DERIVATIVE INSTRUMENTS

A financial instrument that, by its terms at inception or upon occurrence of a specified event, provides the holder (or writer) with the right (or obligation) to participate in some or all of the price changes of another underlying value of measure, but does not require the holder to own or deliver the underlying value of measure. Thus, its value is derived from it.

[PFRS 9] CRITERIA

1. Its value changes due to underlying
2. The settlement is in a future date
3. Little or no initial net investment

Underlying – may be a commodity, financial instrument, foreign exchange rate, or specified interest rate.

HEDGING VS SPECULATIVE

Specul-ative	purpose is to earn profit
Hedging	purpose is to mitigate risk or loss

FORWARD CONTRACT

An agreement between two parties to exchange a specified amount of commodity, security, or foreign currency on a specified date at a specified price or exchange rate.

A commitment to purchase or sell a specified commodity on a future date at a specified price.

FIRM (PURCHASE/SALE) COMMIT-MENTS

No actual transaction such as selling or purchasing at a future date.
This means that the purchase/the asset is not recorded until the date of settlement, unlike the previous transaction in which the asset is already recognized at the date of transaction.
Only a memo entry is made for the asset during the transaction date.

OPTION CONTRACT

Contracts that gives the holder the right to purchase or sell an asset at a specified price during a definite period on some future time.

This is recorded as an investment in the balance sheet. The amount paid for an option is referred to as the option premium.

Call option	Right to purchase an asset (buyer POV).
Put option	Right to sell an asset (seller POV).

OPTIONS

	Call Option	Put Option
At the money	Spot = strike	Spot = strike
In the money	Spot > strike	Spot < strike
Out of the money	Spot < strike	Spot > strike

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