IFRIC 16
Hedges of a net investment in a foreign operation

REFERENCES

IAS 8 Accounting policies, changes in accounting estimates and errors
IAS 21 The effects of changes in foreign exchange rates
IFRS 9 Financial instruments

ISSUE

Foreign companies included within the scope of consolidation may present a foreign currency risk due to translation of their individual financial statements (originally expressed in their functional currency) into the presentation currency of the consolidated financial statements. The group may decide to hedge all or part of the foreign currency risk arising from the net investments in its foreign companies.

The extent of the hedging transactions covering the foreign currency risk must be specified in addition to the amount that is being hedged. Furthermore, it is necessary to determine at what level of the consolidation the hedge is recognized as the hedge could be attributed to an entity within the group other than the ultimate parent. Finally, the Interpretation considers the issue of what happens to hedges when the foreign entity is sold.

POSITION ADOPTED

Foreign currency hedges may cover the entire foreign exchange difference incurred when the financial statements of a foreign entity are translated. However, the risk arising from a foreign company may only be hedged once within a group, even if several entities within the group have deemed it appropriate to set up a hedge relating to the same subsidiary. In order to assess the effectiveness of the hedge, the change in the value of the hedging instrument, derivative or non-derivative, is represented by the difference generated by the translation of the financial statements of the foreign subsidiary into the presentation currency of the group's consolidated financial statements, even if the hedge was transacted via an intermediary holding company. It is important to remember that only the effective portion of the hedge is directly recognized in equity.

If the foreign entity for which a foreign exchange risk hedge was previously set up is disposed of, the cumulative changes in the value of the hedging instrument - initially recognized in a separate component of equity, are reclassified through

Other Comprehensive Income, at amount of the equity that was allocated to the foreign entity that was disposed of.