
IASB[®] meeting

Date	February 2024
Project	Annual Improvements to IFRS Accounting Standards—Volume 11
Topic	Hedge Accounting by a First-time Adopter (Amendments to IFRS 1 <i>First-time adoption of International Financial Reporting Standards</i>): Analysis of feedback
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB). This paper does not represent the views of the IASB or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS[®] Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB[®] *Update*.

Introduction

1. As explained in Agenda Paper 12 *Maintenance and consistent application—Cover paper*, this paper analyses feedback on *Hedge Accounting by a First-time Adopter* (Amendments to IFRS 1 *First-time adoption of International Financial Reporting Standards*) included in the [Exposure Draft Annual Improvements to IFRS Accounting Standards—Volume 11](#). The International Accounting Standards Board (IASB) proposed to amend paragraphs B5–B6 of IFRS 1 to improve their consistency with the requirements in IFRS 9 *Financial Instruments* and to add cross-references to improve the accessibility and understandability of IFRS Accounting Standards.

Summary of staff recommendation

2. We recommend that the IASB finalise with no changes the proposed amendments to paragraphs B5–B6 of IFRS 1 (see Appendix A to this paper).

Structure of this paper

3. This paper includes:
 - (a) [Background information](#);

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- (b) [Summary of feedback](#);
 - (c) [Staff analysis](#);
 - (d) [Staff recommendation and question for the IASB](#); and
 - (e) [Appendix A—Extract from the Exposure Draft for proposed amendments to paragraphs B5–B6 of IFRS 1 *First-time adoption of International Financial Reporting Standards*](#).

Background information

4. Paragraphs BC1–BC5 of the Basis for Conclusions on the proposed amendments to IFRS 1 in the Exposure Draft explain the background and the IASB’s rationale for the proposed amendments. Paragraphs BC1–BC5 state:

BC1 Stakeholders informed the IASB about potential confusion arising from an inconsistency between the wording of paragraph B6 of IFRS 1 *First-time Adoption of International Financial Reporting Standards* and the requirements for hedge accounting in IFRS 9 *Financial Instruments*. Paragraph B6 of IFRS 1 refers to ‘conditions’ for hedge accounting, whereas Section 6.4 of IFRS 9 sets out ‘qualifying criteria’ for hedge accounting. Paragraph B6 of IFRS 1 was originally written to be consistent with the requirements for hedge accounting in IAS 39 *Financial Instruments: Recognition and Measurement*.

BC2 Both IFRS 9 and IAS 39 remain in effect for hedge accounting; which Standard is applicable depends on an entity’s accounting policy choice when it first applied IFRS 9. However, in accordance with IFRS 1, first-time adopters of IFRS Accounting Standards are required to apply IFRS 9 instead of IAS 39. Accordingly, the term

‘conditions’ in paragraph B6 of IFRS 1 is outdated for first-time adopters. The IASB therefore proposes to update this terminology in paragraph B6 of IFRS 1 to reflect the requirements in IFRS 9.

BC3 IFRS 9, issued in July 2014, amended paragraphs B1–B6 of IFRS 1. These amendments replaced references to IAS 39 with references to IFRS 9. The amendments to paragraph B5 of IFRS 1 updated examples of hedging relationships that do not qualify for hedge accounting in accordance with IFRS 9. When the IASB issued IFRS 9, it did not intend to change the requirements in paragraph B5 or paragraph B6 of IFRS 1. Paragraph B5 remains focused on the ‘eligibility’ of a hedging relationship, and paragraph B6 on the other aspects of the qualifying criteria.

BC4 The IASB observed that the qualifying criteria for hedge accounting in paragraph 6.4.1(a) of IFRS 9 include the requirement for a hedging relationship to consist only of eligible hedging instruments and eligible hedged items. To avoid a misperception that the requirements in paragraphs B5–B6 of IFRS 1 are incomplete or override the qualifying criteria for hedge accounting in IFRS 9, and to leave unchanged the application of the requirements in paragraph B6 of IFRS 1, the IASB proposes to add:

- (a) a cross-reference to paragraph 6.4.1(a) of IFRS 9 in paragraph B5 of IFRS 1; and
- (b) a cross-reference to paragraph 6.4.1(b)–(c) of IFRS 9 in paragraph B6 of IFRS 1.

BC5 In the IASB's view, adding the cross-references would improve the accessibility and understandability of the requirements.

5. The IASB did not propose any specific transition requirements. As discussed in [Agenda Paper 12C](#) for the February 2023 IASB meeting, transition requirements are not relevant for first-time adopters.
6. Appendix A to this paper reproduces the proposed amendments to paragraphs B5–B6 of IFRS 1.

Summary of feedback

7. Thirty-six respondents commented on the proposed amendments to IFRS 1. Almost all respondents agreed fully with the proposed amendments for the reasons set out in the Exposure Draft.
8. A national standard-setter suggested that the IASB consider clarifying in IFRS 1 whether a first-time adopter can choose, applying paragraph 6.1.3 of IFRS 9, to apply the hedge accounting requirements in IAS 39 for fair value hedges of the interest rate exposure of a portfolio of financial assets or financial liabilities (also known as 'fair value macro hedges').
9. An individual said there is an inconsistency between paragraphs 6.2–6.3 of IFRS 9 (which use the terms 'qualifying instruments' and 'qualifying items') and paragraph 6.4.1(a) of IFRS 9 (which uses the terms 'eligible hedging instruments' and 'eligible hedged items').
10. Another national standard-setter said a cross-reference in paragraph B6 of IFRS 1 to paragraph 6.4.1(b) of IFRS 9 'might improperly imply that hedge accounting documented under prior accounting policies by the reporting entity would not be able to be treated as continuing hedge relationships'. This respondent suggested that the

IASB reword paragraph B6 of IFRS 1 to state (text added since the Exposure Draft is bolded and underlined):

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 qualifying criteria conditions—for hedge accounting in paragraph 6.4.1(a)–(c) of IFRS 9 (including the required amendments to hedge documentation required upon transition), 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.

