Project	**Financial Instruments: Hedge Accounting**
Topic	**Hedge accounting: the 'own use' scope exception**

Introduction

Background

1. In the exposure draft *Hedge Accounting* (the ED), the Board proposed a change to the accounting for a contract to buy or sell a non-financial item that can be settled net in cash. Question 14 of the ED's invitation to comment relates to this issue.

2. The purpose of this paper is to ask the Board whether it wants to retain the proposal in the ED or adopt another alternative instead.

3. The staff recommend that instead of finalising the proposal in the ED, the Board extends the fair value option (FVO) in IFRS 9 *Financial Instruments* to those contracts that meet the 'own use' scope exception if it eliminates or significantly reduces an accounting mismatch.

Proposal in the ED

4. The ED addresses the accounting for a contract to buy or sell a non-financial item that can be settled net in cash in paragraphs IN43, IN44 and appendix C of the ED. Paragraphs BC209-BC218 of the Basis for Conclusions (the BC) provide the rationale for the proposals.

Proposed change

5. The ED proposes that derivative accounting shall apply to contracts to buy or sell a non-financial item that can be settled net in cash that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements (ie 'own use' contracts) if it is in accordance with the entity's fair value-based risk management strategy and the entity manages the net risk position to nil or close to nil.

Rationale for the proposal

6. The proposal aims to address the accounting mismatch that arises when an entity enters into derivative contracts to hedge changes in the fair value exposure arising from contracts that meet the 'own use' scope exception in IAS 39 *Financial Instruments: Recognition and Measurement*. The Board considered the proposed change as the most efficient solution to address this issue. Entities that employ a fair value based risk management strategy often manage their net risk exposure in a dynamic way. Therefore, the Board considers that the proposal is less onerous for entities than applying hedge accounting.

7. The Board believes that this approach, which combines the purpose for an 'own use' contract with how they are managed, better reflects the contract's effect on the entity's financial performance and provides more useful information.

Feedback from comment letters and outreach activities

8. The comment letter feedback shows support for the Board's effort to improve financial reporting and further align the accounting with the risk management activities of entities. Most support the Board's move to practically resolve the accounting mismatch that arises where a commodity contract that is outside the scope of IAS 39 is hedged with a derivative. Those who support the proposal think that it would facilitate a better presentation of the overall economic effects

of entering into such hedging transactions. Some respondents noted that the application of the proposal would be limited in terms of the number of entities to which it would apply.

9. However, some respondents have significant concerns with the proposal. These respondents are concerned that the proposal would have the unintended consequence of *creating* an accounting mismatch for some entities. They noted that in scenarios where there are other items that are managed within a fair value based risk management strategy and those other items are *not* measured at fair value under IFRSs, applying derivative accounting to 'own use' contracts would introduce (rather than eliminate) an accounting mismatch.

10. Other respondents would like the Board to consider derivative accounting also be made available for 'own use' contracts where the net risk position is not managed to nil or close to nil (ie net open positions).

11. The main issues the respondents suggested to be addressed by the redeliberations are:

    a) **Permit an accounting election:** the Board was asked to consider providing an option for derivative accounting for 'own use' contracts rather than to mandate derivative accounting for those contracts that meet particular conditions (ie risk-managed on a fair value basis and the net risk position is managed to nil or close to nil).

    b) **Clarification regarding a nil or close to nil net risk position:** the Board was asked to clarify whether a nil or close to nil net risk position is a condition for derivative accounting.

    c) **Clarification regarding 'business model':** the Board was asked to clarify whether the proposal requires that a fair value based risk management strategy be adopted at an entity level or whether the business model can be assessed at a level lower than the entity level.

12. The outreach feedback was consistent with the comment letter feedback.

Staff analysis of the feedback

Permit an accounting election

13. Many respondents while supportive of the Board's direction to further align the accounting with entities' risk management strategies strongly suggest that the Board finalises the proposal as an accounting election.

14. These respondents believe that it is necessary that the derivative accounting treatment for 'own use' contracts is an option. They noted that mandatory fair value accounting for 'own use' contracts risk-managed on a fair value basis could lead to an accounting mismatch resulting in profit or loss volatility in some situations. They noted that in some instances the 'own use' contracts are risk-managed together on a fair value basis with assets that are not in the scope of IAS 39 and not measured at fair value.

