
**STATUTORY BOARD
FINANCIAL
REPORTING STANDARD**

SB-FRS

Improvements to SB-FRSs

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Improvements to SB-FRSs

Introduction

This document sets out amendments to Statutory Board Financial Reporting Standards (SB-FRSs) and the related Bases for Conclusions and guidance made in the annual improvements project.

The annual improvements project provides a vehicle for making non-urgent but necessary amendments to SB-FRSs.

The effective date of each amendment is included in the SB-FRS affected.

SB-FRSs addressed

The following table shows the topics addressed by these amendments.

SB-FRS	Subject of amendment
SB-FRS 102 <i>Share-based Payment</i>	Scope of SB-FRS 102 and revised SB-FRS 103
SB-FRS 105 <i>Non-current Assets Held for Sale and Discontinued Operations</i>	Disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations
SB-FRS 108 <i>Operating Segments</i>	Disclosure of information about segment assets
SB-FRS 1 <i>Presentation of Financial Statements</i>	Current/non-current classification of convertible instruments
SB-FRS 7 <i>Statement of Cash Flows</i>	Classification of expenditures on unrecognised assets
SB-FRS 17 <i>Leases</i>	Classification of leases of land and buildings
SB-FRS 18 <i>Revenue</i>	Determining whether an entity is acting as a principal or as an agent
SB-FRS 36 <i>Impairment of Assets</i>	Unit of accounting for goodwill impairment test
SB-FRS 38 <i>Intangible Assets</i>	Additional consequential amendments arising from revised SB-FRS 103
	Measuring the fair value of an intangible asset acquired in a business combination
SB-FRS 39 <i>Financial Instruments: Recognition and Measurement</i>	Treating loan prepayment penalties as closely related embedded derivatives
	Scope exemption for business combination contracts
	Cash flow hedge accounting
INT SB-FRS 109 <i>Reassessment of Embedded Derivatives</i>	Scope of INT SB-FRS 109 and revised SB-FRS 103
INT SB-FRS 116 <i>Hedges of a Net Investment in a Foreign Operation</i>	Amendment to the restriction on the entity that can hold hedging instruments

Amendment to SB-FRS 102 Share-based Payment

Paragraphs 5 and 61 are amended (new text is underlined and deleted text is struck through).

Scope

- 5 As noted in paragraph 2, this SB-FRS ... However, an entity shall not apply this SB-FRS to transactions in which the entity acquires goods as part of the net assets acquired in a business combination ~~to which~~ as defined by SB-FRS 103 *Business Combinations* (as revised in 2009) applies, in a combination of entities or businesses under common control as described in paragraphs B1–B4 of SB-FRS 103, or the contribution of a business on the formation of a joint venture as defined by SB-FRS 31 *Interests in Joint Ventures*. Hence, equity instruments issued ... (and therefore within the scope of this SB-FRS).

Effective date

- 61 SB-FRS 103 (as revised in 2009) and *Improvements to SB-FRSs* issued in June 2009 amended paragraph 5. An entity shall apply those ~~that~~ amendments for annual periods beginning on or after 1 July 2009. Earlier application is permitted. If an entity applies SB-FRS 103 (revised 2009) for an earlier period, the amendments shall also be applied for that earlier period.

Amendment to SB-FRS 105 *Non-current Assets Held for Sale and Discontinued Operations*

Paragraphs 5B and 44E are added.

Scope

5B This SB-FRS specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. Disclosures in other SB-FRSs do not apply to such assets (or disposal groups) unless those SB-FRSs require:

- (a) specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations; or
- (b) disclosures about measurement of assets and liabilities within a disposal group that are not within the scope of the measurement requirement of SB-FRS 105 and such disclosures are not already provided in the other notes to the financial statements.

Additional disclosures about non-current assets (or disposal groups) classified as held for sale or discontinued operations may be necessary to comply with the general requirements of SB-FRS 1, in particular paragraphs 15 and 125 of that Standard.

Effective date

44E Paragraph 5B was added by *Improvements to SB-FRSs* issued in September 2009. An entity shall apply that amendment prospectively for annual periods beginning on or after 1 January 2010. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.

