

Memorandum

To: NZASB Members

Meeting date: 12 October 2026

Subject: **IASB Request for Information Post-Implementation Review of IFRS 9 Hedge Accounting**

Date: 7 October 2026

Prepared by: Nimash Bhikha

Through: Gali Slyuzberg

☒ **Action Required**

☐ **For Information Purposes Only**

COVER SHEET

Project overview

Project purpose	IASB Perspective: The objective of the post-implementation review (PIR) is to assess whether IFRS 9 in respect to hedge accounting is working as intended and achieving its objectives. NZ Perspective: From a New Zealand perspective, our objectives are to: - Assess whether NZ IFRS 9 (the Standard) is operating as intended in New Zealand, including assessing whether the benefits of applying the Standard for users outweigh the costs to preparers; and - Contribute evidence-based feedback to the IASB's PIR to ensure that any resulting amendments suitably address NZ-specific issues.
Cost/benefit considerations	N/A – This is one of the objectives of the PIR
Project priority	Low As a PIR is primarily an information gathering exercise and is not currently proposing a change to the accounting standards, we consider this to be of low priority. The priority of the project will be reassessed at the conclusion of the PIR stage of the project based the extent of the amendments (if any) the IASB intends to propose.

Overview of agenda item

Project status	
Board action required	Medium complexity • PROVIDE FEEDBACK on the draft comment letter on the IASB’s <i>Request for Information Post-Implementation Review IFRS 9 Hedge Accounting</i>. • AGREE to publish the draft comment letter on the XRB website to seek stakeholder feedback. • CONSIDER the broad consultation plan.

Purpose¹

1. The purpose of this memo is to seek the Board’s feedback on our draft comment letter on the *Request for Information Post-Implementation Review IFRS 9 Hedge Accounting* – as well as the Board’s agreement to publish our draft comment letter on the XRB website, as additional means of seeking feedback from New Zealand stakeholders.

Recommendations

2. We recommend that the Board:
 - (a) **PROVIDES FEEDBACK** on the draft comment letter on the IASB’s *Request for Information Post-Implementation Review IFRS 9 Hedge Accounting*; and
 - (b) **AGREES** to publish the draft comment letter on our website to seek New Zealand stakeholders’ feedback; and
 - (c) **CONSIDER** the broad consultation plan for responding to the IASB’s Request for Information (RFI) on IFRS 9.

Background

3. IFRS 9 *Financial Instruments* introduced a new hedge accounting model intended to better align hedge accounting with an entity’s risk management activities. The hedge accounting requirements were issued in 2013 and subsequently incorporated into the completed version of IFRS 9 issued in 2014. IFRS 9 became effective for annual periods beginning on or after 1 January 2018.
4. The objective of the IFRS 9 hedge accounting requirements is to represent, in the financial statements, the effect of an entity’s risk management activities that use financial instruments to manage exposures arising from particular risks that could affect profit or loss or other

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comprehensive income. The IASB intended this approach to provide users with information that better reflects the purpose and effect of an entity's hedging activities.

5. Compared with the hedge accounting requirements in IAS 39, IFRS 9 introduced a more principles-based model intended to align accounting more closely with risk management. Significant changes included expanding the range of eligible hedged items and hedging instruments, replacing the 80–125% retrospective effectiveness test with principles-based effectiveness requirements, introducing rebalancing, and introducing the ‘cost of hedging’ approach.
6. The hedge accounting requirements are supported by related disclosure requirements in IFRS 7 *Financial Instruments: Disclosures*. These disclosures are intended to provide information about an entity’s risk management strategy, how hedging activities affect the amount, timing and uncertainty of future cash flows, and the effect of hedge accounting on the financial statements.
7. In New Zealand, NZ IFRS 9 is aligned with IFRS 9 and contains the same substantive hedge accounting requirements. New Zealand entities may apply the IFRS 9 hedge accounting model or, subject to the requirements of NZ IFRS 9, continue to apply the IAS 39 *Financial Instruments: Recognition and Measurement* hedge accounting requirements. The NZ standard also permits the continued use of IAS 39 for portfolio fair value hedges of interest rate risk.
8. The IASB decided in December 2025 to commence a post-implementation review of the hedge accounting requirements in IFRS 9 in the first quarter of 2026. The PIR is now underway. During Phase 1, the IASB has undertaken outreach with users, preparers, auditors, regulators, national standard-setters and other stakeholders, together with a review of relevant academic literature.
9. The IASB considered feedback from this Phase 1 work at its July 2026 meeting which noted that hedge accounting requirements in IFRS 9 generally working as intended, with the initial and ongoing costs largely as expected, however stakeholders have mixed views on whether the hedge accounting disclosure requirements in IFRS 7 provide users with decision-useful information.
10. The IASB published a Request for Information (RFI) on 28 September 2026, with responses due on **Tuesday 26 January 2027**. The RFI seeks feedback on whether the hedge accounting requirements and related disclosures are meeting their objectives, whether the benefits to users are as expected, and whether the costs of applying, auditing and enforcing the requirements are as expected.

Structure of this memo

11. The remaining sections in this memo are:
 - (a) [Key international PIR findings and IASB focus areas;](#)
 - (b) [New Zealand implementation experience and issues;](#)
 - (c) [Proposed NZASB consultation approach;](#)
 - (d) [Questions for the Board;](#)
 - (e) [Draft comment letter;](#) and
 - (f) [Next steps.](#)

Key international PIR findings and IASB focus areas

12. The IASB's Phase 1 outreach indicates that the overall feedback on the IFRS 9 hedge accounting requirements has been positive. Most stakeholders consider that the requirements are generally working as intended and that IFRS 9 has improved the alignment between hedge accounting and entities' risk management activities compared with IAS 39. However, stakeholders have identified several application, cost and disclosure issues that warrant further consideration.
13. The IASB's work to date has identified six broad topic areas for consideration in the PIR:
 - (a) Eligible hedged items and hedging instruments;
 - (b) Hedge effectiveness requirements;
 - (c) Basis adjustment, rebalancing and discontinuation;
 - (d) Cost of hedging;
 - (e) Transition; and
 - (f) Disclosures.

Eligible hedged items and hedging instruments

14. One of the significant changes introduced by IFRS 9 was to allow a broader range of hedged items and hedging instruments than under IAS 39. For example, entities may designate separately identifiable and reliably measurable risk components of non-financial items and certain net positions as hedged items. IFRS 9 also permits certain non-derivative financial assets and liabilities measured at fair value through profit or loss to be designated as hedging instruments.
15. Phase 1 feedback indicates that some entities continue to encounter limitations in applying the hedge accounting eligibility requirements to their actual risk management activities. In particular, stakeholders have raised questions about the requirement for forecast transactions to be "highly probable". Deal-contingent forecast transactions have been cited as an example where an entity may have a genuine economic exposure and risk management strategy but may have difficulty demonstrating that the forecast transaction meets the hedge accounting requirements.
16. The IASB has also recently amended IFRS 9 to address contracts referencing nature-dependent electricity. These amendments allow, in specified circumstances, variable nominal amounts of forecast electricity transactions to be designated as hedged items. The amendments became effective for annual periods beginning on or after 1 January 2026 and may provide useful evidence about how the hedge accounting model responds to emerging risk management practices.

Hedge effectiveness requirements

17. IFRS 9 replaced IAS 39's retrospective 80–125% effectiveness test with principles-based requirements. A hedging relationship must have an economic relationship between the hedged item and hedging instrument, credit risk must not dominate the value changes arising from that economic relationship, and the hedge ratio must reflect the quantities actually hedged and used for hedging purposes.

18. The change was intended to remove unnecessary accounting-driven volatility in the financial statements and better reflect entities' actual risk management activities. Academic research considered by the IASB suggests that removing the IAS 39 bright-line effectiveness test and allowing rebalancing may reduce earnings volatility in some circumstances. However, the evidence is not conclusive across all studies.
19. Stakeholders have nevertheless identified areas where judgement remains significant, including determining whether an economic relationship exists and assessing the extent to which credit risk dominates the relationship. The IASB will therefore consider whether the principles-based effectiveness requirements are working as intended and whether additional application guidance or educational material is necessary.

Basis adjustment, rebalancing and discontinuation

20. IFRS 9 introduced rebalancing as a means of adjusting the designated quantities of the hedged item or hedging instrument where the hedge ratio no longer reflects the actual relationship between the quantities being hedged and the instruments being used. This replaced the IAS 39 approach of discontinuing and redesignating a hedge when the effectiveness requirements were no longer met.
21. Phase 1 feedback suggests that rebalancing can be difficult to apply in practice and that additional guidance or educational material may be helpful. Preparers have also identified practical difficulties in applying basis adjustment, particularly where inventory or other non-financial items are not individually tracked.

Cost of hedging

22. IFRS 9 introduced a new accounting approach for certain excluded components of hedging instruments, including the time value of purchased options, forward points of forward contracts and foreign currency basis spreads of cross-currency swaps. Changes in these components can, in specified circumstances, be recognised in OCI rather than immediately in profit or loss.
23. Although the cost-of-hedging model was intended to provide accounting outcomes that better reflect the economics of risk management, stakeholders have identified implementation costs and complexity. One example is determining the "aligned cost" when applying the cost-of-hedging requirements.

Disclosures

24. IFRS 7 introduced disclosures intended to provide users with information about an entity's risk management strategy, the effects of hedging activities on future cash flows, and the effect of hedge accounting on the financial statements. The IASB expected these disclosures to provide more useful information and to be more closely aligned with entities' risk management activities.
25. Feedback on the usefulness of the disclosure requirements has been more mixed than feedback on the underlying hedge accounting requirements. The IASB therefore intends to consider the disclosure requirements separately as part of the RFI, including whether the information provided is meeting its objective and whether the costs of producing, auditing and enforcing the disclosures are as expected.

Overall cost-benefit assessment

26. The IASB expected the benefits of IFRS 9 hedge accounting to outweigh the costs. Expected benefits included greater alignment between accounting and risk management, more useful information for users, reduced accounting volatility and a reduced need for entities to produce non-GAAP measures to explain the effects of their hedging activities.
27. The IASB also expected entities to incur one-off implementation costs associated with developing processes, systems and controls, updating hedge documentation and policies, developing accounting capabilities for new treatments, and educating accounting and treasury functions. Ongoing costs were expected to include maintaining hedging relationships and capturing information for disclosure.
28. The PIR will therefore consider not only whether particular requirements are difficult to apply, but whether the overall balance between the information benefits and the costs of applying the hedge accounting requirements is broadly as the IASB expected when IFRS 9 was developed.

Matters the IASB is not currently proposing to reopen

29. The IASB has emphasised that the PIR is not a standard-setting project and does not automatically lead to amendments to IFRS 9 (or IFRS 7). The purpose is to determine whether the requirements are working as intended and whether there are specific application matters requiring further action.
30. Based on the Phase 1 work to date, the IASB staff have not identified evidence that the overall hedge accounting model is fundamentally failing. Rather, the emerging evidence points to targeted application issues, including judgement, cost and complexity in particular areas. The staff therefore recommended that the RFI focus on the overall objective, benefits and costs rather than asking detailed questions on every individual application issue raised during outreach.

New Zealand implementation experience and issues

31. NZ IFRS 9 has now been applied by New Zealand Tier 1 and Tier 2 for-profit entities for several years, with mandatory application for annual periods beginning on or after **1 January 2018**. The standard contains requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items and includes the IFRS 9 hedge accounting model. This provides a reasonable basis for assessing whether the hedge accounting model is operating effectively in the New Zealand environment.

