Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Not-for-Profit Private Sector Financial Reporting Framework**	**Meeting:**	M188
Topic:	**Tier 3 – Financial Instruments: Hedge accounting and Embedded derivatives**	**Agenda Item:**	12.2.3
		Date:	6 June 2022
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		Decision-Making:	High
		Project Status:	Initial deliberations

Objective of this paper

1 The objective of this agenda paper is for the Board to **decide** its preliminary views on Tier 3 reporting requirements for a not-for-profit (NFP) private sector entity's financial instruments for inclusion as part of a discussion paper (DP)[1] for the following topics:

(a) hedge accounting (paragraphs 4 – 13); and

(b) embedded derivatives (paragraphs 14 – 20).

2 In analysing these topics and making the staff recommendations, staff had regard to the current requirements in Australian Accounting Standards, approaches taken by selected other jurisdictions,[2] feedback from Australian stakeholders, findings from academic research and other literature, and the findings from staff review of a sample of financial statements. Staff have noted relevant aspects of its environment findings as part of its analysis of each topic considered.[3]

Summary of staff recommendations

3 Staff recommend that the Tier 3 reporting requirements for financial instruments should:

(a) not permit hedge accounting; and

(b) not require an embedded derivative to be separately recognised from its host contract.

1 For succinctness, in general, references to 'AASB 9' in this paper are to the suite of Tier 1 financial instrument-related standards, rather than to AASB *9 Financial Instruments* in particular.

2 The selected other jurisdictions/pronouncements considered were the *IFRS for SMEs*, United Kingdom FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, United Kingdom FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime*, Hong Kong *Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard* (HK SME-FRF & FRS), New Zealand *Public Benefit Entity Simple Format Reporting – Accrual (Not-For-Profit)* (NZ Tier 3 reporting requirements) and CPA Canada Handbook Section 3856 *Financial Instruments*. Staff did not consider the applicable USA requirements given their expected complexity.

3 For further reference, Agenda Paper 5.2.1 of the AASB May 2022 meeting included summaries of the staff research in this regard. A copy of this agenda paper is included as supplementary material to this agenda item – refer Agenda Paper 12.2.1.1.

Hedge accounting (Proposed simplification 7)

NOTE: This Section is not relevant if the Board decides that, regardless of whether the entity intends to apply hedge accounting, derivative financial instruments should be accounted for in accordance with AASB 9 (refer Agenda Paper 12.2.1).

Current requirements and staff research/outreach findings

4 Under AASB 9, hedge accounting is an accounting policy choice. The AASB 9 hedging accounting requirements, including the qualifying and monitoring conditions, and disclosure, in staff's view, are complex to understand and apply for Tier 3 NFP entities.

5 Staff note the following:

(a) the selected jurisdictions reviewed take varied approaches towards hedge accounting for smaller entities. These range from:

(i) not including any provisions for hedge accounting [NZ, UK FRS 105, HK]; and

(ii) developing simpler hedge accounting conditions [*IFRS for SMEs*,[4] UK FRS 102[5]]; to

(iii) specifying the same requirements for hedge accounting as for a larger entity [Canada].

One jurisdiction that does not permit hedge accounting within its equivalent to a Tier 3 pronouncement allows entities to opt up to the accounting applying to a higher reporting tier to access hedge accounting provisions [NZ];

(b) staff did not identify any recognised derivative instruments in the staff sample of financial statements reviewed; and

(c) staff have not identified any research nor received any feedback relating to the application of hedge accounting specifically by smaller NFP private sector entities.

Proposed simplification and staff analysis

6 Table 1 in Agenda Paper 12.2.1 noted that staff consider simplification of the AASB 9 hedge accounting requirements to be necessary having regard to their complexity, causing it to be too costly for a Tier 3 entity to assess and apply. As a simplification from the AASB 9 measurement criteria, staff propose that the Board either:

(a) Option **A:** Do not permit hedge accounting. As a result, an entity is required to account for a derivative financial instrument acquired for the purposes of hedging an exposure in the same way as other derivative financial instruments; or

(b) **Option B:** Develop simpler requirements for hedge accounting, using the conditions specified by the *IFRS for SMEs* as a starting point. The *IFRS for SMEs* permits hedge accounting only for those instruments and instances that may typically be used by a smaller entity that engages in hedging activity. The hedge accounting requirements of the *IFRS for SMEs* are set out in Appendix A to this paper.

