date of initial application, an entity shall assess whether a financial asset meets the condition in paragraph 4.1.2(a) on the basis of the facts and circumstances that exist at the date of initial application. The resulting classification shall be applied retrospectively irrespective of the entity's business model in prior reporting periods.
- 7.2.5 If an entity measures a hybrid contract at fair value in accordance with paragraph 4.1.4 or paragraph 4.1.5 but the fair value of the hybrid contract had not been determined in comparative reporting periods, the fair value of the hybrid contract in the comparative reporting periods shall be the sum of the fair values of the components (ie the non-derivative host and the embedded derivative) at the end of each comparative reporting period.
- 7.2.6 At the date of initial application, an entity shall recognise any difference between the fair value of the entire hybrid contract at the date of initial application and the sum of the fair values of the components of the hybrid contract at the date of initial application:
- in the opening retained earnings of the reporting period of initial application if the entity initially applies this IFRS at the beginning of a reporting period, or
 - in profit or loss if the entity initially applies this IFRS during a reporting period.
- 7.2.7 At the date of initial application, an entity may designate:

- (a) a financial asset as measured at fair value through profit or loss in accordance with paragraph 4.1.5, or
- (b) an investment in an equity instrument as at fair value through other comprehensive income in accordance with paragraph 5.7.5.

Such designation shall be made on the basis of the facts and circumstances that exist at the date of initial application. That classification shall be applied retrospectively.

7.2.8 At the date of initial application, an entity:

- (a) shall revoke its previous designation of a financial asset as measured at fair value through profit or loss if that financial asset does not meet the condition in paragraph 4.1.5.
- (b) may revoke its previous designation of a financial asset as measured at fair value through profit or loss if that financial asset meets the condition in paragraph 4.1.5.

Such revocation shall be made on the basis of the facts and circumstances that exist at the date of initial application. That classification shall be applied retrospectively.

7.2.9 At the date of initial application, an entity:

- (a) may designate a financial liability as measured at fair value through profit or loss in accordance with paragraph 4.2.2(a).
- (b) shall revoke its previous designation of a financial liability as measured at fair value through profit or loss if such designation was made at initial recognition in accordance with the condition now in paragraph 4.2.2(a) and such designation does not satisfy that condition at the date of initial application.
- (c) may revoke its previous designation of a financial liability as measured at fair value through profit or loss if such designation was made at initial recognition in accordance with the condition now in paragraph 4.2.2(a) and such designation satisfies that condition at the date of initial application.

Such designation and revocation shall be made on the basis of the facts and circumstances that exist at the date of initial application. That classification shall be applied retrospectively.

7.2.10 If it is impracticable (as defined in IAS 8) for an entity to apply retrospectively the effective interest method or the impairment requirements in paragraphs 58–65 and AG84–AG93 of IAS 39, the entity shall treat the fair value of the financial asset or financial liability at the end of each comparative period as its amortised cost if the entity restates prior periods. If it is impracticable (as defined in IAS 8) for an entity to apply retrospectively the effective interest method or the impairment requirements in paragraphs 58–65 and AG84–AG93 of IAS 39, the fair value of the financial asset or financial liability at the date of initial application shall be treated as the new amortised cost of that financial asset or financial liability at the date of initial application of this IFRS.

7.2.11 If an entity previously accounted for an investment in an unquoted equity instrument (or a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument) at cost in accordance with IAS 39, it shall measure that instrument at fair value at the date of initial application. Any difference between the previous carrying amount and fair value shall be recognised in the opening retained earnings of the reporting period that includes the date of initial application.

- 7.2.12 If an entity previously accounted for a derivative liability that is linked to and must be settled by delivery of an unquoted equity instrument at cost in accordance with IAS 39, it shall measure that derivative liability at fair value at the date of initial application. Any difference between the previous carrying amount and fair value shall be recognised in the opening retained earnings of the reporting period that includes the date of initial application.
- 7.2.13 At the date of initial application, an entity shall determine whether the treatment in paragraph 5.7.7 would create or enlarge an accounting mismatch in profit or loss on the basis of the facts and circumstances that exist at the date of initial application. This IFRS shall be applied retrospectively on the basis of that determination.
- 7.2.14 Despite the requirement in paragraph 7.2.1, an entity that adopts the classification and measurement requirements of this IFRS for reporting periods:
- (a) beginning before 1 January 2012 need not restate prior periods and is not required to provide the disclosures set out in paragraphs 44S–44W of IFRS 7;
 - (b) beginning on or after 1 January 2012 and before 1 January 2013 shall elect either to provide the disclosures set out in paragraphs 44S–44W of IFRS 7 or to restate prior periods; and
 - (c) beginning on or after 1 January 2013 shall provide the disclosures set out in paragraphs 44S–44W of IFRS 7. The entity need not restate prior periods.

If an entity does not restate prior periods, the entity shall recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application in the opening retained earnings (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application. However, if an entity restates prior periods, the restated financial statements must reflect all of the requirements in this IFRS.

- 7.2.15 If an entity prepares interim financial reports in accordance with IAS 34 *Interim Financial Reporting* the entity need not apply the requirements in this IFRS to interim periods prior to the date of initial application if it is impracticable (as defined in IAS 8).

Entities that have applied early IFRS 9 issued in 2009 or 2010

- 7.2.16 An entity shall apply the transition requirements in paragraphs 7.2.1–7.2.15 at the relevant date of initial application. In other words, an entity shall apply paragraphs 7.2.4–7.2.11 if it applies IFRS 9 (issued in 2009) or, not having done so, when it applies IFRS 9 (issued in 2010) in its entirety or, not having done so, IFRS 9 (issued in 2012) in its entirety. An entity is not permitted to apply those paragraphs more than once.

Transition for hedge accounting

- 7.2.17 Except as provided in paragraph 7.2.21, an entity shall apply the hedge accounting requirements of this IFRS prospectively.
- 7.2.18 To apply hedge accounting from the date of initial application of the hedge accounting requirements of this IFRS, all qualifying criteria must be met as at that date.
- 7.2.19 Hedging relationships that qualified for hedge accounting in accordance with IAS 39 that also qualify for hedge accounting in accordance with the criteria of this IFRS (see paragraph 6.4.1), after taking into account any rebalancing of the hedging

relationship on transition (see paragraph 7.2.20(b)), shall be regarded as continuing hedging relationships.

7.2.20 On initial application of the hedge accounting requirements of this IFRS, an entity:

- (a) may start to apply these requirements from the same point in time as it ceases to apply the hedge accounting requirements of IAS 39.
- (b) shall consider the hedge ratio in accordance with IAS 39 as the starting point for rebalancing the hedge ratio of a continuing hedging relationship, if applicable. Any gain or loss from such a rebalancing shall be recognised in profit or loss.

7.2.21 As an exception to prospective application of the hedge accounting requirements of this IFRS, an entity:

- (a) shall apply the accounting for the time value of options in accordance with paragraph 6.5.15 retrospectively if, in accordance with IAS 39, only the change in an option's intrinsic value was designated as a hedging instrument in a hedging relationship. This retrospective application applies only to those hedging relationships that existed at the beginning of the earliest comparative period or were designated thereafter.
- (b) may apply the accounting for the forward element of forward contracts in accordance with paragraph 6.5.16 retrospectively if, in accordance with IAS 39, only the change in the spot element of a forward contract was designated as a hedging instrument in a hedging relationship. This retrospective application applies only to those hedging relationships that existed at the beginning of the earliest comparative period or were designated thereafter. In addition, if an entity elects retrospective application of this accounting, it shall be applied to all hedging relationships that qualify for this election (ie on transition this election is not available on a hedging relationship-by-hedging relationship basis).

7.3 Withdrawal of IFRIC 9, IFRS 9 (2009) and IFRS 9 (2010)

7.3.1 This IFRS supersedes IFRIC 9 *Reassessment of Embedded Derivatives*. The requirements added to IFRS 9 in October 2010 incorporated the requirements previously set out in paragraphs 5 and 7 of IFRIC 9. As a consequential amendment, IFRS 1 *First-time Adoption of International Financial Reporting Standards* incorporated the requirements previously set out in paragraph 8 of IFRIC 9.

7.3.2 This IFRS supersedes IFRS 9 issued in 2009 and IFRS 9 issued in 2010. However, for annual periods beginning before 1 January 2015, an entity may elect to apply IFRS 9 issued in 2009 or 2010 instead of applying this IFRS.

Appendix A

Defined terms

This appendix is an integral part of the IFRS.

derecognition	The removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.
derivative	<p>A financial instrument or other contract within the scope of this IFRS (see paragraph 2.1) with all three of the following characteristics.</p> <p>(a) Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').</p> <p>(b) It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.</p> <p>(c) It is settled at a future date.</p>
fair value	<i>Fair value</i> is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. (See IFRS 13.)
financial guarantee contract	A contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.
financial liability at fair value through profit or loss	<p>A financial liability that meets either of the following conditions.</p> <p>(a) It meets the definition of held for trading.</p> <p>(b) Upon initial recognition it is designated by the entity as at fair value through profit or loss in accordance with paragraph 4.2.2 or 4.3.5.</p> <p>(c) It is designated either upon initial recognition or subsequently as at fair value through profit or loss in accordance with paragraph 6.7.1.</p>

firm commitment	A binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates.
forecast transaction	An uncommitted but anticipated future transaction.
hedge ratio	The relationship between the quantity of the hedging instrument and the quantity of the hedged item in terms of their relative weighting.
held for trading	A financial asset or financial liability that: <ul style="list-style-type: none"> (a) is acquired or incurred principally for the purpose of selling or repurchasing it in the near term; (b) on initial recognition is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or (c) is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).
reclassification date	The first day of the first reporting period following the change in business model that results in an entity reclassifying financial assets.
regular way purchase or sale	A purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

The following terms are defined in paragraph 11 of IAS 32, paragraph 9 of IAS 39 or Appendix A of IFRS 7 and are used in this IFRS with the meanings specified in IAS 32, IAS 39 or IFRS 7:

- (a) amortised cost of a financial asset or financial liability;
- (b) credit risk;
- (c) effective interest method;
- (d) equity instrument;
- (e) financial asset;
- (f) financial instrument;
- (g) financial liability;
- (h) transaction costs.

Appendix B

Application guidance

This appendix is an integral part of the IFRS.

B3.1.2 The following are examples of applying the principle in paragraph 3.1.1:

- (a) Unconditional receivables and payables are recognised as assets or liabilities when the entity becomes a party to the contract and, as a consequence, has a legal right to receive or a legal obligation to pay cash.
- (b) Assets to be acquired and liabilities to be incurred as a result of a firm commitment to purchase or sell goods or services are generally not recognised until at least one of the parties has performed under the agreement. For example, an entity that receives a firm order does not generally recognise an asset (and the entity that places the order does not recognise a liability) at the time of the commitment but, rather, delays recognition until the ordered goods or services have been shipped, delivered or rendered. If a firm commitment to buy or sell non-financial items is within the scope of this IFRS in accordance with paragraphs 5–7 of IAS 39, its net fair value is recognised as an asset or liability on the commitment date (see (c) below). In addition, if a previously unrecognised firm commitment is designated as a hedged item in a fair value hedge, any change in the net fair value attributable to the hedged risk is recognised as an asset or liability after the inception of the hedge (see paragraphs 6.5.8(b) and 6.5.9).

B4.1.30 The following examples show when this condition could be met. In all cases, an entity may use this condition to designate financial assets or financial liabilities as at fair value through profit or loss only if it meets the principle in paragraph 4.1.5 or 4.2.2(a).

- (a) An entity has liabilities under insurance contracts whose measurement incorporates current information (as permitted by IFRS 4, paragraph 24), and financial assets it considers related that would otherwise be measured at amortised cost.
- (b) An entity has financial assets, financial liabilities or both that share a risk, such as interest rate risk, that gives rise to opposite changes in fair value that tend to offset each other. However, only some of the instruments would be measured at fair value through profit or loss (eg are derivatives, or are classified as held for trading). It may also be the case that the requirements for hedge accounting are not met, for example because the requirements for effectiveness in paragraph 6.4.1 are not met.
- (c) An entity has financial assets, financial liabilities or both that share a risk, such as interest rate risk, that gives rise to opposite changes in fair value that tend to offset each other and the entity does not use hedge accounting, eg because the liability position is actively traded and would hence require resetting of hedging relationships with a level of frequency that the entity considers burdensome. Furthermore, in the absence of hedge accounting there is a significant inconsistency in the recognition of gains and losses. For example, the entity has financed a specified group of loans by issuing traded bonds whose changes in fair value tend to offset each other. If, in addition, the entity regularly buys and sells the bonds but rarely, if ever, buys and sells the loans, reporting both the loans and the bonds at fair value through profit or

loss eliminates the inconsistency in the timing of recognition of gains and losses that would otherwise result from measuring them both at amortised cost and recognising a gain or loss each time a bond is repurchased.

- B4.3.8 (c) An embedded foreign currency derivative that provides a stream of principal or interest payments that are denominated in a foreign currency and is embedded in a host debt instrument (eg a dual currency bond) is closely related to the host debt instrument. Such a derivative is not separated from the host instrument because IAS 21 *The Effects of Changes in Foreign Exchange Rates* requires foreign currency gains and losses on monetary items to be recognised in profit or loss.
- B5.7.2 An entity applies IAS 21 to financial assets and financial liabilities that are monetary items in accordance with IAS 21 and denominated in a foreign currency. IAS 21 requires any foreign exchange gains and losses on monetary assets and monetary liabilities to be recognised in profit or loss. An exception is a monetary item that is designated as a hedging instrument in a cash flow hedge (see paragraph 6.5.11), a hedge of a net investment (see paragraph 6.5.13) or a fair value hedge of an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income in accordance with paragraph 5.7.5 (see paragraph 6.5.8).

Hedge accounting (chapter 6)

Hedging instruments (section 6.2)

Qualifying instruments

- B6.2.1 Derivatives that are embedded in hybrid contracts, but that are not separately accounted for, cannot be designated as separate hedging instruments.
- B6.2.2 An entity's own equity instruments are not financial assets or financial liabilities of the entity and therefore cannot be designated as hedging instruments.
- B6.2.3 For hedges of foreign currency risk, the foreign currency risk component of a non-derivative financial instrument is determined in accordance with IAS 21.

Written options

- B6.2.4 This IFRS does not restrict the circumstances in which a derivative measured at fair value through profit or loss may be designated as a hedging instrument, except for some written options. A written option does not qualify as a hedging instrument unless it is designated as an offset to a purchased option, including one that is embedded in another financial instrument (for example, a written call option used to hedge a callable liability).

Designation of hedging instruments

- B6.2.5 For hedges other than hedges of foreign currency risk, when an entity designates a non-derivative financial asset or a non-derivative financial liability measured at fair value through profit or loss as a hedging instrument, it may only designate the non-derivative financial instrument in its entirety or a proportion of it.
- B6.2.6 A single hedging instrument may be designated as a hedging instrument of more than one type of risk, provided that there is specific designation of the hedging

instrument and of the different risk positions as hedged items. Those hedged items can be in different hedging relationships.

Hedged items (section 6.3)

Qualifying items

- B6.3.1 A firm commitment to acquire a business in a business combination cannot be a hedged item, except for foreign currency risk, because the other risks being hedged cannot be specifically identified and measured. Those other risks are general business risks.
- B6.3.2 An equity method investment cannot be a hedged item in a fair value hedge. This is because the equity method recognises in profit or loss the investor's share of the investee's profit or loss, rather than changes in the investment's fair value. For a similar reason, an investment in a consolidated subsidiary cannot be a hedged item in a fair value hedge. This is because consolidation recognises in profit or loss the subsidiary's profit or loss, rather than changes in the investment's fair value. A hedge of a net investment in a foreign operation is different because it is a hedge of the foreign currency exposure, not a fair value hedge of the change in the value of the investment.
- B6.3.3 Paragraph 6.3.4 permits an entity to designate as hedged items aggregated exposures that are a combination of an exposure and a derivative. When designating such a hedged item, an entity assesses whether the aggregated exposure combines an exposure with a derivative so that it creates a different aggregated exposure that is managed as one exposure for a particular risk (or risks). In that case, the entity may designate the hedged item on the basis of the aggregated exposure. For example:
- (a) An entity may hedge a given quantity of highly probable coffee purchases in 15 months' time against price risk (based on US dollars) using a 15-month futures contract for coffee. The highly probable coffee purchases and the futures contract for coffee in combination can be viewed as a 15-month fixed amount US dollar foreign currency risk exposure for risk management purposes (ie like any fixed amount US dollar cash outflow in 15 months' time).
 - (b) An entity may hedge the foreign currency risk for the entire term of a 10-year fixed rate debt denominated in a foreign currency. However, the entity requires fixed rate exposure in its functional currency only for a short to medium term (say two years) and floating rate exposure in its functional currency for the remaining term to maturity. At the end of each of the two-year intervals (ie on a two-year rolling basis) the entity fixes the next two years' interest rate exposure (if the interest level is such that the entity wants to fix interest rates). In such a situation it is common for an entity to enter into a 10-year fixed-to-floating cross-currency interest rate swap that swaps the fixed rate foreign currency debt into a variable rate functional currency exposure. This is overlaid with a two-year interest rate swap that—on the basis of the functional currency—swaps variable rate debt into fixed rate debt. In effect, the fixed rate foreign currency debt and the 10-year fixed-to-floating cross-currency interest rate swap in combination are viewed as a 10-year variable rate debt functional currency exposure for risk management purposes.
- B6.3.4 When designating the hedged item on the basis of the aggregated exposure, an entity considers the combined effect of the items that constitute the aggregated

exposure for the purpose of assessing hedge effectiveness and measuring hedge ineffectiveness. However, the items that constitute the aggregated exposure remain accounted for separately. This means that, for example:

- (a) Derivatives that are part of an aggregated exposure are recognised as separate assets or liabilities measured at fair value.
- (b) If a hedging relationship is designated between the items that constitute the aggregated exposure, the way in which a derivative is included as part of an aggregated exposure must be consistent with the designation of that derivative as the hedging instrument at the level of the aggregated exposure. For example, if an entity excludes the forward element of a derivative from its designation as the hedging instrument for the hedging relationship between the items that constitute the aggregated exposure, it must also exclude the forward element when including that derivative as a hedged item as part of the aggregated exposure. Otherwise, the aggregated exposure shall include a derivative in its entirety or a proportion of it.

B6.3.5 Paragraph 6.3.6 states that in consolidated financial statements the foreign currency risk of a highly probable forecast intragroup transaction may qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated profit or loss. For this purpose an entity can be a parent, subsidiary, associate, joint arrangement or branch. If the foreign currency risk of a forecast intragroup transaction does not affect consolidated profit or loss, the intragroup transaction cannot qualify as a hedged item. This is usually the case for royalty payments, interest payments or management charges between members of the same group, unless there is a related external transaction. However, when the foreign currency risk of a forecast intragroup transaction will affect consolidated profit or loss, the intragroup transaction can qualify as a hedged item. An example is forecast sales or purchases of inventories between members of the same group if there is an onward sale of the inventory to a party external to the group. Similarly, a forecast intragroup sale of plant and equipment from the group entity that manufactured it to a group entity that will use the plant and equipment in its operations may affect consolidated profit or loss. This could occur, for example, because the plant and equipment will be depreciated by the purchasing entity and the amount initially recognised for the plant and equipment may change if the forecast intragroup transaction is denominated in a currency other than the functional currency of the purchasing entity.