Review of financial statements

32. We have reviewed publicly available financial statements and related reporting of a sample of larger New Zealand reporting entities with material treasury, commodity, foreign currency or interest rate exposures. The evidence indicates that hedge accounting is being applied in New Zealand, particularly by entities with significant exposure to foreign currency, interest rate, fuel, electricity or commodity price risks.
33. There is evidence that NZ IFRS 9 resulted in increased use of hedge accounting by some New Zealand reporting entities, but the effect was not widespread or uniform. The strongest evidence is from entities such as Contact Energy and Spark, where the financial statements explicitly link new or expanded hedge relationships to the flexibility introduced by NZ IFRS 9. For several other entities, adoption simply allowed existing hedges to continue, with little or no change in the extent of hedge accounting.

Entity	Pre-IFRS 9 position	What happened after adoption?	NZ IFRS 9 impact on use of hedge accounting
Contact Energy	Used hedge accounting, but some interest-rate swaps were not designated	Previously unhedged interest rate swaps were brought into hedge-accounting relationships	Clear increase attributable to NZ IFRS 9
Spark New Zealand	Existing hedge relationships	Management expected the types of transactions designated to expand, particularly aggregated exposures	Strong evidence of expansion
Chorus	Extensive hedge accounting	New cost-of-hedging treatment and three-part hedge designations; existing relationships continued	Change in application of hedging
Fletcher Building	Extensive hedge accounting	Explicitly said adoption caused no significant changes to hedge relationships	No increase
Auckland Airport	Existing interest-rate/FX hedges	Existing hedges continued to qualify under NZ IFRS 9	No increase
Port of Tauranga	Existing hedges	Existing hedges continued to be effective	No increase
Infratil	Existing hedging arrangements	Adoption had no material impact	No increase
Xero	FX cash-flow hedges	Existing hedges continued; adoption had no significant impact	No increase
Fisher & Paykel Healthcare	Extensive FX/interest-rate hedging	Existing hedging continued	No clear increase
Meridian Energy	Extensive treasury hedging	Broader rules noted, but Meridian said it made limited use of hedge accounting	Potentially more flexibility, little evidence of expansion
Mercury NZ	Hedging arrangements	NZ IFRS 9 expanded eligibility, but no clear evidence of increased designation	No clear increase
Kiwi Property	Did not apply hedge accounting under IAS 39	NZ IFRS 9 would make hedge accounting easier if it chose to use it	Could use but didn't
Ryman Healthcare	Interest-rate swaps designated as hedges	Notional amount of designated swaps increased from \$8.2 million to \$13.4 million	Some level of increase
Air New Zealand	Had already adopted the 2013 IFRS 9 hedge-accounting requirements	2018 adoption of final IFRS 9 had no material effect	No clear increase

34. We note that the NZ IFRS 9 hedge accounting model is relevant to a range of New Zealand entities and is not confined to financial institutions. In practice, the model appears to be most relevant for entities with recurring exposures arising from New Zealand's open economy, including foreign currency sales and purchases, imports of capital assets, overseas operations, commodity and fuel exposures, and interest rate risk on borrowings.
35. The reviewed financial statements also indicate that hedge accounting is used to align the accounting outcome with entities documented risk management strategies, consistent with the objective of IFRS 9 hedge accounting.

Extent and nature of hedge accounting in New Zealand

36. Public reporting indicates that the most common hedging relationships applied by New Zealand entities are cash flow hedges. These include hedges of forecast foreign currency transactions,

forecast purchases of property, plant and equipment, fuel and commodity exposures, and interest payments on floating or foreign currency borrowings.

37. Fair value hedges and net investment hedges also appear in New Zealand practice, but in a more targeted way. These predominately focus on fair value hedges for interest rate risk on fixed-rate borrowings and net investment hedges using foreign currency denominated liabilities to manage translation risk on foreign operations. Evidence from energy sector reporting also indicates that cash flow hedge reserves and basis adjustments are relevant in practice, particularly where hedging gains and losses are transferred to the cost of assets.
38. We note that the issues identified internationally are relevant to New Zealand, but their significance varies by sector. The more significant New Zealand issues appear to relate to cash flow hedging of forecast transactions, foreign currency and interest rate exposures, commodity or fuel price risk, basis adjustment for capital or non-financial asset purchases, and the cost-of-hedging requirements for options, forward points and currency basis spreads.

Eligible hedged items and hedging instruments

39. The reviewed financial statements suggest that New Zealand entities are generally able to designate common hedged items and hedging instruments under NZ IFRS 9. Public disclosures demonstrate the use of foreign exchange forward contracts, fuel options and swaps, interest rate swaps, cross-currency interest rate swaps and non-derivative financial instruments in hedge accounting relationships.
40. We have not identified evidence from public reporting that the eligibility requirements are systematically preventing larger New Zealand entities from applying hedge accounting to common risk management strategies. However, the disclosures indicate that some entities do not apply hedge accounting to all economic hedges. For example, where derivative fair value movements naturally offset the earnings impact of the underlying liability, hedge accounting is not applied. This suggests that decisions not to apply hedge accounting may reflect cost-benefit, natural offset or operational considerations rather than ineligibility alone.
41. We note that the IASB's PIR should distinguish between two matters: whether the IFRS 9 eligibility requirements fail to accommodate genuine risk management activities, and whether entities choose not to apply hedge accounting because the incremental benefit does not justify the documentation, measurement, systems and audit effort.

Hedge effectiveness and rebalancing

42. Public reporting suggests that the principles-based hedge effectiveness model is being applied in practice without widespread disclosed ineffectiveness. Entities tend to explicitly disclose that the amount and maturity of hedging instruments and hedged items are aligned to ensure hedge effectiveness.
43. This evidence suggests that, for many straightforward hedging relationships, entities are able to apply the IFRS 9 effectiveness requirements by aligning critical terms and using risk management information. This is consistent with the IFRS 9 model, which focuses on whether an economic relationship exists, whether credit risk dominates value changes, and whether the hedge ratio is consistent with the entity's risk management strategy.
44. We have not identified public evidence indicating that rebalancing is a significant area of difficulty in New Zealand practice. However, the absence of disclosure may reflect either limited use of rebalancing or limited disclosure of rebalancing judgements. We note that rebalancing does not appear to be a major New Zealand implementation issue.

Basis adjustment

45. Evidence from public reporting confirms that basis adjustment is relevant in New Zealand practice. Several entities disclose that where a cash flow hedge relates to a non-financial asset, the amount recognised in the cash flow hedge reserve is transferred to the carrying amount of the asset when it is recognised. Entities also note that qualifying cash flow hedges of foreign currency purchases of property, plant and equipment may be included in the cost of those assets, as well as reporting hedging gains and losses transferred to the cost of assets.
46. We note that the basis adjustment requirements are being applied by New Zealand entities, particularly in relation to capital expenditure or other non-financial asset purchases. The evidence does not indicate that basis adjustment is unworkable, but it does suggest that the requirement could create tracking and systems demands, especially where entities have significant volumes of forecast purchases, capital projects or inventory-related hedges.

Cost of hedging

47. Public reporting shows that the cost-of-hedging requirements are relevant in New Zealand practice. Some entities disclose that only the spot element of forward contracts is designated as a hedging instrument, with forward points excluded from hedge designation and accounted for either in finance costs or in other comprehensive income and a cost of hedging reserve. Disclosures indicate that the time value of options (often fuel options) and currency basis on cross-currency interest rate swaps are excluded from hedge designations and accumulated in the costs of hedging reserve until the hedged transactions affect profit or loss.
48. We note that the cost-of-hedging model is capable of being applied by New Zealand entities with sophisticated treasury functions, but it adds accounting complexity. The public evidence indicates that the requirements can provide a more faithful representation of risk management by separating the designated risk component from excluded costs, but this benefit needs to be weighed against the additional tracking, valuation and disclosure effort.

Hedge accounting disclosures

49. Public reporting indicates that hedge accounting disclosures can provide useful information about the nature of risks being hedged, the instruments used, the effect on reserves, and the timing of future cash flows. Entities often provide detailed disclosures about the types of hedging relationships used, the nature of the hedged risks, movements in the cash flow hedge reserve and costs of hedging reserve, and the treatment of hedge ineffectiveness. Financial statements also tend to show movements in the cash flow hedge reserve and transfers of hedging gains and losses to the cost of assets.
50. We note that hedge accounting disclosures are potentially decision-useful, particularly for users seeking to understand how risk management affects future cash flows, profit or loss, other comprehensive income and asset carrying amounts. However, the usefulness of disclosures depends on the level of entity-specific explanation provided. More formulaic disclosures may explain the accounting mechanics but may be less effective in helping users understand the relationship between risk management, hedging strategy and reported performance.

Ongoing costs and benefits

51. The evidence suggests that entities with material and recurring foreign currency, interest rate, fuel, electricity or commodity price exposures, and established treasury functions, continue to apply hedge accounting where the expected financial reporting benefits justify the associated costs. NZ IFRS 9 hedge accounting is optional, and entities are expected to consider the costs

and benefits when deciding whether to apply it. Public reporting by some entities indicates that hedge accounting is being applied where it reduces accounting mismatches and better reflects the timing and effect of risk management activities.

52. We note that the benefits of hedge accounting are most evident where entities have material and recurring exposures, such as foreign currency, fuel, commodity or interest rate risks, and where hedge accounting avoids profit or loss volatility that would otherwise obscure the economic effect of the entity's risk management activities. The costs are likely to be more significant for entities with less sophisticated systems, lower transaction volumes or more straightforward hedging activities, where the incremental benefit to users may be lower.

Use of systems and integration with risk management

53. Public reporting suggests that larger New Zealand entities can integrate treasury and financial reporting information sufficiently to support hedge accounting. Some financial statement disclosures refer to documented policies, alignment of hedge maturities and nominal amounts with hedged items, reserve reconciliations, sources of hedge ineffectiveness and accounting for excluded components (although this varies across entities applying IFRS 9). These disclosures indicate that entities applying hedge accounting need systems and controls capable of tracking hedge designations, fair value movements, excluded components, reserve balances, ineffectiveness and transfers to profit or loss or asset carrying amounts.
54. We note that the IFRS 9 objective of better aligning hedge accounting with risk management appears to have been achieved for entities with mature treasury functions. However, the level of systems, documentation and audit evidence required remains a practical cost, particularly for smaller entities or entities applying hedge accounting to less frequent or less standardised transactions.

Feedback from Accounting Technical Reference Group (TRG)

55. Feedback from the Accounting TRG around the use of IFRS 9 hedging requirements has noted that for many entities, the costs of applying, auditing and enforcing the hedge accounting requirements in IFRS 9 and the related IFRS 7 disclosures are in line with what was originally expected, although this is not the same in all cases and varies significantly by entity type and hedging complexity. It was strongly noted that IFRS 9 has resulted in more hedge accounting, particularly around simple fair value and cash flow hedges where there is a strong focus on matching terms.
56. Preparer feedback (received from the Accounting TRG) indicates that IFRS 9 has reduced some mechanical testing, but has resulted in more judgement, governance and internal control efforts, such as:
- Documentation demands remain extensive, particularly to support judgement-based concepts such as “economic relationship”, hedge ratio appropriateness, and credit risk dominance.
 - Ongoing effectiveness assessments, rebalancing analysis, and monitoring of discontinuation triggers have created continuous operational costs, rather than one off transition costs.
 - For entities with dynamic, rolling or portfolio style hedging, systems and processes often need manual overlays or bespoke modelling to meet accounting requirements that were expected to be more flexible.
57. Auditor feedback (received from the Accounting TRG) indicates that the cost of achieving audit comfort is around the same. In particular, auditors noted that the significant judgement involved

in applying the principles-based requirements continues to require robust documentation and audit evidence. Consequently, although IFRS 9 has removed some mechanical effectiveness testing, the overall cost of obtaining audit assurance may remain broadly comparable with that arising under the previous, more rules-based requirements, particularly for complex hedging relationships.

