

Accounting for USD Volatility in Non-Financial Asset Management

By

Syamantak Saha

Financial Data Consultant

15/10/2026

Table of Contents

A. Question 3—Other matters relevant to this post-implementation review	3
Recommendations.....	3
B. ILLUSTRATION	4
I. Background.....	4
II. Volatility of USD	4
III. Technical Accounting Analysis	4
IV. Use of Forward Contracts.....	5
V. Availability of IFRS Standards	5
VI. Conclusion	6

A. Question 3—Other matters relevant to this post-implementation review

Are there any other matters the IASB should examine as part of the post implementation review of the hedge accounting requirements in IFRS 9 and related disclosure requirements in IFRS 7? If so, please explain why, considering the objective of a post-implementation review as set out on page 6.

IASB has to further consider the importance of Hedge Accounting methods prevalent in the industry for accounting of Critical Commodities trade.

Whilst IFRS 9 provides directions to account for standard financial instruments, but the fact that Critical Commodities, including Crude Oil trade, is largely determined at the global markets using hedge accounting methods, where to stabilize the trading price of Crude Oil, innovative accounting is used to diversify a portfolio. However, this act of portfolio diversification for price stabilization, is indeed addressed in current global IFRS Standards, across several accounting standards, and not limited to IFRS 9, but also including IAS 21.

It is a limitation, to consider only the aspect of IFRS 9 and not also IAS 21, especially when accounting for critical commodities. Emerging economies, in whose jurisdictions several critical commodities are provided, use a stronger currency of a larger global economy and hence the importance of IAS 21. Interestingly, the strategy to Hedge commodity prices then becomes a market risk for the larger richer economy, and for the providing emerging economy, it is more a matter of IAS21.

IASB has to provide a more balance approach to account for critical commodities, including the standard accounting practices of emerging and providing economies. Currently, by discussing Disclosure requirements, Financial Hedge Accounting etc., the IFRS Standards are more reflecting how to manage risk of larger developed economies, and not so much for the lesser providing economies.

It is in the interest of global IFRS Standards, that IFRS 9 clarifies upon IAS 21, to specifically state such gains and losses for critical commodities trade, as being a standard practice for accounting using the presented concepts of Other Comprehensive Income (OCI). The scope of IFRS 9 should be limited only to pure financial assets, and should not convert physical assets such as critical commodities into a hedge accounting format using IFRS 9, as that is not the objective usage for IFRS 9.

Recommendations

- a. Specify areas of accounting importance for business in critical commodities trade.
- b. Clarify that IFRS 9, is not the only Standard applicable globally for hedging financial risks, especially when conducting business in global commodities.
- c. Provide clarity with illustrations on using IAS 21 for Hedge Accounting of critical commodities, beyond IFRS 9.

B. ILLUSTRATION

An illustration is provided on the dynamics of technical accounting using IFRS Standards including IAS 21.

I. Background

Companies engaged in the business of Non-Financial Asset Management, as trading in critical resources of Crude Oil, often transact with a global currency as the USD. The inherent providing economies are mostly in an emerging and developing economic jurisdiction, without the liquidity of a global economy such as that of the United States. The USD is a currency set as gold standard, for respective Reserve Banks. Moreover, on the question of a suitable trading currency for critical resources as Crude Oil, multi-national organization as OPEC has declared that it is to be the currency for all transactions. As a fallout, GCC countries are almost without a choice of an underlying currency to trade the most vital commodity for their respective economy, and are subsequently exposed to the market volatility of the USD for curating and assurance of respective Reserve Banking activities.

II. Volatility of USD

Currently, the currency war between ECB and the US Fed is manifested in several areas including Investment banking, AI and Medicine, where fundamental differences between the respective economies, causes a dislodgment of currency value, the USD in this case, when it is largely invested in the EU market, more than any other significant economy.

Hence, the constant exposure to market risk for the USD in the EU market, is held by the volatility of the USD, when a large amount of ECB intervention will increase significantly the volatility of the USD, affecting the lesser and poorer emerging economies who depend on the stability of the USD for pricing of the provided commodities.

III. Technical Accounting Analysis

Companies operating from and with critical resources like Crude Oil, would have to consider the excess returns in the form of profit or loss incurred when the Volatility of USD is higher than the Sensitivity for pricing of Crude Oil.

The exposed USD Volatility can be basically represented as:

On Day 1:

Event 1: Crude Oil Trader Sells a Barrel of Oil for \$70.00

On Day 2:

Event 2: USD is intervened by the ECB and its value increases in EURUSD market from 1.15 to 1.12

Event 3: XXX the currency of Oil Producing country is affected in the global market as a result and XXXUSD rate changes from 10 to 12

Event 4: XXXUSD change is of 20%

On Day 3:

Event 5: To preserve the price of Crude Oil in terms of a global USD:

Crude Oil Trader Sells a Barrel of Oil for:

$$\text{\$84} = \text{\$70} + (0.20 * \text{\$70})$$

IV. Use of Forward Contracts

It is imperative to mention the use of Forward Contracts in this Context. All major financial hubs, include mechanisms to hedge the risk of commodities trade. Such forward contracts, provide the basic mechanism to hedge the risk, beyond the ability and scope of an accounting standard such as IFRS 9.

Entities that use commodities for activities, will necessarily use such financial market mechanisms, and therefore to use IFRS 9, to hedge the risk of commodity, as a Financial Instrument would indeed become an erroneous accounting policy.

V. Availability of IFRS Standards

The question arises now, whether there is a more accurate method to account for the increase in the price of Crude Oil from \$70 per Barrel to \$84 per Barrel, as simply proceeds from sale of goods?

In standard accounting practices, we account for such a similar excess in income, as Other Comprehensive Income (OCI), as the standards laid out by IFRS 9 for financial assets, and importantly, IAS 21 for Exchange Rate Difference as applicable to non-financial assets such as critical commodities. Whilst IFRS 9 provides a Standard for Financial Instruments, but for Commodities accounting using a global functional currency, the exchange rate fluctuations have to be accounted appropriately using IAS 21.

It is indeed, an effect for IAS 21, as for this aspect of managing the risk, is mainly Hedging the Risk of USD for Commodity pricing. However, whilst IFRS 9, provides methods to account for financial instruments in general, the more specialized Hedging and associated accounting for important commodities, need a facet for inclusion of exchange rates in the derived mutual economic benefit.

When the functional currency of a company, is pegged to another currency, the USD for most GCC currency, the OCI becomes a non-represented fundamental economic gain for the producing economy. Nevertheless, a company operating in such a jurisdiction can use a non-functional currency as that of a similar emerging economy, to calculate and estimate the OCI earned in terms of a similar adjustable market (e.g. Saha-COUV Index).

VI. Conclusion

The IFRS Standards already allow for Hedge Accounting using existing standards for Other Comprehensive Income for Foreign Exchange gains that is collected by an operating entity dealing with critical commodities, and as such the prevailing standards suffice for companies operating in a pegged or non-pegged currency to the USD, allowing for adjustments of financial statements due to excess volatility of referred currency such as the USD.

However, the IAS should clarify the importance of IAS21 when accounting for critical global commodities between differentiated jurisdictions and markets. Amendments, to provide specific statements for critical commodities accounting, in standards and illustrative examples, would bring improved understanding of a global interpretation of the risk of critical commodities trade, in a betterment to treatment under Hedge Accounting practices.

Entities should use available market mechanisms such as Forward Contracts, to physically hedge the risk of commodities, and not employ an erroneous accounting standard, for such cases using only IFRS 9.