B6.3.6 If a hedge of a forecast intragroup transaction qualifies for hedge accounting, any gain or loss is recognised in, and taken out of, other comprehensive income in accordance with paragraph 6.5.11. The relevant period or periods during which the foreign currency risk of the hedged transaction affects profit or loss is when it affects consolidated profit or loss.

Designation of hedged items

B6.3.7 A component is a hedged item that is less than the entire item. Consequently, a component reflects only some of the risks of the item of which it is a part or reflects the risks only to some extent (eg when designating a proportion of an item).

Risk components

- B6.3.8 To be eligible for designation as a hedged item, a risk component must be a separately identifiable component of the financial or non-financial item, and the changes in the cash flows or fair value of the item attributable to changes in that risk component must be reliably measurable.
- B6.3.9 When identifying what risk components are eligible for designation as a hedged item, an entity assesses such risk components within the context of the particular market structure to which the risk or risks relate and in which the hedging activity takes place. Such a determination requires an evaluation of the relevant facts and circumstances, which differ by risk and market.
- B6.3.10 When designating risk components as hedged items, an entity considers whether the risk components are explicitly specified in a contract (contractually specified risk components) or whether they are implicit in the fair value or cash flows of an item of which they are a part (non-contractually specified risk components). Non-contractually specified risk components can relate to items that are not a contract (eg forecast transactions) or contracts that do not explicitly specify the component (eg a firm commitment that includes only one single price instead of a pricing formula that references different underlyings). For example:
- (a) 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 (eg 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.
 - (b) Entity B hedges its future coffee purchases based on its production forecast. Hedging starts up to 15 months before delivery for part of the forecast purchase volume. Entity B increases the hedged volume over time (as the delivery date approaches). Entity B uses two different types of contracts to manage its coffee price risk:
 - (i) exchange traded coffee futures contracts; and
 - (ii) coffee supply contracts for Arabica coffee from Colombia delivered to a specific manufacturing site. These contracts price a tonne of coffee based on the exchange traded coffee futures contract price plus a fixed price differential plus a variable logistics services charge using a pricing formula. The coffee supply contract is an executory contract in accordance with which Entity B takes actual delivery of coffee.

For deliveries that relate to the current harvest, entering into the coffee supply contracts allows Entity B to fix the price differential between the actual coffee quality purchased (Arabica coffee from Colombia) and the benchmark quality that is the underlying of the exchange traded futures contract. However, for deliveries that relate to the next harvest, the coffee supply contracts are not yet available, so the price differential cannot be fixed. Entity B uses exchange traded coffee futures contracts to hedge the benchmark quality component of

its coffee price risk for deliveries that relate to the current harvest as well as the next harvest. Entity B determines that it is exposed to three different risks: coffee price risk reflecting the benchmark quality, coffee price risk reflecting the difference (spread) between the price for the benchmark quality coffee and the particular Arabica coffee from Colombia that it actually receives, and the variable logistics costs. For deliveries related to the current harvest, after Entity B enters into a coffee supply contract, the coffee price risk reflecting the benchmark quality is a contractually specified risk component because the pricing formula includes an indexation to the exchange traded coffee futures contract price. Entity B concludes that this risk component is separately identifiable and reliably measurable. For deliveries related to the next harvest, Entity B has not yet entered into any coffee supply contracts (ie those deliveries are forecast transactions). Hence, the coffee price risk reflecting the benchmark quality is a non-contractually specified risk component. Entity B's analysis of the market structure takes into account how eventual deliveries of the particular coffee that it receives are priced. Hence, on the basis of this analysis of the market structure, Entity B concludes that the forecast transactions also involve the coffee price risk reflecting the benchmark quality as a risk component that is separately identifiable and reliably measurable even though it is not contractually specified. Consequently, Entity B may designate hedging relationships for forecast coffee purchases on a risk components basis for the coffee price risk, reflecting the benchmark quality for the price risk resulting from coffee supply contracts as well as forecast transactions.

- (c) Entity C hedges part of its future jet fuel purchases on the basis of its consumption forecast up to 24 months before delivery and increases the volume that it hedges over time. Entity C hedges this exposure using different types of contracts depending on the time horizon of the hedge, which affects the market liquidity of the derivatives. For the longer time horizons (12–24 months) Entity C uses crude oil contracts because only these have sufficient market liquidity. For time horizons of 6–12 months Entity C uses gas oil derivatives because they are sufficiently liquid. For time horizons up to 6 months Entity C uses jet fuel contracts. Entity C's analysis of the market structure for oil and oil products and its evaluation of the relevant facts and circumstances is as follows:
- (i) Entity C operates in a geographical area in which Brent is the crude oil benchmark. Crude oil is a raw material benchmark that affects the price of various refined oil products as their most basic input. Gas oil is a benchmark for refined oil products, which is used as a pricing reference for oil distillates more generally. This is also reflected in the types of derivative financial instruments for the crude oil and refined oil products markets of the environment in which Entity C operates, such as:
- the benchmark crude oil futures contract, which is for Brent crude oil;
 - the benchmark gas oil futures contract, which is used as the pricing reference for distillates—eg jet fuel spread derivatives cover the price differential between jet fuel and that benchmark gas oil; and
 - the benchmark gas oil crack spread derivative (ie the derivative regarding the price differential between crude oil and gas oil—a refining margin), which is indexed to Brent crude oil.

- (ii) The pricing of refined oil products does not depend on which particular crude oil is processed by a particular refinery because those refined oil products (such as gas oil or jet fuel) are standardised products.

Hence, Entity C concludes that the price risk of its jet fuel purchases includes a crude oil price risk component based on Brent crude oil and a gas oil price risk component, even though crude oil and gas oil are not specified in any contractual arrangement. Entity C concludes that these two risk components are separately identifiable and reliably measurable even though they are not contractually specified. Consequently, Entity C may designate hedging relationships for forecast jet fuel purchases on a risk components basis (for crude oil or gas oil). This analysis also means that if, for example, Entity C used crude oil derivatives based on West Texas Intermediate (WTI) crude oil, changes in the price differential between Brent crude oil and WTI crude oil would cause hedge ineffectiveness.

- (d) Entity D holds a fixed rate debt instrument. This instrument is issued in an environment with a market in which a large variety of similar debt instruments are compared by their spreads to a benchmark rate (eg LIBOR) and variable rate instruments in that environment are typically indexed to that benchmark rate. Interest rate swaps are frequently used to manage interest rate risk on the basis of that benchmark rate, irrespective of the spread of debt instruments to that benchmark rate. The price of fixed rate debt instruments varies directly in response to changes in the benchmark rate as they happen. Entity D concludes that the benchmark rate is a component that can be separately identified and reliably measured. Consequently, Entity D may designate hedging relationships for the fixed rate debt instrument on a risk component basis for the benchmark interest rate risk.

B6.3.11 When designating a risk component as a hedged item, the hedge accounting requirements apply to that risk component in the same way as they apply to other hedged items that are not risk components. For example, the qualifying criteria apply, including that the hedging relationship must meet the hedge effectiveness requirements, and any hedge ineffectiveness must be measured and recognised.

B6.3.12 An entity can also designate only changes in the cash flows or fair value of a hedged item above or below a specified price or other variable (a one-sided risk). The intrinsic value of a purchased option hedging instrument (assuming that it has the same principal terms as the designated risk), but not its time value, reflects a one-sided risk in a hedged item. For example, an entity can designate the variability of future cash flow outcomes resulting from a price increase of a forecast commodity purchase. In such a situation, the entity designates only cash flow losses that result from an increase in the price above the specified level. The hedged risk does not include the time value of a purchased option, because the time value is not a component of the forecast transaction that affects profit or loss.

B6.3.13 There is a rebuttable presumption that unless inflation risk is contractually specified, it is not separately identifiable and reliably measurable and hence cannot be designated as a risk component of a financial instrument. However, in limited cases, it is possible to identify a risk component for inflation risk that is separately identifiable and reliably measurable because of the particular circumstances of the inflation environment and the relevant debt market.

B6.3.14 For example, an entity issues debt in an environment in which inflation-linked bonds have a volume and term structure that results in a sufficiently liquid market that allows constructing a term structure of zero-coupon real interest rates. This means

that for the respective currency, inflation is a relevant factor that is separately considered by the debt markets. In those circumstances the inflation risk component could be determined by discounting the cash flows of the hedged debt instrument using the term structure of zero-coupon real interest rates (ie in a manner similar to how a risk-free (nominal) interest rate component can be determined). Conversely, in many cases an inflation risk component is not separately identifiable and reliably measurable. For example, an entity issues only nominal interest rate debt in an environment with a market for inflation-linked bonds that is not sufficiently liquid to allow a term structure of zero-coupon real interest rates to be constructed. In this case the analysis of the market structure and the facts and circumstances does not support the entity concluding that inflation is a relevant factor that is separately considered by the debt markets. Hence, the entity cannot overcome the rebuttable presumption that inflation risk that is not contractually specified is not separately identifiable and reliably measurable. Consequently, an inflation risk component would not be eligible for designation as the hedged item. This applies irrespective of any inflation hedging instrument that the entity has actually entered into. In particular, the entity cannot simply impute the terms and conditions of the actual inflation hedging instrument by projecting its terms and conditions onto the nominal interest rate debt.

B6.3.15A contractually specified inflation risk component of the cash flows of a recognised inflation-linked bond (assuming there is no requirement to account for an embedded derivative separately) is separately identifiable and reliably measurable, as long as other cash flows of the instrument are not affected by the inflation risk component.

Components of a nominal amount

B6.3.16 There are two types of components of nominal amounts that can be designated as the hedged item in a hedging relationship: a component that is a proportion of an entire item or a layer component. The type of component changes the accounting outcome. An entity shall designate the component for accounting purposes consistently with its risk management objective.

B6.3.17 An example of a component that is a proportion is 50 per cent of the contractual cash flows of a loan.

B6.3.18 A layer component may be specified from a defined, but open, population, or from a defined nominal amount. Examples include:

- (a) part of a monetary transaction volume, eg the next FC10* cash flows from sales denominated in a foreign currency after the first FC20 in March 201X;
- (b) a part of a physical volume, eg the 5 million cubic metres bottom layer of the natural gas stored in location XYZ;
- (c) a part of a physical or other transaction volume, eg the first 100 barrels of the oil purchases in June 201X or the first 100 MWh of electricity sales in June 201X; or
- (d) a layer from the nominal amount of the hedged item, eg the last CU80* million of a CU100 million firm commitment, the bottom layer of CU20 million of a CU100 million fixed rate bond or the top layer of CU30 million from a total amount of CU100 million of fixed rate debt that can be prepaid at fair value (the defined nominal amount is CU100 million).

* In this IFRS monetary amounts are denominated in 'currency units (CU)' and 'foreign currency units (FC)'.

- B6.3.19 If a layer component is designated in a fair value hedge, an entity shall specify it from a defined nominal amount. To comply with the requirements for qualifying fair value hedges, an entity shall remeasure the hedged item for fair value changes (ie remeasure the item for fair value changes attributable to the hedged risk). The fair value hedge adjustment must be recognised in profit or loss no later than when the item is derecognised. Consequently, it is necessary to track the item to which the fair value hedge adjustment relates. For a layer component in a fair value hedge, this requires an entity to track the nominal amount from which it is defined. For example, in paragraph B6.3.18(d), the total defined nominal amount of CU100 million must be tracked in order to track the bottom layer of CU20 million or the top layer of CU30 million.
- B6.3.20 A layer component that includes a prepayment option is not eligible to be designated as a hedged item in a fair value hedge if the prepayment option's fair value is affected by changes in the hedged risk, unless the designated layer includes the effect of the related prepayment option when determining the change in fair value of the hedged item.

Relationship between components and the total cash flows of an item

- B6.3.21 If a component of the cash flows of a financial or non-financial item is designated as the hedged item, that component must be less than or equal to the total cash flows of the entire item. However, all of the cash flows of the entire item may be designated as the hedged item and hedged for only one particular risk (eg only for those changes that are attributable to changes in LIBOR or a benchmark commodity price).
- B6.3.22 For example, in the case of a financial liability whose effective interest rate is below LIBOR, an entity cannot designate:
- (a) a component of the liability equal to interest at LIBOR (plus the principal amount in case of a fair value hedge); and
 - (b) a negative residual component.
- B6.3.23 However, in the case of a fixed rate financial liability whose effective interest rate is (for example) 100 basis points below LIBOR, an entity can designate as the hedged item the change in the value of that entire liability (ie principal plus interest at LIBOR minus 100 basis points) that is attributable to changes in LIBOR. If a fixed rate financial instrument is hedged some time after its origination and interest rates have changed in the meantime, the entity can designate a risk component equal to a benchmark rate that is higher than the contractual rate paid on the item. The entity can do so provided that the benchmark rate is less than the effective interest rate calculated on the assumption that the entity had purchased the instrument on the day when it first designates the hedged item. For example, assume that an entity originates a fixed rate financial asset of CU100 that has an effective interest rate of 6 per cent at a time when LIBOR is 4 per cent. It begins to hedge that asset some time later when LIBOR has increased to 8 per cent and the fair value of the asset has decreased to CU90. The entity calculates that if it had purchased the asset on the date it first designates the related LIBOR interest rate risk as the hedged item, the effective yield of the asset based on its then fair value of CU90 would have been 9.5 per cent. Because LIBOR is less than this effective yield, the entity can designate a LIBOR component of 8 per cent that consists partly of the contractual interest cash flows and partly of the difference between the current fair value (ie CU90) and the amount repayable on maturity (ie CU100).

- B6.3.24** If a variable rate financial liability bears interest of (for example) three-month LIBOR minus 20 basis points (with a floor at zero basis points), an entity can designate as the hedged item the change in the cash flows of that entire liability (ie three-month LIBOR minus 20 basis points—including the floor) that is attributable to changes in LIBOR. Hence, as long as the three-month LIBOR forward curve for the remaining life of that liability does not fall below 20 basis points, the hedged item has the same cash flow variability as a liability that bears interest at three-month LIBOR with a zero or positive spread. However, if the three-month LIBOR forward curve for the remaining life of that liability (or a part of it) falls below 20 basis points, the hedged item has a lower cash flow variability than a liability that bears interest at three-month LIBOR with a zero or positive spread.
- B6.3.25** A similar example of a non-financial item is a specific type of crude oil from a particular oil field that is priced off the relevant benchmark crude oil. If an entity sells that crude oil under a contract using a contractual pricing formula that sets the price per barrel at the benchmark crude oil price minus CU10 with a floor of CU15 the entity can designate as the hedged item the entire cash flow variability under the sales contract that is attributable to the change in the benchmark crude oil price. However, the entity cannot designate a component that is equal to the full change in the benchmark crude oil price. Hence, as long as the forward price (for each delivery) does not fall below CU25, the hedged item has the same cash flow variability as a crude oil sale at the benchmark crude oil price (or with a positive spread). However, if the forward price for any delivery falls below CU25, the hedged item has a lower cash flow variability than a crude oil sale at the benchmark crude oil price (or with a positive spread).

Qualifying criteria for hedge accounting (section 6.4)

Hedge effectiveness

- B6.4.1** Hedge effectiveness is the extent to which changes in the fair value or cash flows of the hedging instrument offset changes in the fair value or cash flows of the hedged item (eg when the hedged item is a risk component, the relevant change in fair value or cash flows of an item is the one that is attributable to the hedged risk). Hedge ineffectiveness is the extent to which the changes in the fair value or cash flows of the hedging instrument are greater or less than those on the hedged item.
- B6.4.2** When designating a hedging relationship and on an ongoing basis, an entity shall analyse the sources of hedge ineffectiveness that are expected to affect the hedging relationship during its term. This analysis (including any updates in accordance with paragraph B6.5.21 arising from rebalancing a hedging relationship) is the basis for the entity's assessment of meeting the hedge effectiveness requirements.

Economic relationship between the hedged item and the hedging instrument

- B6.4.3** The requirement that an economic relationship exists means that the hedging instrument and the hedged item have values that generally move in the opposite direction because of the same risk, which is the hedged risk. Hence, there must be an expectation that the value of the hedging instrument and the value of the hedged item will systematically change in response to movements in either the same underlying or underlyings that are economically related in such a way that they respond in a similar way to the risk that is being hedged (eg Brent and WTI crude oil).

- B6.4.4 If the underlyings are not the same but are economically related, there can be situations when the values of the hedging instrument and the hedged item move in the same direction, eg because the price differential between the two related underlyings changes while the underlyings themselves do not move significantly. That is still consistent with an economic relationship between the hedging instrument and the hedged item if the values of the hedging instrument and the hedged item are still expected to typically move in the opposite direction when the underlyings move.
- B6.4.5 The assessment of whether an economic relationship exists includes an analysis of the possible behaviour of the hedging relationship during its term, to ascertain whether it can be expected to meet the risk management objective. The mere existence of a statistical correlation between two variables does not, by itself, support a valid conclusion that an economic relationship exists.

The effect of credit risk

- B6.4.6 Because the hedge accounting model is based on a general notion of offset between gains and losses on the hedging instrument and the hedged item, hedge effectiveness is not solely determined by the economic relationship between those items (ie the changes in their underlyings) but also by the effect of credit risk on the value of both the hedging instrument and the hedged item. The effect of credit risk means that even if there is an economic relationship between the hedging instrument and the hedged item, the level of offset might become erratic. This can result from a change in the credit risk of either the hedging instrument or the hedged item that is of such a magnitude that the credit risk dominates the value changes that result from the economic relationship (ie the effect of the changes in the underlyings). A magnitude that gives rise to dominance is one that would result in the loss (or gain) from credit risk frustrating the effect of changes in the underlyings on the value of the hedging instrument or the hedged item, even if those changes were significant. Conversely, if during a particular period there is little change in the underlyings, the fact that even small credit risk-related changes in the value of the hedging instrument or the hedged item might affect the value more than the underlyings does not create dominance.
- B6.4.7 An example of credit risk dominating a hedging relationship is when an entity hedges an exposure to commodity price risk using an uncollateralised derivative. If the counterparty to that derivative experiences a severe deterioration in its credit standing, the effect of the changes in the counterparty's credit standing might outweigh the effect of changes in the commodity price on the fair value of the hedging instrument, whereas changes in the value of the hedged item depend largely on the commodity price changes.

Hedge ratio

- B6.4.8 In accordance with the hedge effectiveness requirements the hedge ratio of the hedging relationship must be the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item. Hence, if an entity hedges less than 100 per cent of the exposure on an item, such as 85 per cent, it shall designate the hedging relationship using a hedge ratio that is the same as that resulting from 85 per cent of the exposure and the quantity of the hedging instrument that the entity actually uses to hedge those 85 per cent. Similarly, if, for example, an entity hedges an exposure using a nominal amount of

40 units of a financial instrument, it shall designate the hedging relationship using a hedge ratio that is the same as that resulting from that quantity of 40 units (ie the entity must not use a hedge ratio based on a higher quantity of units that it might hold in total or a lower quantity of units) and the quantity of the hedged item that it actually hedges with those 40 units.

