

# Accounting Alert

Analysis of the latest accounting developments delivered to you via e-mail

## Requirement to have hedge documentation in place at transition date on first time adoption of AASB 139

Copies of the Standards can be downloaded from the AASB web site: [www.aasb.com.au](http://www.aasb.com.au)

The Australian Accounting Standards Board (AASB) has issued AASB 1 'First time adoption of Australian equivalents to International Financial Reporting Standards' to assist preparers to adopt Australian equivalents to International Financial Reporting Standards (A-IFRS). In terms of AASB 1, should an entity wish to apply hedge accounting in its A-IFRS balance sheet, it is required to designate the transactions as hedges, as set out in AASB 139 'Financial Instruments: Recognition and Measurement', at or before the entity's transition date.

This *Accounting Alert* provides a reminder to clients of this requirement.

### Requirement in terms of AASB 1

In terms of AASB 1 an entity shall not reflect in its opening balance sheet a hedging relationship unless it would qualify for hedge accounting in terms of AASB 139. Thus an entity that wants to hedge account a transaction in its opening A-IFRS balance sheet is required to comply with all the requirements of AASB 139. This includes the requirement to designate and document the hedging relationship at or before the transition date.

AASB 1 defines the transition date as "The beginning of the earliest annual reporting period for which an entity presents full information under A-IFRS as comparative information in its first A-IFRS financial report."

The transition date will have passed for the majority of entities. However, a significant number of entities will have elected the option in paragraph 36A of AASB 1 that allows them to disregard the requirements of AASB 139 in its comparative information in its first A-IFRS financial report.

Where this election has been made, references to the 'date of transition to A-IFRS' shall mean, in the case of AASB 139 only, the first annual financial report in which an entity adopts A-IFRS, by an explicit and unreserved statement of compliance with A-IFRS.

Those entities that have elected the option to disregard the requirements of AASB 139 in the comparative information presented in the first A-IFRS financial report and would like to apply hedge accounting, will need to have the required hedge designation and documentation in place prior to or at the commencement of the first A-IFRS compliant financial period.

For example, an entity with a 31 December year end that has elected the option in paragraph 36A will need to have the required documentation in place at 1 January 2005.

Entities should be aware that the standard does not permit an entity to retrospectively designate a hedging position. Thus where the required documentation is not in place at transition date, the entity will not be permitted to hedge account the transaction in its opening A-IFRS financial report.

### Feedback and assistance

We welcome your feedback on the matters covered in this *Accounting Alert* – please email your comments to [accounting\\_alerts@deloitte.com.au](mailto:accounting_alerts@deloitte.com.au)

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