

IFRS 9
CHAPTER 6
HEDGE ACCOUNTING
Implementation Guidance

**GUIDANCE ON IMPLEMENTING
IFRS 9 *FINANCIAL INSTRUMENTS***

Illustrative examples

Questions and answers on implementing IFRS 9

**Appendix:
Amendments to the guidance on other IFRSs**

Tables of Concordance

IFRS 9 *Financial Instruments***Illustrative examples**

These examples accompany, but are not part of, IFRS 9

Financial liabilities at fair value through profit or loss

- IE1 The following example illustrates the calculation that an entity might perform in accordance with paragraph B5.7.18 of IFRS 9.
- IE2 On 1 January 20X1 an entity issues a 10-year bond with a par value of CU150,000¹ and an annual fixed coupon rate of 8 per cent, which is consistent with market rates for bonds with similar characteristics.
- IE3 The entity uses LIBOR as its observable (benchmark) interest rate. At the date of inception of the bond, LIBOR is 5 per cent. At the end of the first year:
- (a) LIBOR has decreased to 4.75 per cent.
 - (b) the fair value for the bond is CU153,811, consistent with an interest rate of 7.6 per cent.²
- IE4 The entity assumes a flat yield curve, all changes in interest rates result from a parallel shift in the yield curve, and the changes in LIBOR are the only relevant changes in market conditions.
- IE5 The entity estimates the amount of change in the fair value of the bond that is not attributable to changes in market conditions that give rise to market risk as follows:

<p>[paragraph B5.7.18(a)]</p> <p>First, the entity computes the liability's internal rate of return at the start of the period using the observed market price of the liability and the liability's contractual cash flows at the start of the period. It deducts from this rate of return the observed (benchmark) interest rate at the start of the period, to arrive at an instrument-specific component of the internal rate of return.</p>	<p>At the start of the period of a 10-year bond with a coupon of 8 per cent, the bond's internal rate of return is 8 per cent.</p> <p>Because the observed (benchmark) interest rate (LIBOR) is 5 per cent, the instrument-specific component of the internal rate of return is 3 per cent.</p>
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¹ In this guidance monetary amounts are denominated in 'currency units (CU)'.

² This reflects a shift in LIBOR from 5 per cent to 4.75 per cent and a movement of 0.15 per cent which, in the absence of other relevant changes in market conditions, is assumed to reflect changes in credit risk of the instrument.

<p>[paragraph B5.7.18(b)]</p> <p>Next, the entity calculates the present value of the cash flows associated with the liability using the liability's contractual cash flows at the end of the period and a discount rate equal to the sum of (i) the observed (benchmark) interest rate at the end of the period and (ii) the instrument-specific component of the internal rate of return as determined in accordance with paragraph B5.7.18(a).</p>	<p>The contractual cash flows of the instrument at the end of the period are:</p> <ul style="list-style-type: none"> • interest: CU12,000^(a) per year for each of years 2–10. • principal: CU150,000 in year 10. <p>The discount rate to be used to calculate the present value of the bond is thus 7.75 per cent, which is 4.75 per cent end of period LIBOR rate, plus the 3 per cent instrument-specific component.</p> <p>This gives a present value of CU152,367.^(b)</p>
<p>[paragraph B5.7.18(c)]</p> <p>The difference between the observed market price of the liability at the end of the period and the amount determined in accordance with paragraph B5.7.18(b) is the change in fair value that is not attributable to changes in the observed (benchmark) interest rate. This is the amount to be presented in other comprehensive income in accordance with paragraph 5.7.7(a).</p>	<p>The market price of the liability at the end of the period is CU153,811.^(c)</p> <p>Thus, the entity presents CU1,444 in other comprehensive income, which is CU153,811 – CU152,367, as the increase in fair value of the bond that is not attributable to changes in market conditions that give rise to market risk.</p>
<p>(a) $CU150,000 \times 8\% = CU12,000$</p> <p>(b) $PV = [CU12,000 \times (1 - (1 + 0.0775)^{-9})/0.0775] + CU150,000 \times (1 + 0.0775)^{-9}$</p> <p>(c) $market\ price = [CU12,000 \times (1 - (1 + 0.076)^{-9})/0.076] + CU150,000 \times (1 + 0.076)^{-9}$</p>	

Hedge accounting for aggregated exposures

IE6 The following examples illustrate the mechanics of hedge accounting for aggregated exposures.

Example 1—combined commodity price risk and foreign currency risk hedge (cash flow hedge/cash flow hedge combination)

Fact pattern

IE7 Entity A wants to hedge a highly probable forecast coffee purchase (which is expected to occur at the end of Period 5). Entity A's functional currency is its Local Currency (LC). Coffee is traded in Foreign Currency (FC). Entity A has the following risk exposures:

- (a) commodity price risk: the variability in cash flows for the purchase price, which results from fluctuations of the spot price of coffee in FC; and
- (b) foreign currency (FX) risk: the variability in cash flows that results from fluctuations of the spot exchange rate between LC and FC.

IE8 Entity A hedges its risk exposures using the following risk management strategy:

- (a) Entity A uses benchmark commodity forward contracts, which are denominated in FC, to hedge its coffee purchases four periods before delivery. The coffee price that Entity A actually pays for its purchase is different from the benchmark price because of differences in the type of coffee, the location and delivery arrangement.³ This gives rise to the risk of changes in the relationship between the two coffee prices (sometimes referred to as 'basis risk'), which affects the effectiveness of the hedging relationship. Entity A does not hedge this risk because it is not considered economical under cost/benefit considerations.
- (b) Entity A also hedges its FX risk. However, the FX risk is hedged over a different horizon—only three periods before delivery. Entity A considers the FX exposure from the variable payments for the coffee purchase in FC and the gain or loss on the commodity forward contract in FC as one aggregated FX exposure. Hence, Entity A uses one single FX forward contract to hedge the FX cash flows from a forecast coffee purchase and the related commodity forward contract.

IE9 The following table sets out the parameters used for Example 1 (the 'basis spread' is the differential, expressed as a percentage, between the price of the coffee that Entity A actually buys and the price for the benchmark coffee):

Example 1—Parameters					
Period	1	2	3	4	5
Interest rates for remaining maturity [FC]	0.26%	0.21%	0.16%	0.06%	0.00%
Interest rates for remaining maturity [LC]	1.12%	0.82%	0.46%	0.26%	0.00%
Forward price [FC/lb]	1.25	1.01	1.43	1.22	2.15
Basis spread	-5.00%	-5.50%	-6.00%	-3.40%	-7.00%
FX rate (spot) [FC/LC]	1.3800	1.3300	1.4100	1.4600	1.4300

Accounting mechanics

³ For the purpose of this example it is assumed that the hedged risk is not designated based on a benchmark coffee price risk component. Consequently, the entire coffee price risk is hedged.

IE10 Entity A designates as cash flow hedges the following two hedging relationships:⁴

- (a) A commodity price risk hedging relationship between the coffee price related variability in cash flows attributable to the forecast coffee purchase in FC as the hedged item and a commodity forward contract denominated in FC as the hedging instrument (the 'first level relationship'). This hedging relationship is designated at the end of Period 1 with a term to the end of Period 5. Because of the basis spread between the price of the coffee that Entity A actually buys and the price for the benchmark coffee, Entity A designates a volume of 112,500 pounds (lbs) of coffee as the hedging instrument and a volume of 118,421 lbs as the hedged item.⁵
- (b) An FX risk hedging relationship between the aggregated exposure as the hedged item and an FX forward contract as the hedging instrument (the 'second level relationship'). This hedging relationship is designated at the end of Period 2 with a term to the end of Period 5. The aggregated exposure that is designated as the hedged item represents the FX risk that is the effect of exchange rate changes, compared to the forward FX rate at the end of Period 2 (ie the time of designation of the FX risk hedging relationship), on the combined FX cash flows in FC of the two items designated in the commodity price risk hedging relationship, which are the forecast coffee purchase and the commodity forward contract. Entity A's long-term view of the basis spread between the price of the coffee that it actually buys and the price for the benchmark coffee has not changed from the end of Period 1. Consequently, the actual volume of hedging instrument that Entity A enters into (the nominal amount of the FX forward contract of FC140,625) reflects the cash flow exposure associated with a basis spread that had remained at -5 per cent. However, Entity A's actual aggregated exposure is affected by changes in the basis spread. Because the basis spread has moved from -5 per cent to -5.5 per cent during Period 2, Entity A's actual aggregated exposure at the end of Period 2 is FC140,027.

IE11 The following table sets out the fair values of the derivatives, the changes in the value of the hedged items and the calculation of the cash flow hedge reserves and hedge ineffectiveness:⁶

⁴ This example assumes that all qualifying criteria for hedge accounting are met (see IFRS 9.6.4.1). The following description of the designation is solely for the purpose of understanding this example (ie it is not an example of the complete formal documentation required in accordance with IFRS 9.6.4.1(b)).

⁵ In this example, the current basis spread at the time of designation is coincidentally the same as Entity A's long-term view of the basis spread (-5 per cent) that determines the volume of coffee purchases that it actually hedges. Also, this example assumes that Entity A designates the hedging instrument in its entirety and designates as much of its highly probable forecast purchases as it regards as hedged. That results in a hedge ratio of 1/(100%-5%). Other entities might follow different approaches when determining what volume of their exposure they actually hedge, which can result in a different hedge ratio and also designating less than a hedging instrument in its entirety (see IFRS 9.B6.4.10).

⁶ In the following table for the calculations all amounts (including the calculations for accounting purposes of amounts for assets, liabilities, equity and profit or loss) are in the format of positive (plus) and negative (minus) numbers (eg a profit or loss amount that is a negative number is a loss).

Example 1—Calculations	Period	1	2	3	4	5	
Commodity price risk hedging relationship (first level relationship)							
<i>Forward purchase contract for coffee</i>							
Volume (lbs)	112,500						
Forward price [FC/lb]	1.25	Price (fwd) [FC/lb]	1.25	1.01	1.43	1.22	2.15
		Fair value [FC]	0	-26,943	20,219	-3,373	101,250
		Fair value [LC]	0	-20,258	14,339	-2,310	70,804
		Change in fair value [LC]		-20,258	34,598	-16,650	73,114
<i>Hedged forecast coffee purchase</i>							
Hedge ratio	105.26%	Basis spread	-5.00%	-5.50%	-6.00%	-3.40%	-7.00%
Hedged volume	118,421	Price (fwd) [FC/lb]	1.19	0.95	1.34	1.18	2.00
Implied forward price	1.1875	Present value [FC]	0	27,540	-18,528	1,063	-96,158
		Present value [LC]	0	20,707	-13,140	728	-67,243
		Change in present value [LC]		20,707	-33,847	13,868	-67,971
<i>Accounting</i>							
			<i>LC</i>	<i>LC</i>	<i>LC</i>	<i>LC</i>	<i>LC</i>
Derivative			0	-20,258	14,339	-2,310	70,804
Cash flow hedge reserve			0	-20,258	13,140	-728	67,243
Change in cash flow hedge reserve				-20,258	33,399	-13,868	67,971
Profit or loss				0	1,199	-2,781	5,143
Retained earnings			0	0	1,199	-1,582	3,561
FX risk hedging relationship (second level relationship)							
FX rate [FC/LC]		Spot	1.3800	1.3300	1.4100	1.4600	1.4300
		Forward	1.3683	1.3220	1.4058	1.4571	1.4300
<i>FX forward contract (buy FC/sell LC)</i>							
Volume [FC]	140,625						
Forward rate (in P ₂)	1.3220	Fair value [LC]		0	-6,313	-9,840	-8,035
		Change in fair value [LC]			-6,313	-3,528	1,805
<i>Hedged FX risk</i>							
Aggregated FX exposure		Hedged volume [FC]		140,027	138,932	142,937	135,533
		Present value [LC]		0	6,237	10,002	7,744
		Change in present value [LC]			6,237	3,765	-2,258
<i>Accounting</i>							
			<i>LC</i>	<i>LC</i>	<i>LC</i>	<i>LC</i>	<i>LC</i>
Derivative			0	-6,313	-9,840	-8,035	
Cash flow hedge reserve			0	-6,237	-9,840	-7,744	
Change in cash flow hedge reserve					-6,237	-3,604	2,096
Profit or loss					-76	76	-291
Retained earnings				0	-76	0	-291

IE12 The commodity price risk hedging relationship is a cash flow hedge of a highly probable forecast transaction that starts at the end of Period 1 and remains in place when the FX risk hedging relationship starts at the end of Period 2, ie the first level relationship continues as a separate hedging relationship.

IE13 The volume of the aggregated FX exposure (in FC), which is the hedged volume of the FX risk hedging relationship, is the total of:⁷

⁷ For example, at the end of Period 3 the aggregated FX exposure is determined as: 118,421 lbs × 1.34 FC/lb = FC159,182 for the expected price of the actual coffee purchase and 112,500 lbs × (1.25 [FC/lb] - 1.43 [FC/lb]) = FC-20,250 for the expected price differential under the commodity forward contract, which gives a total of FC138,932—the volume of the aggregated FX exposure and the end of Period 3.