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4 The IASB considered these hedge accounting provisions as part of its second comprehensive review of the *IFRS for SMEs*, and has tentatively decided to not make any changes in this regard. In addition, following its deliberations whether to permit an entity to opt up to accounting for its financial instruments in accordance with IFRS 9 (rather than IAS 39), the IASB has tentatively decided to eliminate the existing opt up provision for financial instruments in the *IFRS for SMEs*.

5 The conditions to qualify for hedge accounting differ slightly between the *IFRS for SMEs* and UK FRS 102. More instances may qualify for hedge accounting under UK FRS 102 compared to the *IFRS for SMEs*.

7 Option A and Option B diverge on the extent of simplification from the hedge accounting requirements in AASB 9 to be reflected by a Tier 3 Standard. Option A prioritises minimising choices, while Option B seeks to not disadvantage an entity by removing an accounting policy option available to entities preparing Tier 1 or Tier 2 compliant financial statements, even if the accounting policy option is unlikely to be often applied. Staff consider that both Options are consistent with the Tier 3 principles agreed by the Board at its August 2021 meeting.[6]

8 Option B proposes relying on the *IFRS for SMEs* as the starting point from which the Board develops its hedging requirements. Staff think the *IFRS for SMEs* presents an appropriate base from which the Board can develop its hedging criteria because the IASB only recently (October 2021) considered whether to update its existing requirements for alignment with IFRS 9 *Financial Instruments* and whether to continue to permit hedge accounting.[7] The hedge accounting requirements in the *IFRS for SMEs* recognise that IFRS 9-aligned hedge accounting requirements, which focus on better reflecting an entity's risk management strategies are 'not relevant' to a smaller entity that typically does not engage in sophisticated hedging strategies.

9 In accordance with the Board's agreed approach to simplification as set out in the flowchart included in Appendix A to Agenda Paper 12.1, staff analysed reasons for supporting Option A and Option B:

Table 1: Staff analysis of the comparative advantages of Options A and B

Arguments supporting Option A (do not develop any hedge accounting requirements)	**Arguments supporting Option B** (develop simpler hedge accounting requirements)
• least 'costly' to implement, as entities do not have access to hedge accounting • consistent with the approach taken by some other jurisdictions for their smaller entities • anticipates that smaller NFP private sector entities are, in the main, unlikely to hold derivatives, engage in hedging practices, or want to adopt hedge accounting in their financial statements. That is, Option A is unlikely to significantly impact entities of the Tier 3 size contemplated by the Board[8] • as hedge accounting is optional, the resultant accounting continues to be consistent with that specified by AASB 9 • enhances comparability between smaller NFP private sector entities, as entities are required to account for all hedging instruments in the same way • depending on the Board's future decisions regarding an entity's ability to opt up to an accounting policy specified by a higher reporting Tier, AASB 9 hedge accounting could still be available to a Tier 3 entity that wishes to engage in such practice. In addition, an entity	• disadvantages those entities that may currently apply hedge accounting • allows an entity to provide more relevant information to users compared to Option A, as the effects of hedging activity can be reflected in the financial statements. This provides users with a better representation of the 'true' financial performance of the entity, and acknowledges that the entity has risk management strategies • simpler requirements recognise that AASB 9 requirements are likely to be disproportionately complex (and consequently, costly) when compared to the financial risk management strategies of the entity. That is, the benefits of more stringent AASB 9 hedge accounting conditions are limited when considering the type of hedging activity likely to be conducted • while the hedge accounting requirements are "different" to AASB 9, having regard to the anticipated financial instruments that are commonly held by smaller NFP private sector entities, the Option is likely to return a similar result to AASB 9

6 The simplifications are described in the flowchart included as Appendix A to Agenda Paper 12.1.

7 IASB Agenda Paper 30B *Towards an Exposure Draft – IFRS 9 Financial Instruments (hedge accounting)*, IASB meeting October 2021

8 Annual revenues between $500,000 - $3 million.

Arguments supporting Option A (do not develop any hedge accounting requirements)	Arguments supporting Option B (develop simpler hedge accounting requirements)
that wishes to apply hedge accounting could always prepare Tier 1 or Tier 2 compliant financial statements.	

Staff recommendation

10 Staff recommend Option A (not developing any specific hedge accounting requirements as part of a Tier 3 accounting pronouncement). Staff think Option A is most consistent with the Board's objective of developing Tier 3 reporting requirements as a simple, proportionate response for smaller entities. This is because it recognises that hedging strategies, and hedge accounting, is unlikely to be common for smaller NFP private sector entities. Therefore, it is not relevant to provide for such accounting policy choice in a Tier 3 Standard.

