absolute value, option delta 247	accruals
accounting categories	cross-currency swaps 481, 483, 485, 489, 504-510
financial assets 2–11	527–533, 535, 550–556, 558
financial liabilities 16–18	fixed rate liabilities 409–410
accounting election, forward element 151–156	accrued interest
accounting entries	cross-currency swaps 194, 482–489, 505–511,
cross-currency swaps 334–335, 342–343, 482–492,	528-530, 532-534, 551-553, 555-557
505–514, 528–537, 551–560	interest rate swaps 101
fixed rate liabilities 410-415, 445-448	acquisition date, translation process on 306-307
floating rate liabilities 382–385, 394–396	active markets, level 1 financial instruments 74
forecast sales 175–180, 196–201, 209–211,	actual terward element 157-158
220–222, 243–245	actual funding, swaps in arrears 448
foreign subsidiary earnings 359–362	actual time value
forward element	see also time value
changes through profit/loss 153–156	aligned time value
excluded from hedging relationship 156–161	greater than 60, 63–65, 67–69
in hedging relationship 147–150	lower than 60, 62–67
forward points	floating rate liabilities 388
excluded from hedging relationship 317-320	hypothetical derivatives 196
in hedging relationship 316–317	KIKO collars 455, 460–461
future fixed rate issuance 422–425	options 165
future floating rate issuance 432–435	other comprehensive income 167
FX forwards 350–353	tunnels 171, 174, 178
hedge objective unchanged 136–139	administrative burden, FX forwards 141
KIKO collars 463–467	Airbus 380 Superjumbo 745
KIKO forwards 266–269	airlines
knock-in forwards 235–237, 243–245, 254–256	Airbus 380 Superjumbo 745
net investment hedges 326-328, 334-335, 342-343	jet fuel swaps 691–707
range accrual forwards 279–281, 283–286	rolling hedging strategy 691–707
risk management objective	weak controls 743
changes 139–141	aligned collars 460
discontinuation 178–180	aligned forward element 156–161
accounting implications	aligned time value
foreign subsidiaries 296	actual time value
treasury centres 289–292	greater than 60, 62-67
accounting mismatch, fair value option 19	lower than 60, 63–65, 67–69
accounting optimisation, knock-in forwards 225–226	hypothetical derivatives 196
accounting perspective, forecast sales 141	KIKO collars 460
accounting policy, Ericsson group 742	options 165, 180, 187, 194-195
accounts receivable see receivables	All Items Consumer Price Index for all urban
accrual range see range accrual forwards	consumers (CPI-U), United States 712

America West Airlines Inc. 743	components of 712–714
American KIKO 449	Fischer equation 713–714
amortisation amount, hedged item 66, 68–69	bonds
amortised cost	see also convertible bonds
cross-currency swaps 481–482	accrual amounts, future floating rate 432–434
debt instruments at 7	constant maturity 6
financial assets 2–6, 10–11	cross-currency swaps 102–103
fixed rate bond example 14–15	receive-fixed pay-fixed 538–541, 551–552, 554,
interest rate 11–13, 481–482	556–557, 561
Asian options see average rate options	receive-fixed pay-floating 495, 505–511, 513, 515
ask prices, mid-to-bid/offer adjustments 77	receive-floating pay-fixed 516–517, 527–530,
asset managers, inflation markets 710	533–534
asset monetisation strategy 597–599	receive-floating pay-floating 470–471, 476,
assets see financial assets; identical assets/liabilities;	481–482, 485–488, 493
net assets; recognised asset/liability	exchangeable 22
associate companies' equity risk 563	fixed rate 12, 14-16, 402-403, 416-417
associate operations 303	floating rate 115, 117, 376-378, 385-386, 449, 517
at-the-money options 59, 213	future fixed rate issuance 423–425
audits 139	future floating rate issuance 426–427
automatic exercise, call options 107	interest accruals 398
average rate forwards (AVRFs) 354-355, 358-364	interest rate cap 116
average rate options 118–119	interest rate risk 373–374
AVRFs see average rate forwards	KIKO collars 463–464
	net investment hedges 326–327
balance sheets 300, 303, 308, 310	swaps in arrears 437–438, 443–444
banks, treasury centres 287	breake en inflation rate (BEI), bond yields 713, 714
