



## **Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement* – Eligible Hedged Items**

### **HKICPA Standard Setting Department Staff Summary (November 2008)**

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The HKICPA Standard Setting Department welcomes your comments and feedback, which should be sent to [commentletters@hkicpa.org.hk](mailto:commentletters@hkicpa.org.hk).

### **Introduction**

1. Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement* – Eligible Hedged Items is effective for annual periods beginning on or after 1 July 2009, the same effective date as Amendment to IAS 39 *Financial Instruments: Recognition and Measurement* – Eligible Hedged Items. Earlier application is permitted.

### **Reasons for issuing Amendment to HKAS 39**

2. The objective of the Hong Kong Institute of Certified Public Accountants (HKICPA) in issuing Amendment to HKAS 39 is to maintain international convergence arising from the revision of IAS 39 by the International Accounting Standards Board (IASB).
3. The amendment clarifies how the existing principles underlying hedge accounting should be applied in two particular situations:
  - (a) a one-sided risk in a hedged item, and
  - (b) inflation in a financial hedged item.

### **Main features of Amendment to HKAS 39 – Eligible Hedged Items**

#### **Qualifying hedged items – a one-sided risk in a hedged item**

4. An entity can designate all changes in the cash flows or fair value of a hedged item in a hedging relationship. An entity can also designate only changes in the cash flows or fair value of a hedged item above or below a specified price or other variable (a one-sided risk). The amendment clarifies that only the intrinsic value, not the time value, of an option reflects a one-sided risk and therefore an option designated in its entirety cannot be perfectly effective.
5. Therefore, it is not possible to designate the entire change in fair value of a purchased option, including time value, as a hedging instrument and avoid ineffectiveness by also designating as the hedged item the change in fair value of a one-sided risk, including



imputed time value. As such, when options are used to hedge such risks, ineffectiveness will exist and will need to be identified, measured and separately accounted for.

#### **Designation of inflation as a hedged item**

6. The amendment clarifies that inflation cannot be designated as a risk or a portion of a financial instrument unless the requirements stated in paragraph 7 are met, as it is not separately identifiable and reliably measureable.
7. The amendment also makes clear that inflation may only be hedged unless inflation is a contractually specified portion of cash flows of a recognised inflation-linked bond and the other cash flows of the instrument are not affected by the inflation portion.

#### **Other references on Amendment to IAS 39**

1. Deloitte IAS Plus on IASB issues amendments to IAS 39 on eligible hedged items  
<http://www.iasplus.com/iasplus/0807hedgeditems.pdf>
2. Ernst & Young Supplement to IFRS outlook on Hedging portions of risk  
[http://www.ey.com/Global/assets.nsf/International/IFRS\\_supplement\\_to\\_IFRS\\_outlook\\_issue11/\\$file/IFRS\\_Supplement\\_Issue11.pdf](http://www.ey.com/Global/assets.nsf/International/IFRS_supplement_to_IFRS_outlook_issue11/$file/IFRS_Supplement_Issue11.pdf)
3. KPMG IFRS Briefing Sheet on Eligible Hedged Items – Amendment to IAS 39 *Financial Instruments: Recognition and Measurement*  
[http://www.kpmg.com.hk/en/virtual\\_library/Audit/IFRS\\_briefingsheet/IFRSBS08100.pdf](http://www.kpmg.com.hk/en/virtual_library/Audit/IFRS_briefingsheet/IFRSBS08100.pdf)

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