โครงการสัมนนา เสริมความคิด ติดปีกวิชาชีพ กับคณะพาณิชย์ฯ ธรรมศาสตร์ ปี 2562

เครื่องมือทางการเงิน : TFRS 9

วันจันทร์ที่ 2 กันยายน พ.ศ. 2562

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Agenda

1. Introduction
2. Qualifying for Hedge Accounting
3. The Three Hedge Accounting Models
4. Disclosure

1. Introduction

ความแตกต่างระหว่าง "การป้องกันความเสี่ยง" กับ "การบัญชีการป้องกันความเสี่ยง"

1. **การป้องกันความเสี่ยง (Hedging) :**
   - เลือกที่จะป้องกันก็ได้
   - เลือกที่จะไม่ป้องกันก็ได้
2. **การบัญชีการป้องกันความเสี่ยง (Hedging Accounting) :**
   - เลือกที่จะป้องกันก็ได้
   - เลือกที่จะไม่ป้องกันก็ได้

ความแตกต่างระหว่าง "การป้องกันความเสี่ยง" กับ "การบัญชีการป้องกันความเสี่ยง"

1. การป้องกันความเสี่ยง (Hedging) :

- มีรายการที่มีความเสี่ยง Transaction with risks
- Exchange risk, Interest rate risk, Credit Risk, Price risk
- ความเสี่ยงของรายการ ➔ ทำให้กิจการ เกิด **กำไร ก็ได้** ขาดทุนก็ได้ แล้วแต่สภาวะตลาด ณ เวลานั้น
- เข้าทำรายการ ด้วยการซื้อ ตราสารประเภท อนุพันธ์ทางการเงิน เพื่อ ปิดความเสี่ยง

ความแตกต่างระหว่าง "การป้องกันความเสี่ยง" กับ "การบัญชีการป้องกันความเสี่ยง"

2. การบัญชีการป้องกันความเสี่ยง (Hedging Accounting) :
   1. ต้องมีการป้องกันความเสี่ยง ก่อน
   2. ค่อยพิจารณาว่า จะเลือกใช้วิธีการบัญชีการป้องกันความเสี่ยงหรือไม่
   3. จึงถือว่าเป็นทางเลือก ว่าจะใช้การบัญชีการป้องกันความเสี่ยงนี้หรือไม่ก็ได้
   4. เลือกใช้ได้ ต่อเมื่อเป็นไปตามเงื่อนไข ที่มาตรฐานกำหนดให้ทำ
      - ก่อน ➔ ระหว่าง ➔ เมื่อเลิกใช้การบัญชีการป้องกันความเสี่ยง

	Yes	No
Business transaction with risks	มีความเสี่ยง ➔ ต้องการป้องกันความเสี่ยงหรือไม่ ?	ไม่มีความเสี่ยง ➔ บันทึกบัญชีตามเกณฑ์ ม.บัญชี ในเรื่องนั้น
Want to manage risks	ทำรายการป้องกันความเสี่ยง (Hedging) ด้วยการซื้อหรือขายผลิตภัณฑ์ทางการเงิน อย่างใดอย่างหนึ่ง Hedged item vs	–
Want to apply Hedge Accounting	ต้องเตรียมตัวตั้งแต่ก่อน บันทึกรายการ ตามหลักการบัญชี “Hedge Accounting”	บันทึกแยกกัน hedged item และ hedging instrument

Hedge accounting and its effect

	Hedging relationship	
	Hedged item	Hedging instrument
Instrument	Borrowing	Interest rate swap
Risk management	Exposure to interest rate risk	Use to hedge against interest rate risk
Measurement	Amortised cost	Fair value through PL

- *Economically*, the derivatives eliminate or reduce exposure to the interest rate risk arising from the borrowing
- *Accounting-wise*, measurement inconsistency results in volatility in PL

Hedge accounting resolve accounting mismatch

How hedge accounting resolves accounting mismatch

Financial instruments	General measurement under IFRS 9
Derivatives	Fair value through PL
Bonds issues	Amortised cost
Trade receivables (Loan receivables)	Amortised cost
Investment in equity	Fair value through OCI*
Firm commitment to issue financial instruments	Not yet recognised on balance sheet

Mixed measurement leads to or recognition inconsistency in hedging relationships

(‘*accounting mismatch*’)

Benefits of applying hedge accounting

- Reflect result of hedging activities by reporting the effects of derivatives and risk being hedged in the same period
- Reduce P/L volatility by matching gain/loss of hedging instrument and hedged item

- Hedge accounting can be applied *voluntarily* on *case by case* basis.
- It might not be worthwhile if the potential PL volatility from the accounting mismatch is or may be limited.

*IFRS 9 allows (but not require) non-trading investment in equity to be measured at fair value through OCI

Hedge accounting

Current Practice in Thailand

- There is no specific standard under TFRS. However, the Companies apply policies choice either;
  - Accrual basis for derivatives instrument or
  - Off-book and disclosure FV in notes to the financial statement or
  - Mark-to-market and presented as derivative assets/laibilities on balance sheet
- There is inconsistency between accounting outcome & risk management strategies.