barrier options 119-121	Brent crude oil spot price 683, 684, 692
barriers	Sritain see United Kingdom
KIKO forwards 257, 259, 269	bullet floating rate liability 49
knock-in forwards 223–225	business model test, financial assets 2–4
"base" instruments 596	buyer payoff, options 108
basis adjustment, cash flow hedging 690	
basis component, cross-currency swaps 104, 515,	call options 105
538, 561	see also caps
basket options 119	case study 647–653
BEI see breakeven inflation rate	equity options 105–109
benchmark financial assets 5	equity swaps 638
beneficiary	fair value in entirety versus intrinsic value 648–649
stock appreciation rights 618	forecast sale hedging 163–164
stock option plans 618	FX options 111–114
bid prices 77	intrinsic value 57–58
bifurcation, embedded derivatives 21	KIKO forwards 257
bond coupons	knock-in forwards 227
accruals, fixed rate liabilities 411–413	settlement 105–108
calculations, swaps in arrears 445	time value 58
conversion, fixed rate liabilities 448	callable bonds 374–375
future floating rate issuance 434–435	cap spread, hedged items 34 capital injection, foreign subsidiaries 368
payments collars 394–396	capital injection, foreign subsidiaries 308 caplets 115–116, 450
cross-currency swaps 484, 486, 488, 506, 509,	caps
511, 516, 529, 532, 534, 538, 552, 555, 557	see also call options; collars
fixed rate liabilities 446	SEE WAN CAIL ODUOUS, COITAIN
	1
noging rate liabilities 387 384	hedged items 33–34
floating rate liabilities 382, 384 KIKO collars 463–464, 466–467	hedged items 33–34 inflation caps 722–725
KIKO collars 463–464, 466–467	hedged items 33–34 inflation caps 722–725 interest rate options 115–118
_	hedged items 33–34 inflation caps 722–725

written options 69–70	knock-in forwards 227
carrying value, forecast sales 174, 178	non-cumulative periodic inflation swaps 719, 720
cash fixed for variable convertible bonds 589–590	participating forwards 201
cash flow hedges/hedging 24-25, 27-29	swap interest 398
see also net investments/net investment hedges	zero-coupon inflation swaps 718
accounting entries 688–691	cash recognition, FX forwards 129
discontinuance 55–57	cash settlement
effective and ineffective amounts 688	call options 105, 107
effectiveness assessment 683-685	cross-currency swaps 330, 337
fair valuation of	forward contracts 98
hedged item 686	FX options 113
hedging instrument 686–687	put options 109–110
fixed rate foreign currency liabilities 540, 549–550	CCSs see cross-currency swaps
floating rate foreign currency liabilities 515,	CDSs (credit default swaps) 85
518–519, 526–527, 531, 533, 535	clean fair value, swaps in arrears 441
floating rate liabilities 377, 383–384, 387	closing spot rate, subsidiary's statement 309
forecast sales 166, 186–187, 238, 244	collared floaters 373–374
foreign subsidiary earnings 356–357	collarlets
future fixed rate issuance 417–418, 420, 422–424	fair valuation 458–452
future floating rate issuance 427, 428	time value 460–463
FX forwards 142–143, 159	collars 116, 118, 376
hedging relationship documentation 682, 728–729	see also caps, floors
	combination. 114
hypothetical derivative simplification 48 inflation-linked revenues 727–738	
	fair valuation/value 394–395, 457
interest rate risk 372	floating rate liabilities with 385–397, 448–468
KIKO collars 454, 465	in crest rate options 115–118
knock-in forwards 228–229, 238, 244, 248–249	intrinsic value 392, 394
oil futures 680–691	time value 390–392
participating forward	written options 69–70
in entirety 202, 209	collateralisation 88, 104
in entirety 202, 209 split 183–184, 197 profit/loss statement 742 range accrual forwards 273 risk of reassessment 744 simultaneous hedging 739	commodities
profit/loss statement 742	categories 655
range accrual forwards 273	derivative contracts 655–658
risk of reassessment 744	financial settlement, case study 662-664
	lease contracts 655–658
treasury centres 289	own-use contracts 655–658
cash flows	underlyings 655
bond/CCS combination 471, 495, 517, 539–540	commodity contracts
calculations	accounting hierarchy 656
