

Novation of Derivatives and Continuation of Hedge Accounting (Diff Rep)  
(Amendments to NZ IAS 39 (Diff Rep))



NZ ACCOUNTING  
STANDARDS  
BOARD

**Novation of Derivatives and Continuation of Hedge Accounting (Diff Rep)  
(Amendments to NZ IAS 39 (Diff Rep))**

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**CONTENTS**

**INTRODUCTION**

**AMENDMENTS TO NZ IAS 39 (Diff Rep) *FINANCIAL INSTRUMENTS:*  
*RECOGNITION AND MEASUREMENT***

## Introduction

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This document sets out amendments to NZ IAS 39 *Financial Instruments: Recognition and Measurement* (Diff Rep). These amendments result from the proposals in, and the feedback received on, the IASB Exposure Draft ED/2013/2 *Novation of Derivatives and Continuation of Hedge Accounting* (Proposed Amendments to IAS 39 and IFRS 9) that was published in February 2013.

IAS 39 requires hedge accounting to be discontinued when the hedging instrument expires or is sold, terminated or exercised, unless the replacement or rollover of a hedging instrument into another hedging instrument is part of the entity's documented hedging strategy.

The IASB received an urgent request to clarify whether an entity is required to discontinue hedge accounting for hedging relationships in which a derivative has been designated as a hedging instrument in accordance with IAS 39 in a circumstance in which that derivative is novated to a central counterparty (CCP) following the introduction of a new law or regulation.

The IASB concluded that an entity is required to discontinue the hedge accounting for a derivative that has been designated as a hedging instrument in an existing hedging relationship if the derivative is novated to a CCP; the new derivative, with a counterparty being the CCP, is to be recognised at the time of the novation.

The IASB, however, was concerned about the financial reporting effects that would arise from novations arising as a result of new laws or regulations. The IASB also noted that the widespread legislative changes across jurisdictions were prompted by a G20 commitment to improve transparency and regulatory oversight of over-the-counter (OTC) derivatives in an internationally consistent and non-discriminatory way, which includes central clearing of OTC derivatives.

Consequently, the IASB has amended IAS 39 to provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. Similar relief will be included in IFRS 9 *Financial Instruments*.

## Amendments to NZ IAS 39 (Diff Rep) *Financial Instruments: Recognition and Measurement*

### Scope

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These amendments apply only to Tier 3 for-profit entities that elect to apply the requirements.

Paragraphs 91 and 101 are amended. New text is underlined and deleted text is struck through.
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### Fair value hedges

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91 An entity shall discontinue prospectively the hedge accounting specified in paragraph 89 if:

(a) the hedging instrument expires or is sold, terminated or exercised. ~~(For this purpose, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such replacement or rollover is part of the entity's documented hedging strategy).~~ Additionally, for this purpose there is not an expiration or termination of the hedging instrument if:

(i) as a consequence of laws or regulations or the introduction of laws or regulations, the parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. For this purpose, a clearing counterparty is a central counterparty (sometimes called a 'clearing organisation' or 'clearing agency') or an entity or entities, for example, a clearing member of a clearing organisation or a client of a clearing member of a clearing organisation, that are acting as counterparty in order to effect clearing by a central counterparty. However, when the parties to the hedging instrument replace their original counterparties with different counterparties this paragraph shall apply only if each of those parties effects clearing with the same central counterparty.

(ii) other changes, if any, to the hedging instrument are limited to those that are necessary to effect such a replacement of the counterparty. Such changes are limited to those that are consistent with the terms that would be expected if the hedging instrument were originally cleared with the clearing counterparty. These changes include changes in the collateral requirements, rights to offset receivables and payables balances, and charges levied.

(b) ...

...

## Cash flow hedges

...

101 In any of the following circumstances an entity shall discontinue prospectively the hedge accounting specified in paragraphs 95–100:

- (a) ~~The hedging instrument expires or is sold, terminated or exercised (for this purpose, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such replacement or rollover is part of the entity's documented hedging strategy).~~ In this case, the cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income from the period when the hedge was effective (see paragraph 95(a)) shall remain separately in equity until the forecast transaction occurs. When the transaction occurs, paragraph 97, 98 or 100 applies. For the purpose of this subparagraph, the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if such replacement or rollover is part of the entity's documented hedging strategy. Additionally, for the purpose of this subparagraph there is not an expiration or termination of the hedging instrument if:
- (i) as a consequence of laws or regulations or the introduction of laws or regulations, the parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. For this purpose, a clearing counterparty is a central counterparty (sometimes called a 'clearing organisation' or 'clearing agency') or an entity or entities, for example, a clearing member of a clearing organisation or a client of a clearing member of a clearing organisation, that are acting as counterparty in order to effect clearing by a central counterparty. However, when the parties to the hedging instrument replace their original counterparties with different counterparties this paragraph shall apply only if each of those parties effects clearing with the same central counterparty.
- (ii) other changes, if any, to the hedging instrument are limited to those that are necessary to effect such a replacement of the counterparty. Such changes are limited to those that are consistent with the terms that would be expected if the hedging instrument were originally cleared with the clearing counterparty. These changes include changes in the collateral requirements, rights to offset receivables and payables balances, and charges levied.
- (b) ...

Paragraph 108D and, in Appendix A, paragraph AG113A are added.

## Effective date and transition

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108D *Novation of Derivatives and Continuation of Hedge Accounting* (Amendments to NZ IAS 39), issued in July 2013, amended paragraphs 91 and 101 and added paragraph AG113A. An entity shall apply those paragraphs for annual periods beginning on or after 1 January 2014. An entity shall apply those amendments retrospectively in accordance with NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Earlier application is permitted. If an entity applies those amendments for an earlier period it shall disclose that fact.

...

## Assessing hedge effectiveness

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AG113A For the avoidance of doubt, the effects of replacing the original counterparty with a clearing counterparty and making the associated changes as described in paragraphs 91(a)(ii) and 101(a)(ii) shall be reflected in the measurement of the hedging instrument and therefore in the assessment of hedge effectiveness and the measurement of hedge effectiveness.

# **Consequential Amendments to XRB A1 *Accounting Standards Framework (For-profit Entities Update)* and XRB A1 *Accounting Standards Framework (For-profit Entities plus Public Sector Public Benefit Entities Update)***

## **APPENDIX C**

### **ACCOUNTING STANDARDS AND OTHER PRONOUNCEMENTS TO BE APPLIED BY TIER 3 FOR-PROFIT ENTITIES**

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This appendix lists the NZ IFRS and other New Zealand standards and pronouncement that have authoritative support within New Zealand for Tier 3 for-profit entities.

#### **Standards**

NZ IFRS 1 (Diff Rep)	<i>First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards</i>
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NZ IAS 39 (Diff Rep)	<i>Financial Instruments: Recognition and Measurement</i> <u><i>Novation of Derivatives and Continuation of Hedge Accounting</i></u>
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NZ IAS 40 (Diff Rep)	<i>Investment Property</i>
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