TFRS 9

- Aims to align risk management strategies and financial reporting
- Provides more flexibility
- Re-balancing required
- Excludes FV hedges of interest rate exposure of portfolio of financial assets and liabilities ***(Macro Hedging Project)***

Future Development

- Discussion Paper on Macro Hedge issues and currently under deliberation.
- On 20 May 2015, no decision was made and the IASB is continuing its discussions on macro hedging at future meetings.

2. Qualifying for hedge accounting

Qualifying criteria

IFRS 9 Qualifying Criteria

- 1. Only eligible hedging instruments and hedged items
- 2. Formal designation and documentation
- 3. Meets the hedge effectiveness requirements
  - 3.1 ***Economic relationship*** between hedged item and hedging instrument gives rise to offset
  - 3.2 Effect of ***credit risk*** does not dominate the value changes
  - 3.3 ***Hedge ratio*** results from the quantity of hedged item hedged and hedging item used to hedge

1.1 Hedging instruments - *Cost of hedging*

Forward contract

=

Spot element

+

Forward point

- Forward point is the difference between the forward and the spot price.

Cross currency swap

=

Spot element

+

Currency basis spread

- Currency basis spread is a charge embedded in financial instruments that compensates for aspect such as country risk and liquidity risk.
- This charge is only applies to transaction involving the exchange of foreign currencies at a future point in time.

Option

=

Intrinsic value
(Market price – strike price)

+

Time value of option

- Fair value minus intrinsic value
- The portion of an option that is attributable to the amount of time remaining until expiration of the option contract.

1.2 Hedged items

Hedged item candidates	
Single item	• The following transactions that involve party external to the entity – A recognised asset or liability – Unrecognised firm commitment – Highly probable forecast transaction (>75% probability of occurrence) – Net investment in a foreign operation • An entity can designate an item in its *entirety* or a *component* of such item. Permitted components are as follows; – Changes in cash flows or fair value of an item attributable to a specific risk provided that the risk component is separately identifiable and reliably measured – One or more selected contractual cash flows
Group of items	• A *group of items* which must be *reliably measured*. All of the items in the group are *individually eligible hedged items* and the items are managed together for *risk management purpose* • A layer (in terms of monetary or physical transaction) of a group can be designated as the hedged item. For example, hedging the first $80 million of $100 million firm commitment.

2. Formal designation and hedge documentation

Hedge documentation shall be prepared at the inception of the hedge and needs to be updated from time to time.

Elements in the hedge documentation

- The entity's risk management objective and strategy for undertaking the hedge
- Hedge model (Fair value, Cash flow, Net investment hedge)
- The nature of the risk being hedged
- The hedge item
- The hedging instrument
- Method to assess the hedging instruments effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk including:
  - The economic relationship;
  - An assessment of whether credit risk dominates the economic relationship;
  - An assessment of whether the hedge ratio is the same used for risk management purposes
  - Analysis of source of expected ineffectiveness
- Frequency of assessing the hedge effectiveness
- Items excluded from the hedge effectiveness assessment such as forward element, currency basis spread, time value of option.

Hedge documentation is in place at the inception of hedge accounting to prevent abusing in order to inappropriately improve result

Modification of the hedge documentation would be required when there are changes to the method to assess hedge effectiveness, or where the hedge ratio is rebalanced, and when the analysis of source of ineffectiveness is updated.

3. Hedge effectiveness requirement

Hedge effectiveness is the extent to which changes in the fair value or cash flows of the hedging instrument offset the changes in the fair value or cash flows of the hedged items.

There are three hedge effectiveness requirements.

*1. **Economic relationship** between hedged item and hedging instrument gives rise to offset*	• There must be an expectation that the value of the hedging instrument and the value of the hedged item would generally move in the *opposite direction.* • Only statistical correlation between two variables is not sufficient to conclude that economic relationship exists. • Entities should always perform a ***qualitative analysis*** of the nature of economic relationship.
*2. Effect of **credit risk** does not dominate the value changes*	• The hedge would fail if credit risk is the main driver of fair value change. • IFRS 9 does not provide a definition of ‘dominate’.
*3. **Hedge ratio** results from the quantity of hedged item hedged and hedging instruments used to hedge*	• Hedge ratio is the relationship between the quantity of the hedging instrument and quantity of the hedged item in terms of their relative weight. • The hedge ratio used for hedge accounting purposes should be the same as used for risk management purpose.

3. Hedge effectiveness requirement – *Critical term comparison*

- Critical terms comparison method is the simplest way to assess whether the economic relationship is met and it does not require any calculations.
- Critical terms comparison consists of comparing the critical terms of the hedging instrument with those of the hedged item.
- The hedged relationship is expected to be highly effective where all the principal terms of the hedging instrument and the hedged item match exactly.