cross-currency swaps 475–482, 499–505,	categorisation 658–659
521–528, 543–551	derivative accounting 657
fixed rate liabilities 406–410, 442–445	derivative contracts 655–658
floating rate liabilities 380–382, 390–394	finance raising, case study 662–664
future fixed rate issuance 421–422	forward-fair value hedging 664–672
future floating rate issuance 430–432	lease accounting 657
KIKO collars 457–463	lease contracts 655–658
cross-currency swaps 102-103, 471, 495, 517, 520,	net settled commodity contracts 659
524, 539–540, 544, 547	own-use accounting 657
cumulative periodic inflation swaps 721	own-use contracts 655–658
fixed leg swaps 100	physically settled commodity contracts 658, 659
floating leg 100	settlement terms 658–659
inflation caps 724	trading purposes contracts 658
inflation-linked bonds 714, 716	types 658–659
inflation swaps 728	commodity inventory
interest rate options 117–118	futures contracts 672–680
KIKO forwards 258	futures hedging

accounting entries 678-680	denominated in foreign currency 571-572
case study 672–680	fixed for fixed 570, 583–586
effectiveness assessment 674–677	fixed for variable 571, 586–590
fair valuation of hedged item 677	investment example 20
fair valuation of hedging instrument 677-678	investor's perspective 572
hedge accounting application 673	issuer's perspective 569–572, 578–590
hedging relationship documentation 673-674	mandatory bond case study 578-583
time-period related hedged item 61	value at maturity 569
commodity risk 655–707	correlation options 119
commodity underlyings 655	cost method, parent-only financial statements 297, 345
crude oil futures 691–707	costs, foreign currency liabilities 469
derivative contracts 655–658	coupon rate, future fixed rate issuance 423
fair value hedging 664–672	coupons
forward-fair value hedging 664–672	see also bond coupons
futures hedging 672–691	accruals
highly expected purchase with futures hedging	fixed rate liabilities 411–413
680–691	future floating rate issuance 434–435
jet fuel swaps 691–707	calculations, swaps in arrears 445
lease contracts 655–658	conversion, fixed rate liabilities 448
own-use contracts 655–658	payments
rolling hedging strategy 691–707	collars 394–396
compensation plans see stock-based compensation	cross-currency swaps 484, 486, 488, 506, 509,
plans	511, 516, 329, 532, 534, 538, 552, 555, 557
competitive risk 123	fixed raw iiabilities 446
compliant hedge accounting derivatives 451–453,	floating rate liabilities 382, 384
741–742, 744	K. NO collars 463–464, 466–467
compound contracts 19–22	net investment hedges 325–326
compound instruments, convertible bonds 570, 571,	swap settlement amounts 393
578, 579, 583	CPI-U see All Items Consumer Price Index for all
consolidated financial statements	urban consumers
foreign subsidiaries 297–298, 308	crack spreads 692
intercompany foreign dividends 344–349, 351–353	credit default swaps (CDSs) 85
intragroup transactions 292–293	credit details swaps (CDSs) 65 credit deterioration, hedged instrument 55
consolidated level	credit rating
analysis 741	foreign subsidiary earnings 358
treasury centres 290–292	net investment hedges 314, 324, 332
consolidation	step-up callable perpetual preference shares 591
equity method 563–565	credit risk
foreign subsidiaries 295, 298, 353–354	changes, financial liabilities at FVTPL 17–18
constant maturity swap 6, 373–374	cross-currency swaps 472, 473–475, 495, 497–498,
Consumer Price Index for all urban consumers	519–520, 542
(CPI-U), United States 712	fixed rate liabilities 416, 440, 442
Consumer Price Index (CPI) 712, 715, 725	foreign subsidiaries 317
contracts see commodity contracts; compound	future fixed rate issuance 419–420
*	
contracts; derivative contracts; forward contracts;	future floating rate issuance 429
futures contracts; hybrid contracts; insurance	hedge effectiveness assessment 39, 379
contracts; lease contracts; own-use contracts;	fixed rate liabilities 404–405
trading purposes contracts	floating rate liabilities 389
contractual cash flow test, financial assets 2, 5–6	foreign exchange risk 133, 144–145, 186, 188