Accounting Standards for Enterprises No. 24 - Hedging

Cai Kuai [2006] No. 3

Chapter I General Principles

Article 1These Standards are formulated in accordance with the Accounting Standards for Enterprises - Basic Standards for the purpose of regulating the recognition and measurement of the hedging.

Article 2The term " hedging" refers to one or more hedging instruments which are designated by an enterprise for avoiding the risks of foreign exchange, interest rate, commodity price, stock price, credit and etc., and which is expected to make the changes in fair value or cash flow of hedging instrument(s) to offset all or part of the changes in the fair value or cash flow of the hedged item.

Article 3The hedging are classified into fair value hedging, cash flow hedging, and net investment hedging in an overseas operation.

(1)A fair value hedging refers to a hedging of the risk to changes in the fair value of a recognized asset or liability or a previously unrecognized firm commitment, or to changes in the identifiable portion of the fair value of a recognized asset or liability or a previously unrecognized firm commitment.

Such changes in value are attributable to a particular risk and could affect enterprise' profit or loss.

(2)A cash flow hedging refers to a hedging of the risk to changes in cash flow. Such changes in cash flow are attributable to a particular risk related to a recognized asset or liability or a highly probable forecast transaction and could affect enterprise' profit or loss.

(3)A net investment hedging in an overseas operation refers to hedging of the foreign exchange risk arising from net investment in an overseas operation. The "net investment in an overseas operation" refers to an enterprise' equity of rights and interests in the net assets in an overseas operation.

Article 4For a hedging which satisfies the conditions as prescribed in Chapter III of these Standards, the enterprise may deal with it through the hedging accounting method.

The " hedging accounting method" shall refer to a method to record the result of offsetting the hedging instrument and the changes of the fair value of the hedged item.

Chapter II Hedging Instruments and Hedged Items

Article 5The term "hedging instrument" shall refer to a derivative instrument which is designated by an enterprise for hedging and by which it is expected that changes in its fair value or cash flow can offset the changes in fair value or cash flow of the hedged item. For a hedging of foreign exchange risk, a non-derivative financial asset or non-derivative financial liability may be used as a hedging instrument.

Article 6To establish the hedging relationship, an enterprise shall designate all or certain proportion of the hedging instruments (excluding a certain time period within the residual time limit of the hedging instrument), but with the exception of the following circumstances:

(1)For an option, the enterprise may separate the intrinsic value from the time value of the option and merely designate the option as a hedging instrument based on the changes of its intrinsic value;

and

(2)For a forward contract, the enterprise may separate the interest from the spot price of a forward contract and merely designate the forward contract as a hedging instrument based on the changes of spot price.

Article 7Generally an enterprise may designate a single derivative instrument as a hedging for one kind of risk, but if the following conditions are met at the same time, it may designate a single derivative instrument as a hedging for one or more kinds of risks:

(1)All risks to be hedged are clear and identifiable;

(2)The effectiveness of hedging may be proved; and

(3)It can insure that there is a specific specifying relationship between the derivative instrument and different risk positions.

The "effectiveness of hedging" shall refer to the extent that the changes in the fair value or cash flow of a hedging instrument may offset the changes resulted from the hedging risks in the fair value or cash flow of a hedged item.

Article 8An enterprise may designate a combination of two or more derivative instruments or a certain proportion of such a combination as a hedging instrument.

For a foreign exchange hedging, the enterprise may designate a combination of two or more non-derivative instruments or a certain proportion of such a combination, or a combination of derivative instrument(s) and non-derivative instrument(s) or a certain proportion of such a combination as a hedging instrument.

For a collar option, or for an option composed of an issued option and a purchased option, if its essential is equivalent to an option issued by the enterprise (that is to say, the enterprise charges for the net option), the enterprise cannot designate it as a hedging instrument.

Article 9The "hedged item" shall refer to the following items which make an enterprise faced to changes in fair value or cash flow and are designated as the hedged objectives:

(1)A single recognized asset, liability, firm commitment, highly probable forecast transaction, or a net investment in an overseas operation;

(2)A group of recognized assets, liabilities, firm commitments, highly probable forecast transactions, or net investments in overseas operations with similar risk characteristics; and

(3)A portion of the portfolio of financial assets or financial liabilities that share the risk of interest rate of the same hedged (only applicable to a portfolio of hedging in the fair value of interest rate risk).

The "firm commitment" shall refer to an agreement with legal control force regarding the exchange of a particular number of resources at the stipulated price on a specific future date or in a specific future period.

