International Progress, Reflections of General Hedge Accounting Standards

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**Objectives**

- Problems with IAS 39
- IFRS 9 Improvements
- Issues with IFRS 9
- Challenges posed by IFRS 9 in China
- Recommendations for Improving Hedge Accounting in China
Background

• The Accounting Regulatory Department (ARD) of the Ministry of Finance of China is responsible for the setting of accounting standards for business enterprises (ASBEs)

• China has adopted national accounting standards that are substantially converged with IFRS Standards

• 2006, ASBEs 22: Financial Instruments: Recognition and Measurement

• 2014, ASBEs 37: Presentation of Financial Instruments
Background

- August 2016
- 1. ASBEs 22: Financial Instruments: Recognition and Measurement (Exposure Draft)
- 2. ASBEs 23: Financial Instruments Transfer (Exposure Draft)
- 3. ASBEs 24: Hedge Accounting ((Exposure Draft))
Problems with IAS 39

- No hedge accounting objective in IAS 39
- Standards for the hedge instruments and hedged items fail to reflect management practices
- Evaluation of the hedge accounting effectiveness is arbitrary
- Hedge accounting treatment still has imperfections
- The disclosure of hedge accounting information is insufficient
IFRS 9 Improvements

- Set up hedge accounting objective which aligns with risk management practice
- Expanded the scope of hedging instruments
- Extended the range of the hedged items
- Improved hedge effectiveness evaluation method
- Refined the method of hedge accounting
- Enhanced the hedge accounting information disclosure
Issues with IFRS 9

- Weak conceptual basis and reliance on the intention of the management
- Increases the freedom of choice of management, which may reduce the comparability of financial statements
- The hedge accounting information disclosure still cannot satisfy the demands of information users
- There is still questions about the ability of the new hedge accounting rules to reflect the economic substance of risk management activities in financial institutions
Challenges posed by IFRS 9 in China

- IFRS 9 requires greater professional judgment of accountants in China
- Strengthen the risk management practices in China — strategy, objectives and systems
- Higher requirement of hedge accounting information disclosure in China
- Higher demands on the technical knowledge and support in China
**Recommendations**

- Seek balance between “rules” and “principles”
- Allow the use of hedge accounting for other risks
- Refine hedge accounting information disclosure, provide much comprehensive risk information
- Improve the technical support in order to provide fundamental conditions for implement of hedge accounting
Thank You!