15. An example was raised where in the electricity industry, it is common practice to risk-manage a power plant and the related electricity sales on a fair value basis. They noted that derivative accounting of the customer sales contracts would create an accounting mismatch that results in artificial profit or loss volatility as the power plant is measured at cost under IAS 16 *Property, Plant and Equipment.*

16. Another example raised by respondents is where an entity risk-manages the 'own use' contracts, inventory and derivatives on a fair value basis. An accounting mismatch would arise if the inventory is measured in accordance with IAS 2 *Inventories*[1] at the lower of cost and net realisable value while the 'own use' contracts are measured at fair value.

17. Respondents who think that derivative accounting for 'own use' contracts should not be mandatory suggest the Board considers extending the option to designate a financial asset at fair value through profit or loss (FVO) in IFRS 9 *Financial*

[1] The measurement of commodity inventories is scoped out of IAS 2 in certain circumstances (see IAS 2.3). When the inventory is scoped out of IAS 2, applying derivative accounting to 'own use' contracts would not create an accounting mismatch.

Instruments[2] to contracts that meet the 'own use' scope exception. Some respondents also commented that since hedge accounting is optional the requirement for derivative accounting should also be optional and not mandatory.

18. These respondents suggest that the Board could introduce safeguards to prevent inappropriate use of this option by introducing the same conditions as the FVO in IFRS 9 for financial assets, ie the option to apply derivative accounting would only be available if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

19. The staff note that this would differ from US generally accepted accounting principles (GAAP) where 'own use' contracts are accounted for as derivatives unless the entity makes an irrevocable election to apply the 'own use' scope exception (ie an irrevocable but *unrestricted* choice).

Clarification regarding a nil or close to nil net risk position

20. Some respondents have asked the Board to clarify whether a nil or close to nil net risk position is a condition for derivative accounting. The staff note that a nil or close to nil net risk position *is* a condition for derivative accounting if the Board retains the proposal in the ED (ie if derivative accounting is mandatory for 'own use' contracts).

21. Some respondents requested that the Board remove this condition. They noted that if this condition is not removed the benefits of this proposal will be exceptionally limited. Respondents noted that some entities while generally seeking to maintain a net risk position close to nil, may from time to time take an open position depending on market conditions. These respondents noted that from an entity's perspective whether it takes a position or manages it exposure close to nil, it is still employing a fair value based risk management strategy and that the financial statements should reflect the nature of its risk management

[2] IFRS 9.4.1.5, B4.1.29-B4.1.32.

activities. Hence they felt that it was inappropriate to restrict derivative accounting for 'own use' contracts to situations when the net risk position is not managed to nil or close to nil.

22. Respondents also commented that an issue could arise in interpreting whether an entity manages to a nil net risk position. Respondents noted that some items within an entity's fair value based risk management strategy may not be assets or liabilities defined under IFRSs (eg forecast transactions). Hence, if the restriction were retained respondents would like the Board to clarify whether items that may not be recognised assets or liabilities under IFRSs would also be included in the assessment of whether an entity manages to a net nil zero position. The staff note that if an entity enters into derivatives to hedge future forecast transactions, the entity is hedging future variability in cash flows and not fair value ie future forecast transactions are not subject to fair value risk. The proposal only applies to entities that risk-manage on a fair value basis.

Clarification regarding the 'business model'

23. Some respondents have requested the Board to clarify whether the proposal requires that a fair value based risk management strategy is adopted at an entity level or whether the business model can be assessed at a level lower than the entity level. These respondents commented that within an entity, a part of the business may be risk-managed on a fair value basis while other businesses within the entity may be managed differently.

24. The staff note that the Board could clarify that an entity assesses its risk management strategy based on the business as determined by the entity's key management personnel. The staff note that the Board could acknowledge that a single entity may have more than one business and therefore the risk management strategy need not be determined at the reporting entity level.