- (a) the hedged coffee purchase volume multiplied by the current forward price (this represents the expected spot price of the actual coffee purchase); and
- (b) the volume of the hedging instrument (designated nominal amount) multiplied by the difference between the contractual forward rate and the current forward rate (this represents the expected price differential from benchmark coffee price movements in FC that Entity A will receive or pay under the commodity forward contract).

- IE14 The present value (in LC) of the hedged item of the FX risk hedging relationship (ie the aggregated exposure) is calculated as the hedged volume (in FC) multiplied by the difference between the forward FX rate at the measurement date and the forward FX rate at the designation date of the hedging relationship (ie the end of Period 2).⁸
- IE15 Using the present value of the hedged item and the fair value of the hedging instrument, the cash flow hedge reserve and the hedge ineffectiveness are then determined (see paragraph 6.5.11 of IFRS 9).
- IE16 The following table shows the effect on Entity A's statement of profit or loss and other comprehensive income and its statement of financial position (for the sake of transparency the line items⁹ are disaggregated on the face of the statements by the two hedging relationships, ie for the commodity price risk hedging relationship and the FX risk hedging relationship):

⁸ For example, at the end of Period 3 the present value of the hedged item is determined as the volume of the aggregated exposure at the end of Period 3 (FC138,932) multiplied by the difference between the forward FX rate at the end of Period 3 (1/1.4058) and the forward FX rate and the time of designation (ie the end of Period 2: 1/1.3220) and then discounted using the interest rate (in LC) at the end of Period 3 with a term of 2 periods (ie until the end of Period 5—0.46 per cent). The calculation is: $FC138,932 \times (1/(1.4058[FC/LC]) - 1/(1.3220 [FC/LC]))/(1 + 0.46\%) = LC6,237$.

⁹ The line items used in this example are a possible presentation. Different presentation formats using different line items (including line items that include the amounts shown here) are also possible (IFRS 7 *Financial Instruments: Disclosures* sets out disclosure requirements for hedge accounting that include disclosures about hedge ineffectiveness, the carrying amount of hedging instruments and the cash flow hedge reserve).

Example 1—Overview of effect on statements of financial performance and financial position					
<i>[All amounts in LC]</i>					
Period	1	2	3	4	5
Statement of profit or loss and other comprehensive income					
Hedge ineffectiveness					
Commodity hedge		0	(1,199)	2,781	(5,143)
FX hedge		0	76	(76)	291
Profit or loss	0	0	(1,123)	2,705	(4,852)
Other comprehensive income (OCI)					
Commodity hedge		20,258	(33,399)	13,868	(67,971)
FX hedge		0	6,237	3,604	(2,096)
Total other comprehensive income	0	20,258	(27,162)	17,472	(70,067)
Comprehensive income	0	20,258	(28,285)	20,177	(74,920)
Statement of financial position					
Commodity forward	0	(20,258)	14,339	(2,310)	70,804
FX forward		0	(6,313)	(9,840)	(8,035)
Total net assets	0	(20,258)	8,027	(12,150)	62,769
Equity					
Accumulated OCI					
Commodity hedge	0	20,258	(13,140)	728	(67,243)
FX hedge		0	6,237	9,840	7,744
	0	20,258	(6,904)	10,568	(59,499)
Retained earnings					
Commodity hedge	0	0	(1,199)	1,582	(3,561)
FX hedge		0	76	0	291
	0	0	(1,123)	1,582	(3,270)
Total equity	0	20,258	(8,027)	12,150	(62,769)

IE17 The total cost of inventory after hedging are as follows:¹⁰

<i>Cost of inventory [all amounts in LC]</i>	
Cash price (at spot for commodity price risk and FX risk)	165,582
Gain/loss from CFHR for commodity price risk	-67,243
Gain/loss from CFHR for FX risk	7,744
Cost of inventory	106,083

IE18 The total overall cash flow from all transactions (the actual coffee purchase at the spot price and the settlement of the two derivatives) is LC102,813. It differs from the hedge adjusted cost of inventory by LC3,270, which is the net amount of cumulative hedge ineffectiveness from the two hedging relationships. This hedge ineffectiveness has a cash flow effect but is excluded from the measurement of the inventory.

Example 2—combined interest rate risk and foreign currency risk hedge (fair value hedge/cash flow hedge combination)

Fact pattern

IE19 Entity B wants to hedge a fixed rate liability that is denominated in Foreign Currency (FC). The liability has a term of four periods from the start of Period 1 to the end of

¹⁰ 'CFHR' is the cash flow hedge reserve, ie the amount accumulated in other comprehensive income for a cash flow hedge.

Period 4. Entity B's functional currency is its Local Currency (LC). Entity B has the following risk exposures:

- (a) fair value interest rate risk and FX risk: the changes in fair value of the fixed rate liability attributable to interest rate changes, measured in LC.
- (b) cash flow interest rate risk: the exposure that arises as a result of swapping the combined fair value interest rate risk and FX risk exposure associated with the fixed rate liability (see (a) above) into a variable rate exposure in LC in accordance with Entity B's risk management strategy for FC denominated fixed rate liabilities (see paragraph IE20(a) below).

IE20 Entity B hedges its risk exposures using the following risk management strategy:

- (a) Entity B uses cross-currency interest rate swaps to swap its FC denominated fixed rate liabilities into a variable rate exposure in LC. Entity B hedges its FC denominated liabilities (including the interest) for their entire life. Consequently, Entity B enters into a cross-currency interest rate swap at the same time as it issues an FC denominated liability. Under the cross-currency interest rate swap Entity B receives fixed interest in FC (used to pay the interest on the liability) and pays variable interest in LC.
- (b) Entity B considers the cash flows on a hedged liability and on the related cross-currency interest rate swap as one aggregated variable rate exposure in LC. From time to time, in accordance with its risk management strategy for variable rate interest rate risk (in LC), Entity B decides to lock in its interest payments and hence swaps its aggregated variable rate exposure in LC into a fixed rate exposure in LC. Entity B seeks to obtain as a fixed rate exposure a single blended fixed coupon rate (ie the uniform forward coupon rate for the hedged term that exists at the start of the hedging relationship).¹¹ Consequently, Entity B uses interest rate swaps (denominated entirely in LC) under which it receives variable interest (used to pay the interest on the pay leg of the cross-currency interest rate swap) and pays fixed interest.

IE21 The following table sets out the parameters used for Example 2:

¹¹ An entity may have a different risk management strategy whereby it seeks to obtain a fixed rate exposure that is not a single blended rate but a series of forward rates that are each fixed for the respective individual interest period. For such a strategy the hedge effectiveness is measured based on the difference between the forward rates that existed at the start of the hedging relationship and the forward rates that exist at the effectiveness measurement date for the individual interest periods. For such a strategy a series of forward contracts corresponding with the individual interest periods would be more effective than an interest rate swap (that has a fixed payment leg with a single blended fixed rate).

Example 2—Parameters					
	t₀	Period 1	Period 2	Period 3	Period 4
FX spot rate [LC/FC]	1.2000	1.0500	1.4200	1.5100	1.3700
Interest curves (vertical presentation of rates for each quarter of a period on a p.a. basis)					
LC	2.50%	5.02%	6.18%	0.34%	[N/A]
	2.75%	5.19%	6.26%	0.49%	
	2.91%	5.47%	6.37%	0.94%	
	3.02%	5.52%	6.56%	1.36%	
	2.98%	5.81%	6.74%		
	3.05%	5.85%	6.93%		
	3.11%	5.91%	7.19%		
	3.15%	6.06%	7.53%		
	3.11%	6.20%			
	3.14%	6.31%			
	3.27%	6.36%			
	3.21%	6.40%			
	3.21%				
	3.25%				
	3.29%				
	3.34%				
FC	3.74%	4.49%	2.82%	0.70%	[N/A]
	4.04%	4.61%	2.24%	0.79%	
	4.23%	4.63%	2.00%	1.14%	
	4.28%	4.34%	2.18%	1.56%	
	4.20%	4.21%	2.34%		
	4.17%	4.13%	2.53%		
	4.27%	4.07%	2.82%		
	4.14%	4.09%	3.13%		
	4.10%	4.17%			
	4.11%	4.13%			
	4.11%	4.24%			
	4.13%	4.34%			
	4.14%				
	4.06%				
	4.12%				
	4.19%				

Accounting mechanics

IE22 Entity B designates the following hedging relationships:¹²

- (a) As a fair value hedge, a hedging relationship for fair value interest rate risk and FX risk between the FC denominated fixed rate liability (fixed rate FX liability) as the hedged item and a cross-currency interest rate swap as the hedging instrument (the 'first level relationship'). This hedging relationship is designated at the beginning of Period 1 (ie t₀) with a term to the end of Period 4.

¹² This example assumes that all qualifying criteria for hedge accounting are met (see IFRS 9.6.4.1). The following description of the designation is solely for the purpose of understanding this example (ie it is not an example of the complete formal documentation required in accordance with IFRS 9.6.4.1(b)).

- (b) As a cash flow hedge, a hedging relationship between the aggregated exposure as the hedged item and an interest rate swap as the hedging instrument (the 'second level relationship'). This hedging relationship is designated at the end of Period 1, when Entity B decides to lock in its interest payments and hence swaps its aggregated variable rate exposure in LC into a fixed rate exposure in LC, with a term to the end of Period 4. The aggregated exposure that is designated as the hedged item represents, in LC, the variability in cash flows that is the effect of changes in the combined cash flows of the two items designated in the fair value hedge of the fair value interest rate risk and FX risk—see (a) above), compared to the interest rates at the end of Period 1 (ie the time of designation of the hedging relationship between the aggregated exposure and the interest rate swap).

IE23 The following table¹³ sets out the overview of the fair values of the derivatives, the changes in the value of the hedged items and the calculation of the cash flow hedge reserve and hedge ineffectiveness.¹⁴ In this example, hedge ineffectiveness arises on both hedging relationships.¹⁵

Example 2—Calculations	t₀	Period 1	Period 2	Period 3	Period 4
Fixed rate FX liability					
Fair value [FC]	-1,000,000	-995,522	-1,031,008	-1,030,193	-1,000,000
Fair value [LC]	-1,200,000	-1,045,298	-1,464,031	-1,555,591	-1,370,000
Change in fair value [LC]		154,702	-418,733	-91,560	185,591
CCIRS (receive fixed FC/pay variable LC)					
Fair value [LC]	0	-154,673	264,116	355,553	170,000
Change in fair value [LC]		-154,673	418,788	91,437	-185,553
IRS (receive variable/pay fixed)					
Fair value [LC]		0	18,896	-58,767	0
Change in fair value [LC]			18,896	-77,663	58,767
CF variability of the aggregated exposure					
Present value [LC]		0	-18,824	58,753	0
Change in present value [LC]			-18,824	77,577	-58,753
CFHR					
Balance (end of period) [LC]		0	18,824	-58,753	0
Change [LC]			18,824	-77,577	58,753

IE24 The hedging relationship between the fixed rate FX liability and the cross-currency interest rate swap starts at the beginning of Period 1 (ie t₀) and remains in place when the hedging relationship for the second level relationship starts at the end of Period 1, ie the first level relationship continues as a separate hedging relationship.

¹³ Tables in this example use the following acronyms: 'CCIRS' for cross-currency interest rate swap, 'CF(s)' for cash flow(s), 'CFH' for cash flow hedge, 'CFHR' for cash flow hedge reserve, 'FVH' for fair value hedge, 'IRS' for interest rate swap and 'PV' for present value.

¹⁴ In the following table for the calculations all amounts (including the calculations for accounting purposes of amounts for assets, liabilities and equity) are in the format of positive (plus) and negative (minus) numbers (eg an amount in the cash flow hedge reserve that is a negative number is a loss).

¹⁵ For a situation like in this example, hedge ineffectiveness can result from various factors, for example credit risk, the charge for exchanging different currencies that is included in cross-currency interest rate swaps (commonly referred to as the 'currency basis') or differences in the day count method.