The "forecast transaction" shall refer to a transaction for which no commitment is made, but which is expected to occur.

Article 10If the hedged risk is a credit risk or foreign exchange risk, the held-to-maturity investment may be designated a hedged item.

If the hedged risk is an interest rate risk or risk of repayment ahead of the schedule, the held-to-maturity investment shall not be designated as a hedged item.

China Business Engine
Tel +86 21 52289730
Fax +86 21 5228-9730

Website
China site：www.cbize.com
Globe site：www.cbize.net

Article 11If the exchange gain or loss of any monetary item formed by an intra-group transaction of an enterprise is unable to be fully offset in the consolidated statements, the foreign exchange risk of this monetary item may be designated as a hedged item in the consolidated financial statements.

For a highly probable forecast intra-group transaction of an enterprise, if its price is denominated in a currency other than the functional currency of the subject entering into that transaction (that is to say, its price is denominated in an overseas currency) and if the relevant foreign exchange risk will affect consolidated financial statements, such foreign exchange risk may be designated as a hedged item in the consolidated financial statements.

Article 12For a portion of the risk relating to the cash flow or fair value of a financial liabilities or financial asset, if the effectiveness of hedging may be measured, the enterprise may, based on the risk, designate financial asset or financial liability as a hedged item.

Article 13In the matter of a hedging in fair value of the interest rate risk of a portfolio of financial assets or financial liabilities, an asset or liability denominated in a certain currency (such as RMB, US dollar or Euro dollar) may be designated as a hedged item.

Article 14An enterprise may designate all of the cash flows of a financial asset or financial liability as a hedged item.

However, if only a portion of the cash flows of a financial asset or financial liability is designated as a hedged item, the designated portion shall be less than the total amount of the cash flows of the financial asset or financial liability.

Article 15Where a non-financial asset or non-financial liability is designated as a hedged item, the hedged risk shall be all risks or foreign exchange risks pertinent to this non-financial asset or non-financial liability.

Article 16With regard to a hedging by the portfolio of assets or liabilities with similar risk characteristics, each single asset or liability among the portfolio shall undertake the hedged risk simultaneously, and the changes in fair value of each single asset or liability in the portfolio resulted from the hedged risk shall, by and large, be expected in proportion to the holistic changes in the fair value of the portfolio resulted from the hedged risk.

Chapter III Recognition and Measurement of Hedging

Article 17Where a fair value hedging, cash flow hedging or a hedging of net investment in an overseas operation satisfies the following conditions simultaneously, it may be dealt with through the hedging accounting method as prescribed in these Standards:

(1)At the commencement of the hedging, the enterprise shall specify the hedging relationship formally (namely the relationship between the hedging instrument and the hedged item) and prepare a formal written document on the hedging relationship, risk management objectives and the strategies of hedging.

This document shall at least specify the contents of hedging instrument, the hedged item, the nature of the hedged risk and the method for the effectiveness assessment of the hedging and etc..

The hedging shall be relevant to the designated specific identifiable risk, and will ultimately affect the profits and losses of the enterprise.

(2)The hedging expectation is highly efficient and meets the risk management strategy, which is confirmed for the hedging relationship by enterprise at the very beginning.

(3)For a cash flow hedging of forecast transaction, the forecast transaction shall be likely to occur and shall make the enterprise faced to the risk of changes in cash flow, which will ultimately affect the profits and losses.

(4)The effectiveness of hedging can be reliably measured.

(5)An enterprise shall continuously evaluate the effectiveness of hedging and ensure that this hedging is highly effective in accounting period in which the hedging relationship is specified.

Article 18If a hedging satisfies the following conditions simultaneously, the enterprise shall recognize it as being highly efficient:

(1)At the beginning and in subsequent periods of a hedging, this hedging expectation shall be highly effective in offsetting the changes in the fair value or cash flows caused by the hedged risk during the specified periods;

(2)The hedging 's actual offset results are within a range of 80% to 125%.

Article 19An enterprise shall at least evaluate the hedging effectiveness when formulating medium-term or annual financial statements.

Article 20For a hedging of interest rate risk, the enterprise shall, by formulating the maturity timetable of financial assets and financial liabilities, mark out the net risk of interest rate for each period and evaluate the hedging effectiveness accordingly.

Article 21If a fair value hedging satisfies the conditions for adopting the hedging accounting method, it shall be dealt with according to the following provisions:

(1)If the hedging instrument is a derivative instrument, the gain or loss from the changes in the fair value of the hedging instrument shall be recorded in the profits and losses of the current period.