Amendment to SB-FRS 108 *Operating Segments*

Paragraphs 23 and 36 are amended (new text is underlined and deleted text is struck through). Paragraph 35A is added.

Disclosure

Information about profit or loss, assets and liabilities

- 23 An entity shall report a measure of profit or loss ~~and total assets~~ for each reportable segment. An entity shall report a measure of total assets and liabilities for each reportable segment if such an amount ~~is~~ are regularly provided to the chief operating decision maker. An entity shall also disclose the following about each reportable segment if the specified amounts are included in the measure of segment profit or loss reviewed by the chief operating decision maker, or are otherwise regularly provided to the chief operating decision maker, even if not included in that measure of segment profit or loss:
- (a) revenues from external customers;
 - (b) ...

Transition and effective date

- 35A Paragraph 23 was amended by *Improvements to SB-FRSs* issued in September 2009. An entity shall apply that amendment for annual periods beginning on or after 1 January 2010. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.
- 36 Segment information for prior years that is reported as comparative information for the initial year of application (including application of the amendment to paragraph 23 made in September 2009) shall be restated to conform to the requirements of this SB-FRS, unless the necessary information is not available and the cost to develop it would be excessive.

Amendment to SB-FRS 1 *Presentation of Financial Statements*

Paragraph 69 is amended (new text is underlined and deleted text is struck through). Paragraph 139D is added.

Structure and content

Statement of financial position

Current liabilities

69 An entity shall classify a liability as current when:

- (a) it expects to settle the liability in its normal operating cycle;
- (b) it holds the liability primarily for the purpose of trading;
- (c) the liability is due to be settled within twelve months after the reporting period;
or
- (d) ~~the entity it~~ does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period (see paragraph 73). Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

An entity shall classify all other liabilities as non-current.

Transition and effective date

139D Paragraph 69 was amended by *Improvements to SB-FRSs* issued in September 2009. An entity shall apply that amendment for annual periods beginning on or after 1 January 2010. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.

Amendment to SB-FRS 7 *Statement of Cash Flows*

The rubric is amended (new text is underlined and deleted text is struck through).

Statutory Board Financial Reporting Standard 7 *Statement of Cash Flows* (SB-FRS 7) is set out in paragraphs 1–~~55~~56. All the paragraphs have equal authority but retain the format of the Standard when it was adopted. SB-FRS 7 should be read in the context of its objective, the *Preface* ...

Paragraph 16 is amended (new text is underlined) and paragraph 56 is added.

Presentation of a statement of cash flows

Investing activities

16 The separate disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which expenditures have been made for resources intended to generate future income and cash flows. Only expenditures that result in a recognised asset in the statement of financial position are eligible for classification as investing activities. Examples of cash flows arising from investing activities are:

(a) ...

Effective date

56 Paragraph 16 was amended by *Improvements to SB-FRSs* issued in September 2009. An entity shall apply that amendment for annual periods beginning on or after 1 January 2010. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.

Amendment to SB-FRS 17 Leases

Paragraphs 14 and 15 are deleted (new text is underlined and deleted text is struck through). Paragraphs 15A, 68A and 69A are added.

Classification of leases

- 14 ~~[Deleted] Leases of land and of buildings are classified as operating or finance leases in the same way as leases of other assets.~~
- 15 ~~[Deleted] The land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification.~~
- 15A When a lease includes both land and buildings elements, an entity assesses the classification of each element as a finance or an operating lease separately in accordance with paragraphs 7–13. In determining whether the land element is an operating or a finance lease, an important consideration is that land normally has an indefinite economic life.

Transitional provisions

- 68A** An entity shall reassess the classification of land elements of unexpired leases at the date it adopts the amendments referred to in paragraph 69A on the basis of information existing at the inception of those leases. It shall recognise a lease newly classified as a finance lease retrospectively in accordance with SB-FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. However, if an entity does not have the information necessary to apply the amendments retrospectively, it shall:
- (a) apply the amendments to those leases on the basis of the facts and circumstances existing on the date it adopts the amendments; and
 - (b) recognise the asset and liability related to a land lease newly classified as a finance lease at their fair values on that date; any difference between those fair values is recognised in retained earnings.

