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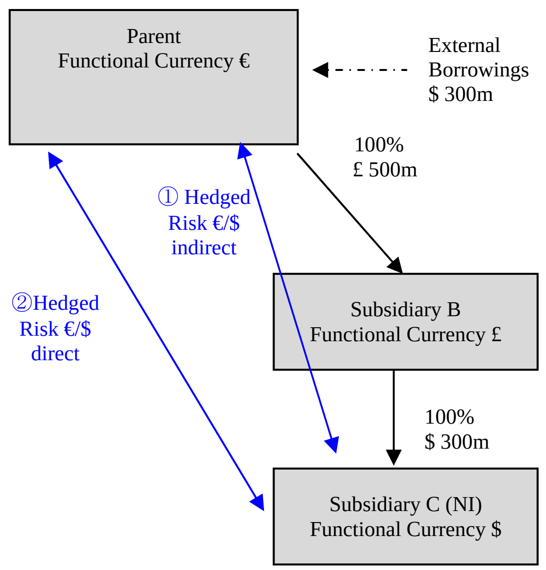
International Accounting Standards Board

INFORMATION FOR OBSERVERS

IFRIC meeting:	**March 2008, London**
Project:	**Situation 3A: Hedging instrument held by Parent — Debt (Agenda Paper 2F)**

On 1 January 2005, Parent entity, which presents consolidated financial statements in €, holds a 100% investment in Subsidiary B (£500m). Subsidiary B also holds a 100% investment in Subsidiary C ($300m). Parent entity has a functional currency of €, Subsidiary B has a functional currency of Pound Sterling (£) and Subsidiary C has a functional currency of $. The net assets of Subsidiary B on 1 January 2005 are £500m including an amount in respect of the net assets of Subsidiary C which are equal to $300m on this date. The Parent borrows $300m externally on 1 January 2005. The Parent's only assets are the investment in Subsidiary B and the cash raised from the external borrowing which has been deposited in €. The Parent designates the $300m external borrowing as a hedge of the spot foreign exchange risk associated with the net investment in the first $300m net assets of Subsidiary C in its consolidated financial statements.

Alternatively, the Parent could have designated the external borrowing as a hedge of the £/$ spot foreign exchange risk between Subsidiary C and Subsidiary B in its consolidated financial statements. This alternative designation is not illustrated in the related spreadsheet.



Results of hedge effectiveness

Step-by-step method of consolidation

Hedged risk	In which financial statements?	
	In Parent's consolidated F/S	In Sub B's consolidated F/S
① Euro/$ exposure from a net investment in Subsidiary C between Parent and Subsidiary C	**Spreadsheet No. 3A-1 Debt 100% effective**	**N/A (Euro/$ risk not present)**

Direct method of consolidation

Hedged risk	In which financial statements?	
	In Parent's consolidated F/S	In Sub B's consolidated F/S
②Euro/$ exposure from a net investment in Subsidiary C between Parent and Subsidiary C	**Spreadsheet No. 3A-2 Debt 100% effective**	**N/A (Euro/$ risk not present)**

SITUATION 3A -1 DEBT (step by step method): designate $/Euro exposure from Entity C as hedged risk

	Year 0
USD	1
JPY	118
EUR	0.8
GBP	0.53

	P (EUR)	A(JPY)	A(EUR)	C(USD)	C(GBP)	B(GBP)	consol adj	BC(GBP)	BC(EUR)	consol adj pre-acq	PABC(EUR)
Investment in A											0
Investment in B	755									-755	0
Investment in C						159	-159				0
Other assets*1	240			300	159	341		500	755		995
	995	0	0	300	159	500		500	755		995
Opening	-755			-300	-159	-500	159	-500	-755	755	-755
FCTR											
Income											
Closing											
Equity	-755	0	0	-300	-159	-500		-500	-755		-755
Debt	-240			0	0	0		0	0	0	-240
Check	0	0	0	0	0	0		0	0		0

	Year 1	average
USD	1	1
JPY	125	121.5
EUR	0.88	0.84
GBP	0.58	0.555

P accounts		EUR
USD 300m borrowings	Year 0	240
USD 300m borrowings	Year 1	264
P/L		24

	P (EUR)	A(JPY)	A(EUR)	C(USD)	C(GBP)	B(GBP)	consol adj hedge	BC(GBP)	BC(EUR)	consol adj pre-acq	PABC(EUR)
Investment in A										0	0
Investment in B	755									-755	0
Investment in C						159	-159				0
Other assets	240			300	174	341		515	781		1021
	995	0	0	300	174	500		515	781		1021
Opening	-755			-300	-159	-500	159	-500	-755	755	-755
FCTR (Entity B)*2									-4		-4
FCTR (Entity C)*3					**-15**			**-15**	**-23**		**-23**
Income	24										24
Closing											
	-731	0	0	-300	-174	-500		-515	-781		-758
Debt	-264			0	0	0	0	0	0	0	-264
Check	0	0	0	0	0	0		0	0		0