At minimum, the following critical terms must be the same or closely aligned:

- *Notional amounts*
- *Dates of interest settlement*
- *Underlying terms (e.g. option)*

<u>Example</u>

Hedged item

Contract date	1 Jan 2018
Debt principal	$1,000
Interest rate	10% fixed rate (Annually settled on 31 Dec)
Term	2 years

Hedging Instruments

Contract date	1 Jan 2018
Notional amount	$1,000
Instrument	Interest rate swap Pay: LIBOR Receive: 10% fixed rate (Annually settled on 31 Dec)
Term	2 years

3. Hedge effectiveness requirement – *Dollar offset method*

- Dollar offset is a quantitative method that consists of comparing the change in fair value or cash flows of the hedging instrument with the change in fair value or cash flows of the hedged item attributable to the hedged risk.

- Depending on the entity's risk management policies, The test can be performed either:
  - On a cumulative basis
    e.g. with the comparison performed from the inception of the hedge
  - On a period-by-period basis
    e.g. with the comparison performed from the last testing date

- Note that hedge accounting journal entries are always based on cumulative dollar offset test.

Dollar offset ratio =

$$\frac{\Delta \text{ Fair value of hedging instrument}}{\Delta \text{ Fair value of hedged item}}$$

Or

$$\frac{\Delta \text{ Fair value of hedged item}}{\Delta \text{ Fair value of hedging instrument}}$$

<u>Example</u>

Period	Hedging instrument	Hedged item	Ratio (%)
Q1	50	(50)	100%
Q2	105	(107)	98%

3. The three hedge accounting model

Fair value hedge

Cash flow hedge

Net investment hedge

Fair value hedge

Fair value hedge
Risk is change in fair value of balance sheet position

Example: Fixed rate bond, hedged to floating rate by interest rate swap

If hedge accounting is applied,

Hedging Instrument	***Hedged Item***
Changes in fair value	Changes in fair value with respect to risk being hedged

↓ ↓

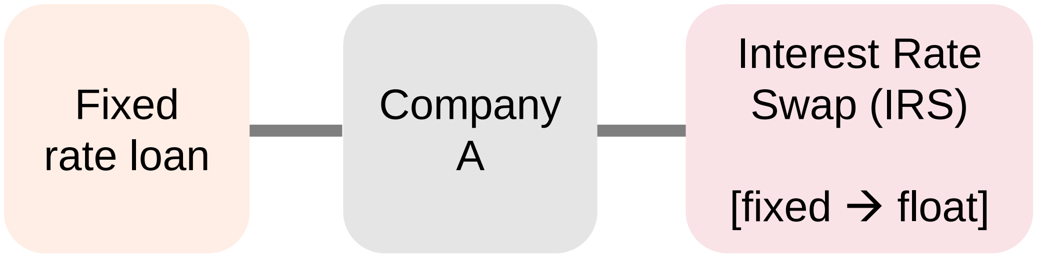
Profit of loss

(OCI for equity instruments at FVOCI)

Fair value hedge - *Exercise*

At t=0 Company A obtained a fixed rate loan from a Bank. Company A enters simultaneously into an interest rate swap to hedge fair value risk of the loan.

In period 1, market interest rate decreases. The fair value of borrowing increases from 5,000 to 5,055, the fair value of the swap increases from zero to 55.



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Period 0

Balance sheet

		Borrowings	5,000

Period 1

Balance sheet

IRS		Borrowings	

Profit or loss

		Revaluation of IRS	

Fair value hedge - *Exercise*

At t=0 Company A obtained a fixed rate loan from a Bank. Company A enters simultaneously into an interest rate swap to hedge fair value risk of the loan.

In period 1, market interest rate decreases. The fair value of borrowing increases from 5,000 to 5,055, the fair value of the swap increases from zero to 55.

Fixed rate loan — Company A — Interest Rate Swap (IRS) [fixed → float]

Without Hedge accounting

Period 0

Balance sheet

		Borrowings	5,000

Period 1

Balance sheet

IRS	55	Borrowings	5,000

Profit or loss

		Revaluation of IRS	55

Fair value hedge - *Exercise*

At t=0 Company A obtained a fixed rate loan from a Bank. Company A enters simultaneously into an interest rate swap to hedge fair value risk of the loan.

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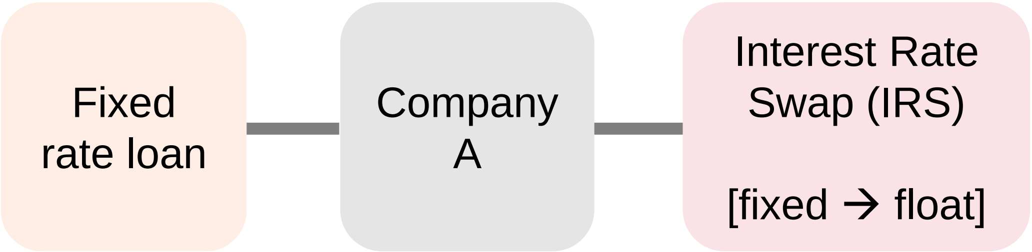