Effective date

- 69A** Paragraphs 14 and 15 were deleted, and paragraphs 15A and 68A were added as part of *Improvements to SB-FRSs* issued in September 2009. An entity shall apply those amendments for annual periods beginning on or after 1 January 2010. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact.

Amendment to Appendix to SB-FRS 18 *Revenue*

After example 20, a heading and example 21 are added.

Recognition and measurement

21 *Determining whether an entity is acting as a principal or as an agent (2009 amendment).*

Paragraph 8 states that 'in an agency relationship, the gross inflows of economic benefits include amounts collected on behalf of the principal and which do not result in increases in equity for the entity. The amounts collected on behalf of the principal are not revenue. Instead, revenue is the amount of commission.' Determining whether an entity is acting as a principal or as an agent requires judgement and consideration of all relevant facts and circumstances.

An entity is acting as a principal when it has exposure to the significant risks and rewards associated with the sale of goods or the rendering of services. Features that indicate that an entity is acting as a principal include:

- (a) the entity has the primary responsibility for providing the goods or services to the customer or for fulfilling the order, for example by being responsible for the acceptability of the products or services ordered or purchased by the customer;
- (b) the entity has inventory risk before or after the customer order, during shipping or on return;
- (c) the entity has latitude in establishing prices, either directly or indirectly, for example by providing additional goods or services; and
- (d) the entity bears the customer's credit risk for the amount receivable from the customer.

An entity is acting as an agent when it does not have exposure to the significant risks and rewards associated with the sale of goods or the rendering of services. One feature indicating that an entity is acting as an agent is that the amount the entity earns is predetermined, being either a fixed fee per transaction or a stated percentage of the amount billed to the customer.

Amendment to SB-FRS 36 *Impairment of Assets*

Paragraph 80 is amended (new text is underlined and deleted text is struck through) and paragraph 140E is added.

Cash-generating units and goodwill

Recoverable amount and carrying amount of a cash-generating unit

Goodwill

Allocating goodwill to cash-generating units

- 80 For the purpose of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated shall:
- (a) represent the lowest level within the entity at which the goodwill is monitored for internal management purposes; and
 - (b) not be larger than an operating segment ~~determined in accordance with~~ as defined by paragraph 5 of SB-FRS 108 *Operating Segments* before aggregation.

Transitional provisions and effective date

- 140E *Improvements to SB-FRSs* issued in September 2009 amended paragraph 80(b). An entity shall apply that amendment prospectively for annual periods beginning on or after 1 January 2010. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.

Amendment to SB-FRS 38 *Intangible Assets*

Paragraphs 36, 37, 40, 41 and 130C are amended (new text is underlined and deleted text is struck through) and paragraph 130E is added.

Recognition and measurement

Acquisition as part of a business combination

Measuring the fair value of an intangible asset acquired in a business combination