11. No respondents commented on the proposed transition requirements.

Staff analysis

Applying IAS 39 vs IFRS 9

12. The first sentence of paragraph 7.2.21 of IFRS 9 specifies transition requirements and states:

7.2.21 When an entity first applies this Standard, it may choose as its accounting policy to *continue* to apply the hedge accounting requirements of IAS 39 instead of the requirements in Chapter 6 of this Standard. [...] [emphasis added]

13. This transition provision does not apply to first-time adopters, because they have never applied IAS 39, so they cannot *continue* to apply the hedge accounting requirements of IAS 39. In addition, paragraph 9 of IFRS 1 states:

- 9 The transitional provisions in other IFRSs apply to changes in accounting policies made by an entity that already uses IFRSs; they do not apply to a first-time adopter's transition to IFRSs, except as specified in Appendices B–E.
14. So, in accordance with IFRS 1, first-time adopters of IFRS Accounting Standards are required to apply IFRS 9 instead of IAS 39. Nevertheless, paragraph 6.1.3 of IFRS 9 states:
- 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 Standard. [...]
15. Therefore, in our view, it is unnecessary to clarify in IFRS 1 that a first-time adopter can choose, applying paragraph 6.1.3 of IFRS 9, to apply the hedge accounting requirements in IAS 39 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). We did not find evidence of diverse interpretations of these requirements in practice—indeed, the accounting manuals of three large accounting firms provide a similar view to ours.

‘Qualifying’ vs ‘eligible’

16. In our view, the use of different terminology (‘qualifying’) in paragraphs 6.2–6.3 of IFRS 9 and (‘eligible’) in paragraph 6.4.1(a) of IFRS 9 is intentional and was not an oversight. The word ‘qualifying’ refers to the population of hedged items (such as a recognised asset) or hedging instruments (such as a derivative measured at fair value through profit or loss). ‘Eligible’ is used in the context of the hedging relationship and refers to a subset of hedging instruments or hedged items. Eligibility for hedge accounting depends on the type of hedge—for example, future interest payments on

variable-rate debt are eligible in a cash flow hedge, but are not eligible in a fair value hedge.

17. We are aware that some official translations of IFRS 9 from English into other languages use the same word for both ‘qualifying’ and ‘eligible’ in paragraphs 6.2–6.3 and paragraph 6.4.1(a) of IFRS 9 (for example, ‘zulässige’ in German, ‘qualifiés’ in French, ‘elegíveis’ in Portuguese).¹ However, we are not aware of any issues in practice, and we do not recommend any changes in response to the suggestion summarised in paragraph 9 of this paper.

Hedge accounting documentation

18. We disagree with the respondent’s suggestion (summarised in paragraph 10 of this paper):
- (a) to include in paragraph B6 of IFRS 1 a cross-reference to paragraph 6.4.1(a) of IFRS 9. In our view, this would be inconsistent with what paragraph B6 of IFRS 1 requires. Paragraph B6 of IFRS 1 refers only to formal designation, documentation and hedge effectiveness requirements in paragraph 6.4.1(b)–(c) of IFRS 9. Paragraph B5 of IFRS 1 (and not paragraph B6) focuses on the eligibility of hedging instruments and hedged items in the context of the hedging relationship. Therefore, the IASB proposes to add in paragraph B5 a cross-reference to paragraph 6.4.1(a) of IFRS 9.
 - (b) to add the words in brackets ‘(including the required amendments to hedge documentation required upon transition)’. The IASB proposes to add in paragraph B6 of IFRS 1 a cross-reference to paragraph 6.4.1(b)–(c) of IFRS 9. The qualifying criteria in paragraph 6.4.1(b)–(c) include formal designation,

¹ See [EUR-Lex - 02008R1126-20230101 - EN - EUR-Lex \(europa.eu\)](#) for consolidated text of Commission Regulation (EC) No 1126/2008 of 3 November 2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council.

documentation and hedge effectiveness requirements. Therefore, in our view, the IASB proposals, if finalised, would make it sufficiently clear that a first-time adopter is required to meet the formal documentation requirements at the date of transition to IFRS Accounting Standards. Otherwise, the first-time adopter applies paragraphs 6.5.6 and 6.5.7 of IFRS 9 to discontinue hedge accounting immediately after the transition.

Staff recommendation and question for the IASB

19. Based on our analysis in this agenda paper, we recommend the IASB finalise with no changes the proposed amendments to paragraphs B5–B6 of IFRS 1 (see Appendix A to this paper).

Question for the IASB

Does the IASB agree with our recommendation to finalise with no changes the proposed amendments to paragraphs B5–B6 of IFRS 1 (see Appendix A to this paper)?

Appendix A—Extract from the Exposure Draft for proposed amendments to paragraphs B5–B6 of IFRS 1 *First-time adoption of International Financial Reporting Standards*

Paragraph 39AJ is added. For ease of reading, this paragraph has not been underlined.

Effective date

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- 39AJ *Annual Improvements to IFRS Accounting Standards—Volume 11*, issued in [Month, Year], amended paragraphs B5–B6. An entity shall apply those amendments for annual reporting periods beginning on or after [date to be determined]. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

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Appendix B Exception to the retrospective application of other IFRSs

Paragraphs B5–B6 are amended. New text is underlined and deleted text is struck through.

Hedge accounting

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- 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) (see paragraph 6.4.1(a) of IFRS 9). 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 qualifying criteria ~~conditions~~ for hedge accounting in paragraph 6.4.1(b)–(c) of 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.