11 Staff also observe that, depending on the Board's future decisions regarding an entity's ability to opt up to an accounting policy specified by a higher reporting Tier, AASB 9 hedge accounting requirements could still be available to a Tier 3 entity that wishes to engage in such practices.

Simplification option not proposed: AASB 9 hedge accounting by cross-reference in a Tier 3 Standard to those requirements[9]

12 In addition to the options presented above, a further form of 'simplification' could be to require an entity that wants to apply hedge accounting to comply with the hedge accounting requirements of AASB 9. This is actioned by including in the Tier 3 Standard a cross-reference to AASB 9. This action limits the content of the Tier 3 Standard to that expected to be most relevant to smaller NFP private sector entities, while 'saving costs' in the form of Board development and maintenance time, retraining costs, and any costs that may be suffered from different hedge accounting rules applying to a subsidiary of a Tier 1 or Tier 2 entity preparing consolidated financial statements. It takes the view that hedge accounting is a complex accounting policy choice, and that an entity that wants to apply it should be prepared to comply with complex conditions and requirements regardless of the extent of sophistication of its hedging strategy.

13 Staff have not suggested this form of simplification as an option because staff consider it does not align with the Board's agreed Tier 3 principles, and the use of cross-referencing to AASB 9 has the potential to impair the useability of the Tier 3 pronouncement. In particular, staff think that incorporating AASB 9 hedge accounting requirements by cross-reference from a Tier 3 Standard:

(a) is unlikely to leverage the information that management uses internally for its decision making, as management is unlikely to engage in sophisticated hedging strategies; and

(b) will continue to impose costs on preparers of a smaller NFP private sector entity that are disproportionate to the benefits of the requirement, as none of the complexity or costs of AASB 9 is eliminated for those preparers who wish to apply hedge accounting.

9 This discussion differs to the discussion in Agenda Paper 12.2.1. The focus of Agenda Paper 12.2.1 is on whether derivative financial instruments are complex financial instruments that should be accounted for in accordance with AASB 9. The focus of this Section is on whether hedging activity as complex financial transactions should be accounted for in accordance with AASB 9.

Question for Board members

Q1 Do Board members agree, for the purposes of the Discussion Paper, not to develop any specific hedge accounting requirements as part of a Tier 3 pronouncement (Option A)?

If not, do Board members prefer to develop simpler hedge accounting provisions (Option B)?

If not, do Board members prefer to require an entity that wants to apply hedge accounting to comply with the hedge accounting requirements of AASB 9?

Embedded derivatives (Proposed simplification 8)

NOTE: This Section remains relevant **even if** the Board decides that derivative financial instruments should be accounted for in accordance with AASB 9 (refer Agenda Paper 12.2.1). This is because this Section addresses the recognition and measurement of embedded derivatives.

Current requirements and staff research/outreach findings

14 Under AASB 9:

(a) a derivative embedded in a contract with a financial asset host is not separated from the host contract. Rather, the contract in its entirety is subject to the 'business model' and 'solely interest and principal' (SPPI) tests for measurement at amortised cost;

(b) a derivative embedded in a contract with a financial liability host or a host contract not within the scope of AASB 9 (e.g. a lease contract) must be separately recognised from the host contract when:

(i) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host;

(ii) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

(iii) the hybrid contract is not measured at fair value with changes in fair value recognised in profit or loss.

A separated derivative is measured at fair value through profit or loss (FVTPL). Otherwise, the contract is measured in its entirety on the basis specified by AASB 9 or other Australian Accounting Standard, as appropriate.

15 Staff note the following:

(a) in the main, the selected jurisdictions reviewed do not address the accounting for embedded derivatives [*IFRS for SMEs*, UK FRS 102, UK FRS 105, HK, NZ]. As such, there is no requirement to separately recognise an embedded derivative component in a hybrid contract;[10]

(b) staff did not identify any recognised derivative instruments in the staff sample of financial statements reviewed; and

(c) staff have not identified any research nor received any feedback relating to the existence or accounting for embedded derivatives by smaller NFP private sector entities.

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10 While there is no requirement to separately recognise an embedded derivative, the financial instrument provisions of the *IFRS for SMEs* apply to contracts to buy, sell, lease or insure a non-financial item where the contract could result in a loss to the buyer, seller, lessor, lessee or insured party as a result of contractual terms that are unrelated to changes in the price of the non-financial item, changes in foreign exchange rates or a default by one of the counterparties, as though the contract were itself a financial instrument. Such contracts are measured at FVTPL. Resultantly, the "embedded" derivative implicit in such contracts are measured at FVTPL.