With Hedge Accounting

Period 0

Balance sheet

		Borrowings	5,000

Period 1

Balance sheet

IRS	55	~~Borrowings~~	~~5,000~~
		Borrowings	**5,055**

Profit or loss

Revaluation of borrowing	**55**	Revaluation of IRS	55

Cash flow hedge

Cash flow hedge

Risk is exposure to variability in cash flows

Example: Float rate notes, hedged to fixed rate by an interest rate swap

If hedge accounting is applied,

Hedged item	***Hedging Instrument***
Record in the same manner as if hedge accounting is not applied.	Changes in fair value

Effective part

Part offsetting the change in fair value of hedged item

Recognised in OCI

When hedged item impacts PL

When non-financial asset/liability or firm commitment is recognised

Ineffective part

Excess part

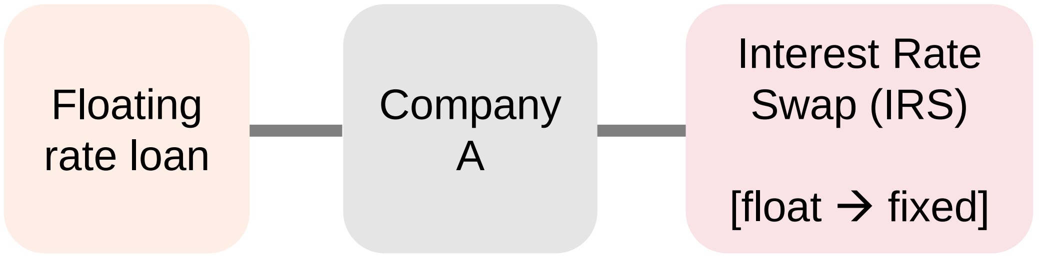
Recognised in profit or loss

Initial cost or carrying amount of asset / liabilities/ firm commitment

Cash flow hedge - *Exercise*

At t=0 Company A obtained a floating rate loan from a Bank. Company A enters simultaneously into an interest rate swap to hedge cash flow risk of the change in interest of the loan.

In period 1, the fair value of the swap increases from zero to 55.



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Period 0

Balance sheet

	Borrowings 5,000

Period 1

Balance sheet

IRS	Borrowings
	OCI – cash flow hedge reserve

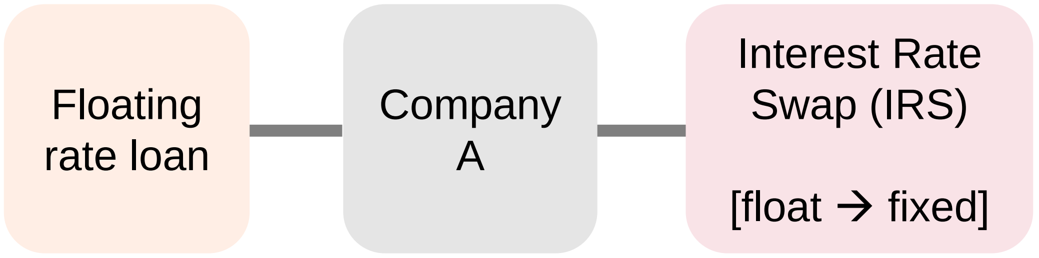
Profit or loss

	Revaluation of IRS

Cash flow hedge - *Exercise*

At t=0 Company A obtained a floating rate loan from a Bank. Company A enters simultaneously into an interest rate swap to hedge cash flow risk of the change in interest of the loan.

In period 1, the fair value of the swap increases from zero to 55.



Without Hedge accounting

<u>Period 0</u>

Balance sheet

		Borrowings	5,000

<u>Period 1</u>

Balance sheet

IRS	55	Borrowings	5,000

Profit or loss

		Revaluation of IRS	55

Cash flow hedge - *Exercise*

At t=0 Company A obtained a floating rate loan from a Bank. Company A enters simultaneously into an interest rate swap to hedge cash flow risk of the change in interest of the loan.

In period 1, the fair value of the swap increases from zero to 55.

Floating rate loan — Company A — Interest Rate Swap (IRS) [float → fixed]