SITUATION 3A -1 DEBT (step by step method): designate $/Euro exposure from Entity C as hedged risk

Hedged risk	USD/EUR exposure from C
Hedged item (in amounts)	USD 300
Change in year 1	-23 Euro
Hedging instrument	USD borrowings
Change in P/L	24 EUR
Hedge effectiveness	**100%** Considered rounding effect

*1Assumption:Parent deposited US$ cash into Euro account on 1 Jan.2005

*2 EUR-4=-(GBP515/0.58*0.88-EUR755-EUR23)

*3 GBP-15=GBP159-$300*0.58
EUR-23=GBP-15/0.58*0.88

The following entries would be recorded for hedging instrument (USD borrowings)

(P's separate F/S)

Dr) Profit and loss	EUR 24	Cr) Debt	GBP 24

being the profit/loss arising from the Debt

(P's consolidated F/S)

Dr) Equity (FCTR-Entity C)	EUR 24	Cr) Profit and loss	EUR 24

being the hedge accounting entry for the net investment in Entity C

The following entries would be recorded for hedged item
(P's consolidated F/S)

Dr)Other assets	EUR 23	Cr)FCTR(EntityC)	EUR 23

retranslation of exchange difference arising from Entity C

Check:	Equity (FCTR)	EUR	1

<After hedge entry>

	Before hedge		After hedge
	PABC(EUR)	hedge	ABC(EUR)
Investment in A	0		0
Investment in B	0		0
Investment in C	0		0
Other assets	1021		1021
	1021		1021
Opening	-755		-755
FCTR (Entity B)	-4		-4
FCTR (Entity C)	**-23**	**24**	**1**
Income	24	-24	0
Closing			0
	-758		-758
Debt	-264		-264
Check	0		0

SITUATION 3A - 2 DEBT (direct method): designate $/Euro exposure from Entity C as hedged risk on P's consolidated F/S

	Year 0
USD	1
JPY	118
EUR	0.8
GBP	0.53

	P (EUR)	A(JPY)	A(EUR)	C(USD)	C(EUR)	B(GBP)	B(EUR)	consol adj pre-acq	PABC(EUR)
Investment in A									
Investment in B	755							-755	0
Investment in C						159	240	-240	0
Other assets*1	240			300	240	341	515		995
	995	0	0	300	240	500	755		995
Opening	-755			-300	-240	-500	-755	995	-755
FCTR									
Income									
Closing									
	-755	0	0	-300	-240	-500	-755		-755
Debt	-240			0	0	0	0	0	-240
Check	0	0	0	0	0	0	0		0

	Year 1	average
USD	1	1
JPY	125	121.5
EUR	0.88	0.84
GBP	0.58	0.555

P accounts		EUR
USD 300m borrowings	Year 0	240
USD 300m borrowings	Year 1	264
P/L		24

	P (EUR)	A(JPY)	A(EUR)	C(USD)	C(EUR)	B(GBP)	B(EUR)	consol adj pre-acq	hedge	PABC(EUR)	3-1(Step) PABC(EUR)	
Investment in A										0	0	0
Investment in B	755							-755		0	0	0
Investment in C						159	240	-240		0	0	0
Other assets	240			300	264	341	517			1021	1021	0
	995	0	0	300	264	500	757			1021	1021	0
Opening	-755			-300	-240	-500	-755	995		-755	-755	0
FCTR (Entity B)*2							-3			-3	-4	1
FCTR(Entity C)*3					**-24**				**24**	0	1	-1
Income	24								-24	0	0	0
Closing											0	0
Equity	-731	0	0	-300	-264	-500	-757			-758	-758	0
Debt	-264			0	0	0	0			-264	-264	0
Check	0	0	0	0	0	0	0	0	0	0	0	0

SITUATION 3A - 2 DEBT (direct method): designate $/Euro exposure from Entity C as hedged risk on P's consolidated F/S

Hedged risk	USD/EUR exposure from C	
Hedged item (in amounts)	300	USD
Change in year 1	-24	Euro
Hedging instrument	USD borrowings	
Change in P/L	24	EUR
Hedge effectiveness	**100%**	

*1Assumption:Parent deposited US$ cash into Euro account on 1 Jan.2005

*2 EUR-3=EUR515-GBP341/0.58*0.88

*3 EUR-24=EUR240-EUR300*0.88

The following entries would be recorded for hedging instrument (USD borrowings)

(P's separate F/S)					
Dr) Profit and loss	EUR	24	Cr) Debt	GBP	24
being the profit/loss arising from the Debt					
(P's consolidated F/S)					
Dr) Equity (FCTR-Entity C)	EUR	24	Cr) Profit and loss	EUR	24
being the hedge accounting entry for the net investment in Entity C					

The following entries would be recorded for hedged item

(P's consolidated F/S)					
Dr)Other assets	EUR	24	Cr)FCTR(EntityC)	EUR	24
retranslation of exchange difference arising from Entity C					

Check:	Equity (FCTR)	EUR	0