HEDGESTAR

Overview of IFRS 9 vs. IAS 39

IFRS 9 represents a significant overhaul of hedge accounting, compared to IAS 39, and better aligns the accounting treatment with a company's risk management activities.

Many entities that currently engage in economic hedging and have not applied hedge accounting will want to evaluate how they can benefit from applying the new hedge accounting requirements found in IFRS 9.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted.

Despite the significant overhaul with IFRS 9, some concepts found in IAS 39 have been preserved; these include the following:

- The three types of hedges remain cash flow, fair value and a hedge of a net investment in a foreign operation.
- Hedge effectiveness is still measured and all inefficiencies are recognized in profit or loss.
- Hedge documentation is still required to be maintained.

The following table details the changes in hedge accounting that occur from IAS 39 to IFRS 9:

Area of Change	IFRS 9
Hedging Instrument	Allows companies to designate non-derivative financial assets/liabilities that are accounted for at fair value through profit or loss (FVTPL) as hedging instruments.
Hedged Items	Allows the following instruments to be classified as hedged items which would not have qualified under IAS 39: 1. Exposures that combine a derivative and an eligible hedged item (i.e. an aggregated exposure) if the exposure is managed as one exposure. 2. Financial instruments in the fair value through other comprehensive (FVOCI) category. 3. Components of certain financial and non-financial items (i.e. the component of a commodity purchase price that is separately identifiable and measurable).
Hedge Effectiveness Testing	Outlines more principal-based criteria for determining hedge effectiveness with no specific hedge effectiveness thresholds. An entity may qualitatively achieve hedge effectiveness by defining the economic relationship between hedged item and hedging instrument, the effect of credit risk on that economic relationship, and the hedge ratio of the hedging relationship.
Rebalancing	If the quantity of the hedged item or hedging instrument (hedge ratio) changes for risk management purposes, hedge accounting may continue. However, the hedge ratio must be revised and documented to align with the new economic relationship.
Discontinuance	Can only discontinue hedge accounting when the Qualifying criteria are no longer met. In other words, an entity may not voluntarily discontinue hedge accounting.
Accounting for time value of options, forward element of forward contract and foreign currency basis spread	Excluded hedge components such as option time value or foreign currency forward points may be recorded to equity and amortized to profit or loss over the term of the hedging instrument
Management of Credit Risk Through Credit Derivatives	Can designate a financial instrument with credit risk exposure as measured at fair value through profit or loss (FVTPL) if certain criteria are met and the company uses a credit derivative to manage the credit risk.

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