Proposed simplification, staff analysis and recommendations

16 Table 1 in Agenda Paper 12.2.1 noted that staff consider simplification of the AASB 9 embedded derivative requirements to be necessary having regard to their complexity, including the management judgement involved (e.g. in making the 'closely related' determination). As a simplification from the AASB 9 recognition criteria, **staff recommend** that the Board does not require the separate recognition and measurement of an embedded derivative from its financial or non-financial host contract.

17 Staff think it is unlikely that NFP private sector entities of the Tier 3 size contemplated by the Board currently review contracts for embedded derivatives, and the simplification will effectively affirm current practice. However, under the proposed simplification, an embedded derivative will be treated differently to a stand-alone derivative unless the hybrid contract is measured in its entirety at fair value. As such, there is an opportunity for an entity to engage in structuring activity to achieve the desired accounting outcome. On balance, however, staff recommend not requiring separate accounting for embedded derivatives for the following reasons:

(a) analysing an embedded derivative – especially whether it is 'closely related' to its host contract – can be challenging even for larger preparers. Consequently, smaller NFP private sector preparers are unlikely to be equipped (whether with knowledge or financial resources) to address such complexity;

(b) staff are not aware of any call for fair value information about an embedded derivative to be provided to users of smaller NFP private sector entities;

(c) the cash 'result' of the embedded derivative will be reflected in the entity's financial statements;

(d) potential for volatility in the profit or loss;

(e) disclosure about terms and conditions of a hybrid contract (in a manner consistent with an agreed disclosure approach)[11] may provide users of smaller NFP private sector entities with sufficient information to be aware of potential unexpected cash outflows; and

(f) requiring an embedded derivative to be identified and potentially separately recognised suggests that the entity has negotiation power over the contract clause, which may not reflect the reality for smaller NFP private sector entities.

18 Staff consider not requiring separate accounting for embedded derivatives is consistent with the Tier 3 principles agreed by the Board at its August 2021 meeting:

(a) departure from the AASB NFP Standard-Setting Framework and AASB 9 is appropriate having regard to the costs and complexity of applying the requirements versus the expected additional benefit that would be gained by a user of the financial statements of a smaller NFP private sector entity. As separable embedded derivatives may not be common, the departure from AASB 9 requirements may not be significant;

(b) while some may regard the financial statements as providing less useful information as the existence and financial impact or potential implications of an embedded derivative may be more challenging to identify and assess, staff think that the proposed simplification does not significantly impact the financial statements such that they could not be regarded as being general purpose financial statements; and

11 A disclosure approach for Tier 3 reporting requirements is discussed in Agenda Paper 12.3.1.

(c) staff expect that embedded derivatives are not monitored separately from other aspects of a hybrid contract; accordingly, the proposed simplification could be said to leverage the information management uses to make its decisions.

19 To give effect to the proposed simplification, **staff recommend** the Board explicitly specify that that an embedded derivative is not separated from its host contract. This differs from the approach taken by other jurisdictions (that did not address this topic), but staff think this provides more clarity on the accounting to preparers and other stakeholders. Where the conceptual framework underpinning Tier 3 financial statements directs an entity to follow a notion of "accounting for a component of an asset/liability", the absence of an explicit requirement could arguably result in ambiguity whether the Tier 3 pronouncement requires an entity to separately recognise an embedded derivative.

Simplification option not proposed: Requiring all embedded derivatives to be separately recognised

20 Staff considered whether to propose as a further form of potential simplification requiring an embedded derivative to always be separately recognised and measured from its host contract. Such accounting would:

(a) still be a simplification from AASB 9, as there is no need for management to assess whether an embedded derivative is closely related to a financial liability host; and

(b) allow for derivatives embedded within a lease or other contract to be identified and recognised, even if the host contract is itself not recognised as a liability, or is measured at cost.

Staff did not propose this as an option as staff think requiring an embedded derivative to always be separately recognised and measured from its host contract does not align with the Board's agreed Tier 3 principles. This is because while an aspect of application complexity is eliminated, the resultant accounting arguably does not sufficiently reduce the costs to preparers compared to the benefits of the information as there continues to be the need for an entity to identify (and measure) any embedded derivatives.[12] It is possible that instances of hybrid contracts are uncommon amongst smaller NFP private sector entities (i.e. the cost burden might only apply to a small number of entities); however staff do not currently have any insight in this regard.

