

Heads Up

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The Staff Draft covers only what the IASB describes as the “general hedge accounting model”; it does not address the macro hedging issues that the Board is currently discussing.

Time for Remodeling IASB Issues Draft of Hedge Accounting Model

The IASB recently issued a draft of its revised hedge accounting requirements (the “Staff Draft”) that will be incorporated into IFRS 9,¹ ultimately replacing the hedging requirements in IAS 39.² Like the IASB’s December 2010 exposure draft (ED)³ on this topic, the Staff Draft covers only what the IASB describes as the “general hedge accounting model”; it does not address the macro hedging issues that the Board is currently discussing.

Rather than directly issue a final standard (which is customary after the ED stage), the IASB published this Staff Draft to allow (1) constituents to review the proposals, (2) the FASB to consider the proposals, and (3) the IASB to perform additional outreach. When finalized, the standard is expected to become effective on January 1, 2015, with early adoption permitted. However, this timetable could be affected by feedback the IASB receives on the Staff Draft as well as by further convergence efforts with the FASB. The IASB intends to finalize the draft requirements by the end of 2012.

The FASB is also revisiting its existing hedge accounting model as part of its joint project with the IASB on accounting for financial instruments and proposed a number of changes to that model in its May 2010 ED.⁴ Those proposed changes differ significantly from the IASB’s hedge accounting model described in the Staff Draft. The FASB has not yet begun redeliberating its hedge accounting model, and it is unclear to what extent the Staff Draft will affect the FASB’s discussions.

Background

Under IAS 39, the application of hedge accounting is optional and is seen as an exception to the normal recognition and measurement requirements in IFRSs rather than as a means of portraying how an entity manages risk. As a result, hedge accounting requirements have been viewed as “rules based” and disconnected from an entity’s risk management activities. The objective of the revised hedge accounting requirements is to address these criticisms by focusing on how an entity manages its risks.

The sections below provide a brief overview of the **major changes** from the IAS 39 model. In addition, they highlight some of the major changes the IASB made to the December 2010 ED. This *Heads Up* discusses the following broad topics:

- Hedging instruments.
- Hedged items.
- Qualifying criteria for applying hedge accounting.

¹ IFRS 9, *Financial Instruments*.

² IAS 39, *Financial Instruments: Recognition and Measurement*.

³ IASB Exposure Draft, *Hedge Accounting*.

⁴ FASB Proposed Accounting Standards Update, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities*.

Under the new hedging model, a financial instrument's eligibility as a hedging instrument depends on whether the financial instrument is measured at fair value through profit or loss, not on whether it is a derivative instrument.

- Accounting for qualifying hedges.
- Modifying and discontinuing a hedging relationship.
- Extending the fair value option.
- Disclosures.
- Transition and effective date.

The [appendix](#) of this *Heads Up* includes a table summarizing certain similarities and differences between (1) the IASB's hedging model under the Staff Draft, (2) the FASB's hedging model under the proposed ASU, and (3) current U.S. GAAP (ASC 815⁵).

Hedging Instruments

Eligibility of Hedging Instruments

Under IAS 39, eligible hedging instruments are limited to those that meet the definition of a derivative but there is an exception permitting entities to use nonderivative financial instruments (e.g., a foreign-currency-denominated loan) in hedges of foreign-currency risk. However, under the new hedging model, a financial instrument's eligibility as a hedging instrument depends on whether the financial instrument is measured at fair value through profit or loss (FVTPL), not on whether it is a derivative instrument.

Editor's Note: In practice, there have been limited examples of entities using nonderivatives measured at FVTPL for economic hedging purposes. However, such a scenario could arise, for example, if an entity uses an investment in a fund that invests in commodity-linked instruments to hedge the price risk of a forecasted purchase of a commodity.

Accounting for the Time Value of Options

Under IAS 39, entities generally recognize in earnings changes in the fair value of the **time value** component of an option that is designated as a hedging instrument, which may increase earnings volatility. However, entities generally view this time value as a cost of hedging (i.e., a cost incurred to protect the entity against unfavorable changes in price). Consequently, the IASB decided that the undesignated time value of an option contract should be recognized in earnings in a manner consistent with the nature of the hedged item, thereby reducing the potential earnings volatility.