- B6.4.9 However, the designation of the hedging relationship using the same hedge ratio as that resulting from the quantities of the hedged item and the hedging instrument that the entity actually uses shall not reflect an imbalance between the weightings of the hedged item and the hedging instrument that would create hedge ineffectiveness (irrespective of whether recognised or not) that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting. Hence, for the purpose of designating a hedging relationship, an entity must adjust the hedge ratio that results from the quantities of the hedged item and the hedging instrument that the entity actually uses if that is needed to avoid such an imbalance.
- B6.4.10 Examples of relevant considerations in assessing whether an accounting outcome is inconsistent with the purpose of hedge accounting are:
- (a) whether the intended hedge ratio is established to avoid recognising hedge ineffectiveness for cash flow hedges, or to achieve fair value hedge adjustments for more hedged items with the aim of increasing the use of fair value accounting, but without offsetting fair value changes of the hedging instrument; and
 - (b) whether there is a commercial reason for the particular weightings of the hedged item and the hedging instrument, even though that creates hedge ineffectiveness. For example, an entity enters into and designates a quantity of the hedging instrument that is not the quantity that it determined as the best hedge of the hedged item because the standard volume of the hedging instruments does not allow it to enter into that exact quantity of hedging instrument (a 'lot size issue'). An example is an entity hedging 100 tonnes of coffee purchases with standard coffee futures contracts that have a contract size of 37,500 lbs (pounds). The entity could only use either 5 or 6 contracts (equivalent to 85.0 and 102.1 tonnes respectively) to hedge the purchase volume of 100 tonnes. In that case, the entity designates the hedging relationship using the hedge ratio that results from the number of coffee futures contracts that it actually uses, because the hedge ineffectiveness resulting from the mismatch in the weightings of the hedged item and the hedging instrument would not result in an accounting outcome that is inconsistent with the purpose of hedge accounting.

Frequency of assessing whether the hedge effectiveness requirements are met

- B6.4.11 An entity shall assess at the inception of the hedging relationship, and on an ongoing basis, whether a hedging relationship meets the hedge effectiveness requirements. At a minimum, an entity shall perform the ongoing assessment at each reporting date or upon a significant change in the circumstances affecting the hedge effectiveness requirements, whichever comes first. The assessment relates to expectations about hedge effectiveness and therefore is only forward-looking.

Methods for assessing whether the hedge effectiveness requirements are met

- B6.4.12 This IFRS does not specify a method for assessing whether a hedging relationship meets the hedge effectiveness requirements. However, an entity shall use a method that captures the relevant characteristics of the hedging relationship including the sources of hedge ineffectiveness. Depending on those factors, the method can be a qualitative or a quantitative assessment.
- B6.4.13 For example, when the critical terms (such as the nominal amount, maturity and underlying) of the hedging instrument and the hedged item match or are closely aligned, it might be possible for an entity to conclude on the basis of a qualitative assessment of those critical terms that the hedging instrument and the hedged item have values that will generally move in the opposite direction because of the same risk and hence that an economic relationship exists between the hedged item and the hedging instrument (see paragraphs B6.4.3–B6.4.5).
- B6.4.14 The fact that a derivative is in or out of the money when it is designated as a hedging instrument does not in itself mean that a qualitative assessment is inappropriate. It depends on the circumstances whether hedge ineffectiveness arising from that fact could have a magnitude that a qualitative assessment would not adequately capture.
- B6.4.15 Conversely, if the critical terms of the hedging instrument and the hedged item are not closely aligned, there is an increased level of uncertainty regarding the extent of offset. Consequently, the hedge effectiveness during the term of the hedging relationship is more difficult to predict. In such a situation it might only be possible for an entity to conclude on the basis of a quantitative assessment that an economic relationship exists between the hedged item and the hedging instrument (see paragraphs B6.4.3–B6.4.5). In some situations a quantitative assessment might also be needed to assess whether the hedge ratio used for designating the hedging relationship meets the hedge effectiveness requirements (see paragraphs B6.4.8–B6.4.10). An entity can use the same or different methods for these two different purposes.
- B6.4.16 If there are changes in circumstances that affect hedge effectiveness, an entity may have to change the method for assessing whether a hedging relationship meets the hedge effectiveness requirements in order to ensure that the relevant characteristics of the hedging relationship, including the sources of hedge ineffectiveness, are still captured.
- B6.4.17 An entity's risk management is the main source of information to perform the assessment of whether a hedging relationship meets the hedge effectiveness requirements. This means management information (or analysis) used for decision-making purposes can be used as a basis for assessing whether a hedging relationship meets the hedge effectiveness requirements.
- B6.4.18 An entity's documentation of the hedging relationship includes how it will assess the hedge effectiveness requirements, including the method or methods used. The documentation of the hedging relationship shall be updated for any changes to the methods (see paragraph B6.4.16).

Accounting for qualifying hedging relationships (section 6.5)

- B6.5.1 An example of a fair value hedge is a hedge of exposure to changes in the fair value of a fixed rate debt instrument arising from changes in interest rates. Such a hedge could be entered into by the issuer or by the holder.

- B6.5.2 The purpose of a cash flow hedge is to defer the gain or loss on the hedging instrument to a period or periods in which the hedged expected future cash flows affect profit or loss. An example of a cash flow hedge is the use of a swap to change floating rate debt (whether measured at amortised cost or fair value) to fixed rate debt (ie a hedge of a future transaction in which the future cash flows being hedged are the future interest payments). Conversely, a forecast purchase of an equity instrument that, once acquired, will be accounted for at fair value through profit or loss, is an example of an item that cannot be the hedged item in a cash flow hedge, because any gain or loss on the hedging instrument that would be deferred could not be appropriately reclassified to profit or loss during a period in which it would achieve offset. For the same reason, a forecast purchase of an equity instrument that, once acquired, will be accounted for at fair value with changes in fair value presented in other comprehensive income can also not be the hedged item in a cash flow hedge.
- B6.5.3 A hedge of a firm commitment (eg a hedge of the change in fuel price relating to an unrecognised contractual commitment by an electric utility to purchase fuel at a fixed price) is a hedge of an exposure to a change in fair value. Accordingly, such a hedge is a fair value hedge. However, in accordance with paragraph 6.5.4, a hedge of the foreign currency risk of a firm commitment could alternatively be accounted for as a cash flow hedge.

Measurement of hedge ineffectiveness

- B6.5.4 When measuring hedge ineffectiveness, an entity shall consider the time value of money. Consequently, the entity determines the value of the hedged item on a present value basis and therefore the change in the value of the hedged item also includes the effect of the time value of money.
- B6.5.5 To calculate the change in the value of the hedged item for the purpose of measuring hedge ineffectiveness, an entity may use a derivative that would have terms that match the critical terms of the hedged item (this is commonly referred to as a 'hypothetical derivative'), and, for example for a hedge of a forecast transaction, would be at the money at the time of designation of the hedging relationship. This is one possible way of calculating the change in the value of the hedged item. The hypothetical derivative replicates the hedged item and hence results in the same outcome as if that change in value was determined by a different approach. Hence, using a 'hypothetical derivative' is not a method in its own right but a mathematical expedient that can only be used to calculate the value of the hedged item. Consequently, a 'hypothetical derivative' cannot be used to include features in the value of the hedged item that only exist in the hedging instrument (but not in the hedged item). An example is debt denominated in a foreign currency (irrespective of whether it is fixed rate or variable rate debt). When using a hypothetical derivative to calculate the change in the value of such debt or the present value of the cumulative change in its cash flows, the hypothetical derivative cannot simply impute a charge for exchanging different currencies even though actual derivatives under which different currencies are exchanged might include such a charge (eg cross-currency interest rate swaps).
- B6.5.6 The change in the value of the hedged item determined using a hypothetical derivative may also be used for the purpose of assessing whether a hedging relationship meets the hedge effectiveness requirements.

Rebalancing the hedging relationship and changes to the hedge ratio

- B6.5.7 Rebalancing refers to adjustments to the designated quantities of the hedged item or the hedging instrument of an already existing hedging relationship for the purpose of maintaining a hedge ratio that complies with the hedge effectiveness requirements. Changes to designated quantities of a hedged item or of a hedging instrument for a different purpose do not constitute rebalancing for the purpose of this standard.
- B6.5.8 Rebalancing is accounted for as a continuation of the hedging relationship in accordance with paragraphs B6.5.9–B6.5.21. On rebalancing, the hedge ineffectiveness of the hedging relationship is determined and recognised immediately before adjusting the hedging relationship.
- B6.5.9 Adjusting the hedge ratio allows an entity to respond to changes in the relationship between the hedging instrument and the hedged item that arise from their underlyings or risk variables. For example, 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 these two underlyings (eg different but related reference indices, rates or prices). Hence, rebalancing allows continuation of a hedging relationship in situations in which the relationship between the hedging instrument and the hedged item changes in a way that can be compensated for by adjusting the hedge ratio.
- B6.5.10 For example, an entity hedges an exposure to foreign currency A using a currency derivative that references foreign currency B and 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 currencies A and 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 regarding the hedge ratio in the new circumstances. In contrast, if there were a default on the currency derivative, changing the hedge ratio could not ensure that the hedging relationship would continue to meet that hedge effectiveness requirement. Hence, rebalancing does not facilitate continuing a hedging relationship in situations in which the relationship between the hedging instrument and the hedged item changes in a way that cannot be compensated for by adjusting the hedge ratio.
- B6.5.11 Not every change in the extent of offset between the changes in the fair value of the hedging instrument and the hedged item's fair value or cash flows constitutes a change in the relationship between the hedging instrument and the hedged item. An entity analyses the sources of hedge ineffectiveness that it expected to affect the hedging relationship during its term and evaluates whether changes in the extent of offset are:
- (a) fluctuations around the hedge ratio, which remains valid (ie continues to appropriately reflect the relationship between the hedging instrument and the hedged item); or
 - (b) an indication that the hedge ratio no longer appropriately reflects the relationship between the hedging instrument and the hedged item.

An entity performs this evaluation against the hedge effectiveness requirement regarding the hedge ratio, ie to ensure that the hedging relationship does not reflect an imbalance between the weightings of the hedged item and the hedging instrument that would create hedge ineffectiveness (irrespective of whether recognised or not) that could result in an accounting outcome that would be

inconsistent with the purpose of hedge accounting. Hence, this evaluation requires judgement.

B6.5.12 Fluctuation around a constant hedge ratio (and hence the related hedge ineffectiveness) cannot be reduced by adjusting the hedge ratio in response to each particular outcome. Hence, in such circumstances, the change in the extent of offset is a matter of measuring and recognising hedge ineffectiveness but does not require rebalancing.

B6.5.13 Conversely, if changes in the extent of offset indicate that the fluctuation is around a hedge ratio that is different from the hedge ratio currently used for that hedging relationship, or that there is a trend leading away from that hedge ratio, hedge ineffectiveness can be reduced by adjusting the hedge ratio, whereas retaining the hedge ratio would increasingly produce hedge ineffectiveness. Hence, in such circumstances, an entity must evaluate whether the hedging relationship reflects an imbalance between the weightings of the hedged item and the hedging instrument that would create hedge ineffectiveness (irrespective of whether recognised or not) that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting. If the hedge ratio is adjusted, it also affects measuring and recognising hedge ineffectiveness because, on rebalancing, the hedge ineffectiveness of the hedging relationship must be determined and recognised immediately before adjusting the hedging relationship in accordance with paragraph B6.5.8.

B6.5.14 Rebalancing means that for hedge accounting purposes after the start of a hedging relationship, an entity adjusts the quantities of the hedging instrument or the hedged item in response to changes in circumstances that affect the hedge ratio of that hedging relationship. Typically, that adjustment should reflect adjustments in the quantities of the hedging instrument and the hedged item that it actually uses. However, an entity must adjust the hedge ratio that results from the quantities of the hedged item or the hedging instrument that it actually uses if:

- (a) the hedge ratio that results from changes to the quantities of the hedging instrument or the hedged item that the entity actually uses would reflect an imbalance that would create hedge ineffectiveness that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting; or
- (b) an entity would retain quantities of the hedging instrument and the hedged item that it actually uses resulting in a hedge ratio that, in new circumstances, would reflect an imbalance that would create hedge ineffectiveness that could result in an accounting outcome that would be inconsistent with the purpose of hedge accounting (ie an entity must not create an imbalance by omitting to adjust the hedge ratio).

B6.5.15 If the risk management objective for a hedging relationship has changed rebalancing does not apply. Instead, hedge accounting for that hedging relationship shall be discontinued (notwithstanding that an entity might designate a new hedging relationship that involves the hedging instrument or hedged item of the previous hedging relationship as described in paragraph B6.5.28).

B6.5.16 If a hedging relationship is rebalanced, the adjustment to the hedge ratio can be effected in different ways:

- (a) The weighting of the hedged item can be increased (which at the same time reduces the weighting of the hedging instrument) by:

- (i) increasing the volume of the hedged item; or
 - (ii) decreasing the volume of the hedging instrument.
- (b) The weighting of the hedging instrument can be increased (which at the same time reduces the weighting of the hedged item) by:
- (i) increasing the volume of the hedging instrument; or
 - (ii) decreasing the volume of the hedged item.

Changes in volume refer to the quantities that are part of the hedging relationship. Hence, decreases in volumes do not necessarily mean that the items or transactions no longer exist, or are no longer expected to occur, but that they are not part of the hedging relationship. For example, decreasing the volume of the hedging instrument can result in the entity retaining a derivative, but only part of it might remain a hedging instrument of the hedging relationship. This could occur if the rebalancing could be effected only by reducing the volume of the hedging instrument in the hedging relationship, but with the entity retaining the volume that is no longer needed. In that case, the undesignated part of the derivative would be accounted for at fair value through profit or loss (unless it was designated as a hedging instrument in a different hedging relationship).

B6.5.17 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 regarding 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.

B6.5.18 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 regarding 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 regarding the consequences for the derivative volume (ie the 10 tonnes) that is no longer a part of the hedging relationship).

B6.5.19 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 regarding 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 change 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 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).

B6.5.20 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 regarding 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 discontinuation of hedge accounting (see paragraphs 6.5.6 and 6.5.7 and B6.5.22–B6.5.28).

B6.5.21 When rebalancing a hedging relationship, an entity shall update its analysis of the sources of hedge ineffectiveness that are expected to affect the hedging relationship during its (remaining) term (see paragraph B6.4.2). The documentation of the hedging relationship shall be updated accordingly.

Discontinuation of hedge accounting

B6.5.22 Discontinuation of hedge accounting applies prospectively from the date on which the qualifying criteria are no longer met.

B6.5.23 An entity shall not de-designate and thereby discontinue a hedging relationship that:

- (a) still meets the risk management objective on the basis of which it qualified for hedge accounting (ie the entity still pursues that risk management objective); and
- (b) continues to meet all other qualifying criteria (after taking into account any rebalancing of the hedging relationship, if applicable).

B6.5.24 For the purposes of this IFRS, 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 (eg different interest rate or commodity price levels that result in a different extent of hedging). This is normally 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 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 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 fixed-rate. 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 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* remains unchanged. However, 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 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 instead an entity swapped a part of its new fixed-rate debt into variable-rate, hedge accounting would have to be continued for its previously hedged variable-rate exposure.
- (b) Some exposures result from positions that frequently change, for example 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. After a short period of time, the entity discontinues previously designated hedging relationships for time buckets and designates new hedging relationships for time buckets on the basis of their size and the hedging instruments that exist at that time. Hedge accounting must be discontinued, because 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.

- (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 still-pending forecast transactions) 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 these 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.

B6.5.25 The discontinuation of hedge accounting can affect:

- (a) a hedging relationship in its entirety; or
- (b) a part of a hedging relationship (which means that hedge accounting continues for the remainder of the hedging relationship).

B6.5.26A 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).
- (c) There is no longer an economic relationship between the hedged item and the hedging instrument or the effect of credit risk starts dominating the value changes that result from that economic relationship.

B6.5.27A 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.
- (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.

B6.5.28 An entity can designate a new hedging relationship that involves the hedging instrument or hedged item of a previous hedging relationship for which hedge accounting was (in part or in its entirety) discontinued. This does not constitute a continuation of a hedging relationship but is a restart. For example:

- (a) A hedging instrument experiences such a severe credit deterioration that the entity replaces it with a new hedging instrument. This means that the original hedging relationship failed to achieve the risk management objective and is hence discontinued in its entirety. The new hedging instrument is designated as the hedge of the same exposure that was hedged previously and forms a new hedging relationship. Hence, the changes in the fair value or cash flows of the hedged item are measured starting from, and by reference to, the date of designation of the new hedging relationship instead of the date on which the original hedging relationship was designated.
- (b) A hedging relationship is discontinued before the end of its term. The hedging instrument in that hedging relationship can be designated as the hedging instrument in another hedging relationship (eg when adjusting the hedge ratio on rebalancing by increasing the volume of the hedging instrument or when designating a whole new hedging relationship).

Accounting for the time value of options

B6.5.29 The time value of an option can be considered as being related to a time period because an option provides protection for the option holder over a period of time. However, the relevant aspect for the purpose of assessing whether an option hedges a transaction or time–period related hedged item are the characteristics of that hedged item, including how and when it affects profit or loss. Hence, an entity shall assess the type of hedged item (see paragraph 6.5.15(a)) on the basis of the nature of the hedged item (regardless of whether the hedging relationship is a cash flow hedge or a fair value hedge):

- (a) The time value of an option relates to a transaction related hedged item if the nature of the hedged item is a transaction for which the time value has the character of costs of that transaction. An example is when the time value of an option relates to a hedged item that results in the recognition of an item whose initial measurement includes transaction costs (eg an entity hedges a commodity purchase, whether it is a forecast transaction or a firm commitment, against commodity price risk and includes the transaction costs in the initial measurement of the inventory). As a consequence of including the time value of the option in the initial measurement of the particular hedged item, the time value affects profit or loss at the same time as that hedged item. Similarly, an entity that hedges a sale of a commodity, whether it is a forecast transaction or a firm commitment, would include the time value of the option as part of the cost related to that sale (hence, the time value would be recognised in profit or loss in the same period as the revenue from the hedged sale).
- (b) The time value of an option relates to a time–period related hedged item if the nature of the hedged item is such that the time value has the character of cost

for obtaining protection against a risk over a particular period of time (but the hedged item does not result in a transaction that involves the notion of transaction cost in accordance with (a)). For example, if a commodity inventory is hedged for six months using a commodity option with a corresponding life, the time value of the option would be allocated to profit or loss (ie amortised on a systematic and rational basis) over that six-month period. Another example is a hedge of a net investment in a foreign operation that is hedged for 18 months using a foreign-exchange option, which would result in allocating the time value of the option over that 18-month period.

B6.5.30 The characteristics of the hedged item, including how and when it affects profit or loss, also affect the period over which the time value of an option that hedges a time-period related hedged item is amortised, which is consistent with the period over which the option's intrinsic value can affect profit or loss in accordance with hedge accounting. For example, if an interest rate option (a cap) is used to provide protection against increases in the interest expense on a floating rate bond, the time value of that cap is amortised to profit or loss over the same period over which any intrinsic value of the cap would affect profit or loss:

- (a) if the cap hedges increases in interest rates for the first three years out of a total life of the floating rate bond of five years, the time value of that cap is amortised over the first three years; or
- (b) if the cap is a forward start option that hedges increases in interest rates for years 2 and 3 out of a total life of the floating rate bond of five years, the time value of that cap is amortised during years 2 and 3.