IE25 The cash flow variability of the aggregated exposure is calculated as follows:

- (a) At the point in time from which the cash flow variability of the aggregated exposure is hedged (ie the start of the second level relationship at the end of Period 1), all cash flows expected on the fixed rate FX liability and the cross-currency interest rate swap over the hedged term (ie until the end of Period 4) are mapped out and equated to a single blended fixed coupon rate so that the total present value (in LC) is nil. This calculation establishes the single blended fixed coupon rate (reference rate) that is used at subsequent dates as the reference point to measure the cash flow variability of the aggregated exposure since the start of the hedging relationship. This calculation is illustrated in the following table:

Example 2—Cash flow variability of the aggregated exposure (calibration)								
Variability in cash flows of the aggregated exposure								
FX liability		CCIRS FC leg		CCIRS LC leg		Calibration	PV	
CFs	PV	CFs	PV	CFs	PV	1,200,000	Nominal	
						5.6963%	Rate	
						4	Frequency	
	[FC]	[FC]	[FC]	[FC]	[LC]	[LC]	[LC]	[LC]
Time								
t_0								
Period 1								
t_1								
t_2								
t_3								
t_4								
Period 2								
t_5	0	0	0	0	-14,771	-14,591	17,089	16,881
t_6	-20,426	-19,977	20,246	19,801	-15,271	-14,896	17,089	16,669
t_7	0	0	0	0	-16,076	-15,473	17,089	16,449
t_8	-20,426	-19,543	20,582	19,692	-16,241	-15,424	17,089	16,229
Period 3								
t_9	0	0	0	0	-17,060	-15,974	17,089	16,002
t_{10}	-20,426	-19,148	20,358	19,084	-17,182	-15,862	17,089	15,776
t_{11}	0	0	0	0	-17,359	-15,797	17,089	15,551
t_{12}	-20,426	-18,769	20,582	18,912	-17,778	-15,942	17,089	15,324
Period 4								
t_{13}	0	0	0	0	-18,188	-16,066	17,089	15,095
t_{14}	-20,426	-18,391	20,246	18,229	-18,502	-16,095	17,089	14,866
t_{15}	0	0	0	0	-18,646	-15,972	17,089	14,638
t_{16}	-1,020,426	-899,695	1,020,582	899,832	-1,218,767	-1,027,908	1,217,089	1,026,493
Totals		-995,522		995,550		-1,200,000		1,199,971
Totals in LC		-1,045,298		1,045,327		-1,200,000		1,199,971
PV of all CFs [LC]		0				Σ		

The nominal amount that is used for the calibration of the reference rate is the same as the nominal amount of aggregated exposure that creates the variable cash flows in LC (LC1,200,000), which coincides with the nominal amount of the cross-currency interest rate swap for the variable rate leg in LC. This results in a reference rate of 5.6963 per cent (determined by iteration so that the present value of all cash flows in total is nil).

- (b) At subsequent dates, the cash flow variability of the aggregated exposure is determined by comparison to the reference point established at the end of Period 1. For that purpose, all remaining cash flows expected on the fixed rate FX liability and the cross-currency interest rate swap over the remainder of the hedged term (ie from the effectiveness measurement date until the end of Period 4) are updated (as applicable) and then discounted. Also, the reference

rate of 5.6963 per cent is applied to the nominal amount that was used for the calibration of that rate at the end of Period 1 (LC1,200,000) in order to generate a set of cash flows over the remainder of the hedged term that is then also discounted. The total of all those present values represents the cash flow variability of the aggregated exposure. This calculation is illustrated in the following table for the end of Period 2:

Example 2—Cash flow variability of the aggregated exposure (at the end of Period 2)									
Variability in cash flows of the aggregated exposure									
FX liability		CCIRS FC leg		CCIRS LC leg		Calibration	PV		
CFs	PV	CFs	PV	CFs	PV	1,200,000 Nominal	5.6963% Rate		
[FC]	[FC]	[FC]	[FC]	[LC]	[LC]	4 Frequency	[LC]	[LC]	
Time									
t_0									
Period 1	t_1								
	t_2								
	t_3								
	t_4								
	t_5	0	0	0	0	0	0	0	
Period 2	t_6	0	0	0	0	0	0	0	
	t_7	0	0	0	0	0	0	0	
	t_8	0	0	0	0	0	0	0	
	t_9	0	0	0	0	-18,120	-17,850	17,089	16,835
Period 3	t_{10}	-20,426	-20,173	20,358	20,106	-18,360	-17,814	17,089	16,581
	t_{11}	0	0	0	0	-18,683	-17,850	17,089	16,327
	t_{12}	-20,426	-19,965	20,582	20,117	-19,203	-18,058	17,089	16,070
	t_{13}	0	0	0	0	-19,718	-18,243	17,089	15,810
Period 4	t_{14}	-20,426	-19,726	20,246	19,553	-20,279	-18,449	17,089	15,547
	t_{15}	0	0	0	0	-21,014	-18,789	17,089	15,280
	t_{16}	-1,020,426	-971,144	1,020,582	971,292	-1,221,991	-1,072,947	1,217,089	1,068,643
	Totals		-1,031,008		1,031,067		-1,200,000		1,181,092
Totals in LC		-1,464,031		1,464,116		-1,200,000		1,181,092	
PV of all CFs [LC]	-18,824	←————— Σ							

The changes in interest rates and the exchange rate result in a change of the cash flow variability of the aggregated exposure between the end of Period 1 and the end of Period 2 that has a present value of LC-18,824.¹⁶

IE26 Using the present value of the hedged item and the fair value of the hedging instrument, the cash flow hedge reserve and the hedge ineffectiveness are then determined (see paragraph 6.5.11 of IFRS 9).

IE27 The following table shows the effect on Entity B's statement of profit or loss and other comprehensive income and its statement of financial position (for the sake of transparency some line items¹⁷ are disaggregated on the face of the statements by

¹⁶ This is the amount that is included in the table with the overview of the calculations (see paragraph IE23) as the present value of the cash flow variability of the aggregated exposure at the end of Period 2.

¹⁷ The line items used in this example are a possible presentation. Different presentation formats using different line items (including line items that include the amounts shown here) are also possible (IFRS 7 *Financial Instruments: Disclosures* sets out disclosure requirements for hedge accounting that include disclosures about hedge ineffectiveness, the carrying amount of hedging instruments and the cash flow hedge reserve).

the two hedging relationships, ie for the fair value hedge of the fixed rate FX liability and the cash flow hedge of the aggregated exposure):¹⁸

	t ₀	Period 1	Period 2	Period 3	Period 4
Example 2—Overview of effect on statements of financial performance and financial position					
<i>[All amounts in LC]</i>					
Statement of profit or loss and other comprehensive income					
Interest expense					
FX liability		45,958	50,452	59,848	58,827
FVH adjustment		(12,757)	11,941	14,385	(49,439)
		33,202	62,393	74,233	9,388
Reclassifications (CFH)			5,990	(5,863)	58,982
Total interest expense		33,202	68,383	68,370	68,370
Other gains/losses					
Change in fair value of the CCIRS		154,673	(418,788)	(91,437)	185,553
FVH adjustment (FX liability)		(154,702)	418,733	91,560	(185,591)
Hedge ineffectiveness		25	(72)	(54)	(19)
Total other gains/losses		(4)	(127)	68	(57)
Profit or loss		33,198	68,255	68,438	68,313
Other comprehensive income (OCI)					
Effective CFH gain/loss			(12,834)	71,713	229
Reclassifications			(5,990)	5,863	(58,982)
Total other comprehensive income			(18,824)	77,577	(58,753)
Comprehensive income		33,198	49,432	146,015	9,560
Statement of financial position					
FX liability	(1,200,000)	(1,045,298)	(1,464,031)	(1,555,591)	(1,397,984)
CCIRS	0	(154,673)	264,116	355,553	194,141
IRS		0	18,896	(58,767)	(13,004)
Cash	1,200,000	1,166,773	1,098,390	1,030,160	978,641
Total net assets	0	(33,198)	(82,630)	(228,645)	(238,205)
<i>Equity</i>					
Accumulated OCI		0	(18,824)	58,753	0
Retained earnings	0	33,198	101,454	169,892	238,205
Total equity	0	33,198	82,630	228,645	238,205

IE28 The total interest expense in profit or loss reflects Entity B's interest expense that results from its risk management strategy:

- (a) In Period 1 the risk management strategy results in interest expense reflecting variable interest rates in LC after taking into account the effect of the cross-currency interest rate swap. There is also some hedge ineffectiveness that results from a difference in the changes in value for the fixed rate FX liability (as represented by the fair value hedge adjustment) and the cross-currency interest

¹⁸ For Period 4 the values in the table with the overview of the calculations (see paragraph IE23) differ from those in the following table. For Periods 1 to 3 the 'dirty' values (ie including interest accruals) equal the 'clean' values (ie excluding interest accruals) because the period end is a settlement date for all legs of the derivatives and the fixed rate FX liability. At the end of Period 4 the table with the overview of the calculations uses clean values in order to calculate the value changes consistently over time. For the following table the dirty values are presented, ie the maturity amounts including accrued interest immediately before the instruments are settled (this is for illustrative purposes as otherwise all carrying amounts other than cash and retained earnings would be nil).

rate swap as well as from differences between the cash flows on the two instruments that were settled during Period 1.

- (b) For Periods 2 to 4 the risk management strategy results in interest expense that reflects, after taking into account the effect of the interest rate swap entered into at the end of Period 1, fixed interest rates in LC (ie locking in a single blended fixed coupon rate for a three-period term based on the interest rate environment at the end of Period 1). However, Entity B's interest expense is affected by the hedge ineffectiveness that arises on its hedging relationships. In Period 2 the interest expense is slightly higher than the fixed rate payments locked in with the interest rate swap because the variable payments received under the interest rate swap are less than the total of the cash flows resulting from the aggregated exposure.¹⁹ In Periods 3 and 4 the interest expense is equal to the locked in rate because the variable payments received under the swap are more than the total of the cash flows resulting from the aggregated exposure.²⁰

Example 3—combined interest rate risk and foreign currency risk hedge (cash flow hedge/fair value hedge combination)

Fact pattern

- IE29 Entity C wants to hedge a variable rate liability that is denominated in Foreign Currency (FC). The liability has a term of four periods from the start of Period 1 to the end of Period 4. Entity C's functional currency is its Local Currency (LC). Entity C has the following risk exposures:
- (a) cash flow interest rate risk and FX risk: the changes in cash flows of the variable rate liability attributable to interest rate changes, measured in LC.
- (b) fair value interest rate risk: the exposure that arises as a result of swapping the combined cash flow interest rate risk and FX risk exposure associated with the variable rate liability (see (a) above) into a fixed rate exposure in LC in accordance with Entity C's risk management strategy for FC denominated variable rate liabilities (see paragraph IE30(a) below).
- IE30 Entity C hedges its risk exposures using the following risk management strategy:
- (a) Entity C uses cross-currency interest rate swaps to swap its FC denominated variable rate liabilities into a fixed rate exposure in LC. Entity C hedges its FC denominated liabilities (including the interest) for their entire life. Consequently, Entity C enters into a cross-currency interest rate swap at the same time as it issues an FC denominated liability. Under the cross-currency interest rate swap Entity C receives variable interest in FC (used to pay the interest on the liability) and pays fixed interest in LC.
- (b) Entity C considers the cash flows on a hedged liability and on the related cross-currency interest rate swap as one aggregated fixed rate exposure in LC. From time to time, in accordance with its risk management strategy for fixed rate

¹⁹ In other words, the cash flow variability of the interest rate swap was lower than, and consequently did not fully offset, the cash flow variability of the aggregated exposure as a whole (sometimes called an 'underhedge' situation). In those situations the cash flow hedge does not contribute to the hedge ineffectiveness that is recognised in profit or loss because the hedge ineffectiveness is not recognised (see IFRS 9.6.5.11). The hedge ineffectiveness arising on the fair value hedge affects profit or loss in all periods.

²⁰ In other words, the cash flow variability of the interest rate swap was higher than, and consequently more than fully offset, the cash flow variability of the aggregated exposure as a whole (sometimes called an 'overhedge' situation). In those situations the cash flow hedge contributes to the hedge ineffectiveness that is recognised in profit or loss (see IFRS 9.6.5.11). The hedge ineffectiveness arising on the fair value hedge affects profit or loss in all periods.

interest rate risk (in LC), Entity C decides to link its interest payments to current variable interest rate levels and hence swaps its aggregated fixed rate exposure in LC into a variable rate exposure in LC. Consequently, Entity C uses interest rate swaps (denominated entirely in LC) under which it receives fixed interest (used to pay the interest on the pay leg of the cross-currency interest rate swap) and pays variable interest.