Under the Staff Draft, the accounting for the time value component is a two-step process:

- *Step 1* — Defer in other comprehensive income (OCI), over the term of the hedge, changes in the fair value of the time value component (to the extent that it is related to the hedged item).
- *Step 2* — Reclassify amounts from accumulated other comprehensive income (AOCI) to earnings. When the reclassification occurs depends on the categorization of the hedged item as either a (1) "transaction-related" hedged item (e.g., a hedge of a forecast transaction) or (2) "period-related" hedged item (e.g., a hedge of an existing item, such as inventory, over time).
 - *Transaction-related* — The cumulative change in fair value of the time value component deferred in AOCI is recognized in earnings at the same time as the hedged item affects profit or loss. If the hedged item first gives rise to the recognition of a nonfinancial asset or nonfinancial liability, the amount in equity related to the hedged item is included in the initial carrying amount of the hedged item. This amount would then be recognized in profit or loss at the same time as the hedged item affects profit or loss in accordance with the normal accounting for the hedged item.

⁵ FASB Accounting Standards Codification Topic 815, *Derivatives and Hedging*.

- *Period-related* — The amount of the original time value of the option related to the hedged item is amortized from AOCI into earnings on a systematic and rational basis (e.g., straight-line) over the term of the hedging relationship.

Forward Points

The Staff Draft indicates that forward points on a forward contract should be accounted for similarly to the undesignated time value of options when the change in the value of the spot element of the forward contract is designated as the hedging instrument in a hedging relationship; however, recording the change in fair value of the forward points in OCI is an election rather than a requirement. This represents a significant change from IAS 39, under which changes in the fair value of the forward points must be recognized in earnings each period when only changes in the spot element are designated as the hedging instrument in a hedging relationship.

If an entity elects to defer the forward points into OCI, the subsequent accounting treatment is similar to that for the time value of an option when a period-related item is hedged. The IASB did not distinguish between transaction-related and period-related hedged items with respect to accounting for forward points.

Hedged Items

The Staff Draft also significantly changes the types of items that are eligible to be designated as the hedged item in a hedging relationship.

Risk Components

The Staff Draft permits entities to designate risk components of **nonfinancial** items as hedgeable items, provided that such risk components are separately identifiable and reliably measurable. IAS 39 only permits designation of a specific risk (or risk component) of a **financial** item as the hedged item. For example, the interest rate risk on a bond, a financial item, is often identified as a risk component that is eligible to be designated as the hedged item because it is generally “separately identifiable and reliably measurable.” In contrast, under IAS 39, an entity is limited to hedging either all risks or changes attributable solely to foreign-currency risk for a nonfinancial item. No other risk components or portions of a nonfinancial item may be hedged under IAS 39.

Editor’s Note: Under IAS 39, entities are sometimes unable to apply hedge accounting to nonfinancial items or are forced to designate hedged items in a way that is contrary to how they manage the particular risk. This may result in hedge ineffectiveness that is inconsistent with their risk management activities.

The Staff Draft does not require that the risk component be contractually specified for it to be separately identifiable. However, if the risk component is not contractually specified, it may be more difficult to determine whether the market price can be allocated to identifiable and measurable risk components. In particular, entities will find it challenging to analyze how market participants price certain nonfinancial items and to determine whether a risk component is separately identifiable and reliably measurable (e.g., determining whether a benchmark crude oil price risk component in jet fuel is separately identifiable).

Hedged Items That Include Derivatives (or Aggregated Exposures)

The Staff Draft permits a hedged item to be an exposure that includes a derivative instrument (an “aggregated exposure”). This is a change from IAS 39, which prohibits hedging an aggregated exposure or an exposure arising solely from a derivative.

The Staff Draft permits entities to designate risk components of nonfinancial items as hedgeable items, provided that such risk components are separately identifiable and reliably measurable.

The Staff Draft significantly amends the current hedge effectiveness assessment under IAS 39, which many view as one of the main problems with the existing hedge accounting model in IAS 39.

Editor’s Note: The IASB received feedback that this limitation of IAS 39 has proved challenging in practice for entities that manage aggregate exposures. For instance, an entity that has a forecasted purchase requirement of a commodity denominated in a foreign currency may manage the commodity price risk (in foreign currency) two years in advance by transacting in a net-settled forward contract (e.g., buying a forward contract that allows the entity to buy the product at FC100 per unit). Subsequently, but before the forward contract matures, the entity may wish to hedge the foreign-currency risk that arises on the combination of the forecasted purchase and the commodity derivative (i.e., the aggregate or synthetic foreign-currency exposure of its purchase of commodities at FC100 per unit). The draft permits the aggregated exposure to be designated as the hedged item in a hedge accounting relationship.