B6.5.31 The accounting for the time value of options in accordance with paragraph 6.5.15 also applies to a combination of a purchased and a written option (one being a put option and one being a call option) that at the date of designation as a hedging instrument has a net nil time value (commonly referred to as a 'zero-cost collar'). In that case, an entity shall recognise any changes in time value in other comprehensive income, even though the cumulative change in time value over the total period of the hedging relationship is zero. Hence, if the time value of the option relates to:

- (a) a transaction related hedged item, the amount of time value that adjusts the hedged item or is reclassified to profit or loss (see paragraph 6.5.15(b)) at the end of the hedging relationship would be nil.
- (b) a time-period related hedged item, the amortisation expense regarding the time value is nil.

B6.5.32 The accounting for the time value of options in accordance with paragraph 6.5.15 applies only to the extent that the time value relates to the hedged item (aligned time value). The time value of an option relates to the hedged item if the critical terms of the option (such as the nominal amount, life and underlying) are aligned with the hedged item. Hence, if the critical terms of the option and the hedged item are not fully aligned, an entity shall determine the aligned time value, ie how much of the time value included in the premium (actual time value) relates to the hedged item (and therefore should be treated in accordance with paragraph 6.5.15). An entity determines the aligned time value using the valuation of the option that would have critical terms that perfectly match the hedged item.

B6.5.33 If the actual time value and the aligned time value differ, an entity shall determine the amount that is accumulated in a separate component of equity in accordance with paragraph 6.5.15 as follows:

- (a) If, at inception of the hedging relationship, the actual time value is higher than the aligned time value, the entity shall:
 - (i) determine the amount that is accumulated in a separate component of equity on the basis of the aligned time value; and
 - (ii) account for the differences in the fair value changes between the two time values in profit or loss.
- (b) If, at inception of the hedging relationship, the actual time value is lower than the aligned time value, the entity shall determine the amount that is accumulated in a separate component of equity by reference to the lower of the cumulative change in fair value of:
 - (i) the actual time value; and
 - (ii) the aligned time value.

Any remainder of the change in fair value of the actual time value shall be recognised in profit or loss.

Accounting for the forward element of forward contracts

B6.5.34 The accounting for the forward element of forward contracts in accordance with paragraph 6.5.16 applies only to the extent that the forward element relates to the hedged item (aligned forward element). The forward element of a forward contract relates to the hedged item if the critical terms of the forward contract (such as the nominal amount, life and underlying) are aligned with the hedged item. Hence, if the critical terms of the forward contract and the hedged item are not fully aligned, an entity shall determine the aligned forward element, ie how much of the forward element included in the forward contract (actual forward element) relates to the hedged item (and therefore should be treated in accordance with paragraph 6.5.16). An entity determines the aligned forward element using the valuation of the forward contract that would have critical terms that perfectly match the hedged item.

B6.5.35 If the actual forward element and the aligned forward element differ, an entity shall determine the amount that is accumulated in a separate component of equity in accordance with paragraph 6.5.16 as follows:

- (a) If, at inception of the hedging relationship, the absolute amount of the actual forward element is higher than that of the aligned forward element the entity shall:
 - (i) determine the amount that is accumulated in a separate component of equity on the basis of the aligned forward element; and
 - (ii) account for the differences in the fair value changes between the two forward elements in profit or loss.
- (b) If, at inception of the hedging relationship, the absolute amount of the actual forward element is lower than that of the aligned forward element, the entity shall determine the amount that is accumulated in a separate component of equity by reference to the lower of the cumulative change in fair value of:
 - (i) the absolute amount of the actual forward element; and
 - (ii) the absolute amount of the aligned forward element.

Any remainder of the change in fair value of the actual forward element shall be recognised in profit or loss.

Hedge of a group of items (section 6.6)

Hedge of a net position

Eligibility for hedge accounting and designation of a net position

- B6.6.1 A net position is eligible for hedge accounting only if an entity hedges on a net basis for risk management purposes. Whether an entity hedges in this way is a matter of fact (not merely of assertion or documentation). Hence, an entity cannot apply hedge accounting on a net basis solely to achieve a particular accounting outcome if that would not reflect its risk management approach. Net position hedging must form part of an established risk management strategy. Normally this would be approved by key management personnel as defined in IAS 24 *Related Party Disclosures*.
- B6.6.2 For example, Entity A, whose functional currency is its local currency, has a firm commitment to pay FC150,000 for advertising expenses in nine months' time and a firm commitment to sell finished goods for FC150,000 in 15 months' time. Entity A enters into a foreign currency derivative that settles in nine months' time under which it receives FC100 and pays CU70. Entity A has no other exposures to FC. Entity A does not manage foreign currency risk on a net basis. Hence, Entity A cannot apply hedge accounting for a hedging relationship between the foreign currency derivative and a net position of FC100 (consisting of FC150,000 of the firm purchase commitment—ie advertising services—and FC149,900 (of the FC150,000) of the firm sale commitment) for a nine-month period.
- B6.6.3 If Entity A did manage foreign currency risk on a net basis and did not enter into the foreign currency derivative (because it increases its foreign currency risk exposure instead of reducing it), then the entity would be in a natural hedged position for nine months. Normally this hedged position would not be reflected in the financial statements because the transactions are recognised in different reporting periods in the future. The nil net position would be eligible for hedge accounting only if the conditions in paragraph 6.6.6 are met.
- B6.6.4 When a group of items that constitute a net position is designated as a hedged item, an entity shall designate the overall group of items that includes the items that can make up the net position. An entity is not permitted to designate a non-specific abstract amount of a net position. For example, an entity has a group of firm sale commitments in nine months' time for FC100 and a group of firm purchase commitments in 18 months' time for FC120. The entity cannot designate an abstract amount of a net position up to FC20. Instead, it must designate a gross amount of purchases and a gross amount of sales that together give rise to the hedged net position. An entity shall designate gross positions that give rise to the net position so that the entity is able to comply with the requirements for the accounting for qualifying hedging relationships.

Application of the hedge effectiveness requirements to a hedge of a net position

- B6.6.5 In determining whether the hedge effectiveness requirements of paragraph 6.4.1(c) are met when an entity hedges a net position, it shall consider the changes in the value of the items in the net position that have a similar effect as the hedging instrument in conjunction with the fair value change on the hedging instrument. For example, an entity has a group of firm sale commitments in nine months' time for FC100 and a group of firm purchase commitments in 18 months' time for FC120. It

hedges the foreign currency risk of the net position of FC20 using a forward exchange contract for FC20. In determining whether the hedge effectiveness requirements of paragraph 6.4.1(c) are met, the entity considers the relationship between:

- (a) the fair value change on the forward exchange contract together with the foreign currency risk related changes in the value of the firm sale commitments; and
- (b) the foreign currency risk related changes in the value of the firm purchase commitments.

B6.6.6 Similarly, if in the example the entity had a nil net position it would consider the relationship between the foreign currency risk related changes in the value of the firm sale commitments and the foreign currency risk related changes in the value of the firm purchase commitments in determining whether the hedge effectiveness requirements of paragraph 6.4.1(c) are met.

Cash flow hedges that constitute a net position

B6.6.7 When an entity hedges a group of items with offsetting risk positions (ie a net position), the eligibility for hedge accounting depends on the type of hedge. If the hedge is a fair value hedge, then the net position may be eligible as a hedged item. If, however, the hedge is a cash flow hedge, then the net position can only be eligible as a hedged item if it is a hedge of foreign currency risk and the designation of that net position specifies the reporting period in which the forecast transactions are expected to affect profit or loss and also specifies their nature and volume.

B6.6.8 For example, an entity has a net position that consists of a bottom layer of FC100 of sales and a bottom layer of FC150 of purchases. Both sales and purchases are denominated in the same foreign currency. For a sufficient specificity of the designation of the hedged net position, the entity specifies in the original documentation of the hedging relationship that sales can be of Product A or B and purchases can be of Machinery type A, Machinery type B and Raw Material A. The entity also specifies the volumes of the transactions by each nature. The entity documents that the bottom layer of sales (FC100) is made up of a forecast sales volume of the first FC70 of Product A and the first FC30 of Product B. If those sales volumes are expected to affect profit or loss in different reporting periods, the entity would include that in the documentation, for example the first FC70 from sales of Product A that are expected to affect profit or loss in reporting period 1 and the first FC30 from sales of Product B that are expected to affect profit or loss in reporting period 2. The entity also documents that the bottom layer of the purchases (FC150) is made up of purchases of the first FC60 of Machinery type A, the first FC40 of Machinery type B and the first FC50 of Raw Material A. If those purchase volumes are expected to affect profit or loss in different reporting periods, the entity would include in the documentation a disaggregation of the purchase volumes by the reporting periods in which they are expected to affect profit or loss (similarly to the documentation of the sales volumes). For example, the forecast transaction would be specified as the first FC60 of purchases of Machinery type A that are expected to affect profit or loss from reporting period 3 over ten reporting periods, the first FC40 of purchases of Machinery type B that are expected to affect profit or loss from reporting period 4 over 20 reporting periods and the first FC50 of purchases of Raw Material A that are expected to be received in reporting period 3 and sold, ie affect profit or loss, in that and the next reporting period. Specifying the nature of the forecast transaction volumes would include aspects such as the

depreciation pattern for items of property, plant and equipment of the same kind, if the nature of those items is such that the depreciation pattern could vary depending on how the entity uses those items. For example, if the entity uses items of Machinery type A in two different production processes that result in straight-line depreciation over ten reporting periods and the units of production method, respectively, its documentation of the forecast purchase volume for Machinery type A would disaggregate that volume by which of those depreciation patterns will apply.

- B6.6.9 For a cash flow hedge of a net position, the amounts determined in accordance with paragraph 6.5.11 shall include the changes in the value of the items in the net position that have a similar effect as the hedging instrument in conjunction with the fair value change on the hedging instrument. For example, an entity has a group of highly probable forecast sales in nine months' time for FC100 and a group of highly probable forecast purchases in 18 months' time for FC120. It hedges the foreign currency risk of the net position of FC20 using a forward exchange contract for FC20. In determining the amount that is recognised in other comprehensive income in accordance with paragraph 6.5.116.5.11(a)–6.5.11(b), the entity compares:
- (a) the fair value change on the forward exchange contract together with the foreign currency risk related changes in the value of the highly probable forecast sales; with
 - (b) the foreign currency risk related changes in the value of the highly probable forecast purchases.
- B6.6.10 Similarly, if in the example the entity had a nil net position it would compare the foreign currency risk related changes in the value of the highly probable forecast sales with the foreign currency risk related changes in the value of the highly probable forecast purchases.

Layers of groups of items designated as the hedged item

- B6.6.11 For the same reasons noted in paragraph B6.3.19, designating layer components of groups of existing items requires the specific identification of the nominal amount of the group of items from which the hedged layer component is defined.
- B6.6.12 A hedging relationship can include layers from several different groups of items. For example, in a hedge of a net position of a group of assets and a group of liabilities, the hedging relationship can comprise, in combination, a layer component of the group of assets and a layer component of the group of liabilities.

Presentation of hedging instrument gains or losses

- B6.6.13 If items are hedged together as a group in a cash flow hedge, the items might affect different line items in the statement of profit or loss and other comprehensive income. The presentation of hedging gains or losses in that statement depends on the group of items.
- B6.6.14 If the group of items does not have any offsetting risk positions (eg a group of foreign currency expenses that affect different line items in the statement of profit or loss and other comprehensive income that are hedged for foreign currency risk) then the reclassified hedging instrument gains or losses shall be apportioned to the line items affected by the hedged items. This apportionment shall be done on a

systematic and rational basis and shall not result in the grossing up of the net gains or losses arising from a single hedging instrument.

- B6.6.15 If the group of items does have offsetting risk positions (eg a group of sales and expenses denominated in a foreign currency hedged together for foreign currency risk) then an entity shall present the hedging gains or losses in a separate line item in the statement of profit or loss and other comprehensive income. For example, consider a hedge of the foreign currency risk of a net position of foreign currency sales of FC100 and foreign currency expenses of FC80 using a forward exchange contract for FC20. The gain or loss on the forward exchange contract that is reclassified from the cash flow hedge reserve to profit or loss (when the net position affects profit or loss) shall be presented in a separate line item from the hedged sales and expenses. Moreover, if the sales occur in an earlier period than the expenses, the sales revenue is still measured at the spot exchange rate in accordance with IAS 21. The related hedging gain or loss is presented in a separate line item, so that profit or loss reflects the effect of hedging the net position, with a corresponding adjustment to the cash flow hedge reserve. When the hedged expenses affect profit or loss in a later period, the hedging gain or loss previously recognised in the cash flow hedge reserve on the sales is reclassified to profit or loss and presented as a separate line item from those that include the hedged expenses, which are measured at the spot exchange rate in accordance with IAS 21.
- B6.6.16 For some types of fair value hedges, the objective of the hedge is not primarily to offset the fair value change of the hedged item but instead to transform the cash flows of the hedged item. For example, an entity hedges the fair value interest rate risk of a fixed rate debt instrument using an interest rate swap. The entity's hedge objective is to transform the fixed interest cash flows into floating interest cash flows. This objective is reflected in the accounting for the hedging relationship by accruing the net interest accrual on the interest rate swap in profit or loss. In the case of a hedge of a net position (eg a net position of a fixed rate asset and a fixed rate liability), this net interest accrual must be presented in a separate line item in the statement of profit or loss and other comprehensive income. This is to avoid the grossing up of a single instrument's net gains or losses into offsetting gross amounts and recognising them in different line items (eg this avoids grossing up a net interest receipt on a single interest rate swap into gross interest revenue and gross interest expense).

Appendix C

[Draft] Amendments to other IFRSs

Except where otherwise stated, an entity shall apply the amendments in this appendix when it applies IFRS 9 issued in [insert date 2012]. These amendments incorporate with additions the amendments issued in Appendix C of IFRS 9 in 2009 and 2010.

IFRS 1 First-time Adoption of International Financial Reporting Standards

C1 Paragraph 29 is amended to read as follows, paragraph 39B is deleted and paragraphs 29A and 39M are added:

29 An entity is permitted to designate a previously recognised financial asset as a financial asset measured at fair value through profit or loss in accordance with paragraph D19A. The entity shall disclose the fair value of financial assets so designated at the date of designation and their classification and carrying amount in the previous financial statements.

29A An entity is permitted to designate a previously recognised financial liability as a financial liability at fair value through profit or loss in accordance with paragraph D19. The entity shall disclose the fair value of financial liabilities so designated at the date of designation and their classification and carrying amount in the previous financial statements.

39B [Deleted]

39G [Deleted]

39M IFRS 9 *Financial Instruments*, issued in [insert date 2012], amended paragraphs 29, B1–B6, D1(j), D14, D15, D19 and D20, deleted paragraphs 39B and 39G and added paragraphs 29A, B8, B9, D19A–D19D, E1 and E2. An entity shall apply those amendments when it applies IFRS 9 as issued in [insert date 2012].

C2 In Appendix B, paragraphs B1–B6 are amended to read as follows, and a heading and paragraph B8, and a heading and paragraph B9 are added:

B1 An entity shall apply the following exceptions:

- (a) derecognition of financial assets and financial liabilities (paragraphs B2 and B3);
- (b) hedge accounting (paragraphs B4–B6);
- (c) non-controlling interests (paragraph B7);
- (d) classification and measurement of financial assets (paragraph B8); and
- (e) embedded derivatives (paragraph B9).

Derecognition of financial assets and financial liabilities

B2 Except as permitted by paragraph B3, a first-time adopter shall apply the derecognition requirements in IFRS 9 prospectively for transactions occurring on or after the date of transition to IFRSs. For example, if a first-time adopter derecognised non-derivative financial assets or non-derivative financial liabilities in accordance with its previous GAAP as a result of a transaction that occurred before the date of transition to IFRSs, it shall not recognise

those assets and liabilities in accordance with IFRSs (unless they qualify for recognition as a result of a later transaction or event).

- B3 Despite paragraph B2, an entity may apply the derecognition requirements in IFRS 9 retrospectively from a date of the entity's choosing, provided that the information needed to apply IFRS 9 to financial assets and financial liabilities derecognised as a result of past transactions was obtained at the time of initially accounting for those transactions.

Hedge accounting

- B4 As required by IFRS 9, at the date of transition to IFRSs an entity shall:
- (a) measure all derivatives at fair value; and
 - (b) eliminate all deferred losses and gains arising on derivatives that were reported in accordance with previous GAAP as if they were assets or liabilities.
- B5 An entity shall not reflect in its opening IFRS statement of financial position a hedging relationship of a type that does not qualify for hedge accounting in accordance with IFRS 9 (for example, many hedging relationships where the hedging instrument is a stand-alone written option or a net written option; or where the hedged item is a net position in a cash flow hedge for another risk than foreign currency risk). However, if an entity designated a net position as a hedged item in accordance with previous GAAP, it may designate as a hedged item in accordance with IFRSs an individual item within that net position, or a net position if that meets the requirements in paragraph 6.6.1 of IFRS 9, provided that it does so no later than the date of transition to IFRSs.
- B6 If, before the date of transition to IFRSs, an entity had designated a transaction as a hedge but the hedge does not meet the conditions for hedge accounting in IFRS 9, the entity shall apply paragraphs 6.5.6 and 6.5.7 of IFRS 9 to discontinue hedge accounting. Transactions entered into before the date of transition to IFRSs shall not be retrospectively designated as hedges.

Classification and measurement of financial assets

- B8 An entity shall assess whether a financial asset meets the conditions in paragraph 4.1.2 of IFRS 9 on the basis of the facts and circumstances that exist at the date of transition to IFRSs.

Embedded derivatives

- B9 A first-time adopter shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative on the basis of the conditions that existed at the later of the date it first became a party to the contract and the date a reassessment is required by paragraph B4.3.11 of IFRS 9.
- C3 In Appendix D, paragraphs D1(j), D14, D15, D19 and D20 are amended to read as follows and paragraphs D19A–D19D are added:
- D1 An entity may elect to use one or more of the following exemptions:
- (a) ...
 - (j) designation of previously recognised financial instruments (paragraphs D19–D19D);

- (k) ...
- D14 When an entity prepares separate financial statements, IAS 27 requires it to account for its investments in subsidiaries, joint ventures and associates either:
- (a) at cost; or
 - (b) in accordance with IFRS 9.
- D15 If a first-time adopter measures such an investment at cost in accordance with IAS 27, it shall measure that investment at one of the following amounts in its separate opening IFRS statement of financial position:
- (a) cost determined in accordance with IAS 27; or
 - (b) deemed cost. The deemed cost of such an investment shall be its:
 - (i) fair value (determined in accordance with IFRS 9) at the entity's date of transition to IFRSs in its separate financial statements; or
 - (ii) previous GAAP carrying amount at that date.

A first-time adopter may choose either (i) or (ii) above to measure its investment in each subsidiary, joint venture or associate that it elects to measure using a deemed cost.
- D19 IFRS 9 permits a financial liability (provided it meets certain criteria) to be designated as a financial liability at fair value through profit or loss. Despite this requirement an entity is permitted to designate, at the date of transition to IFRSs, any financial liability as at fair value through profit or loss provided the liability meets the criteria in paragraph 4.2.2 of IFRS 9 at that date.
- D19A An entity may designate a financial asset as measured at fair value through profit or loss in accordance with paragraph 4.1.5 of IFRS 9 on the basis of the facts and circumstances that exist at the date of transition to IFRSs.
- D19B An entity may designate an investment in an equity instrument as at fair value through other comprehensive income in accordance with paragraph 5.7.5 of IFRS 9 on the basis of the facts and circumstances that exist at the date of transition to IFRSs.
- D19C If it is impracticable (as defined in IAS 8) for an entity to apply retrospectively the effective interest method or the impairment requirements in paragraphs 58–65 and AG84–AG93 of IAS 39, the fair value of the financial asset at the date of transition to IFRSs shall be the new amortised cost of that financial asset at the date of transition to IFRSs.
- D19D An entity shall determine whether the treatment in paragraph 5.7.7 of IFRS 9 would create an accounting mismatch in profit or loss on the basis of the facts and circumstances that exist at the date of transition to IFRSs.

