



Heads Up

Hedge accounting draft: A closer reflection of risk management

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“In summary”

The IASB has issued a draft of the new general hedge accounting requirements that will be added to IFRS 9 *Financial Instruments*. The draft follows an exposure draft published in December 2010 and reflects the cumulative tentative decisions made by the Board in its deliberations which are now considered complete. The IASB is not seeking comments on the draft, which has been made available for information purposes only. The guidance is expected to be finalised late December 2012/early January 2013 with an Australian equivalent amendment to AASB 9 *Financial Instruments* expected to be issued by the AASB in due course.

The draft includes amendments to hedge accounting requirements which were often viewed as being too stringent and not capable of reflecting risk management policies. Industry will welcome:

- the significant changes to the types of transactions eligible for hedge accounting, specifically a broadening of the risks, that are eligible for hedge accounting of non-financial items
- the changes in the way options and forward contracts are accounted for when they are in a hedge relationship, with the type of instruments now becoming more attractive as hedging instruments
- the removal of the quantitative effectiveness test, now replaced by the concept of ‘economic relationship’.

The overall effect will be that of more opportunities to apply hedge accounting.

The flexibility of the new hedge accounting requirements will be counter-balanced by enhanced disclosure requirement about the entity’s risk management activities.

The final guidance, once issued, will be available for early application, subject to the entity also applying the Classification and Measurement guidance of IFRS 9 or AASB 9 respectively. The hedge accounting requirements will be applied prospectively (with limited exemptions). Entities not wishing to early adopt the changes may defer the application until annual periods beginning on or after 1 January 2015 when the standard becomes effective.

IFRS in Focus

- [*Hedge accounting draft – A closer reflection of risk management*](#)

A closer look

- [*More opportunities to hedge account non-financial items*](#)
- [*Hedge accounting with financial options and structured derivatives*](#)

External Links

- [*IASB Press Release*](#)

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