



# Financial Reporting Alert

Issued 5 October 2007

<b>Title:</b>	<b>Draft Abstract <i>Hedges of a Net Investment in a Foreign Operation</i></b>		
<b>Issued by:</b>	Urgent Issues Task Force (UITF)	<b>Status:</b>	Draft
<b>Impact:</b>	Clarification of what risk may be hedged in a net investment hedge, and by which entities		
<b>Effective date:</b>	Comment deadline 31 October		

## Background

The International Financial Reporting Interpretations Committee (IFRIC) has issued draft interpretation D22 proposing clarification of net investment hedge accounting under IAS 39. UK standards FRS 23 *The Effects of Changes in Foreign Exchange Rates* and FRS 26 *Financial Instruments: Recognition and Measurement* are converged with international standards and the UITF has therefore issued a draft abstract proposing changes to UK GAAP that would keep the standards in alignment. The UITF intends issuing the final version of the IFRIC's interpretation as an abstract but is inviting comments, particularly on the application of the proposals in the UK and Ireland.

The abstract would apply only to those entities reporting under UK GAAP and applying FRS 26 and FRS 23. There would be no impact on those applying SSAP 20 *Foreign currency translation*.

## Proposals

KPMG's IFRS Briefing Sheet Issue 73 described in detail the proposals of D22. The UITF proposes amending D22 in finalising it as a UK abstract only to refer to UK rather than international standards.

The draft proposes confirming that the hedged risk must be the foreign exchange risk arising from movements in rates between the *functional* currencies of the foreign operation and any parent entity (i.e., not the parent's presentation currency).

It suggests that the hedging instrument may be held by any entity within the group, except the foreign operation that is being hedged, regardless of its functional currency.

The draft abstract is available on the web in Information Sheet 84 at:

[www.frc.org.uk/asb/uitf/pub1409.html](http://www.frc.org.uk/asb/uitf/pub1409.html) .

IFRS Briefing Sheet 73 is available at [www.kpmg.co.uk/master/pubs.cfm](http://www.kpmg.co.uk/master/pubs.cfm)

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