Groups and Net Positions

To efficiently hedge risk exposures, an entity often employs risk management strategies to analyze risks on an aggregated portfolio basis. Using such an approach, an entity can take advantage of naturally offsetting risk positions rather than, for example, hedging individual exposures with offsetting derivatives. The Staff Draft indicates that groups of items (e.g., a group of assets) and a net position (e.g., the net of financial assets and financial liabilities or the net of forecasted sales and purchases) can be hedged collectively as a group, provided that the group consists of individually eligible hedged items and those items are managed together for risk management purposes. The draft also places limitations on the use of cash flow hedges for net positions, stating that the only hedgeable risk for such hedges is foreign exchange risk.

For presentation of net position hedges, the Staff Draft requires that gains and losses on hedges of net positions that affect different line items in the statement of profit or loss and other comprehensive income should be presented in a separate line item from those affected by the hedged items.

The ability to hedge groups of items and net positions represents another major change from IAS 39, which restricts the application of hedge accounting on aggregated portfolios.

Hedging Equity Investments Classified as FV-OCI

IFRS 9 permits reporting entities to classify certain equity investments as fair value through other comprehensive income (FV-OCI). Under this classification, all fair value changes are permanently recognized in OCI.

The 2010 ED proposed that these equity investments not be eligible as hedged items given that the changes in fair value of such investments do not affect earnings. However, after receiving feedback that many entities manage the market risks of equity investments irrespective of the accounting classification, the IASB indicated that risk management activities performed for these investments should be reflected in the financial statements.

The Staff Draft stipulates that because all fair value changes of such investments are permanently recognized in OCI, any hedge ineffectiveness should also be recognized in OCI. As a result, for such hedges, both the effective and ineffective fair value changes are recognized in OCI, with no future recycling of AOCI balances to earnings.

Qualifying Criteria for Applying Hedge Accounting

The Staff Draft significantly amends the current hedge effectiveness assessment under IAS 39, which many view as one of the main problems with the existing hedge accounting model in IAS 39.

Objective of the Hedge Effectiveness Assessment

The Staff Draft outlines principles-based qualifying criteria for determining whether hedge accounting is permitted and avoids any specific numerical thresholds that could be inconsistent with risk management approaches. Currently, IAS 39 requires a hedge to be highly effective both prospectively and retrospectively, where “highly effective” refers

to the degree of offset between the changes in fair value or cash flows of the hedging instrument and the hedged item. IAS 39 defines a hedge as highly effective if the offset is in the range of 80 to 125 percent; therefore, an entity is required to perform quantitative effectiveness tests to demonstrate offset within this range if it wishes to qualify for hedge accounting.

Editor’s Note: The IASB received feedback that these requirements are onerous, often not in line with risk management practices, and vulnerable to technical failures (rather than a breakdown in the economics of the hedge). In addition, some have argued that it is difficult to explain an entity’s risk management strategy when hedge accounting is not allowed because of an accounting-based threshold of 80 to 125 percent.

The new effectiveness requirements to qualify for hedge accounting indicate that (1) there should be “an economic relationship between the hedged item and hedging instrument,” (2) “the effect of credit risk [should] not dominate the value changes that result from that economic relationship,” and (3) the hedge ratio should reflect the actual quantity of hedging instrument used to hedge the actual quantity of hedged item (provided that the ratio weightings are not imbalanced in a way that creates hedge ineffectiveness that could result in an outcome inconsistent with the objective of hedge accounting).

Quantitative Versus Qualitative Assessment

The Staff Draft requires that a hedge effectiveness assessment be performed only prospectively (i.e., a retrospective assessment is no longer required). In performing this assessment, an entity will need to use judgment in determining whether an economic relationship continues to exist between the hedged item and hedging instrument. Further, this judgment may need to be supported by a qualitative or quantitative assessment of the economic relationship, depending on the complexity of the hedging relationship.

Editor’s Note: The following two examples illustrate this concept:

- It may be sufficient to perform a qualitative analysis to conclude that an economic relationship exists when the critical terms (e.g., timing, amounts, rates) of the hedging instrument and the hedged item match.
- It may be necessary to perform a quantitative analysis to demonstrate that an economic relationship exists when a hedging instrument introduces significant basis risk that is not present in the hedged item.