With Hedge Accounting

Period 0

Balance sheet

		Borrowings	5,000

Period 1

Balance sheet

IRS	55	Borrowings	5,000
		OCI – cash flow hedge reserve	55

Profit or loss

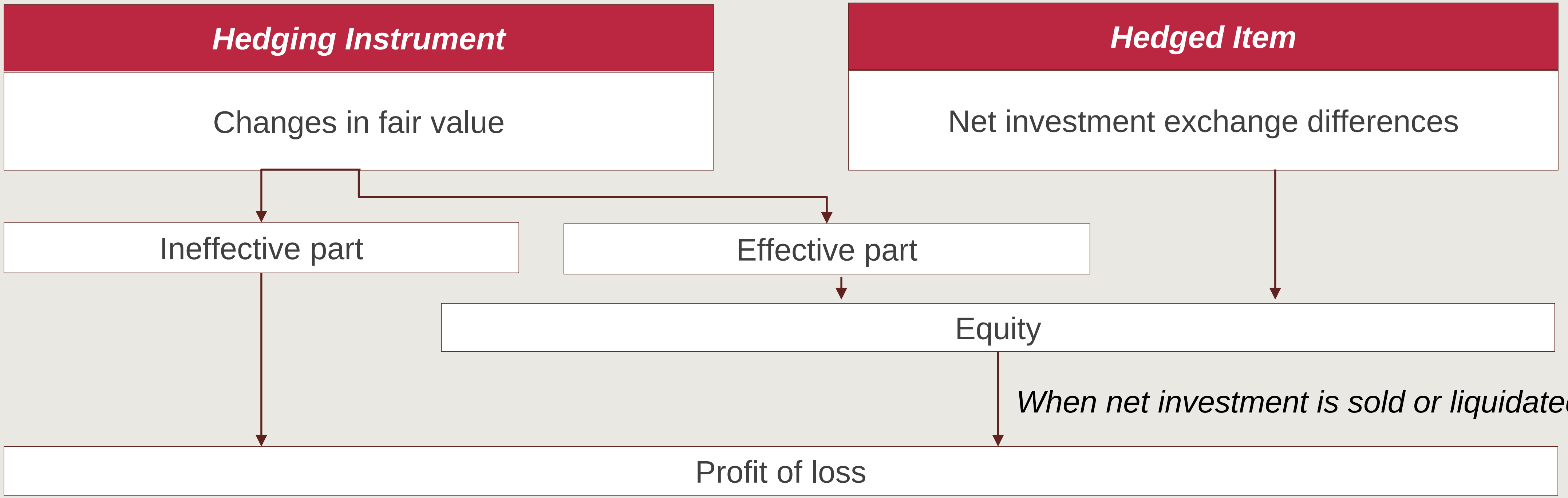
		~~Revaluation of IRS~~	~~55~~

Net investment hedge

Net investment hedge
Risk is the foreign currency exposure arising from reporting entity's interest in the net assets of a foreign operation

Example: Hedging the currency translation risk over the net investment of Thai entity in a Spanish subsidiary by entering into a EUR CCS

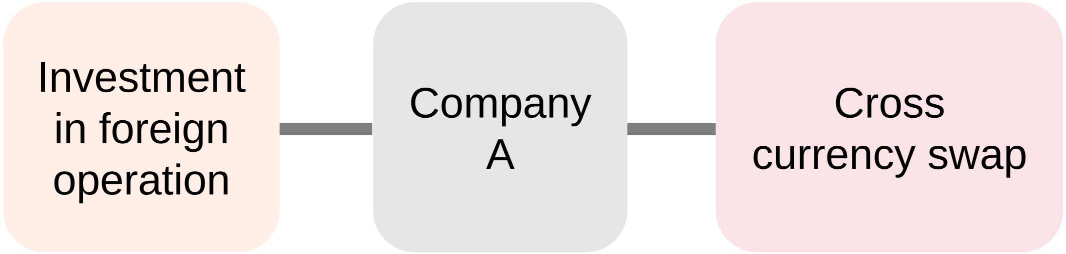
If hedge accounting is applied,



Net investment hedge - *Exercise*

At t=0 Company A obtains a cross-currency swap to hedge the net investment risk of the change in net investment in a foreign operation.

In period 1, the fair value of the swap increases from 0 to 32 positive.



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Period 0

Balance sheet

	Currency swap	0

Period 1

Balance sheet

Currency swap	OCI – currency translation reserve

Profit or loss

	Revaluation of currency swap

Net investment hedge - *Exercise*

At t=0 Company A obtains a cross-currency swap to hedge the net investment risk of the change in net investment in a foreign operation.

In period 1, the fair value of the swap increases from 0 to 32 positive.

Investment in foreign operation — Company A — Cross currency swap

Fill in the blank

Without Hedge accounting

Period 0

Balance sheet

		Currency swap	0

Period 1

Balance sheet

Currency swap	32	OCI – currency translation reserve	-32

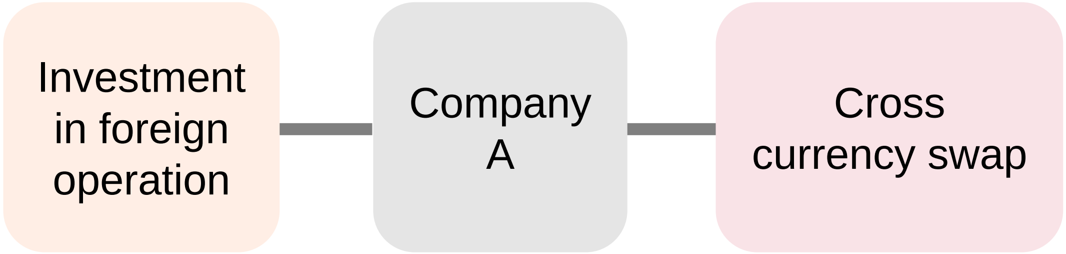
Profit or loss

		Revaluation of currency swap	32

Net investment hedge - *Exercise*

At t=0 Company A obtains a cross-currency swap to hedge the net investment risk of the change in net investment in a foreign operation.

