Overview of Derivative Financial Instruments, Accounting Derivative Financial Instruments in Vietnam

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Abstract: The article presents an overview of derivative financial instruments in Vietnam. Derivative financial instruments have been widely used in the world, but in Vietnam, it is still quite new. Therefore, we have presented the most basic issues of derivative financial instruments, accounting standards for derivative financial instruments to help readers be able to apply to the reality of enterprises.

Keywords: Derivative financial instruments, derivative financial instruments, Vietnam

1. Overview of derivative financial instruments

The birth of the Vietnam stock market is marked by the operation of Ho Chi Minh City Securities Trading Center, on July 20, 2000, with the first trading session starting July 28, 2000. So far, after nearly 15 years of development, Vietnam’s stock market has been expanding with the number of listed companies increasing, leading to the emergence of many new products, including the derivative financial instruments.

Derivative financial instruments are tools that are issued on the basis of existing financial instruments (value of stocks, interest rates, goods, etc.) with different objectives such as risk distribution, security protect profits or make a profit. The unpredictable volatility of the value of stocks, interest rates, goods ... in the market is the cause of risks for investors in their business process. To minimize the risks of potential losses, derivative financial instruments have been formed. Currently, derivative tools are rich and diverse, but there are four main instruments: forward contracts, futures contracts, option to buy or sell and swap contracts.

Derivative financial instruments: A contract that satisfies simultaneously the following three characteristics:

a) Valid to change according to changes in market factors, such as interest rates, exchange rates, commodity prices or securities prices;

b) Not investment at the time of contract commencement or only lower initial investment compared to other types of contracts with similar reactions to changes in market factors; and

c) Be paid on a future date.

(Source: Circular guiding accounting of derivative financial instruments 2010 / TT-BTC)

Characteristics of recognizing derivative financial instruments

The common feature of derivative financial instruments is that it does not require the enterprise to have an initial investment, except in case of a contract option transaction, the purchaser of the option fee must pay the option seller. Normally, the payment between parties using derivative financial instruments is carried out on a net basis whereby the parties pay each other only the difference in the fair value of the underlying assets in the contract. derivative, such as: Difference between the price of goods and securities at the time of commencement of the contract and the time of reporting or the maturity of the contract; Difference between floating rate or fixed rate of loan in each period; The difference between the exchange rate of a certain amount of foreign currency at the time of commencement of the contract and the time of contract maturity. In some cases, the parties may transfer the underlying assets (goods, foreign currencies, securities, loans), the payment is based on the fair value of the base asset specified in the contract. copper. In addition, derivative financial instruments also have the following characteristics:
Forward contracts:

- A forward contract is a legally binding agreement between the two parties, the parties to the contract do not have to open a margin account or pay any fees at the time of contract commencement, whereby the asset departments, maturities, forms of payment ... depend entirely on specific agreements between the two parties to the contract;

- The forward contract does not transact at the trading floor, the parties to the forward contract must bear certain risks due to contractual rights and obligations not guaranteed by the trading floor;

- The forward contract cannot be settled before the contract maturity date, the parties to the forward contract only have to pay once on the contract maturity date. Payment of forwarding contracts is a bilateral payment, which can be done by transferring the underlying asset or paying the difference between the price at the contract maturity date and the contract signing date.

Future contracts

- At the time of contract commencement, the parties to the futures contract must open a margin account at an exchange or an intermediary broker. Every day, when there is a difference between the market value of the underlying asset and the value of the underlying asset specified in the contract, the broker or trading floor will notify the parties of the amount to be paid or received via open margin account at the broker; During the validity of the contract, the parties must maintain the margin account balance above the minimum specified by the exchange and must deposit additional funds into the escrow account if the margin account balance is lower. minimum margin level;

- Futures contracts are publicly listed on the trading floor, with standardized specifications prescribed by the trading floor; The value of future contracts is determined according to the daily market price on the trading floor;

- The rights and obligations of the parties to the futures contract are fully guaranteed by the trading floor;

- Futures contracts are highly liquid, low risk and multilateral clearing by the trading floor. The parties to the contract may finalize the contract at or before the contract maturity date. At the time of contract maturity, payment can be made by transferring the underlying asset or paying the difference between the price at the contract maturity date and the price at the date of contract signing.

Options contract

- Options include 2 types: Call option and put option.

- At the effective time of the contract, the option buyer must pay the options right to the seller

- The buyer of the option has the right to exercise or not to exercise the option at the time of contract maturity.

- An options contract is traded on both OTC trading floors and decentralized markets.

