Hedge Accounting – IFRS 9

Hedge Accounting: Entities are exposed to financial risks arising from many aspects of their business. Different companies are concerned about different risks (for example, some entities might be concerned about exchange rates or interest rates, while others might be concerned about commodity prices). Entities implement different risk management strategies to eliminate or reduce their risk exposures.

The objective of hedge accounting is to represent, in the financial statements, the effect of risk management activities that use financial instruments to manage exposures arising from particular risks that could affect profit or loss (P&L) or other comprehensive income (OCI).

In simple terms, hedge accounting is a technique that modifies the normal basis for recognising gains and losses (or revenues and expenses) on associated hedging instruments and hedged items, so that both are recognised in P&L (or OCI) in the same accounting period. This is a matching concept that eliminates or reduces the volatility in the statement of comprehensive income that otherwise would arise if the hedged item and the hedging instrument were accounted for separately under IFRS. Under IFRS 9, hedge accounting continues to be optional, and management should consider the costs and benefits when deciding whether to use it.

Cash Flow Hedge: Cash Flow Hedge is the Hedge when Corporate is covering its Cash Flow using following Derivatives Instruments:

The following are Instruments to Hedge Cash Flow Hedges:

- Forward Contracts – Deliverable
- Forwards Contracts – Non-Deliverable
- Options Contracts
    - Deliverable Buy Put
    - Deliverable Buy Call
    - Deliverable Range Forward (Exporter/Importer)
    - Deliverable Seagull (Exporter/Importer)
    - Non-Deliverable Buy Call
    - Non-Deliverable Buy Put
    - Non-Deliverable Range Forward (Exporter/Importer)
    - Non-Deliverable Seagull (Exporter/Importer)
    - Swaps, Overnight Index Swaps (OIS)
    - +++ List is too long

Fair Value Hedge: It is the Hedge of all Assets, Liabilities in the Books of Corporates at Consolidated level which are subject to Revaluation Exposures. Please be note that Fair Value Hedges are taken at Net level however Cash Flow Hedges are taken on Gross level. We should ignore Concept of Natural Hedging in Cash Flow Hedging.

The following are Instruments to Hedge Fair Value Hedges:

- Forwards Contracts – Non-Deliverable
- Options Contracts
    - Non-Deliverable Buy Call
    - Non-Deliverable Buy Put
    - Non-Deliverable Range Forward (Exporter/Importer)
    - Non-Deliverable Seagull (Exporter/Importer)
    - Non-Deliverable Swaps
    - Non-Deliverable Overnight Index Swaps (OIS)
    - +++ List is too long