

"A man is
great by
deeds, not by
birth"
-Chanakya

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Working Paper

IIMK/WPS/704/FIN/2026/10

March 2026

Hedge Accounting Adoption and Firm Value

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Hedge Accounting Adoption and Firm Value

Abstract:

This essay examines the effect of hedge accounting adoption on firm value. While hedge accounting is intended to align the accounting treatment of derivatives with firms' risk management activities and improve transparency, its complexity and enhanced disclosure requirements may also impose costs that exceed its expected benefits. Using a hand-collected sample of 701 firm-year observations of Indian non-financial firms from 2014-15 to 2018-19, we examine whether firm value differs between derivative users that adopt hedge accounting and those that do not. The findings indicate that hedge accounting adoption is associated with lower firm value. The negative valuation effect is more pronounced in the post-IFRS 9 period characterised by relatively lenient hedge accounting qualification rules. Additional analysis suggests that stronger governance mechanisms mitigate the adverse valuation effects.

Keywords: IFRS 9, Hedging, Derivatives, firm value, hedge accounting



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