Fair value measurement of financial assets or financial liabilities at initial recognition

- D20 Despite the requirements of paragraphs 7 and 9, an entity may apply the requirements in the last sentence of paragraph B5.4.8 and in paragraph B5.4.9 of IFRS 9 prospectively to transactions entered into on or after the date of transition to IFRSs.

C4 In Appendix E, a heading and paragraphs E1 and E2 are added:

Exemption from the requirement to restate comparative information for IFRS 9

- E1 In its first IFRS financial statements, an entity that (a) adopts IFRSs for annual periods beginning before 1 January 2012 and (b) applies IFRS 9 shall present at least one year of comparative information. However, this comparative information need not comply with IFRS 7 *Financial Instruments: Disclosures* or IFRS 9, to the extent that the disclosures required by IFRS 7 relate to items within the scope of IFRS 9. For such entities, references to the 'date of transition to IFRSs' shall mean, in the case of IFRS 7 and IFRS 9 only, the beginning of the first IFRS reporting period.
- E2 An entity that chooses to present comparative information that does not comply with IFRS 7 and IFRS 9 in its first year of transition shall:
- (a) apply the recognition and measurement requirements of its previous GAAP in place of the requirements of IFRS 9 to comparative information about items within the scope of IFRS 9.
 - (b) disclose this fact together with the basis used to prepare this information.
 - (c) treat any adjustment between the statement of financial position at the comparative period's reporting date (ie the statement of financial position that includes comparative information under previous GAAP) and the statement of financial position at the start of the *first IFRS reporting period* (ie the first period that includes information that complies with IFRS 7 and IFRS 9) as arising from a change in accounting policy and give the disclosures required by paragraph 28(a)–(e) and (f)(i) of IAS 8. Paragraph 28(f)(i) applies only to amounts presented in the statement of financial position at the comparative period's reporting date.
 - (d) apply paragraph 17(c) of IAS 1 to provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

IFRS 3 Business Combinations

C5 Paragraphs 16, 42, 53, 56 and 58(b) are amended to read as follows, paragraphs 64A and 64D are deleted and paragraph 64G is added:

- 16 In some situations, IFRSs provide for different accounting depending on how an entity classifies or designates a particular asset or liability. Examples of classifications or designations that the acquirer shall make on the basis of the pertinent conditions as they exist at the acquisition date include but are not limited to:
- (a) classification of particular financial assets and liabilities as measured at fair value or at amortised cost, in accordance with IFRS 9 *Financial Instruments*;
 - (b) designation of a derivative instrument as a hedging instrument in accordance with IFRS 9; and

- (c) assessment of whether an embedded derivative should be separated from a host contract in accordance with IFRS 9 (which is a matter of 'classification' as this IFRS uses that term).
- 42 In a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate. In prior reporting periods, the acquirer may have recognised changes in the value of its equity interest in the acquiree in other comprehensive income. If so, the amount that was recognised in other comprehensive income shall be recognised on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest.
- 53 Acquisition-related costs are costs the acquirer incurs to effect a business combination. Those costs include finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department; and costs of registering and issuing debt and equity securities. The acquirer shall account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with one exception. The costs to issue debt or equity securities shall be recognised in accordance with IAS 32 and IFRS 9.
- 56 After initial recognition and until the liability is settled, cancelled or expires, the acquirer shall measure a contingent liability recognised in a business combination at the higher of:
- (a) the amount that would be recognised in accordance with IAS 37; and
 - (b) the amount initially recognised less, if appropriate, cumulative amortisation recognised in accordance with IAS 18 *Revenue*.
- This requirement does not apply to contracts accounted for in accordance with IFRS 9.
- 58 Some changes ...
- (b) Contingent consideration classified as an asset or a liability that:
 - (i) is a financial instrument and is within the scope of IFRS 9 shall be measured at fair value, with any resulting gain or loss recognised either in profit or loss or in other comprehensive income in accordance with IFRS 9.
 - (ii) is not within the scope of IFRS 9 shall be accounted for in accordance with IAS 37 or other IFRSs as appropriate.
- 64A [Deleted]
- 64D [Deleted]
- 64G IFRS 9, issued in [insert date 2012], amended paragraphs 16, 42, 53, 56 and 58(b) and deleted paragraphs 64A and 64D. An entity shall apply those amendments when it applies IFRS 9 as issued in [insert date 2012].

IFRS 4 Insurance Contracts

C6 Paragraph IN3 is amended to read as follows:

- IN3 The IFRS applies to all insurance contracts (including reinsurance contracts) that an entity issues and to reinsurance contracts that it holds, except for specified contracts covered by other IFRSs. It does not apply to other assets and liabilities of an insurer, such as financial assets and financial liabilities within the scope of IFRS 9 *Financial Instruments*. Furthermore, it does not address accounting by policyholders.
- C7 Paragraphs 3, 4(d), 7, 8, 12, 34(d), 35 and 45 are amended to read as follows, paragraph 41C and 41D are deleted and paragraph 41F is added:
- 3 This IFRS does not address other aspects of accounting by insurers, such as accounting for financial assets held by insurers and financial liabilities issued by insurers (see IAS 32 *Financial Instruments: Presentation*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 and IFRS 9 *Financial Instruments*), except in the transitional provisions in paragraph 45.
- 4 An entity shall not apply this IFRS to:
- (a) ...
 - (d) financial guarantee contracts unless the issuer has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts, in which case the issuer may elect to apply either IAS 32, IFRS 7 and IFRS 9 or this IFRS to such financial guarantee contracts. The issuer may make that election contract by contract, but the election for each contract is irrevocable.
 - (e) ...
- 7 IFRS 9 requires an entity to separate some embedded derivatives from their host contract, measure them at *fair value* and include changes in their fair value in profit or loss. IFRS 9 applies to derivatives embedded in an insurance contract unless the embedded derivative is itself an insurance contract.
- 8 As an exception to the requirements in IFRS 9, an insurer need not separate, and measure at fair value, a policyholder's option to surrender an insurance contract for a fixed amount (or for an amount based on a fixed amount and an interest rate), even if the exercise price differs from the carrying amount of the host *insurance liability*. However, the requirements in IFRS 9 do apply to a put option or cash surrender option embedded in an insurance contract if the surrender value varies in response to the change in a financial variable (such as an equity or commodity price or index), or a non-financial variable that is not specific to a party to the contract. Furthermore, those requirements also apply if the holder's ability to exercise a put option or cash surrender option is triggered by a change in such a variable (for example, a put option that can be exercised if a stock market index reaches a specified level).
- 12 To unbundle a contract, an insurer shall:
- (a) apply this IFRS to the insurance component.
 - (b) apply IFRS 9 to the deposit component.
- 34 Some insurance contracts contain a discretionary participation feature as well as a *guaranteed element*. The issuer of such a contract:
- (a) ...

- (d) shall, if the contract contains an embedded derivative within the scope of IFRS 9, apply IFRS 9 to that embedded derivative.
- (e) ...

Discretionary participation features in financial instruments

35 The requirements in paragraph 34 also apply to a financial instrument that contains a discretionary participation feature. In addition:

- (a) if the issuer classifies the entire discretionary participation feature as a liability, it shall apply the liability adequacy test in paragraphs 15–19 to the whole contract (ie both the guaranteed element and the discretionary participation feature). The issuer need not determine the amount that would result from applying IFRS 9 to the guaranteed element.
- (b) if the issuer classifies part or all of that feature as a separate component of equity, the liability recognised for the whole contract shall not be less than the amount that would result from applying IFRS 9 to the guaranteed element. That amount shall include the intrinsic value of an option to surrender the contract, but need not include its time value if paragraph 9 exempts that option from measurement at fair value. The issuer need not disclose the amount that would result from applying IFRS 9 to the guaranteed element, nor need it present that amount separately. Furthermore, the issuer need not determine that amount if the total liability recognised is clearly higher.

(c) ...

41C [Deleted]

41D [Deleted]

41F IFRS 9, issued in [insert date 2012], amended paragraphs 3, 4(d), 7, 8, 12, 34(d), 35, 45 and B18–B20 and Appendix A and deleted paragraphs 41C and 41D. An entity shall apply those amendments when it applies IFRS 9 as issued in [insert date 2012].

45 Despite paragraph 4.4.1 of IFRS 9, when an insurer changes its accounting policies for insurance liabilities, it is permitted, but not required, to reclassify some or all of its financial assets so that they are measured at fair value. This reclassification is permitted if an insurer changes accounting policies when it first applies this IFRS and if it makes a subsequent policy change permitted by paragraph 22. The reclassification is a change in accounting policy and IAS 8 applies.

C8 In Appendix A the defined term ‘deposit component’ is amended to read as follows:

deposit component	A contractual component that is not accounted for as a derivative under IFRS 9 and would be within the scope of IFRS 9 if it were a separate instrument.
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C9 In Appendix B, paragraphs B18–B20 are amended to read as follows:

B18 The following are examples of contracts that are insurance contracts, if the transfer of insurance risk is significant:

- (a) ...
- (g) credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. These contracts could have various legal forms, such as that of a guarantee, some types of letter of credit, a credit derivative default contract or an insurance contract. However, although these contracts meet the definition of an insurance contract, they also meet the definition of a financial guarantee contract in IFRS 9 and are within the scope of IAS 32 [footnote omitted] and IFRS 9, not this IFRS (see paragraph 4(d)). Nevertheless, if an issuer of financial guarantee contracts has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts, the issuer may elect to apply either IAS 32 [footnote omitted] and IFRS 9 or this IFRS to such financial guarantee contracts.
- (h) ...

B19 The following are examples of items that are not insurance contracts:

- (a) ...
- (e) derivatives that expose one party to financial risk but not insurance risk, because they require that party to make payment based solely on changes in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a nonfinancial variable that the variable is not specific to a party to the contract (see IFRS 9).
- (f) a credit-related guarantee (or letter of credit, credit derivative default contract or credit insurance contract) that requires payments even if the holder has not incurred a loss on the failure of the debtor to make payments when due (see IFRS 9).
- (g) ...

B20 If the contracts described in paragraph B19 create financial assets or financial liabilities, they are within the scope of IFRS 9. Among other things, this means ...

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

C10 Paragraph 5 is amended to read as follows, paragraph 44F is deleted and paragraph 44J is added:

- 5 The measurement provisions of this IFRS [footnote omitted] do not apply to the following assets, which are covered by the IFRSs listed, either as individual assets or as part of a disposal group:
 - (a) ...
 - (c) financial assets within the scope of IFRS 9 *Financial Instruments*.
 - (d) ...

44F [Deleted]

44J IFRS 9, issued in [insert date 2012], amended paragraph 5 and deleted paragraph 44F. An entity shall apply that amendment when it applies IFRS 9 as issued in [insert date 2012].

IFRS 7 *Financial Instruments: Disclosures*

C11 In the rubric, the reference to ‘Appendices A–D’ is amended to ‘Appendices A–C’. Paragraphs 2–5, 8–10, 11, 14, 20, 28 and 30 are amended to read as follows, paragraphs 12, 12A, 22–24, 29(b), 44E, 44F, 44H and 44N are deleted and several headings and paragraphs 10A, 11A, 11B, 12B–12D, 20A, 21A–21D, 22A–22C, 23A–23F, 24A–24G, 44I, 44J and 44R are added:

2 The principles in this IFRS complement the principles for recognising, measuring and presenting financial assets and financial liabilities in IAS 32 *Financial Instruments: Presentation* and IFRS 9 *Financial Instruments*.

Scope

3 This IFRS shall be applied by all entities to all types of financial instruments, except:

(a) those interests in subsidiaries, associates or joint ventures that are accounted for in accordance with IFRS 10 *Consolidated Financial Statements*, IAS 27 *Separate Financial Statements* or IAS 28 *Investments in Associates and Joint Ventures*. However, in some cases, IAS 27 or IAS 28 permits an entity to account for an interest in a subsidiary, associate or joint venture using IFRS 9; in those cases, entities shall apply the requirements of this IFRS. Entities shall also apply this IFRS to all derivatives linked to interests in subsidiaries, associates or joint ventures unless the derivative meets the definition of an equity instrument in IAS 32.

(b) ...

(d) insurance contracts as defined in IFRS 4 *Insurance Contracts*. However, this IFRS applies to derivatives that are embedded in insurance contracts if IFRS 9 requires the entity to account for them separately. Moreover, an issuer shall apply this IFRS to *financial guarantee contracts* if the issuer applies IFRS 9 in recognising and measuring the contracts, but shall apply IFRS 4 if the issuer elects, in accordance with paragraph 4(d) of IFRS 4, to apply IFRS 4 in recognising and measuring them.

(e) ...

4 This IFRS applies to recognised and unrecognised financial instruments. Recognised financial instruments include financial assets and financial liabilities that are within the scope of IFRS 9. Unrecognised financial instruments include some financial instruments that, although outside the scope of IFRS 9, are within the scope of this IFRS (such as some loan commitments).

5 This IFRS applies to contracts to buy or sell a non-financial item that are within the scope of IFRS 9.

8 The carrying amounts of each of the following categories, as specified in IFRS 9, shall be disclosed either in the statement of financial position or in the notes:

- (a) financial assets measured at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition or subsequently in accordance with paragraph 6.7.1 of IFRS 9 and (ii) those mandatorily measured at fair value in accordance with IFRS 9.
- (b)–(d)[deleted]
- (e) financial liabilities at fair value through profit or loss, showing separately (i) those designated as such upon initial recognition or subsequently in accordance with paragraph 6.7.1 of IFRS 9 and (ii) those that meet the definition of held for trading in IFRS 9.
- (f) financial assets measured at amortised cost.
- (g) financial liabilities measured at amortised cost.
- (h) financial assets measured at fair value through other comprehensive income.

Financial assets or financial liabilities at fair value through profit or loss

- 9 If the entity has designated as measured at fair value a financial asset (or group of financial assets) that would otherwise be measured at amortised cost, it shall disclose:
 - (a) the maximum exposure to *credit risk* (see paragraph 36(a)) of the financial asset (or group of financial assets) at the end of the reporting period.
 - (b) the amount by which any related credit derivatives or similar instruments mitigate that maximum exposure to credit risk.
 - (c) the amount of change, during the period and cumulatively, in the fair value of the financial asset (or group of financial assets) that is attributable to changes in the credit risk of the financial asset determined either:
 - (i) ...
 - (d) the amount of the change in the fair value of any related credit derivatives or similar instruments that has occurred during the period and cumulatively since the financial asset was designated.
- 10 If the entity has designated a financial liability as at fair value through profit or loss in accordance with paragraph 4.2.2 of IFRS 9 and is required to present the effects of changes in that liability's credit risk in other comprehensive income (see paragraph 5.7.7 of IFRS 9), it shall disclose:
 - (a) the amount of change, cumulatively, in the fair value of the financial liability that is attributable to changes in the credit risk of that liability (see paragraphs B5.7.13–B5.7.20 of IFRS 9 for guidance on determining the effects of changes in a liability's credit risk).
 - (b) the difference between the financial liability's carrying amount and the amount the entity would be contractually required to pay at maturity to the holder of the obligation.
 - (c) any transfers of the cumulative gain or loss within equity during the period including the reason for such transfers.

- (d) if a liability is derecognised during the period, the amount (if any) presented in other comprehensive income that was realised at derecognition.
- 10A If an entity has designated a financial liability as at fair value through profit or loss in accordance with paragraph 4.2.2 of IFRS 9 and is required to present all changes in the fair value of that liability (including the effects of changes in the credit risk of the liability) in profit or loss (see paragraphs 5.7.7 and 5.7.8 of IFRS 9), it shall disclose:
- (a) the amount of change, during the period and cumulatively, in the fair value of the financial liability that is attributable to changes in the credit risk of that liability (see paragraphs B5.7.13–B5.7.20 of IFRS 9 for guidance on determining the effects of changes in a liability’s credit risk); and
 - (b) the difference between the financial liability’s carrying amount and the amount the entity would be contractually required to pay at maturity to the holder of the obligation.
- 11 The entity shall also disclose:
- (a) a detailed description of the methods used to comply with the requirements in paragraphs 9(c), 10(a) and 10A(a) and paragraph 5.7.7(a) of IFRS 9, including an explanation of why the method is appropriate.
 - (b) if the entity believes that the disclosure it has given, either in the statement of financial position or in the notes, to comply with the requirements in paragraph 9(c), 10(a) or 10A(a) or paragraph 5.7.7(a) of IFRS 9 does not faithfully represent the change in the fair value of the financial asset or financial liability attributable to changes in its credit risk, the reasons for reaching this conclusion and the factors it believes are relevant.
 - (c) a detailed description of the methodology or methodologies used to determine whether presenting the effects of changes in a liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss (see paragraphs 5.7.7 and 5.7.8 of IFRS 9). If an entity is required to present the effects of changes in a liability’s credit risk in profit or loss (see paragraph 5.7.8 of IFRS 9), the disclosure must include a detailed description of the economic relationship described in paragraph B5.7.6 of IFRS 9.

Financial assets measured at fair value through other comprehensive income

- 11A If an entity has designated investments in equity instruments to be measured at fair value through other comprehensive income, as permitted by paragraph 5.7.5 of IFRS 9, it shall disclose:
- (a) which investments in equity instruments have been designated to be measured at fair value through other comprehensive income.
 - (b) the reasons for using this presentation alternative.
 - (c) the fair value of each such investment at the end of the reporting period.

- (d) dividends recognised during the period, showing separately those related to investments derecognised during the reporting period and those related to investments held at the end of the reporting period.
 - (e) any transfers of the cumulative gain or loss within equity during the period including the reason for such transfers.
- 11B If an entity derecognised investments in equity instruments measured at fair value through other comprehensive income during the reporting period, it shall disclose:
- (a) the reasons for disposing of the investments.
 - (b) the fair value of the investments at the date of derecognition.
 - (c) the cumulative gain or loss on disposal.
- 12B An entity shall disclose if, in the current or previous reporting periods, it has reclassified any financial assets in accordance with paragraph 4.4.1 of IFRS 9. For each such event, an entity shall disclose:
- (a) the date of reclassification.
 - (b) a detailed explanation of the change in business model and a qualitative description of its effect on the entity's financial statements.
 - (c) the amount reclassified into and out of each category.
- 12C For each reporting period following reclassification until derecognition, an entity shall disclose for assets reclassified so that they are measured at amortised cost in accordance with paragraph 4.4.1 of IFRS 9:
- (a) the effective interest rate determined on the date of reclassification; and
 - (b) the interest income or expense recognised.
- 12D If an entity has reclassified financial assets so that they are measured at amortised cost since its last annual reporting date, it shall disclose:
- (a) the fair value of the financial assets at the end of the reporting period; and
 - (b) the fair value gain or loss that would have been recognised in profit or loss during the reporting period if the financial assets had not been reclassified.
- 14 An entity shall disclose:
- (a) the carrying amount of financial assets it has pledged as collateral for liabilities or contingent liabilities, including amounts that have been reclassified in accordance with paragraph 3.2.23(a) of IFRS 9; and
 - (b) the terms and conditions relating to its pledge.
- 20 An entity shall disclose the following items of income, expense, gains or losses either in the statement of comprehensive income or in the notes:
- (a) net gains or net losses on:
 - (i) financial assets or financial liabilities measured at fair value through profit or loss, showing separately those on financial assets or financial liabilities designated as such upon initial recognition or subsequently in accordance with paragraph 6.7.1 of IFRS 9, and those on financial assets or financial liabilities that are mandatorily measured at fair value in accordance with IFRS 9 (eg financial

liabilities that meet the definition of held for trading in IFRS 9). For financial liabilities designated as at fair value through profit or loss, an entity shall show separately the amount of gain or loss recognised in other comprehensive income and the amount recognised in profit or loss.