In period 1, the fair value of the swap increases from 0 to 32 positive.



With hedge accounting

Period 0

Balance sheet

		Currency swap	0

Period 1

Balance sheet

Currency swap	32	OCI – currency translation reserve	+32-32

Profit or loss

4. Disclosures

Hedge accounting disclosures

Accounting policy 01

Risk management strategy 02

The amount, timing and uncertainty of future cash flows 03

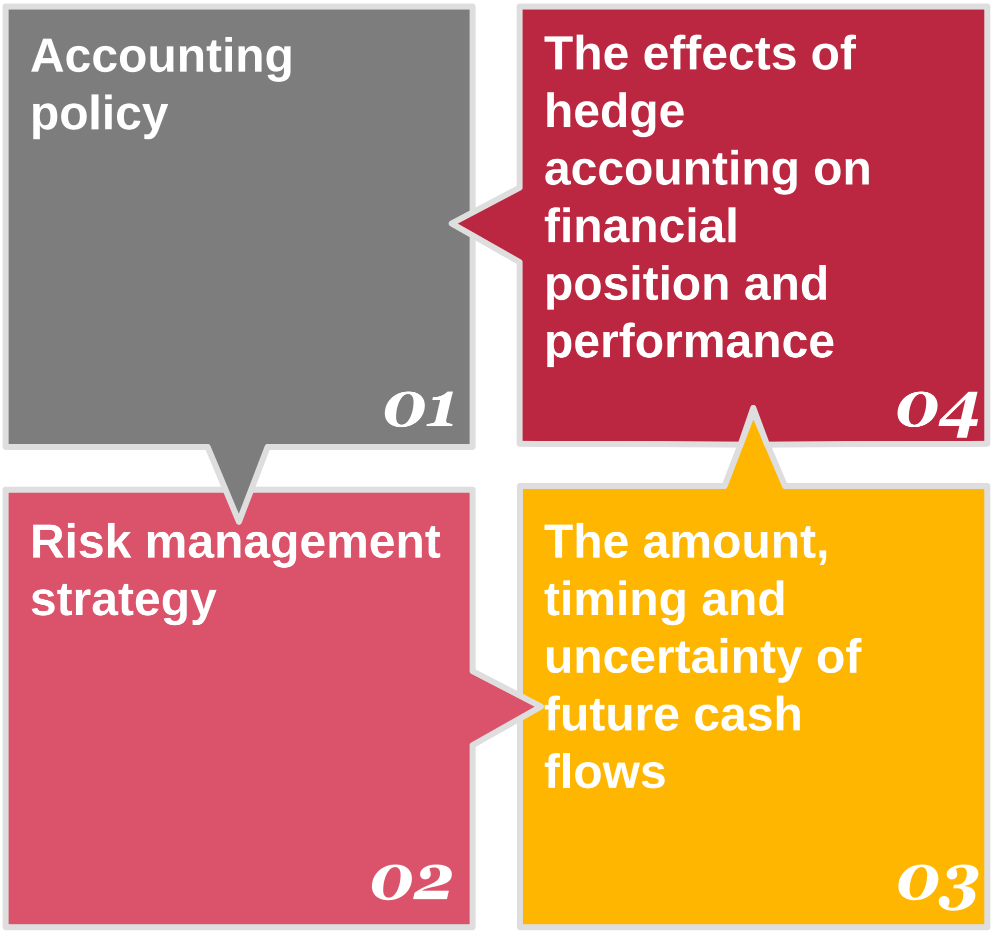
The effects of hedge accounting on financial position and performance 04

01 Accounting policy

Hedge accounting disclosures shall provide information about:

- An entity’s risk management strategy and how it is applied to manage risk.
- How the entity’s hedging activities may affect the amount, timing and uncertainty of its future cash flows.
- The effect that hedge accounting has had on the entity’s statement of financial position, statement of comprehensive income and statement of changes in equity.