IE31 The following table sets out the parameters used for Example 3:

Example 3—Parameter overview					
	t₀	Period 1	Period 2	Period 3	Period 4
FX spot rate [LC/FC]	1.2	1.05	1.42	1.51	1.37
Interest curves (vertical presentation of rates for each quarter of a period on a p.a. basis)					
LC	2.50%	1.00%	3.88%	0.34%	[N/A]
	2.75%	1.21%	4.12%	0.49%	
	2.91%	1.39%	4.22%	0.94%	
	3.02%	1.58%	5.11%	1.36%	
	2.98%	1.77%	5.39%		
	3.05%	1.93%	5.43%		
	3.11%	2.09%	5.50%		
	3.15%	2.16%	5.64%		
	3.11%	2.22%			
	3.14%	2.28%			
	3.27%	2.30%			
	3.21%	2.31%			
	3.21%				
	3.25%				
	3.29%				
	3.34%				
FC	3.74%	4.49%	2.82%	0.70%	[N/A]
	4.04%	4.61%	2.24%	0.79%	
	4.23%	4.63%	2.00%	1.14%	
	4.28%	4.34%	2.18%	1.56%	
	4.20%	4.21%	2.34%		
	4.17%	4.13%	2.53%		
	4.27%	4.07%	2.82%		
	4.14%	4.09%	3.13%		
	4.10%	4.17%			
	4.11%	4.13%			
	4.11%	4.24%			
	4.13%	4.34%			
	4.14%				
	4.06%				
	4.12%				
	4.19%				

Accounting mechanics

IE32 Entity C designates the following hedging relationships:²¹

- (a) As a cash flow hedge, a hedging relationship for cash flow interest rate risk and FX risk between the FC denominated variable rate liability (variable rate FX liability) as the hedged item and a cross-currency interest rate swap as the hedging instrument (the 'first level relationship'). This hedging relationship is designated at the beginning of Period 1 (ie t_0) with a term to the end of Period 4.
- (b) As a fair value hedge, a hedging relationship between the aggregated exposure as the hedged item and an interest rate swap as the hedging instrument (the 'second level relationship'). This hedging relationship is designated at the end of Period 1, when Entity C decides to link its interest payments to current variable interest rate levels and hence swaps its aggregated fixed rate exposure in LC into a variable rate exposure in LC, with a term to the end of Period 4. The aggregated exposure that is designated as the hedged item represents, in LC, the change in value that is the effect of changes in the value of the combined cash flows of the two items designated in the cash flow hedge of the cash flow interest rate risk and FX risk (see (a) above), compared to the interest rates at the end of Period 1 (ie the time of designation of the hedging relationship between the aggregated exposure and the interest rate swap).

IE33 The following table²² sets out the overview of the fair values of the derivatives, the changes in the value of the hedged items and the calculation of the cash flow hedge reserve.²³ In this example no hedge ineffectiveness arises on either hedging relationship because of the assumptions made.²⁴

²¹ This example assumes that all qualifying criteria for hedge accounting are met (see IFRS 9.6.4.1). The following description of the designation is solely for the purpose of understanding this example (ie it is not an example of the complete formal documentation required in accordance with IFRS 9.6.4.1(b)).

²² Tables in this example use the following acronyms: 'CCIRS' for cross-currency interest rate swap, 'CF(s)' for cash flow(s), 'CFH' for cash flow hedge, 'CFHR' for cash flow hedge reserve, 'FVH' for fair value hedge, 'IRS' for interest rate swap and 'PV' for present value.

²³ In the following table for the calculations all amounts (including the calculations for accounting purposes of amounts for assets, liabilities and equity) are in the format of positive (plus) and negative (minus) numbers (eg an amount in the cash flow hedge reserve that is a negative number is a loss).

²⁴ Those assumptions have been made for didactical reasons, in order to better focus on illustrating the accounting mechanics in a cash flow hedge/fair value hedge combination. The measurement and recognition of hedge ineffectiveness has already been demonstrated in Example 1 and Example 2. However, in reality such hedges are typically not perfectly effective because hedge ineffectiveness can result from various factors, for example credit risk, the charge for exchanging different currencies that is included in cross-currency interest rate swaps (commonly referred to as the 'currency basis') or differences in the day count method.

Example 3—Calculations	t₀	Period 1	Period 2	Period 3	Period 4
Variable rate FX liability					
Fair value [FC]	-1,000,000	-1,000,000	-1,000,000	-1,000,000	-1,000,000
Fair value [LC]	-1,200,000	-1,050,000	-1,420,000	-1,510,000	-1,370,000
Change in fair value [LC]		150,000	-370,000	-90,000	140,000
PV of change in variable CFs [LC]	0	192,310	-260,346	-282,979	-170,000
Change in PV [LC]		192,310	-452,656	-22,633	112,979
CCIRS (receive variable FC/pay fixed LC)					
Fair value [LC]	0	-192,310	260,346	282,979	170,000
Change in fair value [LC]		-192,310	452,656	22,633	-112,979
CFHR					
Opening balance	0	0	-42,310	-28,207	-14,103
Reclassification FX risk		153,008	-378,220	-91,030	140,731
Reclassification (current period CF)		-8,656	-18,410	2,939	21,431
Effective CFH gain/loss		-186,662	479,286	20,724	-135,141
Reclassification for interest rate risk		0	-82,656	67,367	-27,021
Amortisation of CFHR		0	14,103	14,103	14,103
Ending balance		-42,310	-28,207	-14,103	0
IRS (receive fixed/pay variable)					
Fair value [LC]		0	-82,656	-15,289	-42,310
Change in fair value			-82,656	67,367	-27,021
Change in present value of the aggregated exposure					
Present value [LC]		-1,242,310	-1,159,654	-1,227,021	-1,200,000
Change in present value [LC]			82,656	-67,367	27,021

IE34 The hedging relationship between the variable rate FX liability and the cross-currency interest rate swap starts at the beginning of Period 1 (ie t₀) and remains in place when the hedging relationship for the second level relationship starts at the end of Period 1, ie the first level relationship continues as a separate hedging relationship. However, the hedge accounting for the first level relationship is affected by the start of hedge accounting for the second level relationship at the end of Period 1. The fair value hedge for the second level relationship affects the timing of the reclassification to profit or loss of amounts from the cash flow hedge reserve for the first level relationship:

- (a) The fair value interest rate risk that is hedged by the fair value hedge is included in the amount that is recognised in other comprehensive income as a result of the cash flow hedge for the first level hedging relationship (ie the gain or loss on the cross-currency interest rate swap that is determined to be an effective hedge).²⁵ This means that from the end of Period 1 the part of the effective cash flow hedging gain or loss that represents the fair value interest rate risk (in LC), and is recognised in other comprehensive income in a first step, is in a second step immediately (ie in the same period) transferred from the cash flow hedge reserve to profit or loss. That reclassification adjustment offsets the gain or loss on the interest rate swap that is recognised in profit or

²⁵ As a consequence of hedging its exposure to cash flow interest rate risk by entering into the cross-currency interest rate swap that changed the cash flow interest rate risk of the variable rate FX liability into a fixed rate exposure (in LC), Entity C in effect assumed an exposure to fair value interest rate risk (see paragraph IE30).

loss.²⁶ In the context of accounting for the aggregated exposure as the hedged item, that reclassification adjustment is the equivalent of a fair value hedge adjustment because in contrast to a hedged item that is a fixed rate debt instrument (in LC) at amortised cost, the aggregated exposure is already remeasured for changes regarding the hedged risk but the resulting gain or loss is recognised in other comprehensive income because of applying cash flow hedge accounting for the first level relationship. Consequently, applying fair value hedge accounting with the aggregated exposure as the hedged item does not result in changing the hedged item's measurement but instead affects where the hedging gains and losses are recognised (ie reclassification from the cash flow hedge reserve to profit or loss).

- (b) The amount in the cash flow hedge reserve at the end of Period 1 (LC42,780.44) is amortised over the remaining life of the cash flow hedge for the first level relationship (ie over Periods 2 to 4).²⁷

IE35 The change in value of the aggregated exposure is calculated as follows:

- (a) At the point in time from which the change in value of the aggregated exposure is hedged (ie the start of the second level relationship at the end of Period 1), all cash flows expected on the variable rate FX liability and the cross-currency interest rate swap over the hedged term (ie until the end of Period 4) are mapped out and their combined present value, in LC, is calculated. This calculation establishes the present value that is used at subsequent dates as the reference point to measure the change in present value of the aggregated exposure since the start of the hedging relationship. This calculation is illustrated in the following table:

²⁶ In the table with the overview of the calculations (see paragraph IE33) this reclassification adjustment is the line item "Reclassification for interest rate risk" in the reconciliation of the cash flow hedge reserve (eg at the end of Period 2 a reclassification of a gain of LC82,656 from the cash flow hedge reserve to profit or loss—see paragraph IE35 for how that amount is calculated).

²⁷ In the table with the overview of the calculations (see paragraph IE33) this amortisation results in a periodic reclassification adjustment of LC14,103 that is included in the line item "Amortisation of CFHR" in the reconciliation of the cash flow hedge reserve.

Example 3—Present value of the aggregated exposure (starting point)							
Present value of the aggregated exposure							
		FX liability		CCIRS FC leg		CCIRS LC leg	
		CFs	PV	CFs	PV	CFs	PV
		[FC]	[FC]	[FC]	[FC]	[LC]	[LC]
Period 1	t ₀						
	t ₁						
	t ₂						
	t ₃						
	t ₄						
Period 2	t ₅	-11,039	-10,918	11,039	10,918	-9,117	-9,094
	t ₆	-11,331	-11,082	11,331	11,082	-9,117	-9,067
	t ₇	-11,375	-11,000	11,375	11,000	-9,117	-9,035
	t ₈	-10,689	-10,227	10,689	10,227	-9,117	-9,000
Period 3	t ₉	-10,375	-9,824	10,375	9,824	-9,117	-8,961
	t ₁₀	-10,164	-9,528	10,164	9,528	-9,117	-8,918
	t ₁₁	-10,028	-9,307	10,028	9,307	-9,117	-8,872
	t ₁₂	-10,072	-9,255	10,072	9,255	-9,117	-8,825
Period 4	t ₁₃	-10,256	-9,328	10,256	9,328	-9,117	-8,776
	t ₁₄	-10,159	-9,147	10,159	9,147	-9,117	-8,727
	t ₁₅	-10,426	-9,290	10,426	9,290	-9,117	-8,678
	t ₁₆	-1,010,670	-891,093	1,010,670	891,093	-1,209,117	-1,144,358
Totals			<u>-1,000,000</u>		<u>1,000,000</u>		<u>-1,242,310</u>
Totals in LC			<u>-1,050,000</u>		<u>1,050,000</u>		<u>-1,242,310</u>
PV of aggregated exposure [LC]			-1,242,310		← Σ		

The present value of all cash flows expected on the variable rate FX liability and the cross-currency interest rate swap over the hedged term at the end of Period 1 is LC-1,242,310.²⁸

- (b) At subsequent dates, the present value of the aggregated exposure is determined in the same way as at the end of Period 1 but for the remainder of the hedged term. For that purpose, all remaining cash flows expected on the variable rate FX liability and the cross-currency interest rate swap over the remainder of the hedged term (ie from the effectiveness measurement date until the end of Period 4) are updated (as applicable) and then discounted. The total of those present values represents the present value of the aggregated exposure. This calculation is illustrated in the following table for the end of Period 2:

²⁸ In this example no hedge ineffectiveness arises on either hedging relationship because of the assumptions made (see paragraph IE33). Consequently, the absolute values of the variable rate FX liability and the FC denominated leg of the cross-currency interest rate are equal (but with opposite signs). In situations in which hedge ineffectiveness arises, those absolute values would not be equal so that the remaining net amount would affect the present value of the aggregated exposure.

Example 3—Present value of the aggregated exposure (at the end of Period 2)							
Present value of the aggregated exposure							
		FX liability		CCIRS FC leg		CCIRS LC leg	
		CFs	PV	CFs	PV	CFs	PV
		[FC]	[FC]	[FC]	[FC]	[LC]	[LC]
Period 1	Time						
	t ₀						
	t ₁						
	t ₂						
	t ₃						
Period 2	t ₄						
	t ₅	0	0	0	0	0	0
	t ₆	0	0	0	0	0	0
	t ₇	0	0	0	0	0	0
Period 3	t ₈	0	0	0	0	0	0
	t ₉	-6,969	-6,921	6,969	6,921	-9,117	-9,030
	t ₁₀	-5,544	-5,475	5,544	5,475	-9,117	-8,939
	t ₁₁	-4,971	-4,885	4,971	4,885	-9,117	-8,847
Period 4	t ₁₂	-5,401	-5,280	5,401	5,280	-9,117	-8,738
	t ₁₃	-5,796	-5,632	5,796	5,632	-9,117	-8,624
	t ₁₄	-6,277	-6,062	6,277	6,062	-9,117	-8,511
	t ₁₅	-6,975	-6,689	6,975	6,689	-9,117	-8,397
	t ₁₆	-1,007,725	-959,056	1,007,725	959,056	-1,209,117	-1,098,568
Totals			<u>-1,000,000</u>		<u>1,000,000</u>		<u>-1,159,654</u>
Totals in LC			-1,420,000		1,420,000		-1,159,654
PV of aggregated exposure [LC]			-1,159,654		Σ		

The changes in interest rates and the exchange rate result in a present value of the aggregated exposure at the end of Period 2 of LC-1,159,654. Consequently, the change in the present value of the aggregated exposure between the end of Period 1 and the end of Period 2 is a gain of LC82,656.²⁹

IE36 Using the change in present value of the hedged item (ie the aggregated exposure) and the fair value of the hedging instrument (ie the interest rate swap), the related reclassifications from the cash flow hedge reserve to profit or loss (reclassification adjustments) are then determined.

