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# Hedge accounting under IFRS 9: an analysis of reforms

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*Jatinder Pal SINGH,*  
Indian Institute of Technology, Roorkee, India,  
Email: [jpsitr@gmail.com](mailto:jpsitr@gmail.com), [jatinder\\_pal2000@yahoo.com](mailto:jatinder_pal2000@yahoo.com)

## Abstract

*Pronouncements of regulatory bodies on 'hedge accounting' are aimed at ensuring that impact of price changes of hedging relationships are accounted for concurrently. However, it sometimes happens that certain provisions of these standards result in the reporting of enhanced earnings volatility being attributed to hedging relationships which is not economically justified. It is often perceived to be the case by stakeholders that the provisions of IAS 39 on 'hedge accounting' do not appropriately reflect and are not aligned with the risk management strategies of entities that attempt to mitigate risk using various hedging relationships. This occasionally results in a reporting entity adopting either a suboptimal hedging strategy that gives it eligibility to account for it using 'hedge accounting' or vice versa. Thus entities may be faced with the tradeoff between the benefits of risk mitigation strategies and the benefits derived from adopting 'hedge accounting'. This motivated the IASB to initiate action for the complete reformulation of the standard on 'hedge accounting'. The revised standard was pronounced in November 2013 as IFRS 9. In this article, we attempt to evaluate the upgradations introduced by IFRS 9 over its predecessor, IAS 39, with particular reference to the reporting of risk management strategies of affected entities.*

**Keywords:** IFRS 9, IAS 39, hedge accounting, risk management, financial derivatives.

**JEL Classification:** M41.

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