If the hedging instrument is a non-derivative instrument, the gain or loss on the book value of the hedging instrument resulting from changes in exchange rate shall be recorded in the profits and losses of the current period.

(2)The gain or loss of the hedged item resulting from the hedged risk shall be recorded in the profits and losses of the current period and the book value of the hedged item shall be adjusted at the same time.

The said provision shall also be applicable if the hedged item is an inventory of which the subsequent measurement will be made at its cost and realizable net value, whichever is lower, or a financial asset of which the subsequent value will be made at the amortized cost, or a financial asset available for sale.

Article 22With regard to a fair value hedging for the interest rate risk of a portfolio of financial assets or financial liabilities, for satisfying the requirements of Article 21 (2) of these Standards, the enterprise may deal with the gain or loss formed by the hedged item according to the following methods:

(1)If the hedged item is an asset within the re-pricing period, it shall be presented as a separate item under the assets item (presenting behind the financial assets) of the balance sheet, and shall be written off after the termination of recognition.

(2)If the hedged item is a liability within the re-pricing period, it shall be presented as a separate item under the liabilities item (presenting behind the financial liabilities) of the balance sheet, and shall be written off after the termination of recognition.

Article 23Where any of the following conditions is satisfied, the enterprise shall stop making the treatments according to the Article 21 of these Standards:

(1)The hedging instrument has been mature or has been sold, or the contract is terminated or has been exercised.

Where the period of hedging instrument is extended, or where a hedging instrument is replaced by another one, if the extension or replacement is an composing part of the hedging strategy as specified in the formal written document of the enterprise, the enterprise shall not deal with it as being in the case of maturity or termination of contract.

(2)The hedging does not satisfy the conditions for adopting the hedging accounting method as specified in these Standards any longer.

(3)The enterprise has revoked the specifying of the hedging relationship.

Article 24If a hedged item is a financial instrument measured at the amortized cost, an adjustment which is made to the book value of the hedged item according to the Article 21 (2) of these Standards shall, during the period from the adjustment date to the maturity date, be amortized based on the effective interest rate recalculated on the adjustment date and shall be recorded in the profits and losses of the current period.

With regard to a fair value hedging of interest rate risk portfolio, the relevant items separately presented in the balance sheet shall, during the period from the adjustment date to the relevant date on which the re-pricing period ends, be amortized based on the effective interest rate re-calculated on the adjustment date.

If it is not feasible to adopt the effective interest rate method for the amortization, the straight-line method may be adopted. .

The amortization of above-mentioned adjustment amounts shall be finished on the maturity date of the financial instrument. For a fair value hedging of interest rate risk portfolio, the amortization shall be finished prior to the date of end of the relevant re-pricing period.

Article 25If a hedged item is an unrecognized firm commitment, the accumulative amount of the changes in the fair value of the firm commitment resulting from the hedged risk shall be recognized as an asset or liability and the related gain or loss shall be included into the profits and losses of the current period.

Article 26For a fair value hedging of firm commitment to purchase an asset or undertake a liability, an adjustment shall, based on the accumulative amount of the changes in the fair value resulting from the hedged risks (recognized to be an asset or liability), be made to the amount of initial recognition of the asset obtained or liability undertaken due to the firm commitment.

Article 27Where a cash flow hedging meets the conditions for adopting the hedging accounting method, it shall be dealt with in accordance with the following provisions:

(1)In the profit or loss of the hedging instrument, the portion, which is attributed to the effective hedging shall be directly recognized as the owner's equity and shall be presented as a separate item.