IE37 The following table shows the effect on Entity C's statement of profit or loss and other comprehensive income and its statement of financial position (for the sake of transparency some line items³⁰ are disaggregated on the face of the statements by

²⁹ This is the amount that is included in the table with the overview of the calculations (see paragraph IE33) as the change in present value of the aggregated exposure at the end of Period 2.

³⁰ The line items used in this example are a possible presentation. Different presentation formats using different line items (including line items that include the amounts shown here) are also possible (IFRS 7 *Financial Instruments: Disclosures* sets out disclosure requirements for hedge accounting that include disclosures about hedge ineffectiveness, the carrying amount of hedging instruments and the cash flow hedge reserve).

the two hedging relationships, ie for the cash flow hedge of the variable rate FX liability and the fair value hedge of the aggregated exposure):³¹

	t ₀	Period 1	Period 2	Period 3	Period 4
Example 3—Overview of effect on statements of financial performance and financial position					
<i>[All amounts in LC]</i>					
Statement of profit or loss and other comprehensive income					
Interest expense					
FX liability		45,122	54,876	33,527	15,035
FVH adjustment		0	(20,478)	16,517	(26,781)
		45,122	34,398	50,045	(11,746)
Reclassifications (CFH)		(8,656)	(18,410)	2,939	21,431
		36,466	15,989	52,983	9,685
Amortisation of CFHR		0	14,103	14,103	14,103
Total interest expense		36,466	30,092	67,087	23,788
Other gains/losses					
IRS		0	82,656	(67,367)	27,021
FX gain/loss (liability)		(150,000)	370,000	90,000	(140,000)
FX gain/loss (interest)		(3,008)	8,220	1,030	(731)
Reclassification for FX risk		153,008	(378,220)	(91,030)	140,731
Reclassification for interest rate risk		0	(82,656)	67,367	(27,021)
Total other gains/losses		0	0	(0)	(0)
Profit or loss		36,466	30,092	67,087	23,788
Other comprehensive income (OCI)					
Effective gain/loss		186,662	(479,286)	(20,724)	135,141
Reclassification (current period CF)		8,656	18,410	(2,939)	(21,431)
Reclassification for FX risk		(153,008)	378,220	91,030	(140,731)
Reclassification for interest rate risk		0	82,656	(67,367)	27,021
Amortisation of CFHR		0	(14,103)	(14,103)	(14,103)
Total other comprehensive income		42,310	(14,103)	(14,103)	(14,103)
Comprehensive income		78,776	15,989	52,983	9,685
Statement of financial position					
FX liability	(1,200,000)	(1,050,000)	(1,420,000)	(1,510,000)	(1,375,306)
CCIRS	0	(192,310)	260,346	282,979	166,190
IRS		0	(82,656)	(15,289)	(37,392)
Cash	1,200,000	1,163,534	1,147,545	1,094,562	1,089,076
Total net assets	0	(78,776)	(94,765)	(147,748)	(157,433)
Accumulated OCI	0	42,310	28,207	14,103	0
Retained earnings	0	36,466	66,558	133,645	157,433
Total equity	0	78,776	94,765	147,748	157,433

IE38 The total interest expense in profit or loss reflects Entity C's interest expense that results from its risk management strategy:

³¹ For Period 4 the values in the table with the overview of the calculations (see paragraph IE33) differ from those in the following table. For Periods 1 to 3 the 'dirty' values (ie including interest accruals) equal the 'clean' values (ie excluding interest accruals) because the period end is a settlement date for all legs of the derivatives and the fixed rate FX liability. At the end of Period 4 the table with the overview of the calculations uses clean values in order to calculate the value changes consistently over time. For the following table the dirty values are presented, ie the maturity amounts including accrued interest immediately before the instruments are settled (this is for illustrative purposes as otherwise all carrying amounts other than cash and retained earnings would be nil).

- (a) In Period 1 the risk management strategy results in interest expense reflecting fixed interest rates in LC after taking into account the effect of the cross-currency interest rate swap.
- (b) For Periods 2 to 4, after taking into account the effect of the interest rate swap entered into at the end of Period 1, the risk management strategy results in interest expense that changes with variable interest rates in LC (ie the variable interest rate prevailing in each period). However, the amount of the total interest expense is not equal to the amount of the variable rate interest because of the amortisation of the amount that was in the cash flow hedge reserve for the first level relationship at the end of Period 1.³²

³² See paragraph IE34(b). That amortisation becomes an expense that has an effect like a spread on the variable interest rate.

Appendix

Amendments to guidance on other IFRSs

The following amendments to guidance on IFRSs are necessary in order to ensure consistency with IFRS 9 Financial Instruments and the related amendments to other IFRSs.

IFRS 1 *First-time Adoption of International Financial Reporting Standards*

IGA1 The heading above paragraph IG52 and paragraphs IG52–IG58A, IG59 and IG60B are amended to read as follows:

IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 9 *Financial Instruments*

IG52 An entity recognises and measures all financial assets and financial liabilities in its opening IFRS statement of financial position in accordance with IFRS 9, except as specified in paragraphs B2–B6 of the IFRS, which address derecognition and hedge accounting.

Recognition

IG53 An entity recognises all financial assets and financial liabilities (including all derivatives) that qualify for recognition in accordance with IFRS 9 and have not yet qualified for derecognition in accordance with IFRS 9, except non-derivative financial assets and non-derivative financial liabilities derecognised in accordance with previous GAAP before 1 January 2004, to which the entity does not choose to apply paragraph B3 (see paragraphs B2 and B3 of the IFRS). For example, an entity that does not apply paragraph B3 does not recognise assets transferred in a securitisation, transfer or other derecognition transaction that occurred before 1 January 2004 if those transactions qualified for derecognition in accordance with previous GAAP. However, if the entity uses the same securitisation arrangement or other derecognition arrangement for further transfers after 1 January 2004, those further transfers qualify for derecognition only if they meet the derecognition criteria of IFRS 9.

IG54 An entity does not recognise financial assets and financial liabilities that do not qualify for recognition in accordance with IFRS 9, or have already qualified for derecognition in accordance with IFRS 9.

Embedded derivatives

IG55 When IFRS 9 requires an entity to separate an embedded derivative from a host contract, the initial carrying amounts of the components at the date when the instrument first satisfies the recognition criteria in IFRS 9 reflect circumstances at that date (IFRS 9 paragraph 4.3.3). If the entity cannot determine the initial carrying amounts of the embedded derivative and host contract reliably, it measures the entire combined contract as at fair value through profit or loss (IFRS 9 paragraph 4.3.6).

Measurement

- IG56 In preparing its opening IFRS statement of financial position, an entity applies the criteria in IFRS 9 to identify on the basis of the facts and circumstances that exist at the date of transition to IFRSs those financial assets and financial liabilities that are measured at fair value and those that are measured at amortised cost. The resulting classifications are applied retrospectively.
- IG57 ... first satisfied the recognition criteria in IFRS 9. However, ...
- IG58 An entity's estimates of impairments of financial assets measured at amortised cost at the date of transition to IFRSs are consistent with estimates made for the same date ...

Transition adjustments

- IG58A An entity shall treat an adjustment to the carrying amount of a financial asset or financial liability as a transition adjustment to be recognised in the opening balance of retained earnings at the date of transition to IFRSs only to the extent that it results from adopting IAS 39 and IFRS 9. Because all derivatives, other than those that are financial guarantee contracts, a commitment to provide a loan at a below-market interest rate or are designated and effective hedging instruments, are measured at fair value through profit or loss, the differences between the previous carrying amount (which may have been zero) and the fair value of the derivatives are recognised as an adjustment of the balance of retained earnings at the beginning of the financial year in which IAS 39 and IFRS 9 are initially applied (other than for a derivative that is a financial guarantee contract, a commitment to provide a loan at a below-market interest rate or a designated and effective hedging instrument).
- IG59 An entity may, in accordance with its previous GAAP, have measured investments at fair value and recognised the revaluation gain outside profit or loss. If an investment is classified as at fair value through profit or loss, the pre-IFRS 9 revaluation gain that had been recognised outside profit or loss is reclassified into retained earnings on initial application of IFRS 9. If, on initial application of IFRS 9, an investment in an equity instrument is classified as at fair value through other comprehensive income, then the pre-IFRS 9 revaluation gain is recognised in a separate component of equity. Subsequently, the entity recognises gains and losses on the financial asset in other comprehensive income (except dividends, which are recognised in profit or loss) and accumulates the cumulative gains and losses in that separate component of equity. On subsequent derecognition, the entity may transfer that separate component of equity within equity.

Hedge accounting

- IG60 Paragraphs B4–B6 of the IFRS deal with hedge accounting. The designation and documentation of a hedge relationship must be completed on or before the date of transition to IFRSs if the hedge

relationship is to qualify for hedge accounting from that date. Hedge accounting can be applied prospectively only from the date that the hedge relationship is fully designated and documented.

IG60A An entity may, in accordance with its previous GAAP, have deferred or not recognised gains and losses on a fair value hedge of a hedged item that is not measured at fair value. For such a fair value hedge, an entity adjusts the carrying amount of the hedged item at the date of transition to IFRSs. The adjustment is the lower of:

- (a) that portion of the cumulative change in the fair value of the hedged item and was not recognised in accordance with previous GAAP; and
- (b) that portion of the cumulative change in the fair value of the hedging instrument and, in accordance with previous GAAP, was either (i) not recognised or (ii) deferred in the statement of financial position as an asset or liability.

IG60B An entity may, in accordance with its previous GAAP, have deferred gains and losses on a cash flow hedge of a forecast transaction. If, at the date of transition to IFRSs, the hedged forecast transaction is not highly probable, but is expected to occur, the entire deferred gain or loss is recognised in the cash flow hedge reserve within equity. Any net cumulative gain or loss that has been reclassified to the cash flow hedge reserve on initial application of IFRS 9 remains there until (a) the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, (b) the forecast transaction affects profit or loss or (c) subsequently circumstances change and the forecast transaction is no longer expected to occur, in which case any related net cumulative gain or loss is reclassified from the cash flow hedge reserve to profit or loss. If the hedging instrument is still held, but the hedge does not qualify as a cash flow hedge in accordance with IFRS 9, hedge accounting is no longer appropriate starting from the date of transition to IFRSs.

IGA2

IG Example 11, paragraph IG63 is amended to read as follows:

The table 'Reconciliation of equity at 1 January 20X4 (date of transition to IFRSs)' is amended to read as follows:

Note		<i>Previous GAAP CU</i>	<i>Effect of transition to IFRSs CU</i>	<i>IFRSs CU</i>
1	Property, plant and equipment	8,299	100	8,399
2	Goodwill	1,220	150	1,370
2	Intangible assets	208	(150)	58

3	Financial assets	3,471	420	3,891
	Total non-current assets	13,198	520	13,718
	Trade and other receivables	3,710	0	3,710
4	Inventories	2,962	400	3,362
5	Other receivables	333	431	764
	Cash and cash equivalents	748	0	748
	Total current assets	7,753	831	8,584
	Total assets	20,951	1,351	22,302
	Interest-bearing loans	9,396	0	9,396
	Trade and other payables	4,124	0	4,124
6	Employee benefits	0	66	66
7	Restructuring provision	250	(250)	0
	Current tax liability	42	0	42
8	Deferred tax liability	579	460	1,039
	Total liabilities	14,391	276	14,667
	Total assets less total liabilities	6,560	1,075	7,635
	Issued capital	1,500	0	1,500
5	Cash flow hedge reserve	0	302	302
9	Retained earnings	5,060	773	5,833
	Total equity	6,560	1,075	7,635

Note 3 to the reconciliation of equity at 1 January 20X4 is amended to read as follows:

3 Financial assets are all classified at fair value through profit or loss in accordance with IFRSs and are carried at their fair value of CU3,891. They were carried at cost of CU3,471 in accordance with previous GAAP. The resulting gains of CU294 (CU420, less related deferred tax of CU126) are included in retained earnings.

Note 5 to the reconciliation of equity at 1 January 20X4 is amended to read as follows:

5 Unrealised gains of CU431 on unmatured forward foreign exchange contracts are recognised in accordance with IFRSs, but were not recognised in accordance with previous GAAP. The resulting gains of CU302 (CU431, less related deferred tax of CU129) are included in the cash flow hedge reserve because the contracts hedge forecast sales.

Note 8 to the reconciliation of equity at 1 January 20X4 is amended to read as follows:

8 The above changes increased the deferred tax liability as follows:

	CU
Cash flow hedge reserve (note 5)	129
Retained earnings	331
	<u>460</u>
Increase in deferred tax liability	<u>460</u>

Because the tax base at 1 January 20X4 of the items reclassified from intangible assets to goodwill (note 2) equalled their carrying amount at that date, the reclassification did not affect deferred tax liabilities.