- 36 An intangible asset acquired in a business combination might be separable, but only together with a related ~~contract, identifiable tangible or intangible asset or liability~~. ~~For example, a magazine's publishing title might not be able to be sold separately from a related subscriber database, or a trademark for natural spring water might relate to a particular spring and could not be sold separately from the spring.~~ In such cases, the acquirer recognises the intangible group of assets as a single asset separately from goodwill if the individual fair values of the assets in the group are not reliably measurable, but together with the related item.
- 37 Similarly, the terms 'brand' and 'brand name' are often used as synonyms for trademarks and other marks. ~~However, the former are general marketing terms that are typically used to refer to a group of complementary assets such as a trademark (or service mark) and its related trade name, formulas, recipes and technological expertise.~~ The acquirer may recognise a group of complementary intangible assets as a single asset ~~a group of complementary intangible assets comprising a brand~~ if the individual fair values of the complementary assets are not reliably measurable. ~~If the individual fair values of the complementary assets are reliably measurable, an acquirer may recognise them as a single asset provided the individual assets in the group have similar useful lives.~~ For example, the terms 'brand' and 'brand name' are often used as synonyms for trademarks and other marks. However, the former are general marketing terms that are typically used to refer to a group of complementary assets such as a trademark (or service mark) and its related trade name, formulas, recipes and technological expertise.
- 40 If no active market exists for an intangible asset, its fair value is the amount that the entity would have paid for the asset, at the acquisition date, in an arm's length transaction between knowledgeable and willing parties, on the basis of the best information available. In determining this amount, an entity considers the outcome of recent transactions for similar assets. For example, an entity may apply multiples reflecting current market transactions to factors that drive the profitability of the asset (such as revenue, operating profit or earnings before interest, tax, depreciation and amortisation).
- 41 Entities that are ~~regularly~~ involved in the purchase and sale of ~~unique~~ intangible assets may have developed techniques for estimating their fair values indirectly. These techniques may be used for initial measurement of an intangible asset acquired in a business combination if their objective is to estimate fair value and if they reflect current transactions and practices in the industry to which the asset belongs. These techniques include, for example when appropriate:
- (a) discounting estimated future net cash flows from the asset; or
 - (a)(b) applying multiples reflecting current market transactions to indicators that drive the profitability of the asset (such as revenue, market shares and operating profit) or to the royalty stream that could be obtained from licensing the intangible asset to estimating the costs the entity avoids by owning the intangible asset and not needing:
 - (i) to license it from another party in an arm's length transaction (as in the 'relief

from royalty' approach, using discounted net cash flows); or

(ii) to recreate or replace it (as in the cost approach); or

~~(b) discounting estimated future net cash flows from the~~

Transitional provisions and effective date

- 130C SB-FRS 103 (as revised in 2009) amended paragraphs 12, 33–35, 68, 69, 94 and 130, deleted paragraphs 38 and 129 and added paragraph 115A. Improvements to SB-FRSs issued in June 2009 amended paragraphs 36 and 37. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 July 2009. Therefore, amounts recognised for intangible assets and goodwill in prior business combinations shall not be adjusted. If an entity applies SB-FRS 103 (revised 2009) for an earlier period, it shall apply the amendments shall also be applied for that earlier period and disclose that fact.
- 130E *Improvements to SB-FRSs* issued in September2009 amended paragraphs 40 and 41. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 July 2009. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact.

Amendment to SB-FRS 39 *Financial Instruments: Recognition and Measurement*

Paragraphs 2(g), 80, 97, 100 and 108C are amended (new text is underlined and deleted text is struck through) and paragraph 103K is added.

Scope

2 This Standard shall be applied by all entities to all types of financial instruments except:

(a) ...

(g) any forward contracts between an acquirer and a vendor in a business combination selling shareholder to buy or sell an acquiree that will result in a business combination at a future acquisition date. The term of the forward contract should not exceed a reasonable period normally necessary to obtain any required approvals and to complete the transaction.

(h) ...

Hedging

Hedged items

Qualifying items

80 For hedge accounting purposes, only assets, liabilities, firm commitments or highly probable forecast transactions that involve a party external to the entity can be designated as hedged items. It follows that hedge accounting can be applied to transactions between entities or segments in the same group only in the individual or separate financial statements of those entities or segments and not in the consolidated financial statements of the group. As an exception ...

Hedge accounting

Cash flow hedges

97 If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognised in other comprehensive income in accordance with paragraph 95 shall be reclassified from equity to profit or loss as a reclassification adjustment (see SB-FRS 1) in the same period or periods during which the hedged forecast cash flows asset acquired or liability assumed affects profit or loss (such as in the periods that interest income or interest expense is recognised). However, if an entity expects that all or a portion of a loss recognised in other comprehensive income will not be recovered in one or more future periods, it shall reclassify into profit or loss as a reclassification adjustment the amount that is not expected to be recovered.

100 For cash flow hedges other than those covered by paragraphs 97 and 98, amounts that had been recognised in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment (see SB-FRS 1) in the same period or periods during which the hedged forecast cash flows transaction affects profit or loss (for example, when a forecast sale occurs).