- (ii)–(iv) [deleted]
 - (v) financial liabilities measured at amortised cost.
 - (vi) financial assets measured at amortised cost.
 - (vii) financial assets measured at fair value through other comprehensive income.
- (b) total interest income and total interest expense (calculated using the effective interest method) for financial assets that are measured at amortised cost or financial liabilities not at fair value through profit or loss.
- (c) fee income and expense (other than amounts included in determining the effective interest rate) arising from:
- (i) financial assets measured at amortised cost or financial liabilities that are not at fair value through profit or loss; and
 - (ii) trust and other fiduciary activities that result in the holding or investing of assets on behalf of individuals, trusts, retirement benefit plans, and other institutions.
- (d) interest income on impaired financial assets accrued in accordance with paragraph AG93 of IAS 39.
- (e) ...
- 20A An entity shall disclose an analysis of the gain or loss recognised in the statement of comprehensive income arising from the derecognition of financial assets measured at amortised cost, showing separately gains and losses arising from derecognition of those financial assets. This disclosure shall include the reasons for derecognising those financial assets.

Hedge accounting

- 21A An entity shall apply the disclosure requirements in paragraph 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.
- 21B 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.

- 21C 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.
- 21D 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 IFRS and IFRS 13 *Fair Value Measurement*.

The risk management strategy

- 22 [Deleted]
- 22A An entity shall explain its risk management strategy for each risk category of risk exposures that it decides to hedge and for which hedge accounting is applied. This explanation should enable users of financial statements to evaluate (for example):
- (a) How each risk arises.
 - (b) How the entity manages each risk; this includes whether the entity hedges an item in its entirety for all risks or hedges a risk component (or components) of an item and why.
 - (c) The extent of risk exposures that the entity manages.
- 22B To meet the requirements in paragraph 22A, the information should include (but is not limited to) a description of:
- (a) the hedging instruments that are used (and how they are used) to hedge risk exposures;
 - (b) how the entity determines the economic relationship between the hedged item and the hedging instrument for the purpose of assessing hedge effectiveness; and
 - (c) how the entity establishes the hedge ratio and what the sources of hedge ineffectiveness are.
- 22C When an entity designates a specific risk component as a hedged item (see paragraph 6.3.7 of IFRS 9) it shall provide, in addition to the disclosures required by paragraphs 22A and 22B, qualitative or quantitative information about:
- (a) how the entity determined the risk component that is designated as the hedged item (including a description of the nature of the relationship between the risk component and the item as a whole); and

- (b) how the risk component relates to the item in its entirety (for example, the designated risk component historically covered on average 80 per cent of the changes in fair value of the item as a whole).

The amount, timing and uncertainty of future cash flows

- 23 [Deleted]
- 23A Unless exempted by paragraph 23C, an entity shall disclose by risk category quantitative information to allow users of its financial statements to evaluate the terms and conditions of hedging instruments and how they affect the amount, timing and uncertainty of future cash flows of the entity.
- 23B To meet the requirement in paragraph 23A, an entity shall provide a breakdown that discloses:
- (a) a profile of the timing of the nominal amount of the hedging instrument; and
 - (b) if applicable, the average price or rate (for example strike or forward prices etc) of the hedging instrument.
- 23C In situations in which an entity frequently resets (ie discontinues and restarts) hedging relationships because both the hedging instrument and the hedged item frequently change (ie the entity uses a dynamic process in which both the exposure and the hedging instruments used to manage that exposure do not remain the same for long—such as in the example in paragraph B6.5.24(b) of IFRS 9) the entity:
- (a) is exempt from providing the disclosures required by paragraphs 23A and 23B.
 - (b) shall disclose:
 - (i) information about what the ultimate risk management strategy is in relation to those hedging relationships;
 - (ii) a description of how it reflects its risk management strategy by using hedge accounting and designating those particular hedging relationships; and
 - (iii) an indication of how frequently the hedging relationships are discontinued and restarted as part of the entity's process in relation to those hedging relationships.
- 23D An entity shall disclose by risk category a description of the sources of hedge ineffectiveness that are expected to affect the hedging relationship during its term.
- 23E If other sources of hedge ineffectiveness emerge in a hedging relationship, an entity shall disclose those sources by risk category and explain the resulting hedge ineffectiveness.
- 23F For cash flow hedges, an entity shall disclose a description of any forecast transaction for which hedge accounting had been used in the previous period, but which is no longer expected to occur.

The effects of hedge accounting on financial position and performance

- 24 [Deleted]

- 24A An entity shall disclose, in a tabular format, the following amounts related to items designated as hedging instruments separately by risk category for each type of hedge (fair value hedge, cash flow hedge or hedge of a net investment in a foreign operation):
- (a) the carrying amount of the hedging instruments (financial assets separately from financial liabilities);
 - (b) the location of the hedging instrument in the statement of financial position;
 - (c) the change in fair value of the hedging instrument used as the basis for recognising hedge ineffectiveness for the period; and
 - (d) the nominal amounts (including quantities such as tonnes or cubic metres) of the hedging instruments.
- 24B An entity shall disclose, in a tabular format, the following amounts related to hedged items separately by risk category for the types of hedges as follows:
- (a) for fair value hedges:
 - (i) the carrying amount of the hedged item recognised in the statement of financial position (presenting assets separately from liabilities);
 - (ii) the accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item recognised in the statement of financial position (presenting assets separately from liabilities);
 - (iii) the location of the hedged item in the statement of financial position;
 - (iv) the change in value of the hedged item used as the basis for recognising hedge ineffectiveness for the period; and
 - (v) the balance of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses in accordance with paragraph 6.5.10 of IFRS 9.
 - (b) for cash flow hedges and hedges of a net investment in a foreign operation:
 - (i) the change in value of the hedged item used as the basis for recognising hedge ineffectiveness for the period (ie for cash flow hedges the change in value used to determine the recognised hedge ineffectiveness in accordance with paragraph 6.5.11(c) of IFRS 9);
 - (ii) the balances in the cash flow hedge reserve and the foreign currency translation reserve for continuing hedges that are accounted for in accordance with paragraphs 6.5.11 and 6.5.13(a) of IFRS 9; and
 - (iii) the balances remaining in the cash flow hedge reserve and the foreign currency translation reserve from any hedging relationships for which hedge accounting is no longer applied.

- 24C An entity shall disclose, in a tabular format, the following amounts separately by risk category for the types of hedges as follows:
- (a) for fair value hedges:
 - (i) hedge ineffectiveness—ie the difference between the hedging gains or losses of the hedging instrument and the hedged item—recognised in profit or loss (or other comprehensive income for hedges of an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income in accordance with paragraph 5.7.5); and
 - (ii) the location of the recognised hedge ineffectiveness in the statement of comprehensive income.
 - (b) for cash flow hedges and hedges of a net investment in a foreign operation:
 - (i) hedging gains or losses of the reporting period that were recognised in other comprehensive income;
 - (ii) hedge ineffectiveness recognised in profit or loss;
 - (iii) the location of the recognised hedge ineffectiveness in the statement of comprehensive income;
 - (iv) the amount reclassified from the cash flow hedge reserve or the foreign currency translation reserve into profit or loss as a reclassification adjustment (see IAS 1) (differentiating between amounts for which hedge accounting had previously been used, but for which the hedged future cash flows are no longer expected to occur, and amounts that have been transferred because the hedged item has affected profit or loss);
 - (v) the location of the reclassification adjustment (see IAS 1) in the statement of comprehensive income; and
 - (vi) for hedges of net positions, the hedging gains or losses recognised in a separate line item in the statement of comprehensive income (see paragraph 6.6.4 of IFRS 9).
- 24D When the volume of hedging relationships to which the exemption in paragraph 23C applies is unrepresentative of normal volumes during the period (ie the volume at the reporting date does not reflect the volumes during the period) an entity shall disclose that fact and the reason it believes the volumes are unrepresentative.
- 24E An entity shall provide a reconciliation of accumulated other comprehensive income in accordance with IAS 1, either in the statement of changes in equity or in the notes to the financial statements, that:
- (a) differentiates, at a minimum, between the amounts that relate to the disclosures in paragraph 24C(b)(i) and (b)(iv) as well as amounts accounted for in accordance with paragraph 6.5.11(d)(i) and (d)(iii) of IFRS 9;
 - (b) differentiates between the amounts associated with the time value of options that hedge transaction related hedged items and amounts associated with the time value of options that hedge time-period related hedged items when an entity accounts for the time value of an

option in accordance with paragraph 6.5.15 of IFRS 9, and amounts associated with the forward element of a forward contract accounted for in accordance with paragraph 6.5.16 of IFRS 9.

- 24F An entity shall disclose the information required in paragraph 24E(a) and (b) separately by risk category.

Option to designate a credit exposure as measured at fair value through profit or loss

- 24G If an entity designated a financial instrument, or a proportion of it, as measured at fair value through profit or loss because it uses a credit derivative to manage the credit risk of that financial instrument it shall disclose:

- (a) for credit derivatives that have been used to manage the credit risk of financial instruments designated as measured at fair value through profit or loss in accordance with paragraph 6.7.1 of IFRS 9, a reconciliation of each of the nominal amount and the fair value at the beginning and at the end of the period;
- (b) the gain or loss recognised in profit or loss on designation of a financial instrument, or a proportion of it, as measured at fair value through profit or loss in accordance with paragraph 6.7.1 of IFRS 9; and
- (c) on discontinuation of measuring a financial instrument, or a proportion of it, at fair value through profit or loss, that financial instrument's fair value that has become the new carrying amount in accordance with paragraph (b) of IFRS 9 and the related nominal or principal amount (except for providing comparative information in accordance with IAS 1, an entity does not need to continue this disclosure in subsequent periods).

- 28 In some cases, an entity does not recognise a gain or loss on initial recognition of a financial asset or financial liability because the fair value is neither evidenced by a quoted price in an active market for an identical asset or liability (ie a Level 1 input) nor based on a valuation technique that uses only data from observable markets (see paragraph B5.1.2A of IFRS 9). In such cases, the entity shall disclose by class of financial asset or financial liability:

- (a) its accounting policy for recognising in profit or loss the difference between the fair value at initial recognition and the transaction price to reflect a change in factors (including time) that market participants would take into account when pricing the asset or liability (see paragraph B5.1.2A(b) of IFRS 9).
- (b) the aggregate difference yet to be recognised in profit or loss at the beginning and end of the period and a reconciliation of changes in the balance of this difference.
- (c) why the entity concluded that the transaction price was not the best evidence of fair value, including a description of the evidence that supports the fair value.

- 29 Disclosures of fair value are not required:

- (a) ...
- (b) [deleted]

(c) ...

30 In the case described in paragraph 29(c), an entity shall disclose information to help users of the financial statements make their own judgements about the extent of possible differences between the carrying amount of those contracts and their fair value, including:

(a) ...

44H [Deleted]

44I When an entity first applies IFRS 9, it shall disclose for each class of financial assets at the date of initial application:

- (a) the original measurement category and carrying amount determined in accordance with IAS 39;
- (b) the new measurement category and carrying amount determined in accordance with IFRS 9;
- (c) the amount of any financial assets in the statement of financial position that were previously designated as measured at fair value through profit or loss but are no longer so designated, distinguishing between those that IFRS 9 requires an entity to reclassify and those that an entity elects to reclassify.

An entity shall present these quantitative disclosures in tabular format unless another format is more appropriate.

44J When an entity first applies IFRS 9, it shall disclose qualitative information to enable users to understand:

- (a) how it applied the classification requirements in IFRS 9 to those financial assets whose classification has changed as a result of applying IFRS 9.
- (b) the reasons for any designation or de-designation of financial assets or financial liabilities as measured at fair value through profit or loss.

44N [Deleted]

44R IFRS 9, issued in [insert date 2012], amended paragraphs 2–5, 8–10, 11, 14, 20, 28, 30, Appendix A, B1, B5, B10(a), B22 and B27, deleted paragraphs 12, 12A, 22–24, 29(b), 44H and 44N, B4 and Appendix D and added paragraphs 10A, 11A, 11B, 12B–12D, 20A, 21A–21D, 22A–22C, 23A–23F, 24A–24G, 44I and 44J. An entity shall apply those amendments when it applies IFRS 9 as issued in [insert date 2012]. Those amendments need not be applied to comparative information provided for periods before the date of initial application of IFRS 9 as issued in [insert date 2012].

C12 In Appendix A, the last paragraph is amended to read as follows:

The following terms are defined in paragraph 11 of IAS 32, paragraph 9 of IAS 39 or Appendix A of IFRS 9 and are used in the IFRS with the meaning specified in IAS 32, IAS 39 and IFRS 9.

- amortised cost of a financial asset or financial liability
- derecognition
- derivative
- effective interest method

- equity instrument
- fair value
- financial asset
- financial guarantee contract
- financial instrument
- financial liability
- financial liability at fair value through profit or loss
- forecast transaction
- hedging instrument
- held for trading
- reclassification date
- regular way purchase or sale.

C13 In Appendix B, the heading above paragraph B4 and paragraph B4 are deleted and paragraphs B1, B5, B10(a), B22 and B27 are amended to read as follows:

B1 Paragraph 6 requires an entity to group financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments. The classes described in paragraph 6 are determined by the entity and are, thus, distinct from the categories of financial instruments specified in IFRS 9 (which determine how financial instruments are measured and where changes in fair value are recognised).

B5 Paragraph 21 requires disclosure of the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements. For financial instruments, such disclosure may include:

- (a) for financial liabilities designated as at fair value through profit or loss:
 - (i) the nature of the financial liabilities the entity has designated as at fair value through profit or loss;
 - (ii) the criteria for so designating such financial liabilities on initial recognition; and
 - (iii) how the entity has satisfied the conditions in paragraph 4.2.2 of IFRS 9 for such designation.
- (aa) for financial assets designated as measured at fair value through profit or loss:
 - (i) the nature of the financial assets the entity has designated as measured at fair value through profit or loss; and
 - (ii) how the entity has satisfied the criteria in paragraph 4.1.5 of IFRS 9 for such designation.
- (b) [deleted]

(c) whether regular way purchases and sales of financial assets are accounted for at trade date or at settlement date (see paragraph 3.1.2 of IFRS 9).

(d) ...

B10 Activities that give rise to credit risk and the associated maximum exposure to credit risk include, but are not limited to:

(a) granting loans to customers and placing deposits with other entities. In these cases, the maximum exposure to credit risk is the carrying amount of the related financial assets.

(b) ...

B22 *Interest rate risk* arises on interest-bearing financial instruments recognised in the statement of financial position (eg debt instruments acquired or issued) and on some financial instruments not recognised in the statement of financial position (eg some loan commitments).

B27 In accordance with paragraph 40(a), the sensitivity of profit or loss (that arises, for example, from instruments measured at fair value through profit or loss) is disclosed separately from the sensitivity of other comprehensive income (that arises, for example, from investments in equity instruments whose changes in fair value are presented in other comprehensive income).

C14 Appendix D is deleted.

IAS 1 Presentation of Financial Statements

C15 In paragraph 7, the definition of 'other comprehensive income' and paragraphs 68, 71, 82, 93, 95, 96, 106 and 123 are amended to read as follows, paragraphs 139E and 139G are deleted and paragraph 139M is added:

7 The following terms are used in this Standard with the meanings specified:

***Other comprehensive income* comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other IFRSs.**

The components of other comprehensive income include:

(a) ...

(d) gains and losses from investments in equity instruments measured at fair value through other comprehensive income in accordance with paragraph 5.7.5 of IFRS 9 *Financial Instruments*;

(e) the effective portion of gains and losses on hedging instruments in a cash flow hedge and the gain or loss on hedging instruments that hedge investments in equity instruments measured at fair value through other comprehensive income in accordance with paragraph 5.7.5 of IFRS 9 (see Chapter 6 of IFRS 9);

(f) for particular liabilities designated as at fair value through profit or loss, the amount of the change in fair value that is attributable to changes in the liability's credit risk (see paragraph 5.7.7 of IFRS 9);

(g) changes in fair value of the time value of options when separating the intrinsic value and time value of an option contract and designating as

the hedging instrument only the changes in the intrinsic value (see Chapter 6 of IFRS 9);

- (h) changes in fair value of the forward elements of forward contracts when separating the forward element and spot element of a forward contract and designating as the hedging instrument only the changes in the spot element (see Chapter 6 of IFRS 9);

...

- 68 The operating cycle of an entity ... Current assets also include assets held primarily for the purpose of trading (examples include some financial assets that meet the definition of held for trading in IFRS 9) and the current portion of non-current financial assets.
- 71 Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the reporting period or held primarily for the purpose of trading. Examples are some financial liabilities that meet the definition of held for trading in IFRS 9, bank overdrafts, and the current portion of non-current financial liabilities, dividends payable, income taxes and other non-trade payables. Financial liabilities that provide financing on a long-term basis (ie are not part of the working capital used in the entity's normal operating cycle) and are not due for settlement within twelve months after the reporting period are non-current liabilities, subject to paragraphs 74 and 75.
- 82 In addition to items required by other IFRSs, the profit or loss section or the statement of profit or loss shall include line items that present the following amounts for the period:**
- (a) revenue;**
 - (aa) gains and losses arising from the derecognition of financial assets measured at amortised cost;**
 - (b) finance costs;**
 - (c) share of the profit or loss of associates and joint ventures accounted for using the equity method;**
 - (ca) if a financial asset is reclassified so that it is measured at fair value, any gain or loss arising from a difference between the previous carrying amount and its fair value at the reclassification date (as defined in IFRS 9);**
 - (d) ...**
- 93 Other IFRSs specify whether and when amounts previously recognised in other comprehensive income are reclassified to profit or loss. Such reclassifications are referred to in this Standard as reclassification adjustments. A reclassification adjustment is included with the related component of other comprehensive income in the period that the adjustment is reclassified to profit or loss. These amounts may have been recognised in other comprehensive income ...
- 95 Reclassification adjustments arise, for example, on disposal of a foreign operation (see IAS 21) and when a hedged forecast transaction affects profit or loss (see paragraph 6.5.11(d) of IFRS 9 in relation to cash flow hedges).