Note 9 to the reconciliation of equity at 1 January 20X4 is amended to read as follows:

9 The adjustments to retained earnings are as follows:

	CU
Depreciation (note 1)	100
Financial assets (note 3)	420
Production overhead (note 4)	400
Pension liability (note 6)	(66)
Restructuring provision (note 7)	250
Tax effect of the above	<u>(331)</u>
Total adjustment to retained earnings	<u>773</u>

The reconciliation of total comprehensive income for 20X4 is amended to read as follows:

Reconciliation of total comprehensive income for 20X4				
Note	Previous GAAP CU	Effect of transition to IFRSs CU	IFRSs CU	
	Revenue	20,910	0	20,910
1, 2, 3	Cost of sales	<u>(15,283)</u>	<u>(97)</u>	<u>(15,380)</u>
	Gross profit	5,627	(97)	5,530

6	Other income	0	180	180
1	Distribution costs	(1,907)	(30)	(1,937)
1, 4	Administrative expenses	(2,842)	(300)	(3,142)
	Finance income	1,446	0	1,446
	Finance costs	(1,902)	0	(1,902)
	Profit before tax	422	(247)	175
5	Tax expense	(158)	74	(84)
	Profit (loss) for the year	264	(173)	91
7	Cash flow hedges	0	(40)	(40)
8	Tax relating to other comprehensive income	0	(29)	(29)
	Other comprehensive income	0	(69)	(69)
	Total comprehensive income	264	(242)	22

Note 6 to the reconciliation of total comprehensive income for 20X4 is amended to read as follows:

6 Financial assets at fair value through profit or loss increased in value by CU180 during 20X4. They were carried at cost in accordance with previous GAAP. Fair value changes have been included in 'Other income'.

IFRS 3 Business Combinations

IGA2A In the table of comparison of IFRS 3 and SFAS 141(R), in the guidance section on 'Contingent consideration' the first reference to IAS 39 is footnoted as follows:

* In November 2009 and October 2010 the IASB amended some of the requirements of IAS 39 and relocated them to IFRS 9 *Financial Instruments*. IFRS 9 applies to all items within the scope of IAS 39.

IFRS 4 Insurance Contracts

IGA3 In the table in IG Example 1, the 'Treatment in Phase I' column of contract types 1.7–1.12, 1.15, 1.18, 1.19 and 1.20(a) are amended to read as follows:

1.7	Not an insurance contract at inception, if the insurer can reprice the mortality risk without constraints. Within the scope of IFRS 9 <i>Financial Instruments</i> unless the contract contains a discretionary participation feature. Will become an insurance contract when the annuity rate is fixed (unless the contingent amount is insignificant in all scenarios that have commercial substance).
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1.8	Within the scope of IFRS 9.
1.9	Paragraph 35 of the IFRS sets out requirements for these contracts, which are excluded from the scope of IFRS 9.
1.10	Within the scope of IFRS 9. Payments denominated in unit values representing the fair value of the specified assets are measured at current unit value (see paragraph B4.3.8(g) of IFRS 9).
1.11	<p>Insurance contract, but within the scope of IFRS 9, not IFRS 4. However, if the issuer has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts, the issuer may elect to apply either IFRS 9 and IAS 32^(b) or IFRS 4 to such financial guarantee contracts.</p> <p>The legal form of the contract does not affect its recognition and measurement.</p> <p>Accounting by the holder of such a contract is excluded from the scope of IFRS 9 and IFRS 4 (unless the contract is a reinsurance contract). Therefore, paragraphs 10–12 of IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> apply. Those paragraphs specify criteria to use in developing an accounting policy if no IFRS applies specifically to an item.</p>
1.12	Not an insurance contract. A derivative within the scope of IFRS 9.
1.15	<p>Insurance contract within the scope of the IFRS (unless changes in the condition of the asset have an insignificant effect). The risk of changes in the fair value of the non-financial asset is not a financial risk because the fair value reflects not only changes in market prices for such assets (a financial variable) but also the condition of the specific asset held (a non-financial variable).</p> <p>However, if the contract compensates the beneficiary only for changes in market prices and not for changes in the condition of the beneficiary's asset, the contract is a derivative and within the scope of IFRS 9.</p> <p>Residual value guarantees given by a lessee under a finance lease are within the scope of IAS 17 <i>Leases</i>.</p>
1.18	Insurance risk is insignificant. Therefore, the contract is a financial asset within the scope of IFRS 9. Servicing fees are within the scope of IAS 18 (recognise as services are provided, subject to various conditions).
1.19	Financial instrument with embedded derivative within the scope of IFRS 9.
1.20	<p>The contract is an insurance contract, and contains an insurance component (with the issuer as policyholder and the holder as the insurer) and a deposit component.</p> <p>(a) If specified conditions are met, paragraph 10 of the IFRS requires the holder to unbundle the deposit component and apply IFRS 9 to it.</p>

	(b) ...
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IGA4 Paragraph IG3 is amended to read as follows:

IG3 IFRS 9 requires an entity to separate embedded derivatives that meet specified conditions from the host instrument that contains them, measure the embedded derivatives at fair value and recognise changes in their fair value in profit or loss. However, an insurer need not separate an embedded derivative that itself meets the definition of an insurance contract (paragraph 7 of the IFRS). Nevertheless, separation and fair value measurement of such an embedded derivative are not prohibited if the insurer's existing accounting policies require such separation, or if an insurer changes its accounting policies and that change meets the criteria in paragraph 22 of the IFRS.

IGA5 In the table in IG Example 2, the 'Treatment if embedded in a host insurance contract' and 'Treatment if embedded in a host investment contract' columns of embedded derivative types 2.4, 2.5, 2.6(b), 2.12 and 2.14–2.17 are amended to read as follows:

Type	<i>Treatment if embedded in a host insurance contract</i>	<i>Treatment if embedded in a host investment contract</i>
2.4	<p>The embedded guarantee is not an insurance contract (unless significant payments are life-contingent^(a)). However, it is closely related to the host contract (paragraph B4.3.8(b) of IFRS 9). Fair value measurement is not required (but not prohibited).</p> <p>If significant payments are life-contingent, the contract is an insurance contract and contains a deposit component (the guaranteed minimum). However, an insurer is not required to unbundle the contract if it recognises all obligations arising from the deposit component (paragraph 10 of the IFRS).</p> <p>If cancelling the deposit component requires the policyholder to cancel the insurance component, the two cancellation options may be</p>	<p>Fair value measurement is not permitted (paragraph B4.3.8(b) of IFRS 9).</p>

	interdependent; if the option to cancel the deposit component cannot be measured separately (ie without considering the other option), both options are regarded as part of the insurance component (paragraph B4.3.8(h) of IFRS 9).	
2.5	The embedded guarantee is not an insurance contract (unless the embedded guarantee is life-contingent to a significant extent). Fair value measurement is required (paragraph B4.3.8(b) of IFRS 9).	Fair value measurement is required (paragraph B4.3.8(b) of IFRS 9).
2.6(b)	The embedded derivative is not an insurance contract. Fair value measurement is required (unless the guarantee is regarded as closely related to the host contract because the guarantee is an un-leveraged interest floor that is at or out of the money at inception, see paragraph B4.3.8(b) of IFRS 9).	Fair value measurement is required (unless the guarantee is regarded as closely related to the host contract because the guarantee is an un-leveraged interest floor that is at or out of the money at inception, see paragraph B4.3.8(b) of IFRS 9).
2.12	Fair value measurement is not required (but not prohibited: paragraph 8 of the IFRS). The surrender value may be viewed as a deposit component, but the IFRS does not require an insurer to unbundle a contract if it recognises all its obligations arising under the deposit component (paragraph 10).	The surrender option is closely related to the host contract if the surrender value is approximately equal to the amortised cost at each exercise date (paragraph B4.3.5(e) of IFRS 9). Otherwise, the surrender option is measured at fair value.
2.14	The option is not closely related to the host contract (unless the option is life-contingent to a significant extent). Fair value measurement is required (paragraphs 8 of the IFRS and B4.3.5 (c) and (d) of IFRS 9).	Fair value measurement is required (paragraph B4.3.5 (c) and (d) of IFRS 9).
2.15	If the insurer measures that portion of its obligation at account value, no further adjustment is needed for the option (unless the surrender	If the insurer regards the account value as the amortised cost or fair value of that portion of its obligation, no further adjustment is needed for the option (unless

	value differs significantly from account value) (see paragraph B4.3.8(g) of IFRS 9). Otherwise, fair value measurement is required.	the surrender value differs significantly from account value). Otherwise, fair value measurement is required.
2.16	The embedded derivative is not an insurance contract and is not closely related to the contract (paragraph B4.3.5(f) of IFRS 9). Fair value measurement is required.	Fair value measurement is required.
2.17	The embedded derivative (option to receive the persistency bonus) is not an insurance contract (unless the persistency bonus is life-contingent to a significant extent). Insurance risk does not include lapse or persistency risk (paragraph B15 of the IFRS). Fair value measurement is required.	An option or automatic provision to extend the remaining term to maturity of a debt instrument is not closely related to the host debt instrument unless there is a concurrent adjustment to the approximate current market rate of interest at the time of the extension (paragraph B4.3.5(b) of IFRS 9). If the option or provision is not closely related to the host instrument, fair value measurement is required.

IGA6

IG Example 3 is amended to read as follows:

<p>IG Example 3: Unbundling a deposit component of a reinsurance contract</p>
<p><i>Application of requirements: case 1—no claims</i></p> <p>...</p> <p>If the reinsurer is required, or elects, to unbundle the contract, it does so as follows. Each payment by the cedant has two components: a loan advance (deposit component) and a payment for insurance cover (insurance component). Applying IFRS 9 to the deposit component, the reinsurer is required to measure it initially at fair value. Fair value could be determined by discounting the future cash flows from the deposit component. Assume that an appropriate discount rate is 10 per cent and that the insurance cover is equal in each year, so that the payment for insurance cover is the same in every year. Each payment of CU10 by the cedant is then made up of a loan advance of CU6.7 and an insurance premium of CU3.3.</p> <p>...</p>
<p><i>Incremental cash flows because of the claim in year 1</i></p> <p>...</p> <p>The incremental cash flows have a present value, in year 1, of CU35 (assuming a discount rate of 10 per cent is appropriate). Applying paragraphs 10–12 of the IFRS, the cedant unbundles the contract and</p>

applies IFRS 9 to this deposit component (unless the cedant already recognises its contractual obligation to repay the deposit component to the reinsurer). If this were not done, the cedant might recognise the CU150 received in year 1 as income, and the incremental payments in years 2–5 as expenses. However, in substance, the reinsurer has paid a claim of CU35 and made a loan of CU115 (CU150 less CU35) that will be repaid in instalments.

...

IGA7

IG7 and IG Example 4 are amended to read as follows:

IG7 Shadow accounting is not the same as fair value hedge accounting under IFRS 9 and will not usually have the same effect.

IG Example 4: Shadow accounting

Background

...

At the inception of a contract, insurer A has DAC of CU20 relating to that contract and the present value, at inception, of EGP is CU100. In other words, DAC is 20 per cent of EGP at inception. Thus, for each CU1 of realised gross profits, insurer A amortises DAC by CU0.20.

For example, if insurer A sells assets and recognises a gain of CU10, insurer A amortises DAC by CU2 (20 per cent of CU10).

Before adopting IFRSs for the first time in 20X5, insurer A measured financial assets on a cost basis. (Therefore, EGP under those national requirements considers only realised gains and losses.) However, under IFRSs, it classifies its financial assets as measured at fair value through profit or loss.

In 20X5, insurer A recognises unrealised gains of CU10 on the assets backing the contract and in 20X6 it sells the assets for an amount equal to their fair value at the end of 20X5.

Application of paragraph 30 of the IFRS

Paragraph 30 of the IFRS permits, but does not require, insurer A to adopt shadow accounting. If insurer A adopts shadow accounting, it amortises DAC in 20X5 by an additional CU2 (20 per cent of CU10) as a result of the change in the fair value of the assets. Insurer A recognises the additional amortisation of CU2 in profit or loss.

When insurer A sells the assets in 20X6, it makes no further adjustment to DAC.

In summary, shadow accounting treats an unrealised gain in the same way as a realised gain. If insurer A does not adopt shadow accounting, unrealised gains on assets do not affect the amortisation of DAC.

IGA8

Paragraph IG65A is amended to read as follows:

IG65A The issuer of a financial guarantee contract provides disclosures complying with IFRS 7 if it applies IFRS 9 in recognising and measuring the contract. If the issuer elects, when permitted by paragraph 4(d) of IFRS 4, to apply IFRS 4 in recognising and

measuring the contract, it provides disclosures complying with IFRS 4. The main implications are as follows:

- (a) IFRS 4 requires disclosure about actual claims compared with previous estimates (claims development), but does not require disclosure of the fair value of the contract.
- (b) IFRS 7 requires disclosure of the fair value of the contract, but does not require disclosure of claims development.