Alternatives and staff analysis

25. The staff considers that the Board has the following alternatives in finalising the proposals:

    a) alternative 1—essentially retain the proposal in the ED;

    b) alternative 2—extend the FVO in IFRS 9 for financial assets to contracts that meet the ‘own use’ scope exception;

    c) alternative 3—provide an elective ‘own use scope’ exception; or

    d) alternative 4—retain current IAS 39 and reconsider this issue when the Board comprehensively addresses the scope of IAS 39 (and hence IFRS 9).

Alternative 1

26. Alternative 1 is to essentially retain the proposal in the ED and include clarifications on the business model and the ‘nil or close to nil net position’ criteria. The staff note that alternative 1 would provide a better presentation of the overall economic effects of hedging such transactions for some entities *but* that it could give rise to an accounting mismatch for others.

27. The staff further note that there are also some entities that manage the ‘own use’ contracts on a fair value basis but do not maintain a position of nil or close to nil and hence derivative accounting would not be available.

28. Based on the feedback received the staff do not consider alternative 1 a sufficient solution to address the accounting mismatch of ‘own use’ contracts. The staff note that while alternative 1 provides a better reflection of the effects of risk management activities for a limited number of entities (because the proposal mandates derivative accounting) it could have *unintended consequences* for a number of other entities.

Alternative 2

29. Alternative 2 would be to extend to contracts that meet the 'own use' scope exception the FVO in IFRS 9 *in situations in which it eliminates or significantly reduces an accounting mismatch* that would otherwise arise from measuring assets or liabilities and recognising the gains and losses on them on different bases. This was suggested by respondents (see paragraph 17).

30. An advantage of alternative 2 is that it would avoid the unintended consequences creating an accounting mismatch for some entities as discussed in paragraphs 14 to 16.

31. For entities with a fair value based risk management strategy that relates to an open net position (ie not close to nil), extending the fair value option in IFRS 9 for financial assets to contracts that meet the 'own use' scope exception would provide a better depiction of their risk management strategies and is in line with the objective of the hedge accounting project. Because alternative 2 is an option (albeit *conditional*), it prevents the accounting mismatch that could arise for entities that manage their risk on a fair value basis but where other items in the group are not accounted for at fair value under IFRSs.

32. Alternative 2 would provide an efficient solution for entities that dynamically risk-manage their exposure on a fair value risk basis and be less onerous than applying hedge accounting.

33. A disadvantage of alternative 2 is the added complexity. IAS 39 uses a design that scopes out 'own use' contracts as an exception, alternative 2 would then introduce a conditional option to that exception to scope into IAS 39 again the 'own use' contracts. In other words, alternative 2 would be a conditional option/exception on an already existing exception. Hence, it increases the difficulty of navigating through the current IAS 39 requirements and might cause confusion.

Alternative 3

34. Alternative 3 is to provide an election for derivative accounting for contracts to buy or sell non-financial items that can be settled net in cash. To provide safeguards for possible abuse of this election the Board could require that this election be irrevocable.

35. The staff note that alternative 3 is essentially an irrevocable free choice for entities to determine whether contracts for non-financial items would be accounted for as a derivative or as an executory contract. The staff note that alternative 3 would be similar to the accounting treatment in US GAAP where once the entity had elected to apply the scope exception it would not be able to change its election and switch to derivative accounting.

36. The advantage of alternative 3 is simplicity. The staff note that the current requirement in IAS 39 for contracts to buy or sell non-financial items is already complex and introducing an additional option makes the requirements cumbersome and difficult to understand (see paragraph 33). Alternative 3 eliminates this complexity.

37. The staff note that alternative 3 as a free choice (albeit irrevocable) would fundamentally change the architecture of the 'own use' scope exception and hence could affect other areas of IAS 39 beyond hedge accounting.

Alternative 4

38. Alternative 4 is to finalise hedge accounting requirements without any change to the 'own use' scope exception in IAS 39. The Board could reconsider this issue when it comprehensively addresses the scope of IAS 39.

39. An advantage of this approach is that the current requirements for contracts to buy or sell non-financial items that can be settled net in cash can be addressed in a more comprehensive manner and the implications considered more fully.