Other local feedback

58. We did not identify public evidence of widespread New Zealand-specific implementation issues that would suggest the IFRS 9 hedge accounting model is fundamentally not operating as intended. However, the evidence points to several matters that may warrant inclusion in the NZASB's feedback to the IASB:
- (a) hedge accounting appears most commonly used for cash flow hedges of foreign currency, interest rate, fuel, commodity and capital expenditure exposures;
 - (b) cost-of-hedging requirements are relevant in practice, particularly for forward points, option time value and currency basis spreads;
 - (c) basis adjustment is applied in practice and may create tracking and systems demands;
 - (d) disclosures can be useful, but their usefulness depends on the extent to which they explain the entity's actual risk management strategy rather than only accounting mechanics; and
 - (e) some entities may choose not to apply hedge accounting to all economic hedges because of natural offsets, cost-benefit considerations or operational complexity.
59. We also note that recent amendments relating to contracts referencing nature-dependent electricity are likely to be relevant in the New Zealand environment, given the significance of renewable electricity generation and electricity contracting. The XRB has issued amendments to NZ IFRS 9 and NZ IFRS 7 for contracts referencing nature-dependent electricity, effective for periods beginning on or after 1 January 2026, with early adoption permitted.
60. These amendments may be relevant to any feedback to the IASB on whether the targeted exception for variable nominal amounts of nature-dependent electricity is operating as intended, and whether stakeholders consider that similar issues arise for other forecast transactions or non-financial items.

Proposed NZASB consultation approach

61. To ensure that New Zealand's perspectives are effectively represented in the IASB's PIR, staff propose a consultation approach comprising the following engagement activities:

Date	Activity
September 2026	IASB published the RFI on 28 September 2026. XRB published the RFI on its website and communicate its availability to stakeholders.
October 2026	TRG discussion of the RFI and identification of New Zealand-specific issues.
October 2026 – December 2026	Targeted outreach with preparers, users, auditors, regulators, treasury/risk management practitioners and other relevant stakeholders (where appropriate).
December 2026	Collation and analysis of stakeholder feedback and updates to the draft NZASB comment letter.

Date	Activity
Mid-January 2027	NZASB Board to approve the final comment letter through circular resolution.
Late-January 2027	Submission of the NZASB comment letter to the IASB by 26 January 2027 deadline.

62. We will remain open to other New Zealand-specific issues identified through outreach. These could include:
- (a) *Continued use of NZ IAS 39* – including the reasons why entities have not moved fully to IFRS 9 hedge accounting and whether this creates comparability issues;
 - (b) *Application by smaller entities* – including whether the complexity and costs of hedge accounting are disproportionate to the benefits for entities with relatively straightforward hedging activities;
 - (c) *Interest rate hedging* – including the application of portfolio hedge accounting and the interaction between IFRS 9 and IAS 39 requirements;
 - (d) *Foreign currency hedging* – including net investment hedges and hedges of forecast transactions;
 - (e) *Commodity and energy hedging* – including the application of the requirements to changing market practices;
 - (f) *Documentation and auditability* – including whether the principles-based requirements create uncertainty about what constitutes sufficient evidence and documentation; and
 - (g) *Comparability* – including whether different decisions to apply or not apply hedge accounting result in materially different reported outcomes for entities with similar underlying risk management activities.
63. We will also consider whether any matters arising from the implementation of recent amendments, including the amendments relating to contracts referencing nature-dependent electricity, should be communicated to the IASB as part of the PIR. The IASB has already received feedback that some stakeholders are interested in whether the exception introduced for variable nominal amounts of nature-dependent electricity could be extended to other items.

Draft comment letter

64. The attached draft comment letter, based on our preliminary research and preliminary feedback received so far, is included for the Board's consideration.

Questions for the Board

- Q1.** Does the Board have **FEEDBACK** on the preliminary research and preliminary outreach undertaken by staff to date and are there any suggestions for further research and outreach?
- Q2.** Does the Board have **FEEDBACK** on the draft comment letter, including its overall tone?

Next steps

65. We will update the draft comment letter to reflect the Board's feedback at this meeting, and we recommend that the updated letter be published on our website to help test our initial views with New Zealand stakeholders.

Questions for the Board

- Q3.** Does the Board **AGREE** to publish our draft comment letter on the website to help facilitate consultation with New Zealand stakeholders, subject to addressing the Board's feedback?
- Q4.** Does the Board have **FEEDBACK** on the broad consultation plan for responding to the IASB's Request for Information (RFI) on IFRS 9?

[DATE]

Sam Woods
Chair – International Accounting Standards Board
IFRS Foundation
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Submitted to: www.ifrs.org

Dear Sam

IASB/RFI/2026/1 Post-implementation Review of IFRS 9 and IFRS 7—Hedge Accounting Requirements

Thank you for the opportunity to comment on the Request for Information IASB/RFI/2026/1 *Post-implementation Review of IFRS 9 and IFRS 7—Hedge Accounting Requirements* (the RFI).

The RFI has been exposed for comment in New Zealand, and some constituents may submit their comment directly to you. Our comments have been informed by outreach activities and consultation with preparers, users, assurance practitioners and other stakeholders and cover a range of industries and sectors.

We support the IASB undertaking this review, as hedge accounting is an important area of financial reporting for entities that use derivatives and other financial instruments to manage exposures to interest rate, foreign currency, commodity price and other market risks. In our view, the post-implementation review provides a timely opportunity to assess whether the hedge accounting requirements in IFRS 9 *Financial Instruments* and disclosure requirements in IFRS 7 *Financial Instruments: Disclosures* have improved the alignment between an entity's financial reporting and its risk management activities.

Overall, New Zealand stakeholders consider that the IFRS 9 hedge accounting model is working broadly as intended and represents a significant improvement over IAS 39 *Financial Instruments: Recognition and Measurement*. The principles-based effectiveness requirements, broader eligibility of risk components, rebalancing and costs-of-hedging approach have improved the alignment between accounting and risk management.

However, we have identified some areas where targeted clarification or further standard-setting refinements could improve consistent application, reduce unnecessary cost and complexity, and enhance the usefulness of information provided to users of financial statements.

Our key messages are as follows:

- **Retain the core IFRS 9 hedge accounting model** – Stakeholders view IFRS 9 as a significant improvement over IAS 39 and consider it broadly successful in aligning accounting with risk management. The IASB should retain the core model and focus on targeted improvements where there is evidence of significant application issues or disproportionate costs.
- **Address disproportionate application costs** – Although IFRS 9 has reduced some of the burdens associated with IAS 39, hedge accounting remains complex and resource-intensive. These costs can be disproportionate for entities that undertake identifiable and relatively straightforward hedging relationships. The IASB should review whether requirements such as the highly probable criterion and specificity of forecast transactions strike the right balance between faithful representation and operational practicality.
- **Improve consistent application of significant judgements** – The principles-based approach should be retained, but stakeholders report uncertainty about the evidence needed to support judgements on effectiveness, risk components, hedge ratios, credit-risk dominance and rebalancing. Targeted guidance and illustrative examples could improve consistency without adding prescriptive requirements.
- **Refocus IFRS 7 disclosures on exposure, hedge coverage, accounting effects and residual risk** – Hedge accounting disclosures can be lengthy, repetitive and difficult to navigate. The IASB should focus on clearly communicating the risk being managed, hedge coverage, accounting effects and residual exposure, while reducing duplication and compliance-driven information.
- **Distinguish model limitations from implementation challenges** – Many concerns relate to applying the requirements rather than deficiencies in the underlying model. The IASB should distinguish between genuine model limitations, issues that can be addressed through guidance or examples, and decisions not to apply hedge accounting because of an entity's own cost-benefit considerations. This will help ensure future action is proportionate and focused on model deficiencies, implementation support for application uncertainty.

We appreciate the IASB's commitment to ongoing improvement of IFRS Accounting Standards and thank you for the opportunity to contribute to this PIR. Our recommendations and responses to the specific questions for respondents are provided in the Appendix to this letter.

If you have any queries or require clarification of any matters in this letter, please contact accounting@xrb.govt.nz.

Yours sincerely

Dr Carolyn Cordery
Chair – New Zealand Accounting Standards Board

Appendix

Question 1 — Overall assessment of the hedge accounting requirements in IFRS 9

The IASB wants to understand whether, in your view:

- (a) the hedge accounting requirements in IFRS 9 meet their objective. If not, please explain why not.*
- (b) the overall initial and ongoing costs of applying the requirements in IFRS 9, and auditing and enforcing their application, are largely as the IASB expected. If your view is that the overall costs are significantly greater than expected, please explain why, how you would propose the IASB reduce these costs and how your proposals would affect the benefits of the requirements.*
- (c) the overall benefits to users of the information resulting from entities applying the hedge accounting requirements in IFRS 9 are largely as the IASB expected. If your view is that the overall benefits are significantly lower than expected, please explain why and what the IASB could do to improve the usefulness of that information.*

The expected costs and benefits of the hedge accounting requirements in IFRS 9 are set out in paragraphs BCE.174–BCE.238 of the Basis for Conclusions on IFRS 9.

Respondents may also share their views on the timing and manner of the proposed withdrawal of IAS 39. In particular, please consider the transition requirements for applying the hedge accounting requirements in IFRS 9 and whether additional requirements would need to be added upon the withdrawal of IAS 39.

Response to Question 1: Overall assessment of the hedge accounting requirements in IFRS 9

1. Overall, we consider that the IFRS 9 hedge accounting requirements are working broadly as intended. They generally meet the objective in paragraph 6.1.1, provide benefits broadly consistent with those expected by the IASB, and represent a significant improvement over IAS 39. We have not identified evidence supporting a fundamental reconsideration of the model. However, costs can be disproportionate for less-resourced entities and for some otherwise straightforward hedging relationships, and targeted action is needed in areas where judgement or operational complexity is producing inconsistent outcomes.
2. The benefits are most evident for identifiable hedging relationships involving recurring and sufficiently stable exposures, including common cash flow hedges of foreign currency, interest rate, commodity, fuel and capital expenditure risks. However, the model does not deliver the same benefits in all circumstances. Its application remains judgement-intensive and can be operationally burdensome, particularly for less-resourced entities and for entities managing variable, portfolio-based or continually changing exposures.
3. Accordingly, we recommend that the IASB retain the fundamental architecture of the IFRS 9 hedge accounting model. The evidence available to us does not support a fundamental redesign or a return to the bright-line effectiveness thresholds and more rules-based approach in IAS 39. Instead, the IASB should take targeted action where the PIR identifies a material model limitation, a pervasive and consequential application problem, or costs that are disproportionate to the resulting information benefit.