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

IGA9 The tables in Example 10 are amended to read as follows:

	Carrying amount at the end of the reporting period before classification as held for sale	Carrying amount as remeasured immediately before classification as held for sale
	CU*	CU
Goodwill	1,500	1,500
Property, plant and equipment (carried at revalued amounts)	4,600	4,000
Property, plant and equipment (carried at cost)	5,700	5,700
Inventory	2,400	2,200
Investments in equity instruments	1,800	1,500
Total	16,000	14,900

* In this guidance, monetary amounts are denominated in 'currency units (CU)'.

...

The impairment loss is allocated to non-current assets to which the measurement requirements of the IFRS are applicable. Therefore, no impairment loss is allocated to inventory and investments in equity instruments. The loss is allocated to the other assets in the order of allocation set out in paragraphs 104 and 122 of IAS 36 (as revised in 2004).

...

	Carrying amount as remeasured immediately before classification as held for sale	Allocated impairment loss	Carrying amount after allocation of impairment loss
	CU	CU	CU
Goodwill	1,500	(1,500)	0
Property, plant and equipment (carried at revalued amounts)	4,000	(165)	3,835
Property, plant and equipment (carried at cost)	5,700	(235)	5,465
Inventory	2,200	–	2,200
Investments in equity instruments	1,500	–	1,500

	Financial assets at fair value			Total
	Trading securities	Trading derivatives	Equity investments	
	CU million	CU million	CU million	CU million
Opening balance	6	5	3	14
Total gains or losses				
in profit or loss	(2)	(2)	–	(4)
in other comprehensive income	–	–	1	1
Purchases	1	2	1	4
Issues	–	–	–	–
Settlements	–	(1)	–	(1)
Transfers out of Level 3	–	(2)	–	(2)
Closing balance	<u>5</u>	<u>2</u>	<u>5</u>	<u>12</u>
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	<u>(1)</u>	<u>(1)</u>	<u>–</u>	<u>(2)</u>
Gains or losses included in profit or loss for the period (above) are presented in trading income and in other income as follows:				
			Trading Income	
Total gains or losses included in profit or loss for the period			<u>(4)</u>	
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period			<u>(2)</u>	
(Note: For liabilities, a similar table might be presented.)				

IGA14

Paragraph IG14 and the illustrative disclosure following paragraph IG14 are amended to read as follows:

IG14 The fair value at initial recognition of financial instruments that are not traded in active markets is determined in accordance with paragraph B5.4.8 of IFRS 9. However, when, after initial recognition, an entity will use a valuation technique that incorporates data not obtained from observable markets, there may be a difference between the transaction price at initial recognition and the amount determined at initial recognition using that valuation technique. In these circumstances, the difference will be recognised in profit or loss in subsequent periods in accordance with IFRS 9 and the entity's accounting policy. Such recognition reflects changes in factors (including time) that market participants would consider in setting a price (see paragraph B5.4.9 of IFRS 9).

Paragraph 28 requires disclosures in these circumstances. An entity might disclose the following to comply with paragraph 28:

...

Accounting policies

The entity uses the following valuation technique to determine the fair value of financial instruments that are not traded in an active market: [description of technique, not included in this example]. Differences may arise between the fair value at initial recognition (which, in accordance with IFRS 9, is generally the transaction price) and the amount determined at initial recognition using the valuation technique. Any such differences are [description of the entity's accounting policy].

In the notes to the financial statements

As discussed in note X, the entity uses [name of valuation technique] to measure the fair value of the following financial instruments that are not traded in an active market. However, in accordance with IFRS 9, the fair value of an instrument at inception is generally the transaction price. If the transaction price differs from the amount determined at inception using the valuation technique, that difference is [description of the entity's accounting policy].

IGA15 Paragraph IG36 is amended to read as follows:

IG36 The following example illustrates the application of the disclosure requirement in paragraph 40(a):

Interest rate risk

At 31 December 20X2, if interest rates at that date had been 10 basis points lower with all other variables held constant, post-tax profit for the year would have been CU1.7 million (20X1—CU2.4 million) higher, arising mainly as a result of lower interest expense on variable borrowings. If interest rates had been 10 basis points higher, with all other variables held constant, post-tax profit would have been CU1.5 million (20X1—CU2.1 million) lower, arising mainly as a result of higher interest expense on variable borrowings. Profit is more sensitive to interest rate decreases than increases because of borrowings with capped interest rates. The sensitivity is lower in 20X2 than in 20X1 because of a reduction in outstanding borrowings that has occurred as the entity's debt has matured (see note X). [footnote omitted] ...

IGA15A The heading 'Hedge accounting (paragraphs 24A–24C)' and paragraphs IG13C–IG13E are added as follows:

Hedge accounting (paragraphs 24A-24C)

IG13C Paragraph 24A of IFRS 7 requires that an entity discloses amounts related to items designated as hedging instruments in a tabular format. The following example illustrates how that information might be disclosed.

	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument		Line item in the statement of financial position where the hedging instrument is located	Changes in fair value used for calculating hedge ineffectiveness for 201X
		Assets	Liabilities		
Cash flow hedges					
Commodity price risk - Forward sales contracts	xx	xx	xx	Line item XX	xx
Fair value hedges					
Interest rate risk - Interest rate swaps	xx	xx	xx	Line item XX	xx
Foreign exchange risk - Foreign currency loan	xx	xx	xx	Line item XX	xx

IG13D Paragraph 24B of IFRS 7 requires that an entity discloses amounts related to items designated as hedged items in a tabular format. The following example illustrates how that information might be disclosed.

	Carrying amount of the hedged item		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item		Line item in the statement of financial position in which the hedged item is included	Change in value used for calculating hedge ineffectiveness for 201X	Cash flow hedge reserve
	Assets	Liabilities	Assets	Liabilities			
Cash flow hedges							
Commodity price risk							
- Forecast sales	n/a	n/a	n/a	n/a	n/a	xx	xx
- Discontinued hedges (forecast sales)	n/a	n/a	n/a	n/a	n/a	n/a	xx
Fair value hedges							
Interest rate risk							
- Loan payable	-	xx	-	xx	Line item XX	xx	n/a
- Discontinued hedges (Loan payable)	-	xx	-	xx	Line item XX	n/a	n/a
Foreign exchange risk							
- Firm commitment	xx	xx	xx	xx	Line item XX	xx	n/a

IG13E Paragraph 24C of IFRS 7 requires that an entity discloses amounts that have affected the statement of comprehensive income as a result of applying hedge accounting in a tabular format. The following example illustrates how that information might be disclosed.

Cash flow hedges ^(a)	Separate line item recognised in profit or loss as a result of a hedge of a net position ^(b)	Change in the value of the hedging instrument recognised in other comprehensive income	Hedge ineffectiveness recognised in profit or loss	Line item in profit or loss (that includes hedge ineffectiveness)	Amount reclassified from the cash flow hedge reserve to profit or loss	Line item affected in profit or loss because of the reclassification
Commodity price risk Commodity X	n/a	xx	xx	Line item XX	xx	Line item XX
- Discontinued hedge	n/a	n/a	n/a	n/a	xx	Line item XX
<p>(a) The information disclosed in the statement of changes in equity (cash flow hedge reserve) should have the same level of detail as these disclosures.</p> <p>(b) This disclosure only applies to cash flow hedges of foreign currency risk.</p>						

Fair value hedges	Ineffectiveness recognised in profit or loss	Line item(s) in profit or loss (that include(s) hedge ineffectiveness)
Interest rate risk	xx	Line item XX
Foreign exchange risk	xx	Line item XX

IAS 1 Presentation of Financial Statements

IGA16 The heading above paragraph IG7 and paragraphs IG7–IG9 are deleted. Paragraph IG2 is amended to read as follows:

IG2 The guidance is in two sections. Paragraphs IG3–IG6 provide examples of the presentation of financial statements. Paragraphs IG7–IG9 have been deleted. Paragraphs IG10 and IG11 provide examples of capital disclosures.

IGA17 In the illustrative financial statements, references to ‘Available-for-sale financial assets’ are replaced by ‘Investments in equity instruments’. In the single statement of comprehensive income the reference to footnote (b) against the deleted line item ‘Available-for-sale financial assets’ is deleted. The heading and table ‘Disclosure of components of other comprehensive income’ are amended to read as follows:

Part I: Illustrative presentation of financial statements			
Disclosure of components of other comprehensive income [footnote omitted]			
Notes			
Year ended 31 December 20X7			
(in thousands of currency units)			
	20X7		20X6
Other comprehensive income:			
Exchange differences on translating foreign operations [footnote omitted]	5,334		10,667
Investments in equity instruments	(24,000)		26,667
Cash flow hedges:			
Gains (losses) arising during the year	(4,667)	(4,000)	
Less: Reclassification adjustments for gains (losses) included in profit or loss	<u>4,000</u>	(667)	<u>–</u> (4,000)
Gains on property revaluation	933		3,367
Actuarial gains (losses) on defined benefit pension plans	(667)		1,333
Share of other comprehensive income of associates	<u>400</u>		<u>(700)</u>
Other comprehensive income	(18,667)		37,334
Income tax relating to components of other comprehensive income [footnote omitted]	4,667		(9,334)

Other comprehensive income for the year	(14,000)	28,000

IGA18 The second paragraph in footnote (k) to the illustrative financial statements is amended to read as follows:

- (k) The amount included in the translation, investments in equity instruments and cash flow hedge reserves represents other comprehensive income for each component, net of tax and non-controlling interests, eg other comprehensive income related to investments in equity instruments for 20X6 of 16,000 is 26,667, less tax 6,667, less non-controlling interests 4,000.

IGA19 The second paragraph in footnote (l) to the illustrative financial statements is amended to read as follows:

- (l) The amount included in the translation, investments in equity instruments and cash flow hedge reserves represents other comprehensive income for each component, net of tax and non-controlling interests, eg other comprehensive income related to the translation of foreign operations for 20X7 of 3,200 is 5,334, less tax 1,334, less non-controlling interests 800.

IAS 18 Revenue

IGA20 In the illustrative examples, paragraphs 5 and 14 are amended to read as follows:

5 ...

For a sale and repurchase agreement on an asset other than a financial asset, the terms of the agreement need to be analysed to ascertain whether, in substance, the seller has transferred the risks and rewards of ownership to the buyer and hence revenue is recognised. When the seller has retained the risks and rewards of ownership, even though legal title has been transferred, the transaction is a financing arrangement and does not give rise to revenue. For a sale and repurchase agreement on a financial asset, IFRS 9 *Financial Instruments* applies.

14 *Financial service fees*

...

- (a) *Fees that are an integral part of the effective interest rate of a financial instrument.*

...

- (i) *Origination fees received by the entity relating to the creation or acquisition of a financial asset other than one that under IFRS 9 is measured at fair value through profit or loss.*

Such fees may include compensation for activities such as evaluating the borrower's financial condition,

evaluating and recording guarantees, collateral and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction. These fees are an integral part of generating an involvement with the resulting financial instrument and, together with the related transaction costs [footnote omitted] (as defined in IAS 39), are deferred and recognised as an adjustment to the effective interest rate.

- (ii) *Commitment fees received by the entity to originate a loan when the loan commitment is outside the scope of IFRS 9.*

If it is probable that the entity will enter into a specific lending arrangement and the loan commitment is not within the scope of IFRS 9, the commitment fee received is regarded as compensation for an ongoing involvement with the acquisition of a financial instrument and, together with the related transaction costs (as defined in IAS 39), is deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without the entity making the loan, the fee is recognised as revenue on expiry. Loan commitments that are within the scope of IFRS 9 are accounted for as derivatives and measured at fair value.

- (iii) *Origination fees received on issuing financial liabilities measured at amortised cost.*

These fees are an integral part of generating an involvement with a financial liability. When a financial liability is not classified as at fair value through profit or loss, the origination fees received are included, with the related transaction costs (as defined in IAS 39) incurred, in the initial carrying amount of the financial liability and recognised as an adjustment to the effective interest rate. An entity distinguishes fees and costs that are an integral part of the effective interest rate for the financial liability from origination fees and transaction costs relating to the right to provide services, such as investment management services.

- (b) *Fees earned as services are provided.*

(i) ...

- (ii) *Commitment fees to originate a loan when the loan commitment is outside the scope of IFRS 9.*

If it is unlikely that a specific lending arrangement will be entered into and the loan commitment is outside the scope of IFRS 9, the commitment fee is recognised as revenue on a time proportion basis over the commitment period. Loan commitments that

are within the scope of IFRS 9 are accounted for as derivatives and measured at fair value.

(iii) ...

IAS 27 Consolidated and Separate Financial Statements

- IGA21 Paragraph IG7 is amended to read as follows:
- IG7 IFRS 9 *Financial Instruments* does not apply to interests in subsidiaries, associates and jointly controlled entities that are consolidated, accounted for using the equity method or proportionately consolidated in accordance with IAS 27, IAS 28 and IAS 31 respectively. When instruments containing potential voting rights in substance currently give access to the economic benefits associated with an ownership interest, and the investment is accounted for in one of the above ways, the instruments are not subject to the requirements of IFRS 9. In all other cases, instruments containing potential voting rights are accounted for in accordance with IFRS 9.
- IGA22 A footnote is added to 'IAS 39' after the Table of Concordance as follows:
- * In November 2009 and October 2010 the IASB amended some of the requirements of IAS 39 and relocated them to IFRS 9 *Financial Instruments*. IFRS 9 applies to all financial items within the scope of IAS 39. This section refers to matters relevant when IAS 27 was issued.