Question for Board members

Q2 Do Board members agree, for the purposes of the Discussion Paper, not to require the separate recognition and measurement of an embedded derivative?

Q3 Do Board members further agree, for the purposes of the Discussion Paper, to explicitly specify in a Tier 3 pronouncement that an embedded derivative is not separated from its host contract?

12 Staff also note that when developing IFRS 9, the IASB moved away from a bifurcation model for derivatives embedded in a financial asset host contract.

APPENDIX A: EXTRACT FROM *IFRS FOR SMEs* SECTION 12

The hedge accounting requirements of the *IFRS for SMEs* are set out in paragraphs 12.15 – 12.25 (recognition and measurement) and paragraphs 12.27 – 12.29 (disclosure) of Section 12 *Other Financial Instrument Issues*. The relevant *IFRS for SMEs* paragraphs are set out below.

Hedge accounting

12.15 If specified criteria are met, an entity may designate a hedging relationship between a hedging instrument and a hedged item in such a way as to qualify for hedge accounting. Hedge accounting permits the gain or loss on the hedging instrument and on the hedged item to be recognised in profit or loss at the same time.

12.16 To qualify for hedge accounting, an entity shall comply with all of the following conditions:

(a) the entity designates and documents the hedging relationship so that the risk being hedged, the hedged item and the hedging instrument are clearly identified and the risk in the hedged item is the risk being hedged with the hedging instrument.

(b) the hedged risk is one of the risks specified in paragraph 12.17.

(c) the hedging instrument is as specified in paragraph 12.18.

(d) the entity expects the hedging instrument to be highly effective in offsetting the designated hedged risk. The effectiveness of a hedge is the degree to which changes in the fair value or cash flows of the hedged item that are attributable to the hedged risk are offset by changes in the fair value or cash flows of the hedging instrument.

12.17 This Standard permits hedge accounting only for the following risks:

(a) interest rate risk of a debt instrument measured at amortised cost;

(b) foreign exchange or interest rate risk in a firm commitment or a highly probable forecast transaction;

(c) price risk of a commodity that an entity holds or in a firm commitment or highly probable forecast transaction to purchase or sell a commodity; and

(d) foreign exchange risk in a net investment in a foreign operation.

Foreign exchange risk of a debt instrument measured at amortised cost is not in the list because hedge accounting would not have any significant effect on the financial statements. Basic accounts, notes and loans receivable and payable are normally measured at amortised cost (see paragraph 11.5(d)). This would include payables denominated in a foreign currency. Paragraph 30.10 requires any change in the carrying amount of the payable because of a change in the exchange rate to be recognised in profit or loss. Consequently, both the change in fair value of the hedging instrument (the cross-currency swap) and the change in the carrying amount of the payable relating to the change in the exchange rate would be recognised in profit or loss and should offset each other except to the extent of the difference between the spot rate (at which the liability is measured) and the forward rate (at which the swap is measured).

12.18 This Standard permits hedge accounting only if the hedging instrument has all of the following terms and conditions:

(a) it is an interest rate swap, a foreign currency swap, a foreign currency forward exchange contract or a commodity forward exchange contract that is expected to be highly effective in offsetting a risk identified in paragraph 12.17 that is designated as the hedged risk;

(b) it involves a party external to the reporting entity (i.e. external to the group, segment or individual entity being reported on);

(c) its notional amount is equal to the designated amount of the principal or notional amount of the hedged item;

(d) it has a specified maturity date not later than:

(i) the maturity of the financial instrument being hedged;

(ii) the expected settlement of the commodity purchase or sale commitment; or

(iii) the occurrence of the highly probable forecast foreign currency or commodity transaction being hedged.

(e) it has no prepayment, early termination or extension features.

Hedge of fixed interest rate risk of a recognised financial instrument or commodity price risk of a commodity held

12.19 If the conditions in paragraph 12.16 are met and the hedged risk is the exposure to a fixed interest rate risk of a debt instrument measured at amortised cost or the commodity price risk of a commodity that it holds, the entity shall:

(a) recognise the hedging instrument as an asset or liability and the change in the fair value of the hedging instrument in profit or loss; and

(b) recognise the change in the fair value of the hedged item related to the hedged risk in profit or loss and as an adjustment to the carrying amount of the hedged item.

12.20 If the hedged risk is the fixed interest rate risk of a debt instrument measured at amortised cost, the entity shall recognise the periodic net cash settlements on the interest rate swap that is the hedging instrument in profit or loss in the period in which the net settlements accrue.