(a) Whether the IFRS 9 requirements meet their objective

4. In our view, the requirements generally meet the objective in IFRS 9 paragraph 6.1.1 of representing in the financial statements the effects of an entity's risk management activities that use financial instruments to manage exposures arising from particular risks. Stakeholders consider that IFRS 9 provides a more faithful depiction of those activities than IAS 39.
5. Stakeholders particularly support the:
 - removal of the retrospective 80–125 per cent effectiveness threshold;
 - principles-based hedge effectiveness criteria in IFRS 9 paragraph 6.4.1(c), which require an economic relationship, require credit risk not to dominate the resulting value changes, and require the hedge ratio to reflect the quantities actually used for risk management;
 - broader eligibility of risk components and other hedged items under paragraphs 6.3.1–6.3.7 and the related application guidance in paragraphs B6.3.1–B6.3.25;
 - rebalancing done under paragraph 6.5.5 and paragraphs B6.5.7–B6.5.21 when the risk management objective remains unchanged;
 - costs-of-hedging approach in paragraphs 6.5.15–6.5.16 and B6.5.29–B6.5.39; and
 - reduction in forced discontinuation of economically valid hedging relationships through the discontinuation requirements in paragraph 6.5.6 and related application guidance.
6. These features have reduced accounting-driven outcomes that arose under IAS 39 and have enabled entities to reflect more faithfully the economic effects of their hedging activities. In particular, they focus the accounting assessment on whether the designated relationship reflects how the entity manages risk, rather than whether the relationship satisfies a mechanical effectiveness threshold.
7. However, stakeholders continue to identify uncertainty in applying the hedge effectiveness criteria in paragraph 6.4.1(c), particularly the evidence needed to demonstrate an economic relationship, when a qualitative assessment is sufficient, when credit risk dominates the resulting value changes and how to determine an appropriate hedge ratio. While the application guidance in paragraphs B6.4.4–B6.4.16 provides some guidance on these matters, further illustrative examples would help preparers, auditors and regulators develop a more consistent understanding of the evidential requirements.
8. We also note the model is not equally effective in all circumstances. The benefits may be reduced where:
 - the volume or timing of a forecast exposure subject to the highly probable criterion in paragraph 6.3.3 is inherently variable;
 - exposures are managed on a portfolio or net basis and are not fully accommodated by the requirements for groups of items in paragraphs 6.6.1–6.6.6;
 - the composition of an exposure changes continuously and may therefore be more appropriately considered through Risk Mitigation Accounting;

- an entity's risk management strategy evolves within the broader purpose of the original hedge;
 - a genuine risk management activity cannot satisfy the required specificity or eligibility criteria; or
 - an entity undertakes simple or infrequent hedging but does not have the specialist systems and resources needed to apply the requirements.
9. The IASB should distinguish a model limitation, in which a genuine risk management activity cannot qualify for hedge accounting, from elective non-application, in which an entity could apply hedge accounting but concludes that the reporting benefit does not justify the incremental cost. Only the first necessarily indicates that the eligibility or accounting requirements are not working as intended. The second may instead indicate a need for proportionate implementation support or clearer communication of the model's benefits.
10. We recommend that the IASB:
- (a) Retain the core principles-based model, including the eligibility of risk components in paragraph 6.3.7, rebalancing under paragraph 6.5.5 and the costs-of-hedging approach in paragraphs 6.5.15–6.5.16.
 - (b) Investigate potential model limitations affecting variable-volume forecast transactions under paragraph 6.3.3, changing exposures, and groups, net positions and aggregated exposures under sections 6.3 and 6.6 before deciding whether standard-setting is required.
 - (c) Use narrow-scope standard-setting only where the evidence demonstrates substantial consequences, pervasiveness and benefits expected to exceed the costs of change.

(b) Initial and ongoing costs

11. We consider that IFRS 9 has achieved its objective of replacing rules-based testing with a more principles-based approach to hedge accounting. However, the practical consequence has often been a shift in effort rather than a reduction in effort. Requirements that previously relied on mechanical testing are now supported through professional judgement, documentation and evidential analysis. While this has improved the quality of financial reporting and alignment with risk management, it has also created ongoing costs that may be disproportionate for some entities undertaking relatively straightforward hedging activities.
12. Ongoing costs include:
- preparing and maintaining contemporaneous hedge documentation in accordance with paragraph 6.4.1(b);
 - obtaining valuations and maintaining systems to track hedged items, hedging instruments, designated quantities, hedge ratios and hedge ineffectiveness;
 - monitoring whether forecast transactions continue to satisfy the highly probable criterion in paragraph 6.3.3;
 - applying the basis-adjustment requirements in paragraph 6.5.11(d)(i) and tracking the adjusted carrying amounts of non-financial assets and liabilities;

- applying the costs-of-hedging requirements in paragraphs 6.5.15–6.5.16 and B6.5.29–B6.5.39;
 - preparing the hedge accounting disclosures required by IFRS 7 paragraphs 21A–24F; and
 - supporting audit and regulatory review of significant judgements.
13. For entities with material and recurring hedging programmes, these costs may be proportionate because hedge accounting reduces accounting mismatches and provides a more faithful explanation of the effects of risk management. However, they can be disproportionate for entities that have simple but material hedging arrangements and limited specialist resources. The cost-benefit assessment can also differ substantially between financial institutions and non-financial entities, and between entities with sophisticated treasury operations and less complex hedgers.
14. The IASB should also distinguish between:
- (a) costs arising from the complexity of an entity's underlying risk management activities; and
 - (b) incremental costs imposed by the accounting requirements.
15. For example, valuation and risk-monitoring costs may arise even if hedge accounting is not applied. By contrast, hedge accounting-specific designation, documentation, parallel valuation, reserve tracking and disclosure requirements are more clearly incremental. This distinction is important when determining whether costs are greater than the IASB expected and whether changes to IFRS 9 would reduce those costs without weakening the resulting information.
16. Particular costs arise from uncertainty about:
- the evidence needed to demonstrate an economic relationship under paragraph 6.4.1(c)(i) and paragraphs B6.4.4–B6.4.6;
 - when a qualitative assessment is sufficient and when quantitative analysis is necessary under paragraphs B6.4.4–B6.4.6;
 - when credit risk dominates changes in value under paragraph 6.4.1(c)(ii) and paragraphs B6.4.7–B6.4.8;
 - whether the designated hedge ratio meets paragraph 6.4.1(c)(iii) and paragraphs B6.4.9–B6.4.11;
 - whether forecast transactions satisfy the highly probable criterion in paragraph 6.3.3;
 - the distinction between continuation, rebalancing under paragraph 6.5.5 and discontinuation under paragraph 6.5.6;
 - determining aligned and non-aligned components under the costs-of-hedging application guidance in paragraphs B6.5.29–B6.5.39; and
 - applying the basis adjustment required by paragraph 6.5.11(d)(i) where inventory, capital projects or forecast purchases are not individually tracked.
17. We note the IASB's initial outreach similarly identified the highly probable criterion, the costs-of-hedging approach, rebalancing and basis adjustment as areas involving significant judgement or

operational complexity. This corroborates the matters raised through our New Zealand outreach and supports targeted investigation through the PIR.

18. We recommend that the IASB reduce avoidable costs by:

- (a) Developing targeted application guidance and complete illustrative examples covering both qualifying and non-qualifying fact patterns, in terms of eligibility for hedge accounting.
- (b) Explaining a connected disclosure sequence and relevant evidence for assessing economic relationships, qualitative versus quantitative assessment, credit-risk dominance and hedge ratios, without introducing quantitative thresholds.
- (c) Providing a decision framework for continuation, rebalancing and discontinuation, supported by examples involving instrument rollover, counterparty replacement, changes in forecast volumes or timing, changes in notional amounts and partial termination.
- (d) Investigating whether the highly probable criterion in paragraph 6.3.3 and the required specificity of designated forecast transactions produce appropriate outcomes for rolling forecasts, variable production, partial hedging and exposures whose occurrence is highly probable, but whose precise volume or timing is inherently uncertain.
- (e) Providing scalable examples for less-resourced entities, including simple foreign currency cash flow hedges, interest-rate swaps hedging floating-rate debt, qualitative effectiveness assessments where critical terms match, proportionate contemporaneous documentation and a single material hedge programme.
- (f) Examining practical approaches to applying the basis-adjustment requirement in paragraph 6.5.11(d)(i), particularly where inventory or other non-financial items are not tracked individually.

19. These actions should reduce uncertainty, documentation effort and repeated preparer-auditor discussions without reducing the benefits of the model. We would not support cost reductions achieved by weakening the link between hedge accounting and documented risk management or by creating a separate recognition and measurement model for smaller entities.

(c) Benefits to users

20. The principal benefit to users is a more faithful explanation of how an entity manages risk and how its hedging activities affect reported performance, financial position and future cash flows, consistent with the objective in IFRS 9 paragraph 6.1.1. For entities with material hedging programmes, IFRS 9 can reduce accounting mismatches and help users distinguish among the underlying economic exposure, the effect of the hedging instrument and the residual volatility after hedging.

21. The broader eligibility of risk components under paragraph 6.3.7, the ability to rebalance an existing relationship under paragraph 6.5.5, and the costs-of-hedging approach in paragraphs 6.5.15–6.5.16 and B6.5.29–B6.5.39 are particularly important in achieving this benefit. These features enable accounting to reflect more faithfully the economic purpose of hedging arrangements that might not have qualified, or might have been discontinued, under IAS 39.

22. However, user benefits can be reduced when:

- economically similar relationships produce different accounting outcomes because of inconsistent application;
- a genuine exposure cannot be designated because its volume or timing changes;
- the accounting effects are dispersed across profit or loss, other comprehensive income, hedge-related reserves and, when paragraph 6.5.11(d)(i) applies, the carrying amount of an underlying non-financial asset or liability;
- basis adjustment makes the effects of hedge accounting difficult to follow in subsequent periods; or
- the relationship between the entity's risk management strategy and the reported accounting effects is not clearly explained.

23. These concerns support targeted clarification and improvements to the disclosure framework rather than a fundamental redesign of the hedge accounting model. In particular, the IASB should focus on improving consistent application and communication of the model before considering broader changes to recognition and measurement.

Withdrawal of IAS 39 and interaction with Risk Mitigation Accounting

24. We consider that the continued availability of IAS 39 hedge accounting is an important matter for this PIR. IFRS 9 paragraph 7.2.21 permits an entity to continue applying the hedge accounting requirements in IAS 39 as its accounting policy, while paragraph 6.1.3 permits continued application of the relevant IAS 39 requirements to specified portfolio fair value hedges of interest-rate risk.

25. These options can reduce comparability because entities undertaking economically similar risk management activities may apply different hedge accounting requirements. However, their continued availability also reflects the absence of a completed accounting solution for some portfolio risk management activities.

26. The IASB should not withdraw IAS 39 independently of its work on Risk Mitigation Accounting, and should first establish a clear boundary between:

- (a) identifiable closed hedging relationships that should be addressed by IFRS 9; and
- (b) open, dynamically managed portfolios whose composition changes continuously and that are more appropriately addressed through Risk Mitigation Accounting.

27. As part of any future withdrawal of IAS 39, the IASB should:

- (a) provide an appropriately long transition period, particularly for entities with large portfolios of existing hedging relationships;
- (b) clarify whether and how existing designations can be carried forward;
- (c) minimise unnecessary discontinuation and redesignation solely because of the change in accounting model;

- (d) address the treatment of portfolio fair value hedges of interest-rate risk;
- (e) explain whether entities may need to apply IFRS 9 and Risk Mitigation Accounting concurrently; and
- (f) ensure that the transition does not create avoidable accounting discontinuities.

28. The RFI acknowledges that the timing and manner of withdrawing IAS 39 depend on the progress of the Risk Mitigation Accounting project. We agree with this approach, and IAS 39 should not be withdrawn until the IASB has established a clear and operational framework for risk mitigation accounting and a coordinated transition pathway for impacted entities.

Question 2 — Overall assessment of the hedge accounting disclosure requirements in IFRS 7

The IASB wants to understand whether, in your view:

(a) the hedge accounting disclosure requirements in IFRS 7 meet their objective. If not, please explain why not.

(b) the overall initial and ongoing costs of applying the requirements in IFRS 7, and auditing and enforcing their application, are largely as the IASB expected. If your view is that the overall costs are significantly greater than expected, or providing the required information requires undue cost or effort, please explain:

- (i) why (identifying the specific requirement and cost drivers);*
- (ii) how you would propose the IASB reduce these costs; and*
- (iii) how your proposals would affect the benefits of the requirements.*

(c) the overall benefits to users of the information resulting from entities applying the hedge accounting disclosure requirements in IFRS 7 are largely as the IASB expected. Specifically, please explain:

- (i) which of the disclosures provided are most useful and why;*
- (ii) whether, in your view, the information provided is sufficient to meet the objective of enabling users to understand an entity's hedging activities; and*
- (iii) if the overall benefits of the information are significantly lower than expected, why, and what the IASB could do to improve the usefulness of that information.*

The expected costs and benefits of the hedge accounting disclosure requirements in IFRS 7 are set out in paragraphs BCE.174–BCE.238 of the Basis for Conclusions on IFRS 9.