The Staff Draft removes the burden of the existing retrospective hedge effectiveness assessment in IAS 39. However, hedge ineffectiveness must still be measured and recognized at the end of each reporting period.

Accounting for Qualifying Hedges

Like the current requirements in IAS 39, the Staff Draft distinguishes between three types of hedge accounting relationships: (1) fair value hedges, (2) cash flow hedges, and (3) net investment hedges. While the mechanics of accounting for fair value hedges and net investment hedges did not change, the draft eliminates the basis adjustment election that currently exists under IAS 39 for cash flow hedges that result in the recognition of a nonfinancial item. For such hedges, a basis adjustment is now required. A basis adjustment occurs when amounts accumulated in AOCI that represent the effective portion of the hedge are included in the initial carrying amount of the recognized nonfinancial item. Under IAS 39, applying the basis adjustment to such a hedged item is a policy election; the other alternative is to retain the deferred gains or losses in AOCI and to reclassify those amounts into earnings in the period or periods in which the hedged item affects earnings.

The Staff Draft requires that a hedge effectiveness assessment be performed only prospectively (i.e., a retrospective assessment is no longer required).

Editor’s Note: The 2010 ED proposed eliminating fair value hedge accounting mechanics and requiring entities to use cash flow hedge mechanics to account for all hedges; however, the Staff Draft retains the current IAS 39 application of fair value hedge accounting. The IASB reached this position after receiving feedback regarding the equity volatility that could arise by applying cash flow hedge mechanics to fair value hedges.

The Staff Draft will no longer permit an entity to voluntarily discontinue hedge accounting when the underlying risk management objective for the hedging relationship has not changed.

Modifying and Discontinuing a Hedging Relationship

Modifying a Hedging Relationship

Under IAS 39, when an entity makes changes to a hedging relationship, it will generally be required to discontinue hedge accounting and designate a new hedging relationship that incorporates the desired changes. This can result in hedge ineffectiveness that is inconsistent with the risk management view of the hedge (e.g., ineffectiveness caused by resetting the hypothetical derivative to measure the hedged item in a cash flow hedge).

For risk management purposes, an entity may adjust its hedging relationships to respond to changes in market circumstances. For example, assume that “an entity hedges an exposure to foreign currency A by using a currency derivative that references foreign currency B and currencies A and B are pegged (i.e., their exchange rate is maintained within a band or at an exchange rate set by a central bank or other authority).” After the hedge designation, the pegged exchange rate between currencies A and B may change to a new rate and the entity may desire to adjust the hedge for risk management purposes to realign the quantities of the hedging instrument needed to hedge the exposure.

The Staff Draft addresses this concern by permitting entities, in certain circumstances, to change the hedging relationship after inception without forcing discontinuation of the entire hedging relationship (i.e., without triggering a dedesignation and redesignation of the hedging relationship).

Discontinuing Hedge Accounting

Under IAS 39, there are four circumstances in which hedging relationships are discontinued: (1) the hedging instrument expires or is sold, terminated, or exercised, (2) the hedged forecasted transaction in a cash flow hedge is no longer highly probable, (3) the hedging relationship no longer meets the criteria for hedge accounting, or (4) the entity amends or voluntarily revokes the designation.

The Staff Draft will no longer permit an entity to voluntarily discontinue hedge accounting when the underlying risk management objective for the hedging relationship has not changed. In effect, this means that when an entity chooses to apply hedge accounting, that accounting cannot be discontinued until the risk management objective for the hedging relationship has changed or the “hedging instrument expires or is sold, terminated, or exercised,” or the hedging relationship is otherwise no longer eligible.

Extending the Fair Value Option

Credit Risk

The Staff Draft permits an entity to account for financial instruments with credit exposures (e.g., loans, bonds, and loan commitments) at FVTPL when the credit risk is managed with credit derivatives (e.g., credit default swap) measured at FVTPL and certain qualifying criteria are met. An entity may (1) elect FVTPL at initial recognition or subsequently (if FVTPL is elected subsequently, the difference between the then-carrying amount and fair value of the instrument is recognized immediately in earnings) and (2) make that election for a proportion of the nominal amounts instead of the entire nominal amount.

