

20 August 2019

Sue Lloyd  
Chair  
IFRS Interpretations Committee  
Columbus Building  
7 Westferry Circus  
Canary Wharf  
London  
United Kingdom  
E14 4HD

Dear Ms Lloyd

## **Tentative agenda decision – Fair value hedge of foreign currency risk on non-financial assets (IFRS 9)**

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the June 2019 IFRIC Update of the tentative decision not to take onto the Committee's agenda the request for clarification on fair value hedge accounting for foreign currency risk on non-financial assets.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda for the reasons set out in the tentative agenda decision. However, we have some concerns with the articulation of the agenda decision in the case where an entity is intending to consume the non-financial item.

We believe there are three main questions to be addressed:

- Can an entity have exposure to foreign currency risk on a non-financial asset held for consumption that could affect profit or loss?
- If an entity has exposure to foreign currency risk on a non-financial asset, is it a separately identifiable and reliably measurable risk component?
- Can the designation of foreign currency risk on a non-financial asset held for consumption be consistent with an entity's risk management activities?

The response to the first two questions as articulated in the agenda decision is broadly yes, subject to the specific facts and circumstances. We support this. We also support the need to ask the third question given under IFRS 9 an entity can only apply hedge accounting if it is consistent with the risk management objective and strategy for managing its exposure. Therefore, in order for an eligible fair value hedge to be designated it needs to be consistent with the entity's risk management objective. However, the proposed agenda decision states that "[t]o the extent an entity intends to consume a non-financial asset (rather than to sell it), the Committee observed that changes in fair value of the non-financial asset may be of limited significance to the entity" but does not rule out that such a risk management strategy could be valid. The agenda decision also states that "an entity would consider ... [the] expected sale/maturity of the hedged item" in the designation of the non-financial asset. We believe, taken together, these two parts of the

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agenda decision could be read as introducing an uncertainty about the existence of possible risk management policies to manage changes in fair value of a non-financial asset held for consumption. In practice, it is possible that such a risk management strategy may validly exist and that a hedge is consistent with that strategy, but this will depend on the specific facts and circumstances. Therefore, we would suggest either deleting the two references noted above or providing further clarification on what are the necessary components of a risk management strategy that would qualify.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'V Poole', with a stylized, flowing script.

**Veronica Poole**  
Global IFRS Leader