Response to Question 2: Overall assessment of the hedge accounting disclosure requirements in IFRS 7

29. Overall, we consider that the IFRS 7 hedge accounting disclosure requirements are capable of meeting the objective in paragraph 21A of enabling users to understand an entity's risk management strategy, how its hedging activities may affect the amount, timing and uncertainty of future cash flows, and the effect hedge accounting has had on the financial statements. Paragraph 21B supports this objective by requiring the disclosures to be presented in a single note or separate section. However, the objective is not achieved consistently in practice.

30. Entity-specific information about risk management strategy and the extent of hedge coverage can be obscured by repetitive narrative, extensive tables, fragmented accounting information and technical reconciliations. The result can be a substantial volume of information without a coherent explanation of the entity's economic exposure, how that exposure has been managed and what exposure remains after hedging.
31. We recommend retaining the disclosure objective in paragraph 21A but refocusing the detailed requirements in paragraphs 22A–24F on a clearer user focused connected disclosure sequence. The IASB should evaluate each requirement from a user's decision-making perspective and identify requirements that result in substantively duplicative information and permit cross-reference or consolidation, where doing so preserves understandability.

(a) Whether the IFRS 7 disclosure requirements meet their objective

32. The disclosure requirements can provide useful information about:
- an entity's risk exposures and risk management strategy (IFRS 7 paragraphs 21A(a) and 22A–22C);
 - why and how the entity uses hedging instruments (paragraphs 22A–22C);
 - the nature, extent and duration of hedging activities (paragraphs 23A–23F and 24A–24B);
 - the timing and uncertainty of future cash flows (paragraphs 21A(b) and 23A–23F);
 - where the effects of hedge accounting are recognised (paragraphs 21A(c) and 24A–24F);
 - movements in hedge-related reserves (paragraphs 24C–24F);
 - the sources and location of hedge ineffectiveness (paragraphs 24C–24F); and
 - the relationship between risk management activities and reported financial performance (paragraphs 21A and 22A–24F).
33. However, users may need to assemble this information from narrative disclosures, risk tables, accounting policy information, reserve reconciliations and different financial statement line items. The requirements therefore do not always produce a clear account of the entity's overall position.
34. In our view, an effective disclosure package should allow for a user to understand, in a logical sequence:
- (a) why the entity hedges and the risk being managed;
 - (b) the nature and amount of the underlying exposure;
 - (c) the strategy, extent and duration of hedge coverage;
 - (d) the instruments used and the significant terms of the relationships;
 - (e) where the accounting effects are recognised, including the sources and location of ineffectiveness; and
 - (f) the exposure remaining after hedging (as information about the exposure remaining after

hedging is not always presented as a discrete disclosure).

35. This connected disclosure sequence could provide a guiding principle for the IASB's review of IFRS 7 paragraphs 22A–24F. Grouping and connecting the required information in a more structured and user-focused way could help users analyse an entity's risk management strategy, hedge coverage, accounting effects and residual exposure without increasing disclosure volume.

(b) Initial and ongoing costs

36. The initial and ongoing costs of applying IFRS 7 paragraphs 22A–24F can be substantial, particularly when the required information is not aligned with internal risk management reporting or cannot be generated automatically by treasury and financial reporting systems.

37. Cost drivers include:

- extracting and reconciling data across treasury, valuation and financial reporting systems;
- maintaining separate data for financial reporting purposes;
- preparing information by risk category as required by paragraphs 22A–24F;
- tracking hedged items, hedging instruments and related fair value changes for the disclosures in paragraphs 24A–24B;
- calculating and explaining hedge ineffectiveness for the disclosures in paragraphs 24C–24F;
- preparing reconciliations of the components of equity affected by hedge accounting under paragraphs 24C–24F;
- tracing effects through profit or loss, other comprehensive income, equity and the carrying amount of non-financial items;
- documenting the relationship between risk management information and accounting disclosures; and
- supporting extensive audit and regulatory review.

38. We note that many entities' IT systems do not automatically generate the information required by paragraphs 22A–24F, resulting in manual calculations and reconciliations. Extensive audit procedures over those disclosures can further increase the ongoing costs of compliance.

39. These costs are justified where the disclosures enable users to understand a material risk management activity and its accounting effects. The costs are less proportionate where information:

- duplicates other risk, accounting policy or financial instrument disclosures;
- is required at a level of detail that obscures the material messages;
- is not used internally and must be assembled solely for financial reporting;
- presents rates or prices without the context necessary to interpret them; or
- provides technical movements without explaining their relationship to the underlying

exposure and risk management strategy.

40. We recommend that the IASB:

- (a) Establish a clearer communication objective based on how users understand and analyse hedge accounting relationships (such as the connected disclosure sequence described in paragraph 34 above).
- (b) Remove or consolidate duplicative requirements where equivalent information is already provided elsewhere and cross-referencing would not impair understandability.
- (c) Permit information to be aggregated consistently with how risks are managed, provided that aggregation does not obscure material differences in risks, strategies, time horizons or accounting effects.
- (d) Develop examples for simple and complex programmes, demonstrating how narrative and quantitative information can be connected without excessive repetition.
- (e) Coordinate any changes with broader presentation and disclosure requirements, so that entities are not required to provide overlapping information in multiple locations.
- (f) Avoid adding further disclosure requirements unless there is evidence of an unmet user need that cannot be addressed through better application, aggregation, placement or enforcement of the existing requirements.

41. These actions should reduce compliance-driven material and manual effort without removing information that users need. The objective should be better communication of hedge accounting relationships used by the entity, not a mechanical reduction in the number of disclosures.

(c)(i) Most useful disclosures

42. In our view, the most useful disclosures are those that explain:

- the risk being managed and why it is significant to the entity (IFRS 7 paragraphs 21A(a) and 22A–22C);
- the entity's risk management strategy (paragraphs 21A(a) and 22A–22C);
- the nature and amount of the underlying exposure (paragraphs 22B–22C, supported by the objective in paragraph 21A);
- the proportion and duration of the exposure that is hedged (paragraphs 23A–23F and 24A–24B);
- the instruments used and their significant terms (paragraphs 23A–23F and 24A–24B);
- the expected timing of the hedged cash flows (paragraphs 21A(b) and 23A–23F);
- the effects of hedge accounting on the primary financial statements (paragraphs 21A(c) and 24A–24F);
- material movements in hedge-related reserves (paragraphs 24C–24F);
- the nature and source of material hedge ineffectiveness (paragraphs 24C–24F); and

- the residual exposure remaining after hedging (related to the objective in paragraph 21A, although we note this information is not always expressly required as a separate disclosure).

43. These disclosures are useful and align closely with the objective in IFRS 7 paragraph 21A because, when connected, they enable users to understand both the economic purpose of the hedging activity and its accounting consequences. Information about rates, prices, notional amounts or reserve movements is less useful when presented without an explanation of the underlying exposure, relevant market context or extent of hedge coverage.

(c)(ii) Sufficiency of the information provided

44. The existing disclosure requirements in paragraphs 22A–24F are broadly capable of providing sufficient information, but that information is not always communicated in a way that achieves the objective in paragraph 21A, or the connected presentation envisaged by paragraph 21B.

45. We note this is not necessarily due to the absence of individual data points. Rather, users may be required to reconstruct the entity’s position from fragmented narratives, tables and reconciliations. In particular, the proportion of an exposure that is hedged and the exposure remaining after hedging may be difficult to identify.

46. The IASB should investigate whether users consistently require additional information about:

- the extent of hedge coverage;
- residual exposure after hedging;
- the expected duration and renewal of hedges;
- significant rebalancing decisions;
- the reasons for terminating hedging relationships; and
- material economic or structural risk management activities not reflected through hedge accounting.

47. Before adding requirements, the IASB should determine whether the information is genuinely absent or is already available but obscured by aggregation, placement, boilerplate disclosure or weak connectivity. New requirements should be introduced only where there is clear evidence of an unmet user need, and the expected benefits justify the additional preparation and audit costs.

(c)(iii) Improving user benefits

48. We do not consider that the solution is simply to increase or reduce disclosure volume around hedge accounting. The IASB should instead improve the connectivity and context of the information.

49. We recommend that the IASB:

- organise paragraphs 22A–24F around how users understand and analyse hedge accounting relationships (such as the connected disclosure sequence described in paragraph 34 above);
- require entity-specific explanations rather than generic descriptions of accounting

requirements;

- (c) improve the linkage between the exposures and strategy described under paragraphs 22A–22C, the instruments and cash flow effects disclosed under paragraphs 23A–23F, and the accounting effects reported under paragraphs 24A–24F;
- (d) require contextual information when average rates or prices are presented, where necessary to make those amounts understandable;
- (e) improve the visibility of material hedge ineffectiveness;
- (f) clarify how disclosures about the costs-of-hedging reserve and basis adjustments under paragraphs 24C–24F should be connected with the underlying hedged item;
- (g) support coherent presentation in the single note or separate section contemplated by paragraph 21B; and
- (h) provide examples illustrating different levels of complexity and aggregation.

50. This approach would preserve decision-useful information while reducing the risk that compliance-driven volume of disclosures obscures the entity's risk management strategy and residual exposure.

Question 3 — Other matters relevant to this post-implementation review
<i>Are there any other matters the IASB should examine as part of the post-implementation review of the hedge accounting requirements in IFRS 9 and related disclosure requirements in IFRS 7? If so, please explain why, considering the objective of a post-implementation review as set out on page 6.</i>

Response to Question 3: Other matters relevant to this post-implementation review

51. We recommend that the IASB examine the following matters as part of the post-implementation review of the hedge accounting requirements in IFRS 9 and related disclosure requirements in IFRS 7.
52. These matters arise from New Zealand stakeholder feedback and our analysis of the requirements. Each is relevant to assessing whether the effects of IFRS 9 and IFRS 7 are as intended, but the appropriate response will differ. Some matters may be addressed through implementation support or further evidence-gathering. Targeted standard-setting should be considered only where the IASB identifies substantial consequences, pervasiveness, a feasible solution and benefits expected to exceed the costs of change.

Evidential framework for applying judgement

53. The move from bright-line testing to the principles-based effectiveness criteria in IFRS 9 paragraph 6.4.1(c) is strongly supported. However, preparers, auditors and regulators do not always have a sufficiently shared understanding of the evidence necessary to support:

- the existence of an economic relationship under paragraph 6.4.1(c)(i) and paragraphs B6.4.4–B6.4.6;
- the use of a qualitative rather than quantitative assessment under paragraphs B6.4.4–B6.4.6;
- whether credit risk dominates changes in value under paragraph 6.4.1(c)(ii) and paragraphs B6.4.7–B6.4.8;
- the appropriateness of the designated hedge ratio under paragraph 6.4.1(c)(iii) and paragraphs B6.4.9–B6.4.11; and
- continuation, rebalancing under paragraph 6.5.5 or discontinuation under paragraph 6.5.6.

54. This uncertainty can lead to different conclusions for economically similar relationships and can increase documentation and audit costs. We recommend that the IASB provide implementation support explaining indicators and evidence relevant to each judgement which must be made. Such examples should include qualifying and non-qualifying outcomes and should not introduce quantitative thresholds by implication.

