

Amendments to HKAS 39 Financial Instruments – Recognition and Measurement Novation of Derivatives and Continuation of Hedge Accounting

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MAIN FEATURES

- Introduce an exception to the requirements for the discontinuation of hedge accounting in HKAS 39 if specific conditions are met.
- Similar relief will be included in HKFRS 9 Financial Instruments.
- Apply the amendments retrospectively for annual periods beginning on or after 1 January 2014. Early application is permitted.

Background

In June 2013, the International Accounting Standard Board (ISAB) issued amendments to International Accounting Standard 39 Financial Instruments – Recognition and Measurement entitled Novation of Derivatives and Continuation of Hedge Accounting.

Subsequently in July 2013, the Hong Kong Institute of Certified Public Accountant also issued the same amendments so as to maintain the convergence with International Financial Reporting Standards.

What are the amendments?

In accordance with Hong Kong Accounting Standard (“HKAS”) 39, an entity shall discontinue prospectively the hedge accounting if

- (a) the hedging instrument expires or sold, terminated or exercised;
- (b) the hedge no longer meets the criteria for hedging accounting; or
- (c) the entity revokes the designation



In order to respond to the changes in law and regulations in some jurisdictions for over-the-counter (“OTC”) derivatives in which they have been designated as a hedging instruments, the amendments states that the novation of a hedging instrument is not be considered an expiration or termination if the following conditions are meet:

- (a) the novation is required by laws or regulations; **AND**
- (b) the novation results in a central counterparty (“CCP”) or an entity acting in a similar capacity becoming the new counterparty to each of the parties to the novated derivative; **AND**
- (c) the novation does not result in changes to the terms of the original OTC derivatives other than the changes directly attributable to the novation, i.e. the replacement of the counterparty to achieve the clearing.



Alert

- Any changes in the derivative’s fair value arising from the novation should be reflected in the measurement and assessment of hedge effectiveness.
- No reinstatement should be made for the previously discontinued hedge accounting as a result of novation.
- For all other novations outside the scope of the exemption, an entity should assess if they meet the derecognition criteria and the conditions for continuation of hedge accounting.
- No additional disclosure is required in respect of this amendment.

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