Effective date and transition

- 103K *Improvements to SB-FRSs* issued in September 2009 amended paragraphs 2(g), 97, 100 and AG30(g). An entity shall apply the amendments to paragraphs 2(g), 97 and 100 prospectively to all unexpired contracts for annual periods beginning on or after 1 January 2010. An entity shall apply the amendment to paragraph AG30(g) for annual periods beginning on or after 1 January 2010. Earlier application is permitted. If an entity applies the amendment for an earlier period it shall disclose that fact.
- 108C Paragraphs 9, 73 and AG8 were amended and paragraph 50A added by *Improvements to SB-FRSs* issued in January 2009. Paragraph 80 was amended by *Improvements to SB-FRSs* issued in September 2009. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. An entity shall apply the amendments in paragraphs 9 and 50A as of the date and in the manner it applied the amendments described in paragraph 105A. Earlier application of all the amendments is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact.

Amendment to application guidance on SB-FRS 39 *Financial Instruments: Recognition and Measurement*

Paragraph AG30(g) is amended (new text is underlined and deleted text is struck through).

Embedded derivatives (paragraphs 10–13)

AG30 The economic characteristics and risks of an embedded derivative are not closely related to the host contract (paragraph 11(a)) in the following examples. In these examples, assuming the conditions in paragraph 11(b) and (c) are met, an entity accounts for the embedded derivative separately from the host contract.

...

(g) A call, put, or prepayment option embedded in a host debt contract or host insurance contract is not closely related to the host contract unless:

(i) the option's exercise price is approximately equal on each exercise date to the amortised cost of the host debt instrument or the carrying amount of the host insurance contract; ~~or~~

(ii) the exercise price of a prepayment option reimburses the lender for an amount up to the approximate present value of lost interest for the remaining term of the host contract. Lost interest is the product of the principal amount prepaid multiplied by the interest rate differential. The interest rate differential is the excess of the effective interest rate of the host contract over the effective interest rate the entity would receive at the prepayment date if it reinvested the principal amount prepaid in a similar contract for the remaining term of the host contract.

~~From the perspective of the issuer of a convertible debt instrument with an embedded call or put option feature, †~~The assessment of whether the call or put option is closely related to the host debt contract is made before separating the equity element of a convertible debt instrument in accordance with ~~under~~ SB-FRS 32.

(h) ...

Amendment to guidance on implementing SB-FRS 39 *Financial Instruments: Recognition and Measurement*

The answer to Question F.6.2 is amended (new text is underlined and deleted text is struck through).

F.6.2 Hedge accounting considerations when interest rate risk is managed on a net basis

Issue (j) – For cash flow hedges, if a derivative is used to manage a net exposure to interest rate risk and the derivative is designated as a cash flow hedge of forecast interest cash flows or portions of them on a gross basis, does the occurrence of the hedged forecast transaction give rise to an asset or liability that will result in a portion of the hedging gains and losses that were recognised in other comprehensive income remaining in equity?

No. In the hedging relationship described in Issue (c) above, the hedged item is a group of forecast transactions consisting of interest cash flows in specified future periods. The hedged forecast transactions do not result in the recognition of assets or liabilities and the effect of interest rate changes that are designated as being hedged is recognised in profit or loss in the period in which the forecast transactions occur. Although this is not relevant for the types of hedges described here, if instead the derivative is designated as a hedge of a forecast purchase of a financial asset or issue of a financial liability, the associated gains or losses that were recognised in other comprehensive income are reclassified from equity to profit or loss in the same period or periods during which the ~~asset acquired or liability incurred~~ hedged forecast cash flows affects profit or loss (such as in the periods that interest expenses are recognised). However, if an entity expects at any time that all or a portion of a loss recognised in other comprehensive income will not be recovered in one or more future periods, it shall reclassify immediately from equity to profit or loss the amount that is not expected to be recovered.

Amendment to INT SB-FRS 109 *Reassessment of Embedded Derivatives*

In the rubric, 'paragraphs 1–9' is amended to 'paragraphs 1–11'.

