RDR Hedge Accounting Disclosures (Amendments to NZ IFRS 9 (2013))

This Standard was issued by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013 on 5 June 2014.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 3 July 2014.

Reporting entities that are subject to this Standard are required to apply it in accordance with the effective date, which is set out in Part C.

In finalising this Standard, the New Zealand Accounting Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Standard has been issued to amend the relevant New Zealand Tier 2 For-profit Accounting Standard to reflect disclosure concessions.

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Part A

Introduction

This Standard amends NZ IFRS 9 *Financial Instruments* (2013) (*Hedge Accounting and amendments to NZ IFRS 9, NZ IFRS 7 and NZ IAS 39*) (NZ IFRS 9 (2013).

This Standard identifies RDR disclosure concessions for Tier 2 for-profit entities that apply the hedge accounting requirements in NZ IFRS 9 (2013). The disclosure requirements relating to hedge accounting are currently contained in Appendix C of NZ IFRS 9 (2013). Those disclosure requirements will be found in NZ IFRS 7 *Financial Instruments: Disclosures* once the consequential amendments arising from the issuance of NZ IFRS 9 (2013) have been compiled into the relevant standards.

Part B

Amendments to Appendix C of NZ IFRS 9 *Financial Instruments* (2013) (*Hedge Accounting and amendments to NZ IFRS 9, NZ IFRS 7 and NZ IAS 39)*

Scope

This Standard applies to Tier 2 for-profit entities.

NZ IFRS 7 *Financial Instruments: Disclosures*

Insert an asterisk next to paragraphs 21B–21C, 23A–23B, 23C(a), 23D–23E, 24A(b), 24A(d), 24B(a)(ii)–(iii), 24B(a)(v), 24B(b)(ii)–(iii), 24C(a)(ii), 24C(b)(iii), 24C(b)(v), 24D–24F and 24G(a)–(b).

Insert new paragraphs RDR 24A.1, RDR 24B.1, RDR 24C.1, RDR 24C.2 and NZ 44Y.2. New text is underlined.

Hedge accounting

21A An entity shall apply the disclosure requirements in paragraphs 21B–24F for those risk exposures that an entity hedges and for which it elects to apply hedge accounting. Hedge accounting disclosures shall provide information about:

(a) an entity's risk management strategy and how it is applied to manage risk;

(b) how the entity's hedging activities may affect the amount, timing and uncertainty of its future cash flows; and

(c) the effect that hedge accounting has had on the entity's statement of financial position, statement of comprehensive income and statement of changes in equity.

<u>*</u>21B An entity shall present the required disclosures in a single note or separate section in its financial statements. However, an entity need not duplicate information that is already presented elsewhere, provided that the information is incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete.

<u>*</u>21C When paragraphs 22A–24F require the entity to separate by risk category the information disclosed, the entity shall determine each risk category on the basis of the risk exposures an entity decides to hedge and for which hedge accounting is applied. An entity shall determine risk categories consistently for all hedge accounting disclosures.

21D To meet the objectives in paragraph 21A, an entity shall (except as otherwise specified below) determine how much detail to disclose, how much emphasis to place on different aspects of the disclosure requirements, the appropriate level of aggregation or disaggregation, and whether users of financial statements need additional explanations to evaluate the quantitative information disclosed. However, an entity shall use the same level of aggregation or disaggregation it uses for disclosure requirements of related information in this NZ IFRS and NZ IFRS 13 *Fair Value Measurement*.

The risk management strategy

22 [Deleted by IASB]

22A An entity shall explain its risk management strategy for each risk category of risk exposures that it decides to hedge and for which hedge accounting is applied. This explanation should enable users of financial statements to evaluate (for example):

(a) how each risk arises.

(b) how the entity manages each risk; this includes whether the entity hedges an item in its entirety for all risks or hedges a risk component (or components) of an item and why.

(c) the extent of risk exposures that the entity manages.

22B To meet the requirements in paragraph 22A, the information should include (but is not limited to) a description of:

(a) the hedging instruments that are used (and how they are used) to hedge risk exposures;

(b) how the entity determines the economic relationship between the hedged item and the hedging instrument for the purpose of assessing hedge effectiveness; and

(c) how the entity establishes the hedge ratio and what the sources of hedge ineffectiveness are.

22C When an entity designates a specific risk component as a hedged item (see paragraph 6.3.7 of NZ IFRS 9) it shall provide, in addition to the disclosures required by paragraphs 22A and 22B, qualitative or quantitative information about:

(a) how the entity determined the risk component that is designated as the hedged item (including a description of the nature of the relationship between the risk component and the item as a whole); and

(b) how the risk component relates to the item in its entirety (for example, the designated risk component historically covered on average 80 per cent of the changes in fair value of the item as a whole).