Forecast transactions and the highly probable criterion

55. The IASB should investigate whether the highly probable criterion in paragraph 6.3.3, together with the required specificity of a designated forecast transaction, produces appropriate outcomes when an entity has a genuine and supportable risk management exposure, but the precise volume or timing of the forecast transaction is inherently variable. An entity may be confident that transactions will occur in aggregate, but may be unable to designate the exposure, or may need to discontinue or frequently revise the hedging relationship, because the specific timing or volume initially documented changes. As a result, hedge accounting may not reflect the entity's actual risk management activity even though the underlying economic exposure and hedging strategy remain valid.
56. Relevant circumstances include rolling forecasts, variable production, long-dated forecasts, partial hedging and changes in the timing of forecast transactions. The criterion serves an important purpose by preventing hedge accounting for speculative or insufficiently supportable transactions. Accordingly, any action should preserve appropriate discipline and should not permit designation based solely on management intention.
57. We recommend further analysis to determine whether the outcomes above arise because paragraph 6.3.3 does not adequately accommodate certain genuine and supportable forecast exposures, or because entities apply the existing requirement inconsistently. The IASB should initially consider targeted examples and should pursue a narrow-scope amendment if the evidence demonstrates substantial and pervasive consequences that cannot be addressed through implementation support.

Eligible hedged items and risk components

58. The ability to designate separately identifiable and reliably measurable risk components under IFRS 9 paragraph 6.3.7 and paragraphs B6.3.8–B6.3.25 is one of the clearest improvements in

IFRS 9. We recommend retaining these eligibility principles.

59. However, further evidence may be needed in relation to how consistently entities make judgements around the following areas:

- non-contractually specified risk components, commodity price risk, inflation-linked exposures and benchmark interest-rate risk (paragraph 6.3.7 and paragraphs B6.3.8–B6.3.25);
- foreign currency exposures embedded in contractual or non-contractual pricing arrangements (paragraph 6.3.7 and related application guidance);
- credit exposures for which the fair value option in section 6.7 may be relevant;
- foreign currency risk in intragroup arrangements (paragraphs 6.3.5–6.3.6); and
- net positions involving risks other than foreign currency risk (paragraphs 6.6.1–6.6.6 and B6.6.1–B6.6.16).

60. Where evidence demonstrates material diversity in applying paragraph 6.3.7 and paragraphs B6.3.8–B6.3.25, the IASB should provide focused examples showing how market structure and other relevant facts support the “*separately identifiable and reliably measurable*” assessment. The IASB should avoid an exhaustive list of eligible risk components because such a list could become outdated and imply that unlisted components are ineligible.

Rebalancing, discontinuation and voluntary de-designation

61. We support the rebalancing requirement in IFRS 9 paragraph 6.5.5 and paragraphs B6.5.7–B6.5.21 because it allows hedge accounting to continue when the risk management objective remains unchanged but the relationship between the hedged item and hedging instrument has changed.

62. Nevertheless, stakeholders have identified uncertainty in distinguishing:

- continuation of an existing relationship without rebalancing;
- rebalancing under paragraph 6.5.5;
- discontinuation under paragraph 6.5.6 because the qualifying criteria are no longer met or the risk management objective has changed; and
- discontinuation followed by designation of a new relationship.

63. The IASB should develop a clear decision framework and targeted examples applying paragraphs 6.5.5–6.5.6 and the related application guidance to instrument rollover, counterparty replacement, changes in forecast volumes or timing, changes in notional amounts and partial termination. The IASB should also investigate whether the prohibition on voluntary de-designation created unintended risk management incentives. Any amendment should retain safeguards against de-designation undertaken solely to achieve a preferred accounting outcome.

Costs of hedging

64. We consider the costs-of-hedging approach in IFRS 9 paragraphs 6.5.15–6.5.16 and B6.5.29–B6.5.39 conceptually sound. The approach can depict faithfully the economic cost of hedging through options, forward contracts and cross-currency instruments.
65. However, the IASB should investigate whether material diversity or disproportionate cost arises from applying paragraphs B6.5.29–B6.5.39, which include:
- (a) determining aligned and non-aligned costs;
 - (b) constructing hypothetical derivatives;
 - (c) distinguishing transaction-related from time-period-related hedged items;
 - (d) tracking and valuing excluded components; and
 - (e) presenting and explaining movements among other comprehensive income, reserves, profit or loss and the carrying amount of non-financial items.
66. Where the principle remains sound, targeted examples should be preferred to fundamental amendments. The IASB should also consider whether the IFRS 7 disclosures about the effects of hedge accounting, including the reconciliations required by paragraphs 24C–24F, explain the costs-of-hedging reserve and related accounting effects sufficiently clearly. This could improve consistent application and users’ understanding without reducing faithful representation.

Application by less-resourced entities

67. Some less-resourced entities undertake straightforward but material hedging activities but face significant documentation, measurement, monitoring and disclosure demands under IFRS 9 paragraphs 6.4.1–6.5.16 and IFRS 7 paragraphs 21A–24F. This includes entities without dedicated treasury, valuation or technical accounting functions.
68. We recommend that the IASB develop scalable examples to support less-resourced entities applying IFRS Accounting Standards for straightforward hedging activities, including:
- (a) foreign currency cash flow hedges;
 - (b) interest-rate swaps used to hedge floating-rate debt;
 - (c) forward contracts used to hedge highly probable forecast purchases;
 - (d) qualitative effectiveness assessments;
 - (e) examples demonstrating documentation that satisfies paragraph 6.4.1(b) without unnecessary duplication for straightforward hedging relationships; and
 - (f) proportionate disclosure for a single material hedge programme.
69. These examples should facilitate proportionate and consistent application of the existing requirements without creating a separate hedge accounting model or reducing the information provided about material hedging activities.



IFRS[®]
Accounting

September 2026

Request for Information

IFRS[®] Accounting Standard

Post-implementation Review

IFRS 9 and IFRS 7

Hedge Accounting Requirements

Comments to be received by 26 January 2027



Request for Information

Post-implementation Review of IFRS 9 and IFRS 7 Hedge Accounting Requirements

Comments to be received by 26 January 2027

Request for Information *Post-implementation Review of IFRS 9 and IFRS 7—Hedge Accounting Requirements* is published by the International Accounting Standards Board (IASB) for comment only. Comments need to be received by 26 January 2027 and should be submitted by email to commentletters@ifrs.org or online at <https://www.ifrs.org/projects/open-for-comment/>.

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Introduction

The International Accounting Standards Board (IASB) is undertaking a post-implementation review of IFRS 9 *Financial Instruments*.

IFRS 9 replaced IAS 39 *Financial Instruments: Recognition and Measurement*. Improvements to the accounting for financial instruments introduced by IFRS 9 compared to IAS 39 include:¹

a classification and measurement approach for financial assets that reflects the entity's business model and the asset's cash flow characteristics

a forward-looking **expected credit loss model** that results in more timely recognition of loan losses

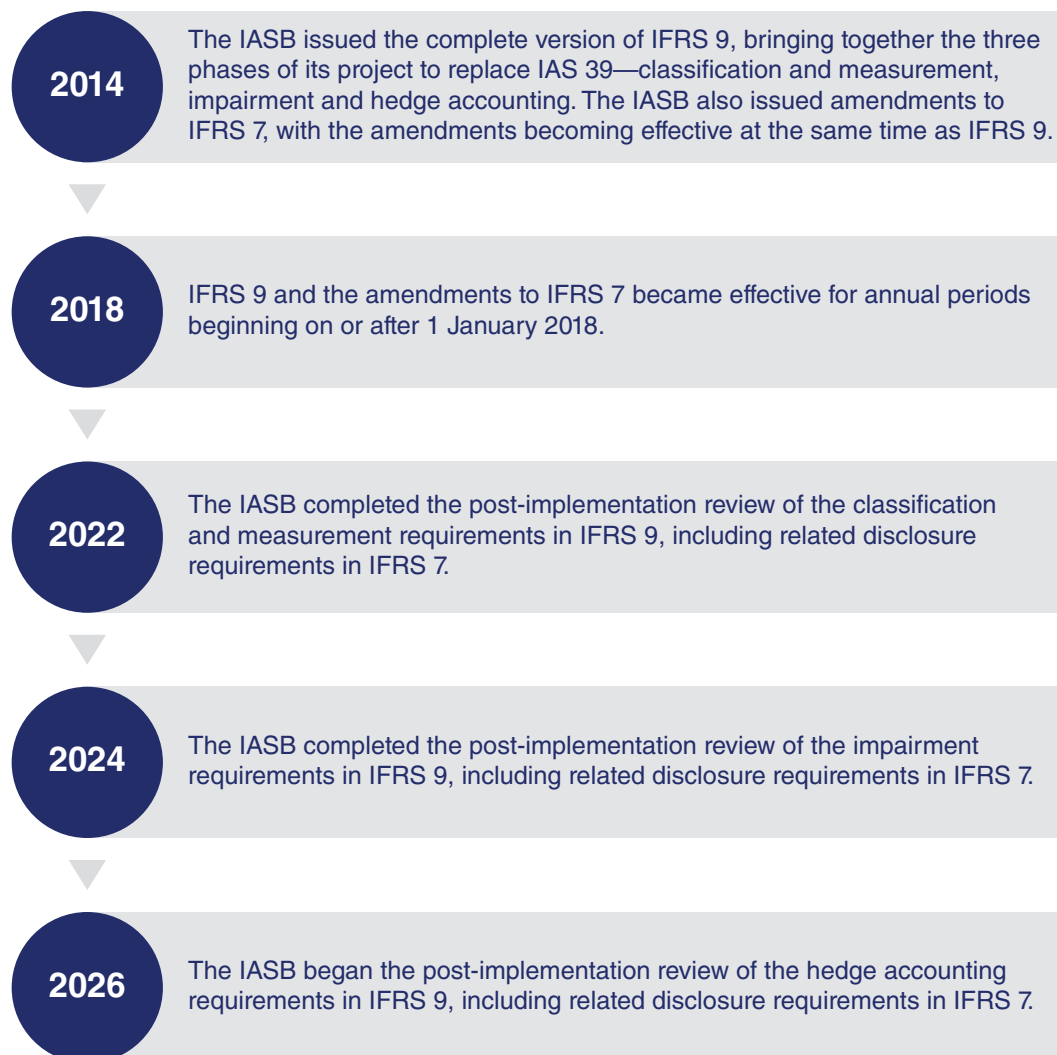
a hedge accounting model with a better link between the economics of risk management and its accounting treatment

The IASB has completed the post-implementation reviews of the classification and measurement requirements and the impairment requirements in IFRS 9. The IASB is now reviewing the hedge accounting requirements in IFRS 9.

This post-implementation review also includes the hedge accounting disclosure requirements in IFRS 7 *Financial Instruments: Disclosures*, which apply regardless of whether an entity chooses to apply the hedge accounting requirements in IFRS 9 or those in IAS 39.

¹ An entity may elect, as an accounting policy, either to continue applying the hedge accounting requirements of IAS 39 to all of its hedging relationships or to apply the hedge accounting requirements of IFRS 9. An entity applying IFRS 9 hedge accounting may, however, apply the relevant IAS 39 requirements to a fair value hedge of the interest rate exposure of a portfolio of financial assets or financial liabilities (see paragraphs 6.1.3 and 7.2.21 of IFRS 9).

Timeline



What is a post-implementation review?