40. A disadvantage of this approach would be that the accounting mismatch that could arise where entities that risk-manage on a fair value basis cannot be addressed in a timely manner.

Staff recommendation and question

41. The staff recommend alternative 2 because:

    a) it is consistent with the Board's intent to more faithfully represent the financial position and performance of entities that risk-manage an entire business on a fair value basis and the objective of the hedge accounting project;

    b) it provides operational relief for entities that risk-manage an entire business on a dynamic fair value basis (less onerous than applying hedge accounting); and

    c) it does not have the unintended consequence of creating an accounting mismatch in some situations.

Question
Does the Board agree with the staff recommendation to adopt alternative 2 ie to extend to contracts that meet the 'own use' scope exception the FVO in IFRS 9 if it eliminates or significantly reduces an accounting mismatch? If the Board does not agree, which alternative does the Board prefer and why?

Appendix A

A1. This appendix provides extracts of the ED, the BC, and IFRS 9.4.1.5, B4.1.29-B4.1.32.

A2. Extracts of the ED (paragraphs IN43-IN44 and appendix C):

Accounting for a contract for a non-financial item that can be settled net in cash as a derivative (Appendix C and paragraphs BC209–BC218)

IN43 The exposure draft proposes that if it is in accordance with the entity's fair value-based risk management strategy derivative accounting shall apply to contracts that can be settled net in cash that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements.

IN44 The Board believes that hedge accounting does not necessarily provide appropriate accounting for hedging relationships that include commodity contracts. Consequently, the Board proposes to amend the scope of IAS 39 to allow a commodity contract to be accounted for as a derivative in appropriate circumstances. The Board believes that this approach combines the purpose for a contract that can be settled net to buy or sell non-financial items (normally commodities) that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements and also how they are managed. This better reflects the contract's effect on the entity's financial performance and provides more useful information.

Appendix C
[Draft] Amendments to other IFRSs

The amendments [outlined] in this [draft] appendix shall be applied for annual periods beginning on or after January 2013. If an entity applies the [draft] amendments for an earlier period, it shall apply the amendments in this [draft] appendix for that earlier period.

Standard	Description of amendment
• IAS 32 *Financial Instruments: Presentation*	• Amend paragraph 8 of the scope of IAS 32. The amendment would change the scope for a contract that was entered into and continues to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements. An entity would account for such a contract as a derivative financial instrument if that accounting is in accordance with the entity's underlying business model and how the contracts are managed. That would be the case for a fair value-based risk management strategy, ie the entire business is managed on a fair value basis and the net exposure is maintained close to nil.
• IAS 39 *Financial Instruments: Recognition and Measurement*	• Retain the hedge requirements in IAS 39 for fair value hedge accounting for a portfolio hedge of interest rate risk. • Amend paragraph 5 of the scope of IAS 39. This would be similar to the amendment proposed for paragraph 8 of IAS 32.

A3. Extracts of the BC (paragraphs BC209 to BC218):

Accounting for a contract for a non-financial item as a derivative

BC209 Contracts accounted for in accordance with IAS 39 include those contracts to buy or sell a non-financial item that can be settled net in cash (including net settlement in another financial instrument by exchanging financial instruments), as if the contracts were financial instruments. In addition, IAS 39 specifies that there are various ways in which a contract to buy or sell a non-financial item can be settled net in cash. For example, a contract is considered to be settled net in cash even if it is not explicit in the terms of the contract, but the entity has a practice of settling similar contracts net in cash.

BC210 However, such contracts are excluded from the scope of IAS 39 if they were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements. This is commonly referred to as the 'own use' scope exception of IAS 39. The 'own use' scope exception in IAS 39 mostly applies to contracts for commodity purchases or sales.

BC211 It is not uncommon for a commodity contract to be within the scope of IAS 39 and meet the definition of a derivative. Many commodity contracts meet criteria for net settlement in cash because in many instances commodities are readily convertible to cash. When such a contract is accounted for as a derivative, it is measured at fair value with changes in the fair value recognised in profit or loss. If an entity enters into a derivative to hedge the change in the fair value of the commodity contract, that derivative will also be measured at fair value with changes in fair value recognised in profit or loss. Because the changes in the fair value of the commodity contract and the derivative are recognised in profit or loss, an entity does not need hedge accounting.