Hedge accounting disclosures

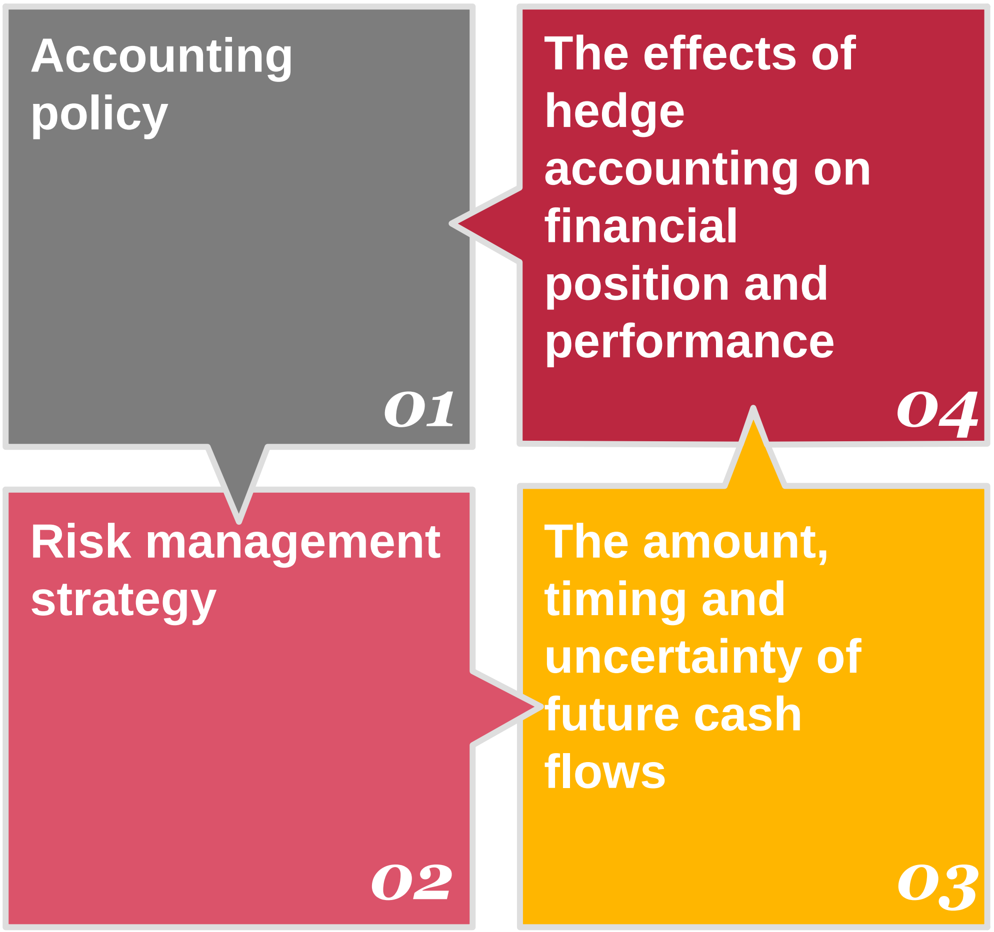


02 Risk management strategy

For each risk exposure which hedge accounting is applied, the entity shall explain:

- How each risk arises.
- How the entity manages each risk
- The extent of risk exposures
- The hedging instruments that are used and how they are used to hedge risk exposures.
- How the entity determines the economic relationship between the hedged item and the hedging instrument
- How the entity establishes the hedge ratio and what source of ineffectiveness are.

Hedge accounting disclosures



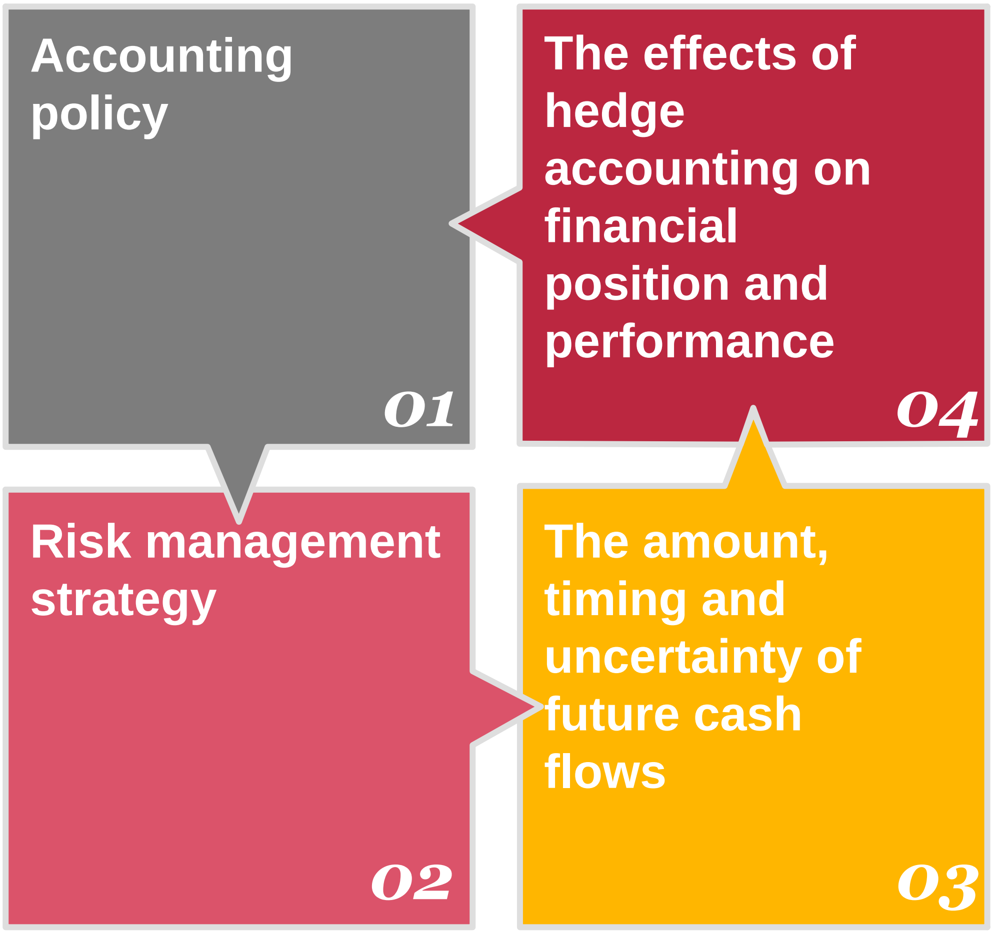
03 The amount, timing and uncertainty of future cash flows

