

Exposure Draft

Novation of Derivatives and Continuation of Hedge Accounting (Amendments to Ind AS 39)

(Last date for Comments: February 21, 2014)



Issued by
Accounting Standards Board

The Institute of Chartered Accountants of India

Exposure Draft

Novation of Derivatives and Continuation of Hedge Accounting (Amendments to Ind AS 39)

Following is the Exposure Draft of Novation of Derivatives and Continuation of Hedge Accounting (Amendments to Ind AS 39) issued by the Accounting Standards Board of The Institute of Chartered Accountants of India, for comments. The Board invites comments on any specific aspect of the Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

Comments should be submitted in writing to the Secretary, Accounting Standards Board, The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi 110 002, so as to be received not later than February 21, 2014. Comments can also be sent by email to commentsasb@icai.in or asb@icai.in

*(This Exposure Draft of the Indian Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles. This Exposure Draft of the Indian Accounting Standard should be read in the context of its objective and the Preface to the Statements of Accounting Standards¹)*

Paragraphs 91 and 101 are amended. New text is underlined and deleted text is struck through.

Fair value hedges

...

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:**

¹ Attention is specifically drawn to paragraph 4.3 of the Preface, according to which accounting standards are intended to apply only to items which are material.

- (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) ...

In Appendix A, paragraph AG113A is added.

Assessing hedge effectiveness

...

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.