BC212 However, in situations where a commodity contract is not within the scope of IAS 39, it is accounted for as a normal sales or purchase contract (executory contract). Consequently, if an entity enters into a derivative contract to hedge changes in the fair value or cash flow exposures arising from a commodity supply contract that is not within the scope of IAS 39, it creates an accounting mismatch. This is because the change in the fair value of the derivative is recognised in profit or loss while the change in the fair value of the commodity supply contract is not recognised (unless the contract is onerous).

BC213 To eliminate the accounting mismatch, an entity could apply hedge accounting. It could designate the commodity supply contracts (which meet the definition of a firm commitment) as a hedged item in a fair value hedge relationship. Consequently, the commodity supply contracts would be measured at fair value and the changes would offset the changes in fair value of the derivative instruments (to the extent that they are effective). However, hedge accounting in these circumstances is administratively burdensome and often produces a less meaningful result than fair value accounting. Furthermore, entities enter into large volumes of commodity contracts, and within the large volume of contracts some positions may offset each other. An entity would therefore typically hedge on a net basis. Moreover, in many business models, this net position also includes physical long positions such as commodity inventory. The net position is typically monitored, managed and adjusted daily. Because of the frequent movement of the net position and therefore the frequent adjustment of the net position to nil or close to nil, an entity would have to adjust the fair value hedge relationship frequently if the entity were to apply hedge accounting.

BC214 The Board noted that in such situations hedge accounting is not an efficient solution because entities manage a net position of derivatives, executory contracts and physical long positions in a dynamic way. Hence, the Board considered amending the scope of IAS 39 so that it would allow a commodity contract to be accounted for as a derivative in such situations. The Board considered two alternatives for amending the scope of IAS 39:

(a) allowing an entity to elect to account for commodity contracts as derivatives (ie a free choice); or

(b) accounting for a commodity contract as a derivative if that is in accordance with the entity's fair value-based risk management strategy.

BC215 The Board noted that giving an entity the choice to account for commodity contracts as derivatives would be tantamount to an elective 'own use' scope exception, which would have outcomes that would be similar to the accounting treatment in US generally accepted accounting principles. This approach in effect would allow an entity to elect the 'own use' scope exception or derivative accounting at inception or a later date. Once the entity had elected to apply the scope exception it would not be able change its election and switch to derivative accounting.

BC216 However, the Board noted that such an approach would not be consistent with the approach in IAS 39 because:

(a) the accounting treatment in accordance with IAS 39 is dependent on the purpose (whether it is for 'own use') for which the contracts to buy or sell non-financial items are entered into and continue to be held for. This is different from a free choice, which would not depend on the purpose of the contract.

(b) in accordance with IAS 39, if similar contracts have been settled net, a contract to buy or sell non-financial items that can be settled net in cash must be accounted for as a derivative. Hence, a free choice would allow an entity to account for a commodity contract as a derivative regardless of whether similar contracts have been settled net in cash.

Consequently, the Board decided not to propose that entities can elect to account for commodity contracts as derivatives.

BC217 Alternatively, the Board considered applying derivative accounting to commodity contracts if that is in accordance with the entity's underlying business model and how the contracts are managed. Consequently, the actual type of settlement (ie whether settled net in cash) would not be conclusive for the evaluation of the appropriate accounting treatment. Instead, an entity would not consider only the purpose (based solely on the actual type of settlement) but also how the contracts are managed. As a result, if an entity's underlying business model changes and the entity no longer manages its commodity contracts on a fair value basis, the contracts would revert to the 'own use' scope exception. This would be consistent with the criteria for using the fair value option for financial instruments (ie eliminating an accounting mismatch or if the financial instruments are managed on a fair value basis).

BC218 Hence, the Board proposes that derivative accounting would apply to contracts that would otherwise meet the 'own use' scope exception if that is in accordance with the entity's fair value-based risk management strategy (see Appendix C regarding amendments to other IFRSs). The Board believes that this approach would faithfully represent the financial position and performance of entities that manage their entire business on a fair value basis, provide more useful information to users of financial statements, and be less onerous for entities than applying hedge accounting.