12.21 The entity shall discontinue the hedge accounting specified in paragraph 12.19 if:

(a) the hedging instrument expires or is sold or terminated;

(b) the hedge no longer meets the conditions for hedge accounting specified in paragraph 12.16; or

(c) the entity revokes the designation.

12.22 If hedge accounting is discontinued and the hedged item is an asset or liability carried at amortised cost that has not been derecognised, any gains or losses recognised as adjustments to the carrying amount of the hedged item are amortised into profit or loss using the effective interest method over the remaining life of the hedged item.

Hedge of variable interest rate risk of a recognised financial instrument, foreign exchange risk or commodity price risk in a firm commitment or highly probable forecast transaction or a net investment in a foreign operation

12.23 If the conditions in paragraph 12.16 are met and the hedged risk is:

(a) the variable interest rate risk in a debt instrument measured at amortised cost;

(b) the foreign exchange risk in a firm commitment or a highly probable forecast transaction;

(c) the commodity price risk in a firm commitment or highly probable forecast transaction; or

(d) the foreign exchange risk in a net investment in a foreign operation,

the entity shall recognise in other comprehensive income the portion of the change in the fair value of the hedging instrument that was effective in offsetting the change in the fair value or expected cash flows of the hedged item. The entity shall recognise in profit or loss in each period any excess (in absolute amount) of the cumulative change in the fair value of the hedging instrument over the cumulative change in the fair value of the expected cash flows of the hedged item since inception of the hedge (sometimes called hedge ineffectiveness). The hedging gain or loss recognised in other comprehensive income shall be reclassified to profit or loss when the hedged item is recognised in profit or loss, subject to the requirements in paragraph 12.25. However, the cumulative amount of any exchange differences that relate to a hedge of a net investment in a foreign operation recognised in other comprehensive income shall not be reclassified to profit or loss on disposal or partial disposal of the foreign operation.

12.24 If the hedged risk is the variable interest rate risk in a debt instrument measured at amortised cost, the entity shall subsequently recognise in profit or loss the periodic net cash settlements from the interest rate swap that is the hedging instrument in the period in which the net settlements accrue.

12.25 The entity shall discontinue prospectively the hedge accounting specified in paragraph 12.23 if:

(a) the hedging instrument expires or is sold or terminated;

(b) the hedge no longer meets the criteria for hedge accounting in paragraph 12.16;

(c) in a hedge of a forecast transaction, the forecast transaction is no longer highly probable; or

(d) the entity revokes the designation.

If the forecast transaction is no longer expected to take place or if the hedged debt instrument measured at amortised cost is derecognised, any gain or loss on the hedging instrument that was recognised in other comprehensive income shall be reclassified to profit or loss.

Disclosures

12.26 An entity applying this section shall make all of the disclosures required in Section 11 incorporating in those disclosures financial instruments that are within the scope of this section as well as those within the scope of Section 11. In addition, if the entity uses hedge accounting, it shall make the additional disclosures in paragraphs 12.27 – 12.29.

12.27 An entity shall disclose the following separately for hedges of each of the four types of risks described in paragraph 12.17:

(a) a description of the hedge;

(b) a description of the financial instruments designated as hedging instruments and their fair values at the reporting date; and

(c) the nature of the risks being hedged, including a description of the hedged item.

12.28 If an entity uses hedge accounting for a hedge of fixed interest rate risk or commodity price risk of a commodity held (paragraphs 12.19 – 12.22) it shall disclose the following:

(a) the amount of the change in fair value of the hedging instrument recognised in profit or loss for the period; and

(b) the amount of the change in fair value of the hedged item recognised in profit or loss for the period.

12.29 If an entity uses hedge accounting for a hedge of variable interest rate risk, foreign exchange risk, commodity price risk in a firm commitment or highly probable forecast transaction or a net investment in a foreign operation (paragraphs 12.23 – 12.25), it shall disclose the following:

(a) the periods when the cash flows are expected to occur and when they are expected to affect profit or loss;

(b) a description of any forecast transaction for which hedge accounting had previously been used, but which is no longer expected to occur;

(c) the amount of the change in fair value of the hedging instrument that was recognised in other comprehensive income during the period (paragraph 12.23);

(d) the amount that was reclassified to profit or loss for the period (paragraphs 12.23 and 12.25); and

(e) the amount of any excess of the cumulative change in fair value of the hedging instrument over the cumulative change in the fair value of the expected cash flows that was recognised in profit or loss for the period (paragraph 12.23).