Purpose of the paper

1. At the July 2010 IASB meeting the Board discussed four papers on hedge effectiveness testing (papers 7-7A of that meeting) for hedge accounting qualification purposes.

2. This paper consists of a diagram. That diagram summarises:
   (a) the overall approach discussed in those papers; and
   (b) the approach that evolved during the Board discussion.

3. We plan to discuss that diagram (you should print this paper out in colour).

4. We believe that using such a diagram may enable Board members to better understand this issue, and the context of this issue, rather than attempting another round of detailed papers.

5. Having said that, agenda paper 2A includes a narrative summary of the effectiveness testing approaches and Board discussion as well as examples that are intended to test how Board members think the effectiveness assessment should work.
RM should aim at being ‘highly effective’ regarding offset.

Demonstrate ‘highly effective’ using any method incl. change in method during hedge term.

Analyse any results that are not ‘highly effective’ and determine whether the hedge still achieves the RM objective.

‘Parallel exercise’: accounting ‘target level’ of effectiveness displaces RM.

RM determines target level of effectiveness.

Type of test:
- Complex
- Non-complex

Non-complex:
- Qualitative or quantitative

Quantitative:
- Accountant accounting back-up test

Complex:
- Qualitative RM
- Quantitative RM

Quantitative RM
- % based

No accidental offset +…

1a Accounting overlay for type of method (but no ‘target level’ of effectiveness)