The IASB carries out a post-implementation review of each new IFRS Accounting Standard or major amendment to a Standard.² The objective of a post-implementation review is **to assess whether the effects of applying the requirements of a new Standard or major amendment to a Standard on users of general purpose financial reports, preparers, auditors and securities regulators are as intended when the new requirements were developed**. The basis for such an assessment is the objective of the Standard and the effects analysis of the likely benefits and initial and ongoing costs arising from the new requirements that the IASB publishes when it issues the new requirements.³

During a post-implementation review, the IASB considers important and contentious matters it discussed during the development of the new requirements and whether the Standard or major amendment to a Standard continues to work as intended in the current environment, considering market developments since those new requirements were issued. It also considers whether there are unintended consequences from applying the new requirements that the IASB was not aware of when it developed those requirements.

A post-implementation review involves the IASB assessing whether the new requirements are overall working as intended, with the benefits to users of the information resulting from entities applying the new requirements not significantly lower than was expected and the costs of applying the requirements, and auditing and enforcing their application, not significantly greater than was expected.

A post-implementation review is not a standard-setting project and does not automatically lead to standard-setting. However, post-implementation reviews can identify improvements that can be made to a new requirement or the standard-setting process.

Although a post-implementation review can identify application questions, such identification is not the objective of the post-implementation review. There are other mechanisms in place to identify and address application questions.⁴ When the IASB issues a new Standard or major amendment to a Standard, the IASB supports the implementation of the new Standard or major amendment through various activities. This support might include setting up a group of experts involved in the implementation of the Standard to provide a public forum for the discussion of implementation questions that arise and publishing materials such as articles and webcasts to support consistent application.⁵ In addition, the IFRS Interpretations Committee (Committee) supports the implementation of IFRS Accounting Standards, including, when applicable, by publishing agenda decisions. In the course of supporting implementation of a new Standard or major amendment to a Standard, the IASB might decide that it needs to amend the new requirements, considering the benefits of timely action and the risks of disruption to implementation.⁶

² See paragraphs 6.52–6.66 of the [IFRS Foundation Due Process Handbook](#).

³ The expected costs and benefits of the hedge accounting requirements in IFRS 9 and the related disclosure requirements in IFRS 7 are set out in paragraphs BCE.174–BCE.238 of the *Basis for Conclusions on IFRS 9*. The costs and benefits are collectively referred to as ‘effects’.

⁴ See paragraphs 5.15–5.22 of the [Due Process Handbook](#).

⁵ To access these materials for IFRS 9 see the [supporting material](#) webpage.

⁶ The IASB issued amendments to IFRS 9 in *Interest Rate Benchmark Reform* in September 2019, *Interest Rate Benchmark Reform—Phase 2* in August 2020 and *Contracts Referencing Nature-dependent Electricity* in December 2024.

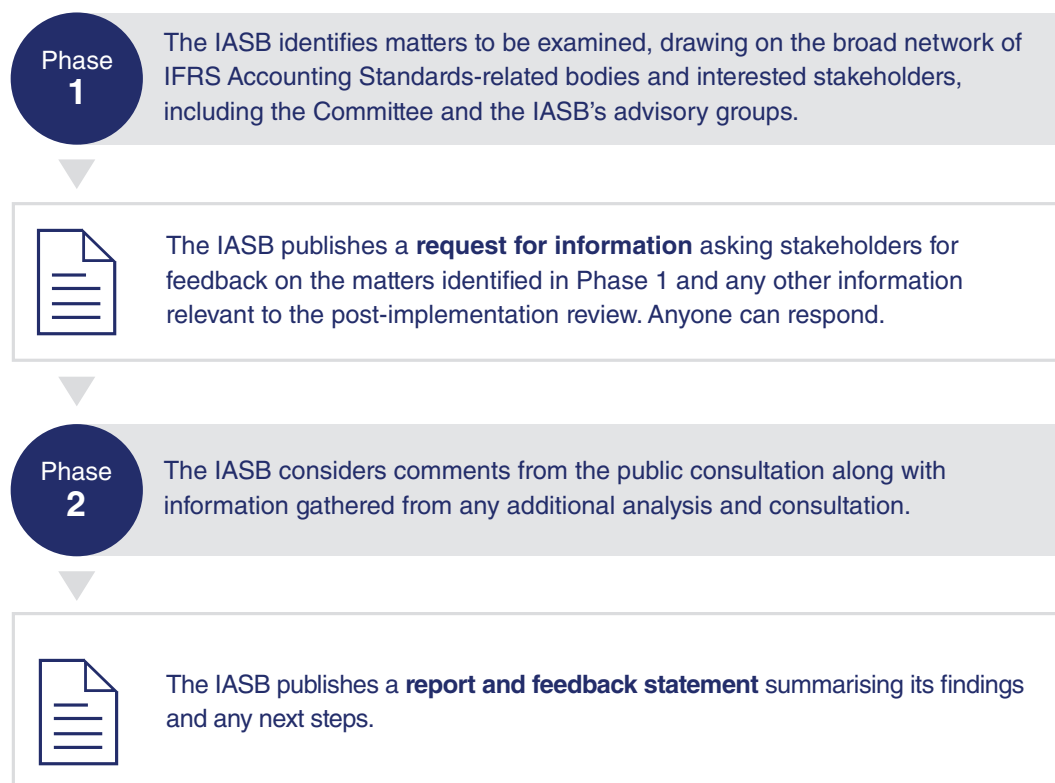
How does the IASB prioritise matters in a post-implementation review?

The IASB considers whether to take any action on matters identified in a post-implementation review and how to prioritise those matters depending on the extent to which evidence gathered during the post-implementation review indicates:

- (a) the matter has **substantial consequences** (for example, widespread diversity in practice materially affects users' ability to analyse trends and compare entities);
- (b) the matter is **pervasive** (for example, it affects transactions that occur frequently in various industries and jurisdictions);
- (c) the matter arises from a financial reporting issue that **can be addressed** by the IASB or the Committee (that is, a feasible solution is likely to exist); and
- (d) the **benefits** of any action are expected to **outweigh the costs** (considering the extent of disruption to current practice and operational costs from change in the light of the importance of the matter to users).

Actions could include standard-setting, referring a matter to the Committee or developing materials to support consistent application. The IASB can also conclude that no action is required.

What is involved in a post-implementation review?



Invitation to Comment

Summary of questions

This Request for Information sets out questions in three sections:

- (a) **Section 1** seeks information on stakeholders' experience relating to the hedge accounting requirements in IFRS 9;
- (b) **Section 2** seeks information on stakeholders' experience relating to the hedge accounting disclosure requirements in IFRS 7; and
- (c) **Section 3** seeks other information relevant to this post-implementation review not covered by Sections 1–2.

Responses will inform the IASB's assessments in this post-implementation review.

Guidance for responding to questions

You need not answer all questions. Comments are most helpful if they:

- (a) answer the questions as stated;
- (b) state the paragraph(s) in IFRS Accounting Standards to which they relate;
- (c) explain any significant differences between the actual and the expected effects of the requirements;
- (d) explain whether these significant differences were caused by market developments since the IASB issued the Standard(s) or whether you have new evidence that the cost-benefit balance of applying the requirements has changed;
- (e) are supported by evidence to help the IASB identify matters that are of such significance that they suggest the new requirements are not working as intended because the matter has substantial consequences and is pervasive; and
- (f) describe any solutions you propose and how they might affect the assessment of benefits and costs.

The IASB does not expect you to carry out detailed investigations to answer the questions, so when providing your answers, please consider matters and concerns that are already known to you through your experience.

Deadline

The IASB will consider all written comments received by 26 January 2027.

How to comment

Please submit your comments:

Online	https://www.ifrs.org/projects/open-for-comment/
By email	commentletters@ifrs.org

Request for Information

The IASB wants to understand stakeholders' experience relating to the hedge accounting requirements in IFRS 9 and related disclosure requirements in IFRS 7 to assess, overall, whether the requirements are working as intended.

Specifically, the IASB wants to understand whether the overall initial and ongoing costs of applying the requirements, and auditing and enforcing their application, are largely as expected. If they are not, the IASB wants to know why as well as how, in stakeholders' views, it could reduce these costs, and how such proposals would affect the benefits of the requirements.

In addition, the IASB wants to understand whether the overall benefits to users of the information resulting from entities applying the requirements are largely as expected and, if not, why and what the IASB could do to improve the usefulness of that information.

1. Overall assessment of the hedge accounting requirements in IFRS 9

Hedge accounting requirements in IFRS 9

Chapter 6 of IFRS 9 sets out the requirements for applying hedge accounting. The objective of the hedge accounting requirements in IFRS 9 is to represent, in the financial statements, the effect of an entity's risk management activities that use financial instruments to manage exposures arising from particular risks that could affect profit or loss (or other comprehensive income, in the case of investments in equity instruments for which an entity has elected to present changes in fair value in other comprehensive income).

Consequently, subject to qualifying criteria, the hedge accounting model in IFRS 9 uses an entity's risk management activities as the foundation for deciding which items and instruments qualify for hedge accounting.

Compared with IAS 39, IFRS 9:

- (a) allows for more qualifying hedged items. For example, IFRS 9 allows an entity to designate as the hedged item:
 - (i) individual risk components of non-financial items if they are separately identifiable and can be measured reliably; and
 - (ii) a net position of a group of items containing offsetting risk positions;
- (b) allows for more qualifying hedging instruments. For example, IFRS 9 allows an entity to designate as the hedging instrument non-derivative financial assets and liabilities measured at fair value through profit or loss;

- (c) introduces a ‘cost of hedging’ approach for the accounting treatment of excluded components of hedging instruments, specifically:
 - (i) subsequent changes in the time value of purchased options are recognised in other comprehensive income; and
 - (ii) subsequent changes in forward points of forward contracts and in foreign currency basis spreads of cross-currency swaps can be recognised in other comprehensive income;
- (d) removes the retrospective effectiveness test and the 80–125% ‘bright line’ effectiveness test. Instead, IFRS 9 introduces principles-based hedge effectiveness criteria that a hedging relationship must meet to qualify for hedge accounting, requiring:
 - (i) the existence of an economic relationship between the hedged item and the hedging instrument;
 - (ii) the effect of credit risk to not dominate the value changes that result from that economic relationship; and
 - (iii) the hedge ratio of the hedging relationship to be the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of the hedged item;
- (e) requires a ‘basis adjustment’ for non-financial items—that is, requires the inclusion in the initial cost or other carrying amount of a non-financial asset or non-financial liability of the gain or loss accumulated in the cash flow hedge reserve upon recognition of that asset or liability; and
- (f) removes the option to voluntarily de-designate a hedging relationship and, instead, introduces the concept of ‘rebalancing’—that is, allows for the adjustment of the designated quantities of either the hedged item or the hedging instrument of an existing hedging relationship for the purpose of maintaining a hedge ratio that complies with the hedge effectiveness requirements.

IFRS 9 retains the three types of hedging relationships (cash flow hedge, fair value hedge and hedge of a net investment in a foreign operation) in IAS 39 and the hedge accounting mechanics of IAS 39.



The **IASB intends to withdraw IAS 39**, with the timing and manner of the proposed withdrawal depending on the progress of its [Risk Mitigation Accounting](#) project. Because this post-implementation review is limited to the hedge accounting requirements in IFRS 9 and related disclosure requirements in IFRS 7, the IASB has not included a specific question on the proposed withdrawal of IAS 39 in this Request for Information. However, as **this RFI is relevant to all stakeholders** due to the hedge accounting disclosure requirements in IFRS 7, **stakeholders can share their views on the timing and manner of the proposed withdrawal, including the transition requirements in IFRS 9** when responding to this RFI.

Expected effects of the hedge accounting requirements in IFRS 9

The IASB expected that applying the hedge accounting requirements in IFRS 9 would enable entities to better align accounting outcomes with their actual risk management activities.⁷ By introducing a principles-based model, the IASB sought to ensure that the financial statements reflect the economic substance of an entity's hedging strategies. Specifically, the IASB expected IFRS 9:

- (a) to reduce the need for entities to provide measures not based on generally accepted accounting principles (GAAP) in public communications to explain the performance and economic effects of their hedging activities.
- (b) to improve the comparability of, and transparency in, financial statements by requiring entities to provide information in the notes about their hedging activities and the effect of those activities on their primary financial statements.