An entity shall disclose by risk category quantitative information to allow users of its financial statements to evaluate the terms and conditions of hedging instruments and how they affect the amount, timing and uncertainty of future cash flows of the entity.

an entity shall provide a breakdown that discloses:

- A profile of the timing of the nominal amount of the hedging instrument.
- If applicable, the average price or rate (for example strike or forward prices etc.) of the hedging instrument.

Hedge accounting disclosures

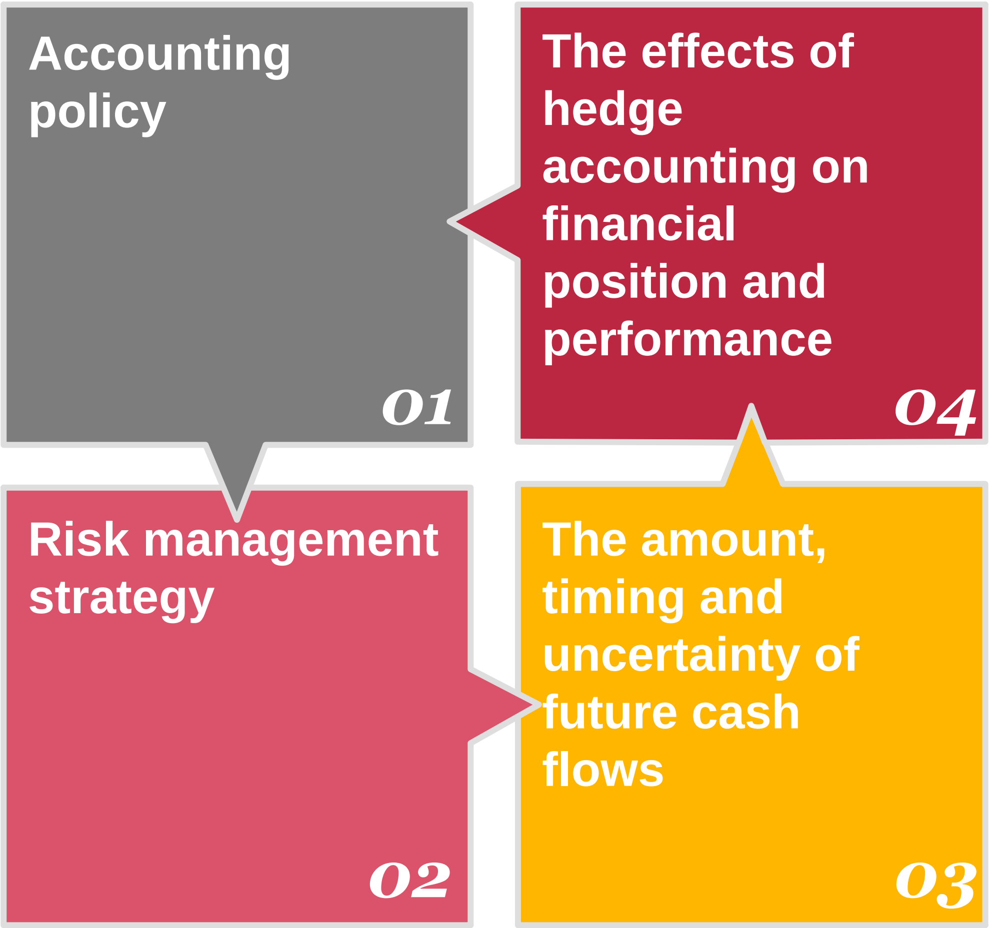


04 The effects of hedge accounting on financial position and performance

An entity shall disclose, in a tabular format, the following amounts related to items designated as hedging instruments separately by risk category for each type of hedge:

- The carrying amount of the hedging instruments.
- The line item in the statement of financial position that includes the hedging instrument.
- The change in fair value of the hedging instrument used as the basis for recognising hedge ineffectiveness for the period.
- The nominal amounts of the hedging instruments.
- Hedge ineffectiveness recognised in profit or loss (or in OCI for FVOCI equity).
- The amount reclassified from the cash flow hedge reserve or the foreign currency translation reserve into PL

Hedge accounting disclosures



04 The effects of hedge accounting on financial position and performance (cont)

An entity shall disclose, in a tabular format, the following amounts related to hedged items separately by risk category for the types of hedges as follows:

- Carrying amount of the hedged item
- Accumulated amount of fair value hedge adjustments
- Change in value of the hedged item used as the basis for recognising hedge ineffectiveness for the period
- Cash flow hedge reserve and the foreign currency translation reserve


Q&A


THANK
YOU