Partner With The Experts

The transition from ASC 815 / 820 can be complicated. HedgeStar's experts can work with you to understand the nuances of IFRS 9. Our accounting professionals have the experience to help you make a smooth transition to IFRS 9. Call us today!

Topic	ASC 815 / 820	IFRS 9
Hedge Effectiveness Frequency	At least every three months (regardless of how often financial statements are prepared.)	Effectiveness must be measured, at a minimum, at the time an entity prepares its annual or interim financial reports. If an entity produces only annual financial statements, IFRS requires that effectiveness be tested only once a year.
Shortcut Methods	Shortcut method is allowed and assumes no ineffectiveness (and, hence, bypass an effectiveness test) for hedges of interest rate risk using interest rate swaps.	Does not allow a shortcut method by which an entity may assume no ineffectiveness.
Critical Terms Match Method	An entity is not allowed to assume (1) no ineffectiveness when it exists or (2) that testing can be avoided. Rather, matched terms provide a simplified approach to effectiveness testing in certain situations. The SEC has clarified that the critical terms have to be perfectly matched to assume no ineffectiveness.	If an entity can prove for the relationship will always be 100 percent effective based on an appropriately designed test, then a similar qualitative analysis may be sufficient for prospective testing. Even if the critical terms are the same, retrospective effectiveness must be assessed, and ineffectiveness must be measured in all cases because IFRS precludes the assumption of perfect effectiveness.
Credit Risk & Hypothetical Derivatives	The hypothetical derivative will adjust for the counterparty's (or an entity's own) credit risk. This adjustment is based upon the credit risk in the actual derivative. No ineffectiveness will arise due to credit risk, as the same risk is reflected in both the actual and hypothetical derivative.	The hypothetical derivative matches perfectly with the hedged item and does not reflect credit risk. The actual derivative, however, would reflect credit risk. The resulting mismatch between changes in the fair value of the hypothetical derivative and the derivative would result in ineffectiveness.

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Cash Flow Hedges With Purchased Options	Assess effectiveness based on total changes in the purchased option's cash flows (that is, the assessment will include the derivative's entire change in fair value). As a result, the entire change in the option's FV (including time value) may be deferred in equity based on the level of effectiveness.	Required to separate the intrinsic value and time value of the purchased option and designate as the derivative only the changes in the intrinsic value of the option. As a result, the change in intrinsic value will be deferred in equity while the change in time value will be recorded in the income statement.
Hedges of A Portion of The Time Period To Maturity	Does not permit the hedged risk to be defined as a portion of the time period to maturity of a hedged item.	Permits designation of a derivative as hedging only a portion of the time period to maturity of a hedged item if effectiveness can be measured and the other hedge accounting criteria are met. *For example, an entity with a 10 percent fixed bond with remaining maturity of 10 years can acquire a five-year pay-fixed, receive-floating swap and designate the swap as hedging the fair value exposure of the interest rate payments on the bond until the fifth year and the change in value of the principal payment due at maturity to the extent affected by changes in the yield curve relating to the five years of the swap. That is, a five-year bond is the imputed hedged item in the actual 10-year bond; the interest rate risk hedged is the five-year interest rate implicit in the 10-year bond.*
Designated Risks For Financial Assets & Liabilities	Does not allow a portion of a specific risk to qualify as a hedged risk in a hedge of financial assets/liabilities. Designated risk must be changes in one of the following: • Overall Fair Value or Cash Flow • Benchmark interest rates (limited to specified rates) • Foreign currency exchange rates • Creditworthiness and credit risk	Allows a portion of a specific risk to qualify as a hedged risk (so long as effectiveness can be reliably measured). Portions of risks can be viewed as portions of the cash flows (e.g., excluding the credit spread from a fixed rate bond in a fair value hedge of interest rate risk) or different types of financial risks, provided the types of risk are separately identifiable and effectiveness can be measured reliably.
Fair Value Hedge of Interest Rate Risk In A Portfolio of Dissimilar Items	Does not allow a Fair Value hedge of interest rate risk in a portfolio of dissimilar items. • Homogeneity test • Change in fair value is required to be recorded on an item-by-item basis, unless relationship is absolutely perfect	IFRS allows a Fair Value hedge of interest rate risk in a portfolio of dissimilar items • Hedged item = notional amount, rather than individual assets • May incorporate prepayment risk using a simplified method, rather that specific application on an item-by-item basis Change in fair value is a separate line item on the financial statements (not allocated to individual assets/liabilities)

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Firm Commitment To Acquire A Business	Cannot be designated as a hedged item for hedge accounting purposes (even if it is foreign exchange risk)	An entity may hedge the foriegn exchange risk related to a firm commitment to acquire a business for hedge accounting purposes
Hedgeing Multiple Risks	A single derivative may not hedge more than one risk	A single derivative may be designated as a hedge of more than one risk if the risks hedged: • Can be clearly identified • Effectiveness can be demonstrated • It is possible to ensure there is specific designation of the derivative and different risk positions
Cash Flow & Basis Adjustment on Acquisition of Nonfinancial Items	Requires the initial carrying amount of the hedged item and the cumulative amount of the derivative's fair value changes remain separate	Allows for the initial carrying amount of a nonfinancial asset or liability to be adjusted by the derivative's fair value changes previously recorded in equity. • Entity may basis adjust the hedged item, or release amounts to profit/loss as the hedged item affects earnings

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