The amount, timing and uncertainty of future cash flows

23 [Deleted by IASB]

*23A Unless exempted by paragraph 23C, an entity shall disclose by risk category quantitative information to allow users of its financial statements to evaluate the terms and conditions of hedging instruments and how they affect the amount, timing and uncertainty of future cash flows of the entity.

*23B To meet the requirement in paragraph 23A, an entity shall provide a breakdown that discloses:

(a) a profile of the timing of the nominal amount of the hedging instrument; and

(b) if applicable, the average price or rate (for example strike or forward prices etc) of the hedging instrument.

23C In situations in which an entity frequently resets (ie discontinues and restarts) hedging relationships because both the hedging instrument and the hedged item frequently change (ie the entity uses a dynamic process in which both the exposure and the hedging instruments used to manage that exposure do not remain the same for long—such as in the example in paragraph B6.5.24(b) of NZ IFRS 9) the entity:

*(a) is exempt from providing the disclosures required by paragraphs 23A and 23B.

(b) shall disclose:

(i) information about what the ultimate risk management strategy is in relation to those hedging relationships;

(ii) a description of how it reflects its risk management strategy by using hedge accounting and designating those particular hedging relationships; and

(iii) an indication of how frequently the hedging relationships are discontinued and restarted as part of the entity's process in relation to those hedging relationships.

*23D An entity shall disclose by risk category a description of the sources of hedge ineffectiveness that are expected to affect the hedging relationship during its term.

*23E If other sources of hedge ineffectiveness emerge in a hedging relationship, an entity shall disclose those sources by risk category and explain the resulting hedge ineffectiveness.

23F For cash flow hedges, an entity shall disclose a description of any forecast transaction for which hedge accounting had been used in the previous period, but which is no longer expected to occur.

The effects of hedge accounting on financial position and performance

24 [Deleted by IASB]

24A An entity shall disclose, in a tabular format, the following amounts related to items designated as hedging instruments separately by risk category for each type of hedge (fair value hedge, cash flow hedge or hedge of a net investment in a foreign operation):

(a) the carrying amount of the hedging instruments (financial assets separately from financial liabilities);

*(b) the line item in the statement of financial position that includes the hedging instrument;

(c) the change in fair value of the hedging instrument used as the basis for recognising hedge ineffectiveness for the period; and

*(d) the nominal amounts (including quantities such as tonnes or cubic metres) of the hedging instruments.

RDR 24A.1 A Tier 2 entity is not required to make the disclosures required by paragraph 24A in a tabular format.

24B An entity shall disclose, in a tabular format, the following amounts related to hedged items separately by risk category for the types of hedges as follows:

(a) for fair value hedges:

(i) the carrying amount of the hedged item recognised in the statement of financial position (presenting assets separately from liabilities);

*(ii) the accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item recognised in the statement of financial position (presenting assets separately from liabilities);

*(iii) the line item in the statement of financial position that includes the hedged item;

(iv) the change in value of the hedged item used as the basis for recognising hedge ineffectiveness for the period; and

*(v) the accumulated amount of fair value hedge adjustments remaining in the statement of financial position for any hedged items that have ceased to be adjusted for hedging gains and losses in accordance with paragraph 6.5.10 of NZ IFRS 9.

(b) for cash flow hedges and hedges of a net investment in a foreign operation:

(i) the change in value of the hedged item used as the basis for recognising hedge ineffectiveness for the period (ie for cash flow hedges the change in value used to determine the recognised hedge ineffectiveness in accordance with paragraph 6.5.11(c) of NZ IFRS 9);

*(ii) the balances in the cash flow hedge reserve and the foreign currency translation reserve for continuing hedges that are accounted for in accordance with paragraphs 6.5.11 and 6.5.13(a) of NZ IFRS 9; and

*(iii) the balances remaining in the cash flow hedge reserve and the foreign currency translation reserve from any hedging relationships for which hedge accounting is no longer applied.

RDR 24B.1 A Tier 2 entity is not required to make the disclosures required by paragraph 24B in a tabular format.

24C An entity shall disclose, in a tabular format, the following amounts separately by risk category for the types of hedges as follows:

(a) for fair value hedges:

(i) hedge ineffectiveness—ie the difference between the hedging gains or losses of the hedging instrument and the hedged item—recognised in profit or loss (or other comprehensive income for hedges of an equity instrument for which an entity has elected to present changes in fair value in other comprehensive income in accordance with paragraph 5.7.5); and

*(ii) the line item in the statement of comprehensive income that includes the recognised hedge ineffectiveness.