- 96 Reclassification adjustments do not arise on changes in revaluation surplus recognised in accordance with IAS 16 or IAS 38 or on remeasurements of defined benefit plans recognised in accordance with IAS 19. These components are recognised in other comprehensive income and are not reclassified to profit or loss in subsequent periods. Changes in revaluation surplus may be transferred to retained earnings in subsequent periods as the asset is used or when it is derecognised (see IAS 16 and IAS 38). In accordance with IFRS 9, reclassification adjustments do not arise if a cash flow hedge or the accounting for the time value of an option result in amounts that are removed from the cash flow hedge reserve or a separate component of equity, respectively, and included directly in the initial cost or other carrying amount of an asset or a liability. These amounts are directly transferred to assets or liabilities.
- 106 An entity shall present a statement of changes in equity as required by paragraph 10. The statement of changes in equity includes the following information:
- (a) ...
 - (b) ...
 - (c) [deleted]
 - (d) for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately (as a minimum) disclosing changes resulting from:
 - (i) profit or loss;
 - (ii) other comprehensive income; and
 - (iii) transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control.
- 123 In the process of applying the entity's accounting policies, management makes various judgements, apart from those involving estimations, that can significantly affect the amounts it recognises in the financial statements. For example, management makes judgements in determining:
- (a) [deleted]
 - (b) ...
- 139E [Deleted]
- 139G [Deleted]
- 139M IFRS 9, issued in [insert date 2012], amended paragraphs 7, 68, 71, 82, 93, 95 and 123 and deleted paragraphs 139E and 139G. An entity shall apply those amendments when it applies IFRS 9 as issued in [insert date 2012].

IAS 2 Inventories

- C16 Paragraph 2(b) is amended to read as follows, paragraphs 40A and 40B are deleted and paragraph 40D is added:

2 This Standard applies to all inventories, except:

- (a) ...
- (b) **financial instruments (see IAS 32 *Financial Instruments: Presentation* and IFRS 9 *Financial Instruments*); and**
- (c) ...

40A [Deleted]

40B [Deleted]

40D IFRS 9, issued in [insert date 2012], amended paragraph 2(b) and deleted paragraphs 40A and 40B. An entity shall apply those amendments when it applies IFRS 9 as issued in [insert date 2012].

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

C17 Paragraph 53 is amended to read as follows, paragraphs 54A and 54B are deleted and paragraph 54D is added:

53 Hindsight should not be used when applying a new accounting policy to, or correcting amounts for, a prior period, either in making assumptions about what management's intentions would have been in a prior period or estimating the amounts recognised, measured or disclosed in a prior period. For example, when an entity corrects a prior period error in calculating its liability for employees' accumulated sick leave in accordance with IAS 19 *Employee Benefits*, it disregards information about an unusually severe influenza season during the next period that became available after the financial statements for the prior period were authorised for issue. The fact that significant estimates are frequently required when amending comparative information presented for prior periods does not prevent reliable adjustment or correction of the comparative information.

54A [Deleted]

54B [Deleted]

54D IFRS 9 *Financial Instruments*, issued in [insert date 2012], amended paragraph 53 and deleted paragraphs 54A and 54B. An entity shall apply those amendments when it applies IFRS 9 as issued in [insert date 2012].

IAS 12 Income Taxes

C18 In the rubric 'paragraphs 1–95' is amended to 'paragraphs 1–97A'. Paragraph 20 is amended to read as follows, paragraphs 96 and 97 are deleted and paragraph 97C is added:

20 IFRSs permit or require certain assets to be carried at fair value or to be revalued (see, for example, IAS 16 *Property, Plant and Equipment*, IAS 38 *Intangible Assets*, IAS 40 *Investment Property* and IFRS 9 *Financial Instruments*). In some jurisdictions, the revaluation or other restatement of an asset to fair value affects taxable profit (tax loss) for the current period. As a result, ...

96 [Deleted]

97 [Deleted]

97C IFRS 9, issued in [insert date 2012], amended paragraph 20 and deleted paragraphs 96 and 97. An entity shall apply those amendments when it applies IFRS 9 as issued in [insert date 2012].

IAS 18 Revenue

C19 Paragraphs 6(d) and 11 are amended to read as follows, paragraphs 39 and 40 are deleted and paragraph 43 is added:

6 This Standard does not deal with revenue arising from:

- (a) ...
- (d) changes in the fair value of financial assets and financial liabilities or their disposal (see IFRS 9 *Financial Instruments*);
- (e) ...

11 In most cases ... The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue in accordance with paragraphs 29 and 30 and in accordance with IFRS 9.

39 [Deleted]

40 [Deleted]

43 IFRS 9, issued in [insert date 2012], amended paragraphs 6(d) and 11 and deleted paragraph 39 and 40. An entity shall apply those amendments when it applies IFRS 9 as issued in [insert date 2012].

IAS 20 Accounting for Government Grants and Disclosure of Government Assistance

C20 In the rubric 'paragraphs 1–43' is amended to 'paragraphs 1–45'. Paragraph 10A is amended to read as follows, paragraph 44 is deleted and paragraph 47 is added:

10A The benefit of a government loan at a below-market rate of interest is treated as a government grant. The loan shall be recognised and measured in accordance with IFRS 9 *Financial Instruments*. The benefit of the below-market rate of interest shall be measured as the difference between the initial carrying value of the loan determined in accordance with IFRS 9 and the proceeds received. The benefit is accounted for in accordance with this Standard. The entity shall consider the conditions and obligations that have been, or must be, met when identifying the costs for which the benefit of the loan is intended to compensate.

44 [Deleted]

47 IFRS 9, issued in [insert date 2012], amended paragraph 10A and deleted paragraph 44. An entity shall apply that amendment when it applies IFRS 9 as issued in [insert date 2012].

IAS 21 The Effects of Changes in Foreign Exchange Rates

C21 Paragraph IN5 is amended to read as follows:

IN5 The Standard excludes from its scope foreign currency derivatives that are within the scope of IFRS 9 *Financial Instruments*. Similarly, the material on hedge accounting has been moved to IAS 39.

The reference to IAS 39 in paragraph IN5 is footnoted as follows:

- * In [insert date 2012] the Board replaced the hedge accounting requirements in IAS 39 and relocated them to IFRS 9.

C22 Paragraphs 3(a), 4, 5, 27 and 52(a) are amended to read as follows, paragraphs 60C and 60E are deleted and paragraph 60I is added:

3 This Standard shall be applied: [footnote omitted]

(a) in accounting for transactions and balances in foreign currencies, except for those derivative transactions and balances that are within the scope of IFRS 9 *Financial Instruments*;

(b) ...

4 IFRS 9 applies to many foreign currency derivatives and, accordingly, these are excluded from the scope of this Standard. However, those foreign currency derivatives that are not within the scope of IFRS 9 (eg some foreign currency derivatives that are embedded in other contracts) are within the scope of this Standard. In addition, this Standard applies when an entity translates amounts relating to derivatives from its functional currency to its presentation currency.

5 This Standard does not apply to hedge accounting for foreign currency items, including the hedging of a net investment in a foreign operation. IFRS 9 applies to hedge accounting.

27 As noted in paragraphs 3(a) and 5, IFRS 9 applies to hedge accounting for foreign currency items. The application of hedge accounting requires an entity to account for some exchange differences differently from the treatment of exchange differences required by this Standard. For example, IFRS 9 requires that exchange differences on monetary items that qualify as hedging instruments in a cash flow hedge are recognised initially in other comprehensive income to the extent that the hedge is effective.

52 An entity shall disclose:

(a) the amount of exchange differences recognised in profit or loss except for those arising on financial instruments measured at fair value through profit or loss in accordance with IFRS 9; and

(b) ...

60C [Deleted]

60E [Deleted]

60I IFRS 9, issued in [insert date 2012], amended paragraphs 3(a), 4, 5, 27 and 52(a) and deleted paragraph 60C and 60E. An entity shall apply those amendments when it applies IFRS 9 as issued in [insert date 2012],

IAS 32 *Financial Instruments: Presentation*

C29 Paragraph IN13 is amended to read as follows:

IN13 The revisions eliminate the option previously in IAS 32 to measure the liability component of a compound financial instrument on initial recognition either as a residual amount after separating the equity component, or by using a relative-fair-value method. Thus, any asset and liability components are separated first and the residual is the amount of any equity component. These requirements for separating the liability and equity components of a

compound financial instrument are conformed to both the definition of an equity instrument as a residual and the measurement requirements in IFRS 9.

C30 Paragraphs 3, 4, 8, 12, 23, 31, 42 and 96C are amended to read as follows, paragraphs 97F and 97H are deleted and paragraph 97L is added:

- 3 The principles in this Standard complement the principles for recognising and measuring financial assets and financial liabilities in IFRS 9 *Financial Instruments*, and for disclosing information about them in IFRS 7 *Financial Instruments: Disclosures*.

Scope

- 4 **This Standard shall be applied by all entities to all types of financial instruments except:**
- (a) **those interests in subsidiaries, associates or joint ventures that are accounted for in accordance with IFRS 10 *Consolidated Financial Statements*, IAS 27 *Separate Financial Statements* or IAS 28 *Investments in Associates and Joint Ventures*. However, in some cases, IAS 27 or IAS 28 permits an entity to account for an interest in a subsidiary, associate or joint venture using IFRS 9; in those cases, entities shall apply the requirements of this Standard. Entities shall also apply this Standard to all derivatives linked to interests in subsidiaries, associates or joint ventures.**
 - (b) ...
 - (d) **insurance contracts as defined in IFRS 4 *Insurance Contracts*. However, this Standard applies to derivatives that are embedded in insurance contracts if IFRS 9 requires the entity to account for them separately. Moreover, an issuer shall apply this Standard to financial guarantee contracts if the issuer applies IFRS 9 in recognising and measuring the contracts, but shall apply IFRS 4 if the issuer elects, in accordance with paragraph 4(d) of IFRS 4, to apply IFRS 4 in recognising and measuring them.**
 - (e) **financial instruments that are within the scope of IFRS 4 because they contain a discretionary participation feature. The issuer of these instruments is exempt from applying to these features paragraphs 15–32 and AG25–AG35 of this Standard regarding the distinction between financial liabilities and equity instruments. However, these instruments are subject to all other requirements of this Standard. Furthermore, this Standard applies to derivatives that are embedded in these instruments (see IFRS 9).**
- 8 **This standard shall be applied to those contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contracts were financial instruments, with the exception of contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements. However, this standard shall be applied to those contracts that an entity designates as measured at fair value through profit or loss in accordance with paragraph 5A of IAS 39 *Financial Instruments: Recognition and Measurement*.**

- 12 The following terms are defined in Appendix A of IFRS 9 or paragraph 9 of IAS 39 and are used in this Standard with the meaning specified in IAS 39 and IFRS 9.
- amortised cost of a financial asset or financial liability
 - derecognition
 - derivative
 - effective interest method
 - financial guarantee contract
 - financial liability at fair value through profit or loss
 - firm commitment
 - forecast transaction
 - hedge effectiveness
 - hedged item
 - hedging instrument
 - held for trading
 - regular way purchase or sale
 - transaction costs.
- 23 With the exception of the circumstances described in paragraphs 16A and 16B or paragraphs 16C and 16D, a contract that contains an obligation for an entity to purchase its own equity instruments for cash or another financial asset gives rise to a financial liability for the present value of the redemption amount (for example, for the present value of the forward repurchase price, option exercise price or other redemption amount). This is the case even if the contract itself is an equity instrument. One example is an entity's obligation under a forward contract to purchase its own equity instruments for cash. When the financial liability is recognised initially under IFRS 9, its fair value (the present value of the redemption amount) is reclassified from equity. Subsequently, the financial liability is measured in accordance with IFRS 9. If the contract expires without delivery, the carrying amount of the financial liability is reclassified to equity. An entity's contractual obligation to purchase its own equity instruments gives rise to a financial liability for the present value of the redemption amount even if the obligation to purchase is conditional on the counterparty exercising a right to redeem (eg a written put option that gives the counterparty the right to sell an entity's own equity instruments to the entity for a fixed price).
- 31 IFRS 9 deals with the measurement of financial assets and financial liabilities. Equity instruments ...
- 42 ...
- In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity shall not offset the transferred asset and the associated liability (see IFRS 9, paragraph 3.2.22).**
- 96C The classification of instruments under this exception shall be restricted to the accounting for such an instrument under IAS 1, IAS 32, IAS 39, IFRS 7 and

IFRS 9. The instrument shall not be considered an equity instrument under other guidance, for example IFRS 2.

97F [Deleted]

97H [Deleted]

97L IFRS 9, issued in [insert date 2012], added paragraph 8A, amended paragraphs 3, 4, 8, 12, 23, 31, 42, 96C, AG2 and AG30 and deleted paragraphs 97F and 97H. An entity shall apply those amendments when it applies IFRS 9 as issued in [insert date 2012].

C31 In the Appendix, paragraphs AG2 and AG30 are amended to read as follows:

AG2 The Standard does not deal with the recognition or measurement of financial instruments. Requirements about the recognition and measurement of financial assets and financial liabilities are set out in IFRS 9.

AG30 Paragraph 28 applies only to issuers of non-derivative compound financial instruments. Paragraph 28 does not deal with compound financial instruments from the perspective of holders. IFRS 9 deals with the classification and measurement of financial assets that are compound financial instruments from the holder's perspective.

IAS 36 Impairment of Assets

C32 Paragraphs 2(e) and 5 are amended to read as follows, paragraphs 140F and 140G are deleted and paragraph 140J is added:

2 ...

(e) financial assets that are within the scope of IFRS 9
Financial Instruments;

(f) ...

5 This Standard does not apply to financial assets within the scope of IFRS 9, investment property measured at fair value in accordance with IAS 40, or biological assets related to agricultural activity measured at fair value less costs to sell in accordance with IAS 41. However, ...

140F [Deleted]

140G [Deleted]

140J IFRS 9, issued in [insert date 2012], amended paragraphs 2(e) and 5 and deleted paragraphs 140F and 140G. An entity shall apply those amendments when it applies IFRS 9 as issued in [insert date 2012].

IAS 37 Provisions, Contingent Liabilities and Contingent Assets

C33 In the rubric 'paragraphs 1–95' is amended to 'paragraphs 1–98'. Paragraph 2 is amended to read as follows, paragraph 97 is deleted and paragraph 98 is added:

2 This Standard does not apply to financial instruments (including guarantees) that are within the scope of IFRS 9 *Financial Instruments*.

97 [Deleted]

- 98 IFRS 9, issued in [insert date 2012], amended paragraph 2 and deleted paragraph 97. An entity shall apply those amendments when it applies IFRS 9 as issued in [insert date 2012].

IAS 39 *Financial Instruments: Recognition and Measurement*

- C34 Paragraphs IN1–IN26 are deleted. A new Introduction is added as follows:
- The International Accounting Standards Board has decided to replace IAS 39 *Financial Instruments: Recognition and Measurement* over a period of time. The first instalment, dealing with classification and measurement of financial assets, was issued as IFRS 9 *Financial Instruments* in November 2009. The requirements for classification and measurement of financial liabilities and derecognition of financial assets and liabilities were added to IFRS 9 in October 2010. Requirements for hedge accounting were added to IFRS 9 in [insert month] 2012. As a consequence, parts of IAS 39 are being superseded and will become obsolete for annual periods beginning on or after 1 January 2015. The Board is re-deliberating proposals to replace the requirements on impairment. The Board is also deliberating proposals on accounting for macro hedging, which are expected to be published as a discussion paper. The remaining requirements of IAS 39 continue in effect until superseded by future instalments of IFRS 9. The Board expects to replace IAS 39 in its entirety.
- C35 Paragraph 1 is deleted.
- C36 Paragraph 5A is added and paragraphs 2, 4 and 5 are amended to read as follows:
- 2 This Standard shall be applied by all entities to all types of financial instruments except:**
- (a) ...
- (b) **rights and obligations under leases to which IAS 17 *Leases* applies. However:**
- (i) **lease receivables recognised by a lessor are subject to the derecognition provisions of IFRS 9 *Financial Instruments* and impairment provisions of this Standard;**
- (ii) **finance lease payables recognised by a lessee are subject to the derecognition provisions of IFRS 9; and**
- (iii) **derivatives that are embedded in leases are subject to the embedded derivatives provisions of IFRS 9.**
- (c) ...
- (e) **rights and obligations arising under (i) an insurance contract as defined in IFRS 4 *Insurance Contracts*, other than an issuer's rights and obligations arising under an insurance contract that meets the definition of a financial guarantee contract in Appendix A of IFRS 9, or (ii) a contract that is within the scope of IFRS 4 because it contains a discretionary participation feature. However, this Standard applies to a derivative that is embedded in a contract within the scope of IFRS 4 if the derivative is not itself a contract within the scope of IFRS 4. Moreover, if an issuer of financial guarantee contracts has previously asserted explicitly that it regards such contracts as insurance**

contracts and has used accounting applicable to insurance contracts, the issuer may elect to apply either this Standard or IFRS 4 to such financial guarantee contracts (see paragraphs AG4 and AG4A). The issuer may make that election contract by contract, but the election for each contract is irrevocable.

- (f) ...
- (h) loan commitments other than those loan commitments described in paragraph 4. An issuer of loan commitments shall apply IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to loan commitments that are not within the scope of this Standard. However, all loan commitments are subject to the derecognition provisions of this Standard.
- (i) financial instruments, contracts and obligations under share-based payment transactions to which IFRS 2 *Share-based Payment* applies, except for contracts within the scope of paragraphs 5–7 of this Standard, to which this Standard applies.
- (j) ...

4 The following loan commitments are within the scope of this Standard:

- (a) loan commitments that the entity designates as financial liabilities at fair value through profit or loss (see paragraph 4.2.2 of IFRS 9). An entity that has a past practice of selling the assets resulting from its loan commitments shortly after origination shall apply this Standard to all its loan commitments in the same class.
- (b) ...
- (c) commitments to provide a loan at a below market interest rate (see paragraph 4.2.1 of IFRS 9).

5 This standard shall be applied to those contracts to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contracts were financial instruments, with the exception of contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements. However, this standard shall be applied to those contracts that an entity designates as measured at fair value through profit or loss in accordance with paragraph 5A.

5A An entity may, at initial recognition, irrevocably designate as measured at fair value through profit or loss a contract to buy or sell a non-financial item that can be settled net in cash or another financial instrument, or by exchanging financial instruments, as if the contract was a financial instrument, that was entered into for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements. An entity may make this designation only if doing so eliminates or significantly reduces a recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from not recognising that contract because it is excluded from the scope of this standard (see paragraph 5).

C37 Paragraphs 8 and 9 are amended to read as follows:

8 The terms defined in IFRS 9 and IAS 32 are used in this Standard with the meanings specified in Appendix A of IFRS 9 and paragraph 11 of IAS 32. IFRS 9 and IAS 32 define the following terms:

- derecognition
- derivative
- equity instrument
- fair value
- financial asset
- financial guarantee contract
- financial instrument
- financial liability

and provide guidance on applying those definitions.

In paragraph 9, the 'Definition of a derivative', 'Definitions of four categories of financial instruments' and 'Definition of a financial guarantee contract' are deleted. In 'Definitions relating to recognition and measurement', the definitions 'derecognition', 'fair value' and 'regular way purchase or sale' are deleted.

C38 Paragraphs 10–57 are deleted.

C39 The heading 'Impairment and uncollectibility of financial assets' above paragraph 58 and paragraphs 58 and 63 are amended to read as follows and paragraphs 61 and 66–70 and the headings above paragraphs 63, 66 and 67 are deleted:

Impairment and uncollectibility of financial assets measured at amortised cost

58 An entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets measured at amortised cost is impaired. If any such evidence exists, the entity shall apply paragraph 63 to determine the amount of any impairment loss.