The amount of the portion of the effective hedging shall be confirmed in accordance with the absolute amounts of the following items whichever is lower:
(a)The accumulative profit or loss of the hedging instrument as of the commencement of hedging; or
(b)The accumulative amount of changes in the present value of the estimated future cash flow of the hedged item as of the commencement of the hedging.
(2)In the profit or loss of the hedging instrument, the portion, which is attributed to the ineffective hedging (namely the other profit or loss after deducting the portion directly recognized as the owner's equity) shall be recorded in the profit and loss of the current period.
(3)If the formal written document on the risk management strategy states that a certain portion of the profit or loss of a hedging instrument, or the relevant effects on the cash flow shall be excluded when evaluate the hedging effectiveness, the profit or loss of excluded portion shall be dealt with according to the Accounting Standards for Enterprises No. 22 - Recognition and Measurement of Financial Instruments.
An enterprise may deal with a hedging of foreign exchange risk of firm commitment as a cash flow hedging or fair value hedging.
Article 28If a hedged item is a forecast transaction and if the forecast transaction makes the enterprise subsequently recognize a financial asset or financial liability, the relevant profit or loss directly recognized as the owner's equity originally shall be shifted out of the same period in which this financial asset or financial liability affects the profit or loss of the enterprise and shall be recorded in the profits and losses of the current period.
However, when all or partial net loss expected by the enterprise to be directly recognized in the owner's equity originally can not be made up in the future accounting period, the portion which can not be made up shall be shifted out and shall be recorded in profits and losses of the current period.
Article 29If a hedged item is a forecast transaction and if the forecast transaction makes the enterprise recognized a non-financial asset or non-financial liability subsequently, the enterprise may deal with it by choosing either of the following methods:
(1)The relevant profit or loss directly recognized in the owner's equity originally shall be shifted out during the same period in which this non-financial asset or non-financial liability affects the profit or loss of the enterprise and shall be recorded in the current profits and losses of the current period.
However, when all or partial net loss expected by the enterprise to be directly recognized in the owner's equity originally can not be made up in the future accounting period, the portion which can not be made up shall be shifted out and shall be recorded in profits and losses of the current period.
(2)The relevant profit or loss directly recognized in the owner's equity originally shall be shifted out and shall be recorded in the amount of the initial recognition of the non-financial asset or non-financial liability.
When the forecast transaction of a non-financial asset or non-financial liability forms a firm commitment, if the firm commitment satisfies the conditions for adopting the hedging accounting

method as prescribed in these Standards, either of the above-mentioned methods shall be chose to deal with it as well.

When either of the above-mentioned methods is chosen by an enterprise as the accounting policy, it shall be applied to all relevant forecast transaction hedging and shall not be changed randomly.

Article 30With regard to a cash flow hedging without involved in Articles 28 and 29 of these Standards, the profit or loss of the hedging instrument directly recorded in the owner's equity originally shall be shifted out at the same period, during which the profits and losses of the hedged forecast transaction are affected, and shall be recorded in the profits and losses of the current period.

Article 31Under the following circumstances, an enterprise may not make any treatment in accordance with the provisions from Article 27 to 30 of these Standards:

(1)The hedging instrument has been mature or sold, or the contract is terminated or has been exercised.

The profit or loss of the hedging instrument, which is directly recorded in the owner's equity during effective period of the hedging shall not be shifted out, until the forecast transaction actually occurs, it shall be dealt with according to Article 28, 29 or 30 of these Standards.

If the period of a hedging instrument is extended, or if a hedging instrument is replaced by another, and if the extension or replacement is an composing part of the hedging strategy as specified in the formal written document of the enterprise, it shall not be dealt with as being in the case of maturity or termination of contract.

(2)The hedging no longer satisfies the conditions for adopting the hedging accounting methods as prescribed in these Standards.

The profit or loss of the hedging instrument, which is directly recorded in the owner's equity during the effective period of the hedging shall not be shifted out, until the forecast transaction actually occurs it shall be dealt with according to the Article 28, 29 or 30 of these Standards.

(3)It is expected that the forecast transaction will not occur.

The profit or loss of the hedging instrument, which is directly recorded in the owner's equity during the effective period of the hedging shall be shifted out and shall be recorded in the profits and losses of the current period.

(4)An enterprise revokes the designation of the hedging relationship.

For a hedging of forecast transaction, the profit or loss of the hedging instrument, which is directly recorded in the owner's equity during the effective period of the hedging, shall not be shifted out until the forecast transaction actually occurs, or until it is expected that it will not occur. If the forecast transaction actually occurs, it shall be dealt with according to the Article 28, 29 or 30 of these Standards. If it is expected that the forecast transaction will not occur, the relevant profit or loss directly recorded in the owner's equity originally shall be shifted out and shall be recorded in the profits and losses of the current period. Article 32A hedging of net investment in an overseas operation shall be dealt with according to the similar to the provisions of cash flow hedging accounting:

(1)In the profit or loss formed by the hedging instrument, the portion that is attributed to the effective hedging shall be recognized as the owner's equity directly and shall be presented as a separate item. When disposing an overseas operation, the profit or loss of the hedging instrument reflected by the separately presented item in the owner's equity shall be shifted out and shall be recorded in the profits and losses of the current period.

(2)In the profit or loss formed by the hedging instrument, the portion that is attributed to the ineffective hedging shall be recorded in the profits and losses of the current period.

China Business Engine
Tel +86 21 52289730
Fax +86 21 5228-9730

Website
China site：www.cbize.com
Globe site：www.cbize.net