The IASB expected that entities would incur initial costs on transitioning to the hedge accounting requirements in IFRS 9:

- (a) to set up systems and processes, including establishing better integration and structural links between the corporate treasury/risk management and accounting functions, and educating personnel;
- (b) to update and align the documentation of existing hedging relationships; and
- (c) to communicate and explain changes in reported information to investors, analysts, and other external parties.

The IASB expected that the ongoing costs of applying hedge accounting under IFRS 9 would be lower than those under IAS 39, in particular, for less complex hedging relationships, because the principles-based model for testing hedge effectiveness is linked directly to how the hedge is designed and monitored for risk management purposes. This reduces the need for entities to run costly, parallel, accounting-specific calculations (such as the 80–125% effectiveness test required under IAS 39).

In addition, the IASB expected that more entities would apply hedge accounting under IFRS 9 because:

- (a) aligning the accounting with actual risk management activities reduces the operational burden on entities to qualify and maintain hedge accounting; and
- (b) allowing for more eligible hedged items (such as risk components of non-financial items or net positions) and more eligible hedging instruments increases the scope of hedging relationships that can qualify for hedge accounting.

The IASB expected that the benefits of applying the new hedge accounting requirements would be ongoing and would justify the costs of implementing the requirements. Those costs would likely be incurred mainly on transitioning from the hedge accounting requirements in IAS 39 to those in IFRS 9.

⁷ The IASB considered the costs and benefits of the requirements in IFRS 9 and IFRS 7 on a variety of entities, including both financial and non-financial institutions, and discussed these in paragraphs BCE.174–BCE.238 of the *Basis for Conclusions on IFRS 9*.

Spotlight 1—What we have heard so far on the hedge accounting requirements in IFRS 9

Preparers' and other stakeholders' views

Initial feedback from preparers, auditors, standard-setters and securities regulators suggests that the hedge accounting requirements in IFRS 9 are overall working as intended. The requirements have achieved their objective of better aligning accounting outcomes with entities' actual risk management activities.

Many preparers, auditors, and standard-setters welcomed the removal of the 80–125% 'bright-line' effectiveness test and the ability to designate risk components of non-financial items, viewing both as significant improvements over IAS 39. Stakeholders also welcomed the recent amendments to IFRS 9 allowing entities to designate, as the hedged item, variable nominal amounts of forecast nature-dependent electricity, with some suggesting that this exception be extended to other transactions.

However, some preparers, auditors and standard-setters identified areas where applying the requirements can require significant judgement or be (unduly) costly or burdensome to apply, as well as areas where—in their view—more application guidance or supporting material might be needed. Examples of such areas include:

- (a) the 'highly probable' criterion: Stakeholders observed that, for some forecast transactions, it can be difficult to demonstrate that these transactions are (and remain) highly probable, for example those impacted by geopolitical challenges, long-term contracts with uncertain timing or deal-contingent transactions. Some stakeholders also said they observed diversity in how this criterion is applied to similar fact patterns.
- (b) the 'cost of hedging' approach: While most stakeholders appreciate the resulting reduction in profit or loss volatility, some consider the approach to be operationally complex to apply. These stakeholders said splitting the actual cost of hedging into an 'aligned' and a 'non-aligned' portion can be burdensome because it requires parallel valuations. Some also said there is diversity in how entities construct hypothetical derivatives, which some attribute to the limited application guidance in IFRS 9.
- (c) the rebalancing requirements: Stakeholders observed that the concept of rebalancing is not well understood and rarely applied in practice. Conversely, the prohibition on voluntary de-designation has contributed to some entities deciding to continue to apply the hedge accounting requirements in IAS 39 (in particular, banks managing dynamic portfolios or preparers applying IFRS Accounting Standards who also report under US GAAP, which permits voluntary de-designation).

continued ...

... continued

- (d) the requirement to include in the initial cost or other carrying amount of a non-financial asset or non-financial liability the gain or loss accumulated in the cash flow hedge reserve upon recognition of that asset or liability ('basis adjustment'). While stakeholders agree with this requirement conceptually, they observed that applying a basis adjustment, particularly to inventory, can be operationally complex because of the way some entities track and subsequently recognise inventory expense in profit or loss.

Users' views

The limited initial feedback from users of financial statements focused on the usefulness of entities' hedge accounting disclosures in the notes to the financial statements.

Question 1—Overall assessment of the hedge accounting requirements in IFRS 9

The IASB wants to understand whether, in your view:

- (a) the hedge accounting requirements in IFRS 9 meet their objective. If not, please explain why not.
- (b) the overall initial and ongoing costs of applying the requirements in IFRS 9, and auditing and enforcing their application, are largely as the IASB expected. If your view is that the overall costs are significantly greater than expected, please explain why, how you would propose the IASB reduce these costs and how your proposals would affect the benefits of the requirements.
- (c) the overall benefits to users of the information resulting from entities applying the hedge accounting requirements in IFRS 9 are largely as the IASB expected. If your view is that the overall benefits are significantly lower than expected, please explain why and what the IASB could do to improve the usefulness of that information.

The expected costs and benefits of the hedge accounting requirements in IFRS 9 are set out in paragraphs BCE.174–BCE.238 of the *Basis for Conclusions on IFRS 9*.

Respondents may also share their views on the timing and manner of the proposed withdrawal of IAS 39. In particular, please consider the transition requirements for applying the hedge accounting requirements in IFRS 9 and whether additional requirements would need to be added upon the withdrawal of IAS 39.

Please refer to the '**Guidance for responding to questions**' on page 8.

2. Overall assessment of the hedge accounting disclosure requirements in IFRS 7

Hedge accounting disclosure requirements in IFRS 7

As part of its project on IFRS 9, the IASB also amended the hedge accounting disclosure requirements in IFRS 7 to enable users to better understand an entity's risk management activities and the effects of hedge accounting on an entity's financial statements.

Specifically, the amended IFRS 7 requires an entity to disclose information for each risk category in a single note (or separate section) in its financial statements on:

- (a) its risk management strategy;
- (b) how its hedging activities might affect the amount, timing and uncertainty of its future cash flows; and
- (c) the effect that hedge accounting has had on its financial statements.



Because the **disclosure requirements in IFRS 7 relating to hedge accounting apply to all entities**, this post-implementation review is relevant for any entity applying hedge accounting under either IFRS 9 or IAS 39.

Expected effects of the hedge accounting disclosure requirements in IFRS 7

The IASB expected that the amended disclosure requirements in IFRS 7 would improve the usefulness of the information provided, specifically:

- (a) by aligning disclosures with risk management activities to provide a clearer, more transparent picture of the purpose, execution, and economic success of hedging strategies, thereby reducing users' reliance on non-GAAP measures; and
- (b) by enabling users to better understand the actual costs of hedging (such as the time value of options, forward elements, and foreign currency basis spreads) by presenting them as costs of obtaining protection rather than as sources of unexplained profit or loss volatility.⁸

The IASB also expected that requiring entities to present the information in a single note (or separate section) in the financial statements would reduce the costs of analysis for users, allowing them to easily locate and compare information across different entities.

In addition, the IASB expected that the amendments to the hedge accounting disclosure requirements in IFRS 7 would require entities to capture more data, leading to both initial and ongoing costs, but that the ongoing costs could be significantly reduced after entities have embedded the data collection for these disclosures directly into their financial reporting systems and processes.

⁸ The IASB considered the costs and benefits of the requirements in IFRS 9 and IFRS 7 on a variety of entities, including both financial and non-financial institutions, and discussed these in paragraphs BCE.174–BCE.238 of the *Basis for Conclusions on IFRS 9*.

Spotlight 2—What we have heard so far on the hedge accounting disclosure requirements in IFRS 7

Users' and other stakeholders' views

Initial feedback from users of financial statements, auditors, standard-setters and securities regulators on the hedge accounting disclosure requirements in IFRS 7 was mixed.

A few users said the amendments to IFRS 7 resulted in entities disclosing more decision-useful information about their risk management activities. However, some users, auditors, standard-setters and a securities regulator said entities' disclosures:

- (a) vary significantly in the level of granularity. The information provided is sometimes too aggregated to be decision-useful for users (for example, some entities present or disclose hedge ineffectiveness together with other expenses);
- (b) are often lengthy and boilerplate rather than concise and informative;
- (c) often lack context. For example: average prices (or rates) of hedging instruments are often disclosed in isolation, providing little decision-useful information unless compared to spot rates or market benchmarks; and
- (d) lack consistency between entities. For example, some entities disclose the changes in the fair value of the hedged item and the hedging instrument for the reporting period while others disclose the accumulated fair value changes.

Some users and auditors also said users would benefit from additional information on:

- (a) entities' rebalancing decisions and the reasons for terminating hedging relationships;
- (b) entities' economic and structural⁹ hedge activities; and
- (c) entities' expectations regarding the duration of hedges and their approach to renewing hedges.

In addition, some users said that while they do not always use the detailed disclosures in their quantitative models (for example, to forecast future earnings or cash flows), they view an entity's application of hedge accounting as an indicator of effective risk management.

continued ...

⁹ By 'structural hedges', these stakeholders mean risk management activities involving balance sheet positions used to reduce exposure to particular financial risks.

... continued

Preparers' views

Many preparers said providing the information required by IFRS 7 can be (unduly) costly and burdensome because:

- (a) IT systems are often not configured to generate the data automatically, making manual calculations necessary; and
- (b) the disclosures are subject to extensive audit procedures, which increase audit fees.

Question 2—Overall assessment of the hedge accounting disclosure requirements in IFRS 7

The IASB wants to understand whether, in your view:

- (a) the hedge accounting disclosure requirements in IFRS 7 meet their objective. If not, please explain why not.
- (b) the overall initial and ongoing costs of applying the requirements in IFRS 7, and auditing and enforcing their application, are largely as the IASB expected. If your view is that the overall costs are significantly greater than expected, or providing the required information requires undue cost or effort, please explain:
 - (i) why (identifying the specific requirement and cost drivers);
 - (ii) how you would propose the IASB reduce these costs; and
 - (iii) how your proposals would affect the benefits of the requirements.
- (c) the overall benefits to users of the information resulting from entities applying the hedge accounting disclosure requirements in IFRS 7 are largely as the IASB expected. Specifically, please explain:
 - (i) which of the disclosures provided are most useful and why;
 - (ii) whether, in your view, the information provided is sufficient to meet the objective of enabling users to understand an entity's hedging activities; and
 - (iii) if the overall benefits of the information are significantly lower than expected, why, and what the IASB could do to improve the usefulness of that information.

The expected costs and benefits of the hedge accounting disclosure requirements in IFRS 7 are set out in paragraphs BCE.174–BCE.238 of the *Basis for Conclusions on IFRS 9*.

Please refer to the '**Guidance for responding to questions**' on page 8.

3. Other matters relevant to this post-implementation review

Stakeholders can also share feedback on other matters relevant to this post-implementation review that are not specifically covered by the further questions in this Request for Information.

Question 3—Other matters relevant to this post-implementation review

Are there any other matters the IASB should examine as part of the post-implementation review of the hedge accounting requirements in IFRS 9 and related disclosure requirements in IFRS 7? If so, please explain why, considering the objective of a post-implementation review as set out on page 6.

Please refer to the ‘**Guidance for responding to questions**’ on page 8.



IFRS[®]

Foundation

Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD, UK

Tel **+44 (0) 20 7246 6410**

Email **customerservices@ifrs.org**

ifrs.org

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