63 If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as ...

C40 Paragraph 79 is deleted and paragraphs 71, 88(d), 89(b), 90 and 96(c) are amended to read as follows:

71 If an entity applies IFRS 9 (as issued in [Date] 2012) it shall apply the hedge accounting requirements in chapter 6 of IFRS 9. However, for a fair value hedge of the interest rate exposure of a portion of a portfolio of financial assets or financial liabilities, an entity may, in accordance with paragraph 6.1.3 of IFRS 9, apply the hedge accounting requirements in this standard instead of those in IFRS 9. In that case the entity must also apply the specific requirements for fair value hedge accounting for a portfolio hedge of interest rate risk (see paragraphs 81A, 89A and AG114-AG132).

88 A hedging relationship qualifies for hedge accounting under paragraphs 89–102 if, and only if, all of the following conditions are met.

(a) ...

- (d) **The effectiveness of the hedge can be reliably measured, ie the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured.**
- (e) ...

Fair value hedges

89 If a fair value hedge meets the conditions in paragraph 88 during the period, it shall be accounted for as follows:

- (a) ...
- (b) **the gain or loss on the hedged item attributable to the hedged risk shall adjust the carrying amount of the hedged item and be recognised in profit or loss. This applies if the hedged item is otherwise measured at cost.**

90 If only particular risks attributable to a hedged item are hedged, recognised changes in the fair value of the hedged item unrelated to the hedged risk are recognised as set out in paragraph 5.7.1 of IFRS 9.

96 More specifically, a cash flow hedge is accounted for as follows:

- (a) ...
- (c) if an entity's documented risk management strategy for a particular hedging relationship excludes from the assessment of hedge effectiveness a specific component of the gain or loss or related cash flows on the hedging instrument (see paragraphs 74, 75 and 88(a)), that excluded component of gain or loss is recognised in accordance with paragraph 5.7.1 of IFRS 9.

C41 Paragraphs 103B, 103C, 103K, 104 and 108C are amended to read as follows, paragraphs 103H–103J, 103L, 103M, 103O and 105–107A are deleted and paragraph 103R is added:

103B *Financial Guarantee Contracts* (Amendments to IAS 39 and IFRS 4), issued in August 2005, amended paragraphs 2(e) and (h), 4 and AG4, added paragraph AG4A, added a new definition of financial guarantee contracts and deleted paragraph 3. An entity shall apply those amendments for annual periods beginning on or after 1 January 2006. Earlier application is encouraged. If an entity applies these changes for an earlier period, it shall disclose that fact and apply the related amendments to IAS 32 [footnote omitted] and IFRS 4 at the same time.

103C IAS 1 (as revised in 2007) amended the terminology used throughout IFRSs. In addition it amended paragraphs 95(a), 97, 98, 100, 102, 108 and AG99B. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies IAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.

103K *Improvements to IFRSs*, issued in April 2009, amended paragraphs 2(g), 97 and 100. An entity shall apply the amendments to those paragraphs prospectively to all unexpired contracts for annual periods beginning on or after 1 January 2010. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.

103L [Deleted]

103M [Deleted]

103O [Deleted]

103R IFRS 9, issued in [Date] 2012, added paragraph 5A, amended paragraphs 2, 4, 5, 8, 9, 58, 63, 71, 88(d), 89(b), 90, 96(c), 103B, 103C, 103K, 104, 108C, AG3–AG4, AG8, AG84, AG95, AG114(a) and AG118(b) and deleted paragraphs 1, 10–57, 61, 66–70, 79, 103H–103J, 103L, 103M, 103O, 105–107A, AG4B–AG4K, AG9–AG12A, AG14–AG15, AG27–AG83 and AG96. An entity shall apply those amendments when it applies IFRS 9 as issued in [Date] 2012.

104 This Standard shall be applied retrospectively except as specified in paragraph 108. The opening balance of retained earnings for the earliest prior period presented and all other comparative amounts shall be adjusted as if this Standard had always been in use unless restating the information would be impracticable. If restatement is impracticable, the entity shall disclose that fact and indicate the extent to which the information was restated.

108C Paragraphs 73 and AG8 were amended by *Improvements to IFRSs*, issued in May 2008. Paragraph 80 was amended by *Improvements to IFRSs*, issued in April 2009. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. Earlier application of all the amendments is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact.

C42 In Appendix A, paragraphs AG3–AG4 are amended to read as follows:

AG3 ... If the equity method is not appropriate, the entity applies this Standard and IFRS 9 to that strategic investment.

AG3A This Standard and IFRS 9 apply to the financial assets and financial liabilities of insurers, other than rights and obligations that paragraph 2(e) excludes because they arise under contracts within the scope of IFRS 4.

AG4 Financial guarantee contracts may have various legal forms, such as...

(a) Although a financial guarantee contract meets the definition of an insurance contract in IFRS 4 if the risk transferred is significant, the issuer applies this Standard and IFRS 9. Nevertheless, if the issuer has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts, the issuer may elect to apply either this Standard and IFRS 9 or IFRS 4 to such financial guarantee contracts. If this Standard and IFRS 9 apply, paragraph 5.1.1 of IFRS 9 requires the issuer to recognise a financial guarantee contract initially at fair value. If the financial guarantee contract was issued to an unrelated party in a stand-alone arm's length transaction, its fair value at inception is likely to equal the premium received, unless there is evidence to the contrary. Subsequently, unless the financial guarantee contract was designated at inception as at fair value through profit or loss or unless paragraphs 3.2.15–3.2.23 and B3.2.12–B3.2.17 of IFRS 9 apply (when a transfer of a financial asset does not qualify for derecognition or the continuing involvement approach applies), the issuer measures it at the higher of:

(i) the amount determined in accordance with IAS 37; and

(ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 (see paragraph 4.2.1(c) of IFRS 9).

(b) Some credit-related guarantees do not, as a precondition for payment, require that the holder is exposed to, and has incurred a loss on, the failure of the debtor to make payments on the guaranteed asset when due. An example of such a guarantee is one that requires payments in response to changes in a specified credit rating or credit index. Such guarantees are not financial guarantee contracts as defined in IFRS 9, and are not insurance contracts as defined in IFRS 4. Such guarantees are derivatives and the issuer applies this Standard and IFRS 9 to them.

(c) ...

C43 In Appendix A, paragraphs AG4B–AG4K, AG9–AG12A and AG14–AG15 are deleted and paragraph AG8 is amended to read as follows:

AG8 If an entity revises its estimates of payments or receipts, the entity shall adjust the carrying amount of the financial asset or financial liability (or group of financial instruments) to reflect actual and revised estimated cash flows. The entity recalculates the carrying amount by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate or, when applicable, the revised effective interest rate calculated in accordance with paragraph 92. The adjustment is recognised in profit or loss as income or expense.

C44 In Appendix A, paragraphs AG27–AG83 are deleted.

C45 In Appendix A, the heading 'Impairment and uncollectibility of financial assets (paragraphs 58–70)' above paragraph AG84 and paragraph AG84 are amended to read as follows:

Impairment and uncollectibility of financial assets measured at amortised cost (paragraphs 58–65)

AG84 Impairment of a financial asset measured at amortised cost is measured using the financial instrument's original effective interest rate because discounting at the current market rate of interest would, in effect, impose fair value measurement on financial assets that are otherwise measured at amortised cost. If the terms of a financial asset measured at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. If a financial asset measured at amortised cost has a variable interest rate, the discount rate for measuring any impairment loss under paragraph 63 is the current effective interest rate(s) determined under the contract. As a practical expedient, a creditor may measure impairment of a financial asset measured at amortised cost on the basis of an instrument's fair value using an observable market price. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

C46 In Appendix A, paragraph AG96 and the first footnote to paragraph AG118(b) are deleted and paragraphs AG95, AG114(a) and AG118(b) are amended to read as follows:

AG95 A financial asset measured at amortised cost may be designated as a hedging instrument in a hedge of foreign currency risk.

AG96 [Deleted]

AG114 For a fair value hedge of interest rate risk associated with a portfolio of financial assets or financial liabilities, an entity would meet the requirements of this Standard if it complies with the procedures set out in (a)–(i) and paragraphs AG115–AG132 below.

(a) As part of its risk management process the entity identifies a portfolio of items whose interest rate risk it wishes to hedge. The portfolio may comprise only assets, only liabilities or both assets and liabilities. The entity may identify two or more portfolios, in which case it applies the guidance below to each portfolio separately.

(b) ...

AG118 As an example of the designation set out...

(a) ...

(b) items that could have qualified for fair value hedge accounting if they had been designated as hedged individually. In particular, because IFRS 9 specifies that the fair value of a financial liability with a demand feature (such as...

C47 The heading 'Transition (paragraphs 103–108N)' above paragraph AG133 is amended to read as follows:

Transition (paragraphs 103–108C)

IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments

C48 In the rubric 'paragraphs 1–14A' is amended to 'paragraphs 1–16'. Below the heading 'References', the reference to IAS 39 is deleted and a reference to IFRS 9 *Financial Instruments* is added. Paragraph 15 is deleted and paragraph 17 is added:

15 [Deleted]

17 IFRS 9, issued in [insert date 2012], amended paragraphs A8 and A10 and deleted paragraph 15. An entity shall apply those amendments when it applies IFRS 9 as issued in [insert date 2012].

C49 In the Appendix, paragraphs A8 and A10 are amended to read as follows:

A8 Members' shares in excess of the prohibition against redemption are financial liabilities. The co-operative entity measures this financial liability at fair value at initial recognition. Because these shares are redeemable on demand, the co-operative entity determines the fair value of such financial liabilities as required by paragraph 5.4.3 of IFRS 9, which states: 'The fair value of a financial liability with a demand feature (eg a demand deposit) is not less than the amount payable on demand ...' Accordingly, the co-operative entity

classifies as financial liabilities the maximum amount payable on demand under the redemption provisions.

- A10 Following the change in its governing charter the co-operative entity can now be required to redeem a maximum of 25 per cent of its outstanding shares or a maximum of 50,000 shares at CU20 each. Accordingly, on 1 January 20X3 the co-operative entity classifies as financial liabilities an amount of CU1,000,000 being the maximum amount payable on demand under the redemption provisions, as determined in accordance with paragraph 5.4.3 of IFRS 9. It therefore transfers on 1 January 20X3 from equity to financial liabilities an amount of CU200,000, leaving CU2,000,000 classified as equity. In this example the entity does not recognise a gain or loss on the transfer.

IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

- C50 Below the heading 'References', the reference to IAS 39 is deleted and a reference to IFRS 9 *Financial Instruments* is added. Paragraph 5 is amended to read as follows and paragraph 14A is deleted and paragraph 14C is added:

5 A residual interest in a fund that extends beyond a right to reimbursement, such as a contractual right to distributions once all the decommissioning has been completed or on winding up the fund, may be an equity instrument within the scope of IFRS 9 and is not within the scope of this Interpretation.

14A [Deleted]

14C IFRS 9, issued in [insert date 2012], amended paragraph 5 and deleted paragraph 14A. An entity shall apply that amendment when it applies IFRS 9 as issued in [insert date 2012].

IFRIC 10 Interim Financial Reporting and Impairment

- C51 In the rubric 'paragraphs 1–10' is amended to 'paragraphs 1–13'. Below the heading 'References', the reference to IAS 39 is deleted and a reference to IFRS 9 *Financial Instruments* is added. Paragraphs 5, 6, 11 and 12 are deleted, paragraphs 1, 2, 7 and 8 are amended to read as follows and paragraph 13 is added:

1 An entity is required to assess goodwill for impairment at the end of each reporting period, and, if required, to recognise an impairment loss at that date in accordance with IAS 36. However, ...

2 The Interpretation addresses the interaction between the requirements of IAS 34 and the recognition of impairment losses on goodwill in IAS 36, and the effect of that interaction on subsequent interim and annual financial statements.

5 [Deleted]

6 [Deleted]

7 The Interpretation addresses the following issue:

Should an entity reverse impairment losses recognised in an interim period on goodwill if a loss would not have been recognised, or a smaller loss would have been recognised, had an impairment assessment been made only at the end of a subsequent reporting period?

Consensus

- 8 An entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill.
- 11 [Deleted]
- 12 [Deleted]
- 13 IFRS 9, issued in [insert date 2012], amended paragraphs 1, 2, 7 and 8 and deleted paragraphs 5, 6, 11 and 12. An entity shall apply those amendments when it applies IFRS 9 as issued in [insert date 2012].

IFRIC 12 *Service Concession Arrangements*

- C52 Below the heading 'References', the reference to IAS 39 is deleted and a reference to IFRS 9 *Financial Instruments* is added. Paragraphs 23–25 are amended to read as follows, paragraphs 28A and 28B are deleted and paragraph 28C is added:
- 23 IAS 32 and IFRSs 7 and 9 apply to the financial asset recognised under paragraphs 16 and 18.
- 24 The amount due from or at the direction of the grantor is accounted for in accordance with IFRS 9 as:
- (a) at amortised cost; or
- (b) measured at fair value through profit or loss.
- 25 If the amount due from the grantor is accounted for at amortised cost, IFRS 9 requires interest calculated using the effective interest method to be recognised in profit or loss.
- 28A [Deleted]
- 28B [Deleted]
- 28C IFRS 9, issued in [insert date 2012], amended paragraphs 23–25 and deleted paragraphs 28A and 28B. An entity shall apply those amendments when it applies IFRS 9 as issued in [insert date 2012].

IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*

- C53 A reference to IFRS 9 *Financial Instruments* is added under the heading 'References'.
- C54 Paragraphs 3, 5, 6, 7, 14 and 16 are amended to read as follows and paragraph 18A is added:
- 3 IFRS 9 requires the designation of an eligible hedged item and eligible hedging instruments in a hedge accounting relationship...
- 5 IFRS 9 allows an entity to designate either a derivative or a non-derivative financial instrument (or a combination of derivative and non-derivative financial instruments) as hedging instruments for foreign currency risk...
- 6 IAS 21 and IFRS 9 require cumulative amounts recognised in other comprehensive income relating to both the foreign exchange differences arising on translation of the results and financial position of the foreign operation and the gain or loss on the hedging instrument that is determined to be an effective

hedge of the net investment to be reclassified from equity to profit or loss as a reclassification adjustment when the parent disposes of the foreign operation...

- 7 This Interpretation applies to an entity that hedges the foreign currency risk arising from its net investments in foreign operations and wishes to qualify for hedge accounting in accordance with IFRS 9...
- 14 A derivative or a non-derivative instrument (or a combination of derivative and non-derivative instruments) may be designated as a hedging instrument in a hedge of a net investment in a foreign operation. The hedging instrument(s) may be held by any entity or entities within the group, as long as the designation, documentation and effectiveness requirements of IFRS 9 paragraph 6.4.1 that relate to a net investment hedge are satisfied...
- 16 When a foreign operation that was hedged is disposed of, the amount reclassified to profit or loss as a reclassification adjustment from the foreign currency translation reserve in the consolidated financial statements of the parent in respect of the hedging instrument is the amount that IFRS 9 paragraph 6.5.14 requires to be identified. That amount is the cumulative gain or loss on the hedging instrument that was determined to be an effective hedge.
- 18A IFRS 9, issued in [insert date 2012], amended paragraphs 3, 5-7, 14, 16, AG1 and AG8(a). An entity shall apply those amendments when it applies IFRS 9 as issued in [insert date 2012].

C55 In the Appendix, paragraphs AG1 and AG8(a) are amended to read as follows:

AG1 This appendix illustrates the application of the Interpretation using the corporate structure illustrated below. In all cases the hedging relationships described would be tested for effectiveness in accordance with IFRS 9...

AG8 When Subsidiary C is disposed of, the amounts reclassified to profit or loss in Parent's consolidated financial statements from its foreign currency translation reserve (FCTR) are:

- (a) in respect of the US\$300 million external borrowing of Subsidiary A, the amount that IFRS 9 requires to be identified, ie the total change in value in respect of foreign exchange risk that was recognised in other comprehensive income as the effective portion of the hedge; and

...

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

C56 In the rubric 'paragraphs 1–13' is amended to 'paragraphs 1–15'. Below the heading 'References', the reference to IAS 39 is deleted and a reference to IFRS 9 *Financial Instruments* is added. Paragraphs 4(a), 5, 7, 9 and 10 are amended to read as follows, paragraph 14 is deleted and paragraph 16 is added:

4 This Interpretation addresses the following issues:

- (a) Are an entity's equity instruments issued to extinguish all or part of a financial liability 'consideration paid' in accordance with paragraph 3.3.3 of IFRS 9?

(b) ...

Consensus

- 5 The issue of an entity's equity instruments to a creditor to extinguish all or part of a financial liability is consideration paid in accordance with paragraph 3.3.3 of IFRS 9. An entity shall remove a financial liability (or part of a financial liability) from its statement of financial position when, and only when, it is extinguished in accordance with paragraph 3.3.1 of IFRS 9.
- 7 If the fair value of the equity instruments issued cannot be reliably measured then the equity instruments shall be measured to reflect the fair value of the financial liability extinguished. In measuring the fair value of a financial liability extinguished that includes a demand feature (eg a demand deposit), paragraph 5.4.3 of IFRS 9 is not applied.
- 9 The difference between the carrying amount of the financial liability (or part of a financial liability) extinguished, and the consideration paid, shall be recognised in profit or loss, in accordance with paragraph 3.3.3 of IFRS 9. The equity instruments issued shall be recognised initially and measured at the date the financial liability (or part of that liability) is extinguished.
- 10 When only part of the financial liability is extinguished, consideration shall be allocated in accordance with paragraph 8. The consideration allocated to the remaining liability shall form part of the assessment of whether the terms of that remaining liability have been substantially modified. If the remaining liability has been substantially modified, the entity shall account for the modification as the extinguishment of the original liability and the recognition of a new liability as required by paragraph 3.3.2 of IFRS 9.
- 14 [Deleted]
- 16 IFRS 9, issued in [insert date 2012], amended paragraphs 4(a), 5, 7, 9 and 10 and deleted paragraph 14. An entity shall apply those amendments when it applies IFRS 9 as issued in [insert date 2012].

SIC Interpretation 7 *Introduction of the Euro*

C57 The footnote to the third sentence in paragraph 6 is amended to read as follows:

- * As SIC-7 was issued before IAS 39, the previous version of this Interpretation could refer only to the entity's own accounting policies on the matter. The accounting for hedges was subsequently covered under IAS 39 *Financial Instruments: Recognition and Measurement*. In [insert date 2012] the Board replaced the hedge accounting requirements in IAS 39 and relocated them to IFRS 9 *Financial Instruments*.

SIC Interpretation 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*

C58 Below the heading 'References', the reference to IAS 39 is deleted and a reference to IFRS 9 *Financial Instruments* is added. In the Consensus, paragraph 7 and the section below 'Effective date' is amended to read as follows:

- 7 Other obligations of an arrangement, including any guarantees provided and obligations incurred upon early termination, shall be accounted for under IAS 37, IFRS 4 or IFRS 9, depending on the terms.

Effective date

This Interpretation becomes effective on 31 December 2001. Changes in accounting policies shall be accounted for in accordance with IAS 8.

IFRS 9, issued in [insert date 2012], amended paragraph 7. An entity shall apply that amendment when it applies IFRS 9 as issued in [insert date 2012].