IAS 32 Financial Instruments: Presentation

- IGA23 Paragraph IE1 is amended to read as follows:
- IE1 The following examples [footnote omitted] illustrate the application of paragraphs 15–27 and IFRS 9 to the accounting for contracts on an entity's own equity instruments (other than the financial instruments specified in paragraphs 16A and 16B or paragraphs 16C and 16D).
- IGA24 In the example in paragraph IE5, the caption below the first journal entry is amended to read as follows:
- To record the obligation to deliver CU104,000 in one year at its present value of CU100,000 discounted using an appropriate interest rate (see IFRS 9, paragraph B5.1.1).*

IAS 37 Provisions, Contingent Liabilities and Contingent Assets

- IGA25 Example 9 is amended to read as follows:
- On 31 December 20X0, Entity A gives a guarantee of certain borrowings of Entity B, whose financial condition at that time is sound. During 20X1, the financial condition of Entity B deteriorates and at 30 June 20X1 Entity B files for protection from its creditors.
- This contract meets the definition of an insurance contract in IFRS 4 *Insurance Contracts*, but is within the scope of IFRS 9 *Financial Instruments*,

because it also meets the definition of a financial guarantee contract in IFRS 9. If an issuer has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts, the issuer may elect to apply either IFRS 4 or IFRS 9 to such financial guarantee contracts. IFRS 4 permits the issuer to continue its existing accounting policies for insurance contracts if specified minimum requirements are satisfied. IFRS 4 also permits changes in accounting policies that meet specified criteria. The following is an example of an accounting policy that IFRS 4 permits and that also complies with the requirements in IFRS 9 for financial guarantee contracts within the scope of IFRS 9.

IAS 39 Financial Instruments: Recognition and Measurement

- IGA26 Sections C, D and F are deleted.
- IGA27 The following Questions and Answers (Q&A) are deleted:
- Section B Definitions: B.1–B.23, B.28–B.32
 - Section E Measurement: E.1, E.3, E.4.9, E.4.10
- IGA28 In the answer to Question A.1, ‘IAS 39’ is amended to ‘IFRS 9’.
- IGA29 In the answer to Question A.2, ‘exemption from IAS 39’ is amended to ‘exemption from paragraph 5 of IAS 39’.
- IGA30 Question B.26 is amended to read as follows:
- How is amortised cost calculated for financial assets measured at amortised cost in accordance with IFRS 9?**
- IGA31 In the answer to Question E.2.1, ‘IAS 39.AG72’ is amended to ‘paragraph B5.4.4 of IFRS 9’.
- IGA32 In the answer to Question E.2.2, ‘IAS 39.AG71’ is amended to ‘paragraph B5.4.3 of IFRS 9’.
- IGA33 The answer to Question E.4.2 is amended to read as follows:
- No. Paragraph 5.1.1 of IFRS 9 requires a financial asset to be initially measured at fair value. For a loan asset, the fair value is the amount of cash lent adjusted for any fees and costs (unless a portion of the amount lent is compensation for other stated or implied rights or privileges). In addition, paragraph 5.2.2 of IFRS 9 requires an entity to apply the impairment requirements in IAS 39. IAS 39.58 requires that an impairment loss is recognised only if there is objective evidence of impairment as a result of a past event that occurred after initial recognition. Accordingly, it is inconsistent with paragraph 5.1.1 of IFRS 9 and IAS 39.58 to reduce the carrying amount of a loan asset on initial recognition through the recognition of an immediate impairment loss.
- IGA34 Question E.4.5 is amended to read as follows:
- A financial institution calculates impairment in the unsecured portion of financial assets measured at amortised cost on the basis of a provision matrix that specifies fixed provision rates for the number of days a financial asset has been classified as non-performing (zero per cent if less than 90 days, 20 per cent if 90–180 days, 50 per cent if 181–365 days and 100 per cent if more than 365 days). Can the results be considered**

to be appropriate for the purpose of calculating the impairment loss on the financial assets measured at amortised cost under IAS 39.63?

IGA43

Q&A G.1 is amended to read as follows:

IFRS 9 requires remeasurement of financial assets and financial liabilities measured at fair value. Unless a financial asset or a financial liability is designated as a cash flow hedging instrument, fair value changes for financial assets and financial liabilities at fair value through profit or loss are recognised in profit or loss, and fair value changes for financial assets designated at fair value through other comprehensive income are recognised in other comprehensive income. What disclosures are required regarding the amounts of the fair value changes during a reporting period?

IFRS 7.20 requires items of income, expense and gains and losses to be disclosed. This disclosure requirement encompasses items of income, expense and gains and losses that arise on remeasurement to fair value. Therefore, an entity provides disclosures of fair value changes, distinguishing between changes that are recognised in profit or loss and changes that are recognised in other comprehensive income. Further breakdown is provided of changes that relate to:

- (a) financial assets or financial liabilities measured at fair value through profit or loss, showing separately those on financial assets or financial liabilities designated as such upon initial recognition, and those on financial assets or financial liabilities that are mandatorily measured at fair value in accordance with IFRS 9. For financial liabilities designated as at fair value through profit or loss, an entity shall show separately the amount of gain or loss recognised in other comprehensive income and the amount recognised in profit or loss;
- (b) financial assets measured at fair value through other comprehensive income; and
- (c) hedging instruments.

In addition, IFRS 7.11A and IFRS 7.11B require an entity to disclose the amount of gain or loss recognised in other comprehensive income for financial assets measured at fair value through other comprehensive income, including any amount transferred within equity.

IFRS 7 neither requires nor prohibits disclosure of components of the change in fair value by the way items are classified for internal purposes. For example, an entity may choose to disclose separately the change in fair value of those derivatives that meet the definition of held for trading in IFRS 9, but the entity classifies as part of risk management activities outside the trading portfolio.

In addition, IFRS 7.8 requires disclosure of the carrying amounts of financial assets or financial liabilities at fair value through profit or loss, showing separately: (i) those designated as such upon initial recognition; (ii) financial assets mandatorily classified as such in accordance with IFRS 9; (iii) financial liabilities that meet the definition of held for trading in IFRS 9; and (iv) disclosures of financial assets measured at fair value through other comprehensive income.

IGA43A In the title of, and the answer to, Question G.2, references to 'IAS 39' are replaced with 'IFRS 9'.

IFRIC 12 *Service Concession Arrangements*

IGA44 Paragraphs IE7 and IE28 are amended to read as follows:

IE7 IFRS 9 *Financial Instruments* may require the entity to measure the amounts due from the grantor at amortised cost, unless the entity designates those amounts as measured at fair value through profit or loss. If the receivable is measured at amortised cost in accordance with IFRS 9, it is measured initially at fair value and subsequently at amortised cost, ie the amount initially recognised plus the cumulative interest on that amount calculated using the effective interest method minus repayments.

IE28 IFRS 9 *Financial Instruments* may require the entity to measure the amount due from or at the direction of the grantor in exchange for the construction services at amortised cost. If the receivable is measured at amortised cost in accordance with IFRS 9, it is measured initially at fair value and subsequently at amortised cost, ie the amount initially recognised plus the cumulative interest on that amount minus repayments.

IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*

IGA45 Paragraph IE5 is amended to read as follows:

IE5 When the investment in Subsidiary C is disposed of, IFRS 9 requires the full €24 million gain on the hedging instrument to be reclassified to profit or loss. ...

Tables of Concordance

This table shows how the contents of IAS 39 and IFRS 9 correspond. In transferring the material from IAS 39 to IFRS 9 some minor editorial changes have been necessary.

Paragraph in IAS 39 (as amended by IFRS 9 in 2009)	Paragraphs in IFRS 9 (October 2010)	Paragraph in IAS 39 (as amended by IFRS 9 in 2009)	Paragraphs in IFRS 9 (October 2010)	
1—deleted		103–103G—not moved		
2–8—not moved		103H–103J—deleted		
		103M	7.2.9	
		105–107A—deleted		
9—the following definitions are moved to IFRS 9:	The definitions noted were added to Appendix A	108–108C—not moved		
• derecognition		109–110—not moved		
• derivative		AG1–AG4A—not moved		
• fair value		AG4B–AG4K	B4.1.27–B4.1.36	
• financial guarantee contract		AG5–AG8—not moved		
• financial liability at fair value through profit or loss		AG9–AG12A	BA.1–BA.5	
• held for trading		AG13—not moved		
• regular way purchase or sale		AG14–AG15	BA.6–BA.8	
10		4.3.1	AG27–AG33B	B4.3.1–B4.3.10
11–13		4.3.3–4.3.7	AG34, AG35	B3.1.1, B3.1.2
14	3.1.1	AG36–AG52	B3.2.1–B3.2.17	
15–37	3.2.1–3.2.23	AG53–AG56	B3.1.3–B3.1.6	
38	3.1.2	AG57–AG63	B3.3.1–B3.3.7	
39–42	3.3.1–3.3.4	AG64	B5.1.1	
43, 44	5.1.1, 5.1.2	AG69–AG79	B5.4.1–B5.4.12	
47	4.2.1	AG80, AG81—deleted		
48–49	5.4.1–5.4.3	AG82	B5.4.13	
50, 50A	4.4.2, 4.4.3	AG83	B5.7.2, B5.7.4	
53 and 54—deleted		AG84–AG93—not moved		
55	5.7.1	AG94–AG95—not moved		
56	5.7.2, 5.7.3	AG96—deleted		
57	5.7.4	AG97–AG133—not moved		
58–65—not moved				
71–102—not moved				

This table shows how the contents of IFRS 9 (issued in November 2009) and IFRS 9 (issued in October 2010) correspond.

Paragraph in IFRS 9 (November 2009)	Paragraphs in IFRS 9 (October 2010)	Paragraph in IFRS 9 (November 2009)	Paragraphs in IFRS 9 (October 2010)
1.1	1.1	8.2.4	7.2.4
2.1	2.1	8.2.5	7.2.5
3.1.1	3.1.1	8.2.6	7.2.6
3.1.2	Replaced by amended 3.1.2	8.2.7	7.2.7
4.1	4.1.1	8.2.8	7.2.8
4.2	4.1.2	8.2.9	Replaced by 7.2.9
4.3	4.1.3	8.2.10	7.2.10
4.4	4.1.4	8.2.11	7.2.11
4.5	4.1.5	8.2.12	7.2.14
4.6	4.3.1	8.2.13	7.2.15
4.7	4.3.2	B4.1	B4.1.1
4.8	Replaced by 4.3.3–4.3.7	B4.2	B4.1.2
4.9	4.4.1	B4.3	B4.1.3
5.1.1	5.1.1	B4.4	B4.1.4
5.2.1	5.2.1	B4.5	B4.1.5
5.2.2	5.2.2	B4.6	B4.1.6
5.2.3	5.2.3	B4.7	B4.1.7
5.3.1	5.6.1	B4.8	B4.1.8
5.3.2	5.6.2	B4.9	B4.1.9
5.3.3	5.6.3	B4.10	B4.1.10
5.4.1	Replaced by 5.7.1	B4.11	B4.1.11
5.4.2	5.7.2	B4.12	B4.1.12
5.4.3	Replaced by 5.7.3	B4.13	B4.1.13
5.4.4	5.7.5	B4.14	B4.1.14
5.4.5	5.7.6	B4.15	B4.1.15
8.1.1	Replaced by 7.1.1	B4.16	B4.1.16
8.2.1	7.2.1	B4.17	B4.1.17
8.2.2	7.2.2	B4.18	B4.1.18
8.2.3	7.2.3	B4.19	B4.1.19
Paragraph in IFRS 9 (November 2009)	Paragraphs in IFRS 9 (October 2010)	Paragraph in IFRS 9 (November 2009)	Paragraphs in IFRS 9 (October 2010)
B4.22	B4.1.22	B4.20	B4.1.20
		B4.21	B4.1.21
		Paragraph in IFRS 9 (November 2009)	Paragraphs in IFRS 9 (October 2010)
		B5.7	B5.4.16

HEDGE ACCOUNTING

B4.23	B4.1.23
B4.24	B4.1.24
B4.25	B4.1.25
B4.26	B4.1.26
B5.1	B5.1.1
B5.2	B5.1.2
B5.3	B5.2.1
B5.4	B5.2.2
B5.5	B5.4.14
B5.6	B5.4.15

B5.8	B5.4.17
B5.9	B4.4.1
B5.10	B4.4.2
B5.11	B4.4.3
B5.12	B5.7.1
B5.13	B5.7.2
B5.14	B5.7.3
B5.15	B5.7.4
B8.1	B7.2.1