Paragraph 5 is amended (new text is underlined and deleted text is struck through) and paragraph 11 is added.

Scope

- 5 This interpretation does not ~~address the acquisition of contracts with embedded derivatives in~~ apply to embedded derivatives in contracts acquired in:
- (a) a business combination (as defined in SB-FRS 103 *Business Combinations* (as revised in 2009));
 - (b) a combination of entities or businesses under common control as described in paragraphs B1–B4 of SB-FRS 103 (revised 2009); or
 - (c) the formation of a joint venture as defined in SB-FRS 31 *Interests in Joint Ventures*
- nor their possible reassessment at the date of acquisition.*

Effective date and transition

- 11 Paragraph 5 was amended by *Improvements to SB-FRSs* issued in September 2009. An entity shall apply that amendment prospectively for annual periods beginning on or after 1 July 2009. If an entity applies SB-FRS 103 (as revised in 2009) for an earlier period, it shall apply the amendment for that earlier period and disclose that fact.

* SB-FRS 103 (as revised in 2009) addresses the acquisition of contracts with embedded derivatives in a business combination.

Amendment to the Basis for Conclusions on INT SB-FRS 109 *Reassessment of Embedded Derivatives*

Paragraphs BC5A-BC5D are added.

Introduction

- BC5A In 2009 it was observed that the changes to the definition of a business combination in the revisions to SB-FRS 103 *Business Combinations* (as revised in 2009) caused the accounting for the formation of a joint venture by the venturer to be within the scope of INT SB-FRS 109. Similarly, it was noted that common control transactions might raise the same issue depending on which level of the group reporting entity is assessing the combination.
- BC5B It was observed that during the development of the revised SB-FRS 103, it was not discussed whether it was intended for INT SB-FRS 109 to apply to those types of transactions. It was not intended to change existing practice by including such transactions within the scope of INT SB-FRS 109. Accordingly, in *Improvements to SB-FRSs* issued in September 2009, paragraph 5 of INT SB-FRS 109 was amended to clarify that INT SB-FRS 109 does not apply to embedded derivatives in contracts acquired in a combination between entities or businesses under common control or the formation of a joint venture.
- BC5C Some respondents to the exposure draft *Post-implementation Revisions to Interpretations* issued in January 2009 expressed the view that investments in associates should also be excluded from the scope of INT SB-FRS 109. Respondents noted that paragraphs 20–23 of SB-FRS 28 *Investments in Associates* state that the concepts underlying the procedures used in accounting for the acquisition of a subsidiary are also adopted in accounting for the acquisition of an investment in an associate.
- BC5D In the redeliberations, the previous decision was confirmed that no scope exemption in INT SB-FRS 109 was needed for investments in associates. However, in response to the comments received, it was noted that reassessment of embedded derivatives in contracts held by an associate is not required by INT SB-FRS 109 in any event. The investment in the associate is the asset the investor controls and recognises, not the underlying assets and liabilities of the associate.

Amendment to Interpretation 116 *Hedges of a Net Investment in a Foreign Operation*

Paragraphs 14 and 18 are amended (new text is underlined and deleted text is struck through).

Consensus

Where the hedging instrument can be held

- 14 A derivative or a non-derivative instrument (or a combination of derivative and non-derivative instruments) may be designated as a hedging instrument in a hedge of a net investment in a foreign operation. The hedging instrument(s) may be held by any entity or entities within the group ~~(except the foreign operation that itself is being hedged)~~, as long as the designation, documentation and effectiveness requirements of SB-FRS 39 paragraph 88 that relate to a net investment hedge are satisfied. In particular, the hedging strategy of the group should be clearly documented because of the possibility of different designations at different levels of the group.

Effective date

- 18 An entity shall apply this Interpretation for annual periods beginning on or after 1 October 2008. An entity shall apply the amendment to paragraph 14 made by *Improvements to SB-FRSs* issued in September 2009 for annual periods beginning on or after 1 July 2009. Earlier application of both is permitted. If an entity applies this Interpretation for a period beginning before 1 October 2008, or the amendment to paragraph 14 before 1 July 2009, it shall disclose that fact.