A4. Extracts of IFRS 9 (paragraphs 4.1.5, B4.1.29-B4.1.32):

Option to designate a financial asset at fair value through profit or loss

4.1.5 Despite paragraphs 4.1.1–4.1.4, an entity may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases (see paragraphs B4.1.29–B4.1.32).

Designation eliminates or significantly reduces an accounting mismatch

B4.1.29 Measurement of a financial asset or financial liability and classification of recognised changes in its value are determined by the item's classification and whether the item is part of a designated hedging relationship. Those requirements can create a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') when, for example, in the absence of designation as at fair value through profit or loss, a financial asset would be classified as subsequently measured at fair value and a liability the entity considers related would be subsequently measured at amortised cost (with changes in fair value not recognised). In such circumstances, an entity may conclude that its financial statements would provide more relevant information if both the asset and the liability were measured as at fair value through profit or loss.

B4.1.30 The following examples show when this condition could be met. In all cases, an entity may use this condition to designate financial assets or financial liabilities as at fair value through profit or loss only if it meets the principle in paragraph 4.1.5 or 4.2.2(a).

(a) An entity has liabilities under insurance contracts whose measurement incorporates current information (as permitted by IFRS 4, paragraph 24), and financial assets it considers related that would otherwise be measured at amortised cost.

(b) An entity has financial assets, financial liabilities or both that share a risk, such as interest rate risk, that gives rise to opposite changes in fair value that tend to offset each other. However, only some of the instruments would be measured at fair value through profit or loss (ie are derivatives, or are classified as held for trading). It may also be the case that the requirements for hedge accounting are not met, for example because the requirements for effectiveness in paragraph 88 of IAS 39 are not met.

(c) An entity has financial assets, financial liabilities or both that share a risk, such as interest rate risk, that gives rise to opposite changes in fair value that tend to offset each other and the entity does not qualify for hedge accounting because none of the instruments is a derivative. Furthermore, in the absence of hedge accounting there is a significant inconsistency in the recognition of gains and losses. For example, the entity has financed a specified group of loans by issuing traded bonds whose changes in fair value tend to offset each other. If, in addition, the entity regularly buys and sells the bonds but rarely, if ever, buys and sells the loans, reporting both the loans and the bonds at fair value through profit or loss eliminates the inconsistency in the timing of recognition of gains and losses that would otherwise result from measuring them both at amortised cost and recognising a gain or loss each time a bond is repurchased.

B4.1.31 In cases such as those described in the preceding paragraph, to designate, at initial recognition, the financial assets and financial liabilities not otherwise so measured as at fair value through profit or loss may eliminate or significantly reduce the measurement or recognition inconsistency and produce more relevant information. For practical purposes, the entity need not enter into all of the assets and liabilities giving rise to the measurement or recognition inconsistency at exactly the same time. A reasonable delay is permitted provided that each transaction is designated as at fair value through profit or loss at its initial recognition and, at that time, any remaining transactions are expected to occur.

B4.1.32 It would not be acceptable to designate only some of the financial assets and financial liabilities giving rise to the inconsistency as at fair value through profit or loss if to do so would not eliminate or significantly reduce the inconsistency and would therefore not result in more relevant information. However, it would be acceptable to designate only some of a number of similar financial assets or similar financial liabilities if doing so achieves a significant reduction (and possibly a greater reduction than other allowable designations) in the inconsistency. For example, assume an entity has a number of similar financial liabilities that sum to CU100 and a number of similar financial assets that sum to CU50 but are measured on a different basis. The entity may significantly reduce the measurement inconsistency by designating at initial recognition all of the assets but only some of the liabilities (for example, individual liabilities with a combined total of CU45) as at fair value through profit or loss. However, because designation as at fair value through profit or loss can be applied only to the whole of a financial instrument, the entity in this example must designate one or more liabilities in their entirety. It could not designate either a component of a liability (eg changes in value attributable to only one risk, such as changes in a benchmark interest rate) or a proportion (ie percentage) of a liability.