Editor’s Note: Many entities use credit derivatives to manage credit risk exposures that arise from lending activities. However, under IAS 39 and the Staff Draft, to hedge the credit risk component of a financial instrument, an entity must be able to separately identify and reliably measure that component, which may prove challenging in practice. As a result, the IASB decided to permit entities to elect the fair value option for those instruments.

Hedging “Own Use” Contracts to Buy or Sell a Nonfinancial Item

The Staff Draft also extends the fair value option to contracts to buy or sell a nonfinancial item that can be net-settled and that would otherwise meet the “own use” scope exception if electing the fair value option eliminates or significantly reduces an accounting mismatch. The fair value option would help mitigate the accounting mismatch that occurs when entities account for commodity purchase contracts as executory contracts and use derivative instruments recorded at fair value to economically hedge the contracts.

Disclosures

The Staff Draft also updates the related disclosure requirements in IFRS 7,⁶ introducing additional requirements that focus on providing financial statement users with information about an entity’s risk management activities. The Staff Draft sets forth the following broad disclosure objectives and requires numerous disclosures supporting those objectives:⁷

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.

These new disclosures are only required for entities that apply the hedge accounting requirements.

Transition and Effective Date

Once finalized, the hedge accounting requirements will be effective for annual periods beginning on or after January 1, 2015. Early adoption will be permitted only if all existing IFRS 9 requirements are adopted at the same time or have already been adopted.

The hedge accounting requirements would be applied prospectively; however, there would be limited exceptions. Retrospective application of the requirements for accounting for the time value of options would be **required** for all hedging relationships in which the “change in an option’s intrinsic value [is] designated as the hedging instrument in a hedging relationship” under IAS 39. This applies to hedging relationships that “existed at the beginning of the earliest comparative period or that were designated thereafter.”

Retrospective application would be **permitted** for hedging relationships in which the hedging instrument designated under IAS 39 is “the change in the spot element of a forward contract.” The retrospective application would apply only to “hedging relationships that existed at the beginning of the earliest comparative period or [that] were designated thereafter.” An entity that elects retrospective application for such hedging relationships must do so for all similar hedging relationships (i.e., the transition accounting is not available on a hedge-by-hedge basis).

Once finalized, the hedge accounting requirements will be effective for annual periods beginning on or after January 1, 2015. Early adoption will be permitted only if all existing IFRS 9 requirements are adopted at the same time or have already been adopted.

⁶ IFRS 7, *Financial Instruments: Disclosures*.

⁷ Paragraph 21A in Section C11 of Appendix C of the Staff Draft.

Appendix — Hedge Accounting Comparison

The table below summarizes certain similarities and differences between (1) the IASB's hedging model under the Staff Draft, (2) the FASB's hedging model under the proposed ASU, and (3) current U.S. GAAP (ASC 815).

Subject	IASB's Staff Draft	FASB's Proposed ASU	Current U.S. GAAP (ASC 815)
Hedged Items			
Can an entity designate as the hedged item a combination of (1) an eligible exposure and (2) a freestanding derivative?	A combination of an exposure (e.g., a recognized nonderivative asset or liability) and a derivative (i.e., an aggregated exposure) can be designated as a hedged item.	No changes to ASC 815.	Not permitted.
Can an entity hedge risk components of financial and nonfinancial items?	A risk component of any item (financial or nonfinancial) is eligible for hedge accounting if the risk component is (1) separately identifiable and (2) reliably measurable. Permits designation of two types of components of nominal amounts as a hedged item: (1) a proportion of the entire item and (2) a layer component (e.g., bottom layer).	No changes to ASC 815.	Allows an entity to designate hedges of financial items for certain risks (e.g., benchmark interest rate risk, foreign-currency risk, credit risk). Component hedging of nonfinancial items is not permitted (except for foreign-currency risk in a cash flow hedge).
Can an entity hedge group positions, including net group positions?	Permits groups of individually eligible hedged items to be hedged collectively as a group (including a net position), provided that the group of items is managed together for risk management purposes. Such groups may be net positions (certain conditions apply to cash flow hedges). For hedges of a group of items, permits designation of two types of components of a nominal amount as a hedged item: (1) a proportion of an eligible group and (2) a layer component (e.g., bottom layer) of an overall group if certain conditions are met.	No changes to ASC 815.	Group positions are eligible if certain criteria (e.g., similar risk characteristics) of the group members are met. Hedges of net positions (e.g., offsetting assets and liabilities) are not permitted.
Hedging Instruments			
How does an entity account for the time value of an option when the designated hedging instrument is changes in the intrinsic value of the option?	An entity must defer changes in the time value of the option in AOCI (to the extent that it relates to the hedged item). The reclassification of amounts out of AOCI depends on whether the hedged item is related to a transaction or time period.	No changes to ASC 815.	If the change in the intrinsic value of the option is designated as the hedging instrument, the time value is recognized in earnings. If option time value is included in the hedge, an entity can defer time value in OCI when certain conditions are met.
Can an entity use a nonderivative financial instrument to hedge?	Permits nonderivative financial instruments accounted for at FVTPL to be designated as hedging instruments.	No changes to ASC 815.	Not permitted, except for certain foreign-currency or net investment hedges.
Effectiveness Assessment			
What is the required effectiveness threshold?	Threefold test: 1. Economic relationship. 2. Credit risk does not dominate. 3. Hedge ratio match.	Reasonably effective.	Highly effective.

