

Derivatives and Risk Management in the Petroleum, Natural Gas, and Electricity Industries

Table 15. Balance Sheet and Income Statement Impacts of Cash Flow and Fair Value Hedges

Type of Derivative	Balance Sheet Impact	Income Statement Impact
Fair Value Hedge	Derivative (asset or liability) is reported at fair value. Hedged item is also reported at fair value.	Changes in fair value are reported as income/loss in income statement. Offsetting changes in fair value of hedged item are also reported as income/loss in income statement.
Cash Flow Hedge	Derivative (asset or liability) is reported at fair value. Changes in fair value of derivative are reported as components of Other Comprehensive Income (balance sheet).	No immediate income statement impact. Changes in fair value of derivative are reclassified into income statement (from Other Comprehensive Income in the balance sheet) when the expected (hedged) transaction affects the net income.
Speculative Transaction	Derivative (asset or liability) is reported at fair value.	Changes in fair value are reported as income/loss in income statement. (There will be no offsetting changes in the fair value of the hedged item.)

Source: FASB Statement 133.