Amendment to Basis for Conclusions on Interpretation 116 *Hedges of a Net Investment in a Foreign Operation*

Paragraph BC24 is deleted (new text is underlined and deleted text is struck through). A footnote, paragraphs BC24A–BC24D, a heading and paragraph BC40A are added.

Consensus

Hedging instrument

Location of the hedging instrument (paragraph 14) and assessment of hedge effectiveness (paragraph 15)

BC24 ~~The INT SB-FRS concluded that the foreign operation being hedged could not hold the hedging instrument because that instrument would be part of, and denominated in the same currency as, the net investment it was intended to hedge. In this circumstance, hedge accounting is unnecessary. The foreign exchange differences between the parent's functional currency and both the hedging instrument and the functional currency of the net investment will automatically be included in the group's foreign currency translation reserve as part of the consolidation process. The balance of the discussion in this Basis for Conclusions does not repeat this restriction. *~~

* Paragraph BC24 was deleted and paragraphs BC24A–BC24D and paragraph BC40A added as a consequence of *Improvements to SB-FRSs* issued in September2009.

BC24A Paragraph 14 of INT SB-FRS 116 originally stated that the hedging instrument could not be held by the foreign operation whose net investment was being hedged. The restriction was included in draft Interpretation D22 (from which INT SB-FRS 116 was developed) and attracted little comment from respondents. As originally explained in paragraph BC24, it was concluded, as part of the redeliberations, that the restriction was appropriate because the foreign exchange differences between the parent's functional currency and both the hedging instrument and the functional currency of the net investment would automatically be included in the group's foreign currency translation reserve as part of the consolidation process.

BC24B After INT SB-FRS 116 was issued, it was brought to the attention that this conclusion was not correct. Without hedge accounting, part of the foreign exchange difference arising from the hedging instrument would be included in consolidated profit or loss. Therefore, in *Improvements to SB-FRSs* issued in September2009, paragraph 14 of INT SB-FRS 116 was amended to remove the restriction on the entity that can hold hedging instruments and paragraph BC24 was deleted.

BC24C Some respondents to the exposure draft *Post-implementation Revisions to Interpretations* (ED/2009/1) agreed that a parent entity should be able to use a derivative held by the foreign operation being hedged as a hedge of the net investment in that foreign operation. However, those respondents recommended that the amendment should apply only to derivative instruments held by the foreign operation being hedged. They asserted that a non-derivative financial instrument would be an effective hedge of the net investment only if it were issued by the foreign operation in its own functional currency and this would have no foreign currency impact on the profit or loss of the consolidated group. Consequently, they thought that the rationale described in paragraph BC24B to support the amendment did not apply to non-derivative instruments.

BC24D In the redeliberations, the previous decision was confirmed that the amendment should not be restricted to derivative instruments. It was noted that paragraphs AG13–AG15 of INT SB-FRS

116 illustrate that a non-derivative instrument held by the foreign operation does not need to be considered to be part of the parent's net investment. As a result, even if it is denominated in the foreign operation's functional currency a non-derivative instrument could still affect the profit or loss of the consolidated group. Consequently, although it could be argued that the amendment was not required to permit non-derivative instruments to be designated as hedges, it was decided that the proposal should not be changed.

Effective date of amended paragraph 14

BC40A Paragraph 14 was amended in September2009. It was proposed that the amendment should be effective for annual periods beginning on or after 1 October 2008, at the same time as INT SB-FRS 116. Respondents to the exposure draft were concerned that permitting application before the amendment was issued might imply that an entity could designate hedge relationships retrospectively, contrary to the requirements of SB-FRS 39. Consequently, it was decided that an entity should apply the amendment to paragraph 14 made in June 2009 for annual periods beginning on or after 1 July 2009. It was also decided to permit early application but noted that early application is possible only if the designation, documentation and effectiveness requirements of paragraph 88 of SB-FRS 39 and of INT SB-FRS 116 are satisfied at the application date.