Subject	IASB's Staff Draft	FASB's Proposed ASU	Current U.S. GAAP (ASC 815)
How does an entity assess hedge effectiveness (quantitative vs. qualitative)?	No specific requirement for a quantitative assessment; qualitative assessment may be sufficient in some cases.	Typically, only a qualitative assessment is required; however, a quantitative assessment may be necessary if the qualitative assessment is not conclusive.	Typically, a quantitative assessment is required.
How often must an entity assess hedge effectiveness, and what is the nature of the assessment (prospective vs. retrospective)?	An entity would need to determine that "a hedging relationship meets the hedge effectiveness requirements" at inception and then on an ongoing basis (at a minimum, as of "each reporting date or upon a significant change in circumstances"). Retrospective assessment is not required.	Inception only, unless reassessment is warranted because of a change in circumstances.	At inception and, at a minimum, at the end of each reporting period. Requires both a prospective and retrospective assessment.
Are there certain hedging relationships for which an entity can assume no ineffectiveness exists?	No.	No.	Yes.
Ineffectiveness Measurement			
How does an entity determine the amount to be recorded in AOCI for cash flow hedges?	Retains the "lower of" test in IAS 39.	Eliminates the "lower of" test in ASC 815. Recorded at the amount necessary to offset the present value of the cumulative change in expected future cash flows on the hedged transaction since hedge inception, less any amounts previously reclassified.	Uses the "lower of" test — amount recorded in AOCI is the lesser of (1) the cumulative change in expected future cash flows on the hedged transaction since hedge inception and (2) the cumulative change in the fair value of the hedging instrument.
Cash Flow Hedge — Mechanics			
How are amounts reclassified out of AOCI for hedged nonfinancial items?	Eliminates the option in IAS 39 that permits an entity to either (1) adjust the basis of the hedged nonfinancial item (when it is initially recognized) or (2) reclassify amounts from AOCI to profit or loss when the hedged item affects earnings.	No changes to the requirements in ASC 815.	Amount is reclassified from AOCI to earnings when the hedged transaction affects earnings. Basis adjustments are prohibited.
Fair Value Hedge — Mechanics			
How do changes in the fair value of the hedged item attributable to the hedged risk affect the statement of financial position?	No change to IAS 39. The carrying value of the hedged item is adjusted in the statement of financial position.	No changes to ASC 815.	The carrying value of the hedged item is adjusted in the statement of financial position.
How do changes in the fair value of the hedged item and hedging instrument affect the income statement?	No change to IAS 39. Changes in fair value of the hedging instrument and the hedged item (attributable to the hedged risk) are both recorded in earnings (unless the hedged item is an equity instrument carried at FV-OCI).	No changes to ASC 815.	Changes in the fair value of the hedged item and the hedging instrument are both recorded in earnings.
Dedesignation			
Can an entity voluntarily dedesignate a hedging relationship?	An entity cannot voluntarily remove hedge designation after it has been established; however, a change in an entity's risk management objective may trigger dedesignation.	An entity cannot voluntarily remove hedge designation after it has been established; however, the entity may enter into an offsetting derivative to effectively terminate the hedge.	Permitted. An entity can voluntarily dedesignate a hedging relationship after inception of the hedge.

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