



International Accounting Standards Board®

Press Release

3 July 2008

IFRIC issues guidance on hedges of a net investment in a foreign operation

The International Financial Reporting Interpretations Committee (IFRIC)* issued today an Interpretation, IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*.

The IFRIC was asked for guidance on accounting for the hedge of a net investment in a foreign operation in an entity's consolidated financial statements. Practice has diverged as a result of differing views on which risks are eligible for hedge accounting according to International Financial Reporting Standards (IFRSs).

Constituents asked for clarification of three main issues. First, whether risk arises from the foreign currency exposure to the functional currencies of the foreign operation and the parent entity, or from the foreign currency exposure to the functional currency of the foreign operation and the presentation currency of the parent entity's consolidated financial statements. Secondly, which entity within a group can hold a hedging instrument in a hedge of a net investment in a foreign operation and in particular whether the parent entity holding the net investment in a foreign operation must also hold the hedging instrument. Thirdly, how an entity should determine the amounts to be reclassified from equity to profit or loss for both the hedging instrument and the hedged item when the entity disposes of the investment.

IFRIC 16 clarifies these issues, stating that:

- the presentation currency does not create an exposure to which an entity may apply hedge accounting. Consequently, a parent entity may designate as a hedged risk only the foreign exchange differences arising from a difference between its own functional currency and that of its foreign operation.

* The IFRIC is the interpretative arm of the International Accounting Standards Board (IASB).

- the hedging instrument(s) may be held by any entity or entities within the group.
- while IAS 39 *Financial Instruments: Recognition and Measurement* must be applied to determine the amount that needs to be reclassified to profit or loss from the foreign currency translation reserve in respect of *the hedging instrument*, IAS 21 *The Effects of Changes in Foreign Exchange Rates* must be applied in respect of *the hedged item*.

IFRIC 16 applies to an entity that hedges the foreign currency risk arising from its net investments in foreign operations and wishes to qualify for hedge accounting in accordance with IAS 39. It does not apply to other types of hedge accounting.

The main expected change in practice is to eliminate the possibility of an entity applying hedge accounting for a hedge of the foreign exchange differences between the functional currency of a foreign operation and the presentation currency of the parent's consolidated financial statements.

The IFRIC recognises the difficulty that entities would face in preparing adequate documentation from the inception of the hedge relationship and therefore requires prospective application of the guidance. The Interpretation is effective for annual periods beginning on or after 1 October 2008.

Introducing IFRIC 16, Robert Garnett, IFRIC Chairman and IASB member, said:

IAS 39 and IAS 21 provide limited guidance on the application of their requirements for hedges of net investments in foreign operations. With this Interpretation the IFRIC has provided practical guidance to help entities apply those standards consistently.

IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* is available for eIFRS subscribers from today. Those wishing to subscribe to eIFRSs should visit the online shop at www.iasb.org or contact:

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For more information on IFRIC 16 visit the project Website on www.iasb.org.

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NOTES TO EDITORS***About IFRIC 16***

In July 2007 the IFRIC published draft interpretation D22 *Hedges of a Net Investment in a Foreign Operation*. The draft was open for public comment until October 2007. At its meetings in January and March 2008 the IFRIC redeliberated the issues in the light of respondents' comments. At its meeting in May 2008 the IFRIC completed its redeliberations, voted and confirmed the consensus.

About the IFRIC

The IFRIC first met in February 2002. It comprises 14 voting members (all part-time) drawn from a variety of countries and professional backgrounds, and it meets about six times a year under a non-voting chairman. The IFRIC's principal role is to consider, on a timely basis within the context of International Financial Reporting Standards and the IASB *Framework*, accounting issues that are likely to receive divergent or unacceptable treatment in the absence of authoritative guidance, with a view to reaching consensus on the appropriate accounting treatment. In developing Interpretations, the IFRIC works closely with similar national interpretation committees.

About the IASB

The IASB, based in London, began operations in 2001. It is funded by contributions collected by its Trustees, the IASC Foundation, from the major accounting firms, private financial institutions and industrial companies throughout the world, central and development banks, and other international and professional organisations. The 14 IASB members (12 of whom are full-time) are drawn from nine countries and have a variety of professional backgrounds. The IASB is committed to developing, in the public interest, a single set of high quality, global accounting standards that require transparent and comparable information in general purpose financial statements. In pursuit of this objective, the IASB co-operates with national accounting standard-setters to achieve convergence in accounting standards around the world.