(b) for cash flow hedges and hedges of a net investment in a foreign operation:

(i) hedging gains or losses of the reporting period that were recognised in other comprehensive income;

(ii) hedge ineffectiveness recognised in profit or loss;

*(iii) the line item in the statement of comprehensive income that includes the recognised hedge ineffectiveness;

(iv) the amount reclassified from the cash flow hedge reserve or the foreign currency translation reserve into profit or loss as a reclassification adjustment (see NZ IAS 1) (differentiating between amounts for which hedge accounting had previously been used, but for which the hedged future cash flows are no longer expected to occur, and amounts that have been transferred because the hedged item has affected profit or loss);

*(v) the line item in the statement of comprehensive income that includes the reclassification adjustment (see NZ IAS 1); and

(vi) for hedges of net positions, the hedging gains or losses recognised in a separate line item in the statement of comprehensive income (see paragraph 6.6.4 of NZ IFRS 9).

RDR 24C.1 A Tier 2 entity is not required to make the disclosures required by paragraph 24C in a tabular format.

RDR 24C.2 A Tier 2 entity is required to disclose only the amount reclassified from the cash flow hedge reserve or the foreign currency translation reserve into profit or loss as a reclassification adjustment in accordance with paragraph 24C(b)(iv).

*24D When the volume of hedging relationships to which the exemption in paragraph 23C applies is unrepresentative of normal volumes during the period (ie the volume at the reporting date does not reflect the volumes during the period) an entity shall disclose that fact and the reason it believes the volumes are unrepresentative.

*24E An entity shall provide a reconciliation of each component of equity and an analysis of other comprehensive income in accordance with NZ IAS 1 that, taken together:

(a) differentiates, at a minimum, between the amounts that relate to the disclosures in paragraph 24C(b)(i) and (b)(iv) as well as the amounts accounted for in accordance with paragraph 6.5.11(d)(i) and (d)(iii) of NZ IFRS 9;

(b) differentiates between the amounts associated with the time value of options that hedge transaction related hedged items and the amounts associated with the time value of options that hedge time-period related hedged items when an entity accounts for the time value of an option in accordance with paragraph 6.5.15 of NZ IFRS 9; and

(c) differentiates between the amounts associated with forward elements of forward contracts and the foreign currency basis spreads of financial instruments that hedge transaction related hedged items, and the amounts associated with forward elements of forward contracts and the foreign currency basis spreads of financial instruments that hedge time-period related hedged items when an entity accounts for those amounts in accordance with paragraph 6.5.16 of NZ IFRS 9.

*24F An entity shall disclose the information required in paragraph 24E separately by risk category. This disaggregation by risk may be provided in the notes to the financial statements.

Option to designate a credit exposure as measured at fair value through profit or loss

24G If an entity designated a financial instrument, or a proportion of it, as measured at fair value through profit or loss because it uses a credit derivative to manage the credit risk of that financial instrument it shall disclose:

*(a) for credit derivatives that have been used to manage the credit risk of financial instruments designated as measured at fair value through profit or loss in accordance with paragraph 6.7.1 of NZ IFRS 9, a reconciliation of each of the nominal amount and the fair value at the beginning and at the end of the period;

*(b) the gain or loss recognised in profit or loss on designation of a financial instrument, or a proportion of it, as measured at fair value through profit or loss in accordance with paragraph 6.7.1 of NZ IFRS 9; and

(c) on discontinuation of measuring a financial instrument, or a proportion of it, at fair value through profit or loss, that financial instrument's fair value that has become the new carrying amount in accordance with paragraph 6.7.4(b) of NZ IFRS 9 and the related nominal or principal amount (except for providing comparative information in accordance with NZ IAS 1, an entity does not need to continue this disclosure in subsequent periods).

Effective date and transition

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NZ 44Y.2 *RDR Hedge Accounting*, issued in June 2014, inserted an asterisk next to paragraphs 21B–21C, 23A–23B, 23C(a), 23D–23E, 24A(b), 24A(d), 24B(a)(ii)–(iii), 24B(a)(v), 24B(b)(ii)–(iii), 24C(a)(ii), 24C(b)(iii), 24C(b)(v), 24D–24F and 24G(a)–(b) and inserted new paragraphs RDR 24A.1, RDR 24B.1, RDR 24C.1 and RDR 24C.2. A Tier 2 entity may apply those amendments when it applies NZ IFRS 9 as amended in December 2013.

Part C

Effective date

This Standard is effective for annual periods beginning on or after 1 January 2017. Earlier application is permitted when an entity adopts NZ IFRS 9 as amended in December 2013.