Swap contract:

- The swap contract is used to exchange some non-buying and selling properties (eg exchange of EUR for USD) or exchange some non-buying and selling obligations (wallet for example exchange of floating interest rates for fixed interest rates, prices of goods varying from the prices of fixed goods.

- Swap contracts that are not listed on the trading floor due to the nature of a separate agreement between the two parties are based on the need to receive or pay cash flow of each party by exchanging benefits in the market. This financial school to take the other party's interests in the financial market is primarily for risk prevention.
2. International and Vietnamese accounting standards for derivative financial instruments

International accounting standards for derivative financial instruments.

Currently, there are three international accounting standards (technical expertise) regulating financial instruments, which are international technical expertise (IAS) No. 39 - Financial instruments: Recognition and valuation; IAS No. 32 - Financial instrument: International standard for preparing and presenting financial statements (FS); (IFRS) No. 7 - Financial instruments: Information disclosures. International technical expertise on financial instruments is regularly supplemented and revised in the past years.

Dung Content of international accounting standards IAS 32, IAS 39 and IFRS7 international financial reporting standards on derivative financial instruments are as follows:

(Source: http://www.iasplus.com/)

Derivative financial instruments are a financial tool that:

+ Their value corresponds to the change of basic goods such as interest rate, price of goods, price of securities, commodity price index or stock price index,

+ They do not require an initial investment, or that investment is smaller than required for a similar contract with changes in market factors.

+ They are paid in the future.

A derivative financial instrument is a financial asset or financial debt when it gives the parties the choice of how it is paid (for example, the issuer or the holder may choose a net payment method), in money or choose how to pay by exchanging stocks), unless all options lead to it being a capital tool.

Derivative financial instruments create rights and obligations that affect the assignment of one or more of the financial risks inherent in the original underlying financial instruments among stakeholders. In the beginning, derivative financial instruments give a contracting party the right to exchange financial assets or financial liabilities with another party to the contract with the conditions benefit or bring to a contracting party the obligation to exchange financial assets or financial liabilities with other parties participating in the contract with adverse conditions. However, in general, at the beginning of the contract does not lead to the transfer of the initial base financial assets, and also does not necessarily lead to such transfer at the time of maturity. Copper. Because the exchange terms are defined at the beginning of the derivative financial instrument and the price in the financial market changes the contract terms making it beneficial or unfavorable.

A call or put option to buy (sell) financial assets or financial liabilities (except for the organization's own equity instruments) gives the buyer the right to benefit from similar potential economic benefits. The hybrid corresponds to the change in the fair value of the underlying financial instrument of the contract, whereas the seller of the option recognizes an obligation to abandon the potential or future economic benefits or suffer from the loss of potential economic benefits in changing the fair value of the underlying financial assets. The underlying financial assets in the option contract can be any financial asset, including shares of other institutions or interest rate instruments. An option may require the seller to choose to issue a debt instrument, rather than transferring a financial asset, but the underlying financial instruments of the option may form a financial asset of the person. Purchase rights if options are made. The right of the option buyer is to change financial assets under potentially favorable conditions, and the option of the seller is to transfer financial assets under adverse potential conditions. The nature of the buyer's rights and rights of the seller is not affected by the possibility of the exercise of options.

Many types of derivative financial instruments include future exchange rights or obligations, such as interest rate swaps, currency swaps, futures contracts, option contracts, futures contracts ...

Bày Presenting derivative financial instruments on financial statements.
IFRS 7 requires the presentation of financial instruments in groups. Therefore, organizations must group their financial instruments into similar or similar groups. The groups of financial instruments must be consistent with the nature of the presented information and characteristic of financial instruments.

According to IFRS 7, two main groups must be presented:

First: Information on the importance of financial instruments:

* On the balance sheet:
  - Present the importance of financial instruments to the financial status and performance of the organization. Need to present one of the following:
    + The financial assets measured at fair value through profits and losses, these financial instruments are presented separately for the case of commercial use and at the time of writing, receive initially;
    + Investments held until maturity;
    + Loans and receivables;
    + Financial assets available for sale;
    + Financial liabilities are measured at reasonable prices through profits or losses, these held financial instruments are presented separately for business and at initial recognition;
  * + Financial liabilities are measured according to the value of the gradual return.
  * - In particular, the issues that need to be presented about financial assets and financial liabilities clearly indicate that they should be re-measured at fair value through profits and losses, including presentations on credit risk and market risk and changes in fair value.
  * - Reclassify financial instruments from fair value to gradual value.
  * - Presentation of the cancellation of acknowledgment, including conversions of financial assets for an accounting of cancellation of recognition, is not permitted in IAS 39.
  * - Information on pledged financial assets as a deposit and information about financial assets or non-financial assets held as a deposit.
  * - Harmonization of discount accounts for credit losses (bad debts).
  * - Information on complex financial assets with many derivative instruments attached.
  * - Violation of the term of loan contracts.
  * * On the report of business results and equity report:
    * - Items of income, costs, benefits, and losses with the separate presentation of benefits and losses from:
      * + Financial assets measured at fair value through profit and loss, these financial instruments are presented separately for business and at initial recognition;
      * + Investments held until maturity;
      * + Loans and receivables;
      * + Financial assets available for sale;
      * + Financial liabilities are measured at reasonable prices through profits or losses, these held financial instruments are presented separately for business and at initial recognition;
      * + Financial liabilities are measured at the gradual return value.
* - Income benefits and cost benefits for these financial instruments that are not measured at fair value through profits and losses.
* - Fees and charges collected.
* - Discount value of financial assets
* - Benefits collected from financial assets are reduced.
* - Discount value of financial assets.

Other presentation:

- Accounting policies for financial instruments.
- Information about self-insurance accounting, including:
  + Describe each self-insurance method, self-insurance tool and the fair value of these hedging instruments and the nature of the risks of hedging instruments.
  + For self-insured cash flow, the time periods in which these cash flows are intended to appear, when they may occur to take into account the decision of profit or loss, and describe any What is the anticipated translation for an accounting of the previously used self-insurance but is not expected to appear long-term.
  - If a benefit or loss based on hedging instruments in cash flow self-insured activity has been directly recorded in the equity, an organization should present the following:
    + Value has also been recorded in equity during the period.
    + Value that has been canceled from equity and has been included in profits or loss during the period.
    + Value that has been canceled from equity during the period and has been included in the initial recognition value of the purchase cost or the carrying value of non-financial assets or non-financial liabilities in a highly anticipated hedge transaction.
  + For the fair value of hedging instruments, information on reasonable value changes of hedging instruments and self-insurance terms.
  + Inefficiencies in self-insurance have been recorded in profits and losses (the separation of self-insured cash flow and self-insurance of net investments in foreign exchange).
  - Information on the fair value of each group of financial assets and financial liabilities, along with:
    + The book value is comparable.
    + Describe how to determine fair value.
    + Detailed information if their fair value cannot be measured reliably.

Monday: IFRS 7 requires the presentation of information on the nature and scale of the risks arising from the financial instruments as follows:

* Required presentation of qualitative information:
  - Requirements for presentation of qualitative information include:
    + Risks of each type of financial instruments.
    + The purpose of management, policies, and procedures for managing these risks.
    + Changes compared to the previous accounting period.
* Required presentation of quantitative information:
  - Requiring presentation of quantitative information including information about the scale that the organization presents risks, based on the information provided to internal management. Specifically, include:
    + Summary of the amount of data on the disclosure of each type of risk at the time of reporting.
    + The concentration of risks.
    + Presenting the following credit risks, payment risks, and market risks:
      - Credit risk: Credit risk presentations include:
        - The maximum value (before deduction of margin value), description of margin, information on the credit nature of financial assets without maturity, is not reduced and information about Credit nature of financial assets whose terms have been denied.
    + For financial assets that are due or declined, presentations are analytical.
    + Information on deposit or credit increase has been obtained or gathered.
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  Payment risk: Requirements for payment risk presentation include:
    + Analysis of financial liabilities.
    + Description of risk management method.
  Market risk: Market risk presentation requirements include:
    + Analyzing the sensitivity of each type of market risk.
    + IFRS 7 requirements: If an organization prepares sensitivity analysis for purposes management that reflects the interdependence of more or a component of market risk (for example, including interest rate risk and foreign currency risk), it can present analyzes in place of distributions Specific sensitivity for each type of market risk b. Vietnamese accounting standards for derivative financial instruments.

Currently, Vietnam has no accounting standards for derivative financial instruments for enterprises, accounting problems related to derivative financial instruments are discrete and inconsistent in many documents. different and not consistent with international accounting standards IAS 32, IAS39 and IFRS international financial reporting standards 7.

In the enterprise accounting regime promulgated by the Ministry of Finance's Decision No. 15 of March 20, 2006, applicable to all enterprises in all fields, all economic sectors throughout the country have a regulation on a number of short-term securities investment accounting issues, long-term securities investment, regulations on setting up provision for short-term and long-term securities investments and also accounting regulations when issuing bonds and shares promissory note. For derivative financial instruments, there is no specific accounting regulation that only provides the draft of the Ministry of Finance's draft circular on 2010 derivative financial instruments.

However, for credit institutions: Commercial banks ..., derivative financial instruments have been used effectively. Therefore, the State Bank also has specific documents guiding the accounting of derivative financial instruments for credit institutions. On August 29, 2006, the State Bank issued Official Letter 7704 / NHNN - KTTC. guide credit institutions to make accounting for this operation. The main content of this dispatch includes specific and detailed instructions on accounting principles and contents for forwarding exchange operations, currency exchange operations, options buying and professional operations. Selective right sale service and options trading transaction between two currencies. Specifically:
Purchasing / selling operations: Foreign currency forward transactions are reflected immediately into the in-line account with the value at the date of signing the contract at the actual exchange rate at the date of signing the contract. Buying and selling activities under forwarding contracts will be regularly re-evaluated according to the official exchange rate announced by the State Bank or the spot buying rate of credit institutions permitted by the State. By the end of the fiscal year, it is necessary to re-evaluate according to the exchange rate of the financial statement date.

Currency swap operation: Recognized and tracked on off-balance sheet accounts. Characteristics of this business are not to create an open position on foreign currencies, so credit institutions do not need to regularly reevaluate market value. The credit institution must record the principal amount converted in the swap agreement at off-balance-sheet accounts to monitor implementation when it is due.

Currency option operation: To be recorded and tracked on off-balance sheet accounts. The amount of fee received by the option contract is recorded as a liability due to the ability to perform obligations: damage to future economic interests and can be determined reliably. Besides, selling options can only generate losses. The arising but unrealized losses will be re-determined on a continuous basis: market price, original price of the options object and trading volume, the validity term of the contract.

3. Some considerations when making an accounting of derivative financial instruments

Derivative financial instruments are used for many purposes, within the scope of the research, the author only mentioned accounting of derivative financial instruments for the purpose of risk prevention. Specifically, preventing cash flow risks. When using derivative financial instruments for the purpose of risk prevention, enterprises must identify specific risk prevention objects and tools used to prevent risks, types of preventable risks and accounting. What are the risk prevention tools?

Subjects of risk prevention: Subjects of risk prevention may be a firm commitment that has not been recognized in the likely financial statements, transactions, or net investments in foreign activities. Subjects of risk prevention must satisfy the following conditions:
- Losses may arise from certain commitments or transactions that are most likely to occur in connection with one or more independent partners outside the enterprise to determine that they are subject to risk prevention.
- Investments held until maturity are subject to exchange rate risk and credit risk prevention and are not considered to be subject to interest rate risk or prepayment risk.

Risk prevention tool: Risk prevention tools - are derivative financial instruments. They must be signed with an independent organization outside the reporting enterprise and that external independent organization is responsible for compensating the contractual loss when the risk arises for the object that has been hedged. Where independent businesses in the group engage in hedging transactions, the hedging transaction must be excluded in the consolidated financial statements.

Type of prevented risk: When doing business in the market there are many risks: payment risk, credit risk, interest rate risk, cash flow risk... Within the scope of the project, the author only studies accounting to prevent risks of cash flow for derivative financial instruments.

Accounting for risk prevention: When applying the cash flow risk prevention accounting, enterprises must comply with the following principles:
- Effective hedging or loss from the risk prevention tool is recorded directly into equity and is presented in the statement of the financial statements at the lower value of an in the following two items:
- Loss or accumulated interest arising from risk prevention tool calculated from the first day of risk prevention to the time of reporting; or
- Accumulated changes in the present value of future estimated cash flows of the object being prevented from the first day of risk prevention to the time of reporting.
- The risk prevention or loss portion arising from the risk prevention tool is recorded directly into equity and transferred to the income statement when the transaction is anticipated to prevent risks, affect the Statement of business results (for example, when sales are made).
- When the hedging tool has expired, is sold, terminated or has been implemented, the business does not follow
the tool on the financial statement anymore. The fact that a risk prevention tool is replaced by another tool is not
considered to have been terminated, expired, sold or has been implemented. In this case, accumulated losses or
profits arising from the hedging instrument have been directly recorded in the equity since the instrument has
begun to take effect and will continue to be recorded as exclusive. set up in equity until the expected transaction
is made.
- In the even that the expected transaction is determined to not occur again, previous interest or accumulated
losses have been directly recorded into equity since the effective hedging tool the force will be recorded in the
income statement.

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