

- Hi whether Purchase Order issued to vendor can be a derivative **SM: Generally not. As explained in the session, Ind AS 109 contains an own use exemption which if not fulfilled, it may get into derivative.**
- Can a Purchase Order be construed as an unrecognised firm commitment under hedge accounting? **SM: the threshold for Firm commitment is far more than that for highly probable firm contract. A binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates. If firm commitment is legally binding, it can be treated as Firm commitment**
- in case of purchase orders placed by a manufacturing unit does the capacity of the unit has a bearing to decide the derivative contract. It can happen that the purchase is more than the capacity to manufacture or sale. **SM: Yes capacity is considered for the purpose of evaluating 'own use' exemption**
- The non financial underlying should not be specific to the party to the contract right? So in the case of the example given, Virat Kohli is not a party to the contract right? **SM: You are right**
- Under Derivatives, Virat Kohli would not be a party to the contract right? If the contract is between You and Me **SM: You are right**
- Hi... Can Cryptocurrency can be treated as derivative, are they have any underlying value ? Their trading will be termed as Derivative trading ? **SM: There is a question mark as to whether they constitute a legally enforceable contract under Indian laws. So whether or not they would be financial instruments is the main question.**
- Can Gross Settlement contracts be derivatives, if yes can you please give an example for the same? **SM: Gross settlement would not necessarily be allowed for derivatives**
- How is premium received on written option by a seller accounted at inception? **SM: Since premium would be representing the fair value of the option, it would be the day 1 initial measurement of the option contract under Ind AS 109**
- How is a premium paid at inception on an option contract accounted at inception? **SM: Since premium would be representing the fair value of the option, it would be the day 1 initial measurement of the option contract under Ind AS 109**
- Can you pls give another example of swap? **SM: AS discussed in the session, IRS, currency swap, commodity swaps, CDS, etc.**
- Hedge accounting is optional or compulsory to a Company who are required to prepare accounts as per Ind AS if they have forward contract for currency exposure **SM: Hedge accounting is optional and not mandatory**
- please give example of put/call options in monetary terms. How profit or loss derives ? **SM: There were an example in the slides**
- Derivative roll over means What **SM: roll forward would mean the derivative is continued upon expiry since the underlying exposure may be still there**
- Can option contract can be settled before expiration date? **SM: Generally not**
- Can you throw light on the accounting treatment stated in Guidance Note on Derivatives in 2015? What is the treatment followed currently for derivatives for IGAAP (AS) applicable companies? **SM: Explained during the session**
- For derivative, future date can be current date ? Suppose we buy in morning and sell in evening. **SM: It would be derivative in normal sense but not necessarily under Ind AS 109**
- Three characteristics which discussed here, are derivative characteristics or Financial Instrument? what is difference between characteristics of Financial Instrument & Derivatives **SM: Derivative is a sub set of financial instruments**

- Whether Fixed interest rate payment prepaid at inception and receive Variable Interest be classified as Derivative? And whether pay variable and receive fixed interest rate swap is a derivative? **SM: No, since there would not be nominal or zero initial investment**
- On day 1 whether option premium need not be charged to P&L ? **SM: No pl refer one of the earlier responses**
- Hi, whether mark to market settlement always forms part of future options? Doesn't it form part of forward contracts? **SM: No, it can also be for future contracts**
- What if the value of underlying asset value could not be determine on settlement date ? **SM: underlying variable should have value**
- if pricing of conversion fixed but variable no of shares. Does it mean Embedded derivatives ? **SM: Sorry not clear**
- can we pl take neumerical example of Emd Der for accouting perse **SM: Sorry not clear**
- Is it a carve out from IFRS that no separation option available in case of financial asses? IFRS allows embedded derivatives to be separated from the host on some conditions ? **SM: Yes this is a carve out as discussed in the session**
- whether the conditions for separation in case of embeded derivatives are to be cumulatively seen or anyone condition fulfilling we need to separate. **SM: any one**
- In case of financial liability where the separation of host and derivative is done. The separaion has to be made at the inception only or anytime during the life of the instrument. **SM: At the inception of the contract. Subsequent assessment to be done if there are significant changes in terms**
- When is a hybrid contract in the nature of a financial liability measured at fair value through profit or loss? **SM: there are certain conditions that need to be made for optionally designating fin liabilities as FVPL under Ind AS 109**
- Could you please clarify about cryptocurrencies used by companies abroad as an alternative to cash payment...would it then be cash and cash equivalents and hence Financial Instruments? What about them being Derivatives in such case? **SM:There is a question mark as to whether they constitute a legally enforceable contract under Indian laws. So whether or not they would be financial instruments is the main question.**
- Sale agreement containing clauses for reduction in price after attaining certain quantity. will this qualify as embedded derivatives **SM: pl refer the exemption for whether the pricing terms are integral to the characteristics of the host. Ingredient costing linkage are not required to be separated**
- How do we determine what is the functional currency of the other counterparty **SM: Good question- as discussed in the session, this is practically a challenge. One may not have even access to financials of the counterparty...**
- In case of a construction contract, if exchange loss of imported items can be passed on to the awarder, please explain whether separation is required? **SM: Yes, unless the 3 exemptions in Ind AS 109.B4.8.3(d) are met**
- Also, on Balance Sheet date, if contractor has a foreign currency monetary item liability, whether foreign currency translation as on balance sheet date should be done for this monetary item liability especially when the corresponding receivable will be recognised as an asset only after reaching a certain milestone in the construction stage in the future but it would cover any exchange rate loss? **SM: Foreign currency liability needs to be translated through P&L under Ind AS 21. Embedded derivative if separated would be FVPL – this would be mitigating the forex gain/ loss arising due to translation of forex exposure**

- What is meant by leverage? Like leveraged index? **SM: Not defined under Ind AS 109. Leverage features must be such that either the holder would not recover substantially all of its recognised investment or the issuer would pay more than twice the market rate of the host contract at inception and could result in a rate of return that is at least twice what the market return would be for a similar host contract [Ind AS 109:B4.3.8(a)]**
- what do you mean by leveraged in the context of embedded derivatives? **SM: Not defined under Ind AS 109. Leverage features must be such that either the holder would not recover substantially all of its recognised investment or the issuer would pay more than twice the market rate of the host contract at inception and could result in a rate of return that is at least twice what the market return would be for a similar host contract [Ind AS 109:B4.3.8(a)]**
- Is a gain on an embedded derivative which results in creation of a forward contract asset and added to the cost of an asset referred to as a basis adjustment? **SM: Yes**
- Is the forward contract asset in your case study to be classified as a financial asset? **SM Yes**
- In the Airport example- how will the customer of ABC Ltd will do the accounting. **SM: customer also has to evaluated whether ED should be separated under Ind AS 109**
- different part of world - singapore, US, UK, Brazil having different functional currencies. The parent company trade in USD only. Is there element of embedded derivative involved. **SM: No separation if the commonly used currency exemption under Ind AS 109.B4.8.3(d) are met**
- In the Machinery example, are we not increasing the asset value by 8 lacs however we got it for 67 lacs?? **SM: There is settlement of the forward contract incidental to the payment of Rs. 8 Lacs. That needs to be captured in the cost of machinery**
- If hedge accounting is adopted for one transaction. does it mandate the application of hedge accounting to transaction of similar nature? **SM: No – its not an accounting policy choice**
- How to check hedge effectiveness **SM: No specific method- needs to be documented in RM documentation**
- What is the guidance given on Hedge effectiveness? What are the methods to quantify / compute the effectiveness of hedge? **SM: No specific method- needs to be documented in RM documentation**
- How accounting for Derivatives and Hedge Accounting is different? **SM: Derivatives are defined- it's a mandatory classification. Hedge accounting is optional. Hedge accounting involves hedging instrument which generally includes derivatives**
- Forward contract to hedge trade receivable is Fair Valu Hedge or Cash flow hedge **SM: Cash flow hedge**
- How do you measure effectiveness of a hedging relationship? **SM: No specific method under Ind AS 109.**
- In a fair value hedge, all differences go to Statement of Profit or Loss. Why are we referring to effectiveness in a fair value hedge when all differences go to statement of profit or loss? **SM: P&L effectiveness/ineffectiveness presentation.**
- Can cash flow and fair value hedge co-exist? If so how will it be classified? **SM: Yes as explained in the session**
- How can Registered Valuers - SFA play a role under accounting for derivatives /embedded derivatives / hedge accounting? Can you provide some examples **SM: Yes as explained in the session**
- A company has INR fixed loan for which it has entered into swap with bank for USD fixed amount. The interest rate is also swapped for fixed 9% to receive to fixed 5% to pay. Whether accounting to be done as per hedge accounting or simple derivative accounting where MTM to be debited to P&L (accounting as per IGAAP). **SM: Explained in the session.**

- How to segregate the MTM into Spot and Time value? **SM: Explained in the session. No specific method in the standard**
- How should the discontinuance of a cash flow hedge of variable interest rate payments be accounted for when hedge accounting is discontinued because the hedge fails an effectiveness test? **SM: Explained in the session. Cant abruptly discontinue hedge accounting**
- How to access FRRB review documents? **SM: Refer ICAI FRRB website**
- in case of forward contract against probable sales. How the effectiveness testing to be done it is on date of maturity or date of entering into transaction? **SM: Explained in the session. No specific method in the standard**