

## ANNOUNCEMENT

### ACCOUNTING FOR DERIVATIVES

1. Certain issues have been raised with regard to the foreign currency derivative exposures of various corporates that are not being fully accounted for. These exposures may translate into heavy losses due to fluctuations in the foreign exchange rates. The matter was considered by the Council of the ICAI at its meeting held on March 27-29, 2008. The Council decided to clarify the best practice treatment to be followed for all derivatives, which is contained in the following paragraphs.

2. It may be noted that although the ICAI has issued AS 30, *Financial Instruments: Recognition and Measurement*, which contains accounting for derivatives, it becomes recommendatory from 1.04.2009 and mandatory from 1.04.2011. In this scenario, the Council expressed the view that since the aforesaid Standard contains appropriate accounting for derivatives, the same can be followed by the entities, as the earlier adoption of a standard is always encouraged.

3. In case an entity does not follow AS 30, keeping in view the principle of prudence as enunciated in AS 1, 'Disclosure of Accounting Policies', the entity is required to provide for losses in respect of all outstanding derivative contracts at the balance sheet date by marking them to market.

4. The entity needs to disclose the policy followed with regard to accounting for derivatives in its financial statements.

In case AS 30 is followed by the entity, a disclosure of the amounts recognised in the financial statements should be made.

In case AS 30 is not followed, the losses provided for as suggested in paragraph 3 above should be separately disclosed by the entity.

5. The auditors should consider making appropriate disclosures in their reports if the aforesaid accounting treatment and disclosures are not made.

6. In case of forward contracts to which AS 11, *The Effects of Changes in Foreign Exchange Rates*, applies, the entity needs to fully comply with the requirements of AS 11. Accordingly, this Announcement does not apply to such contracts.

7. This clarificatory Announcement applies to financial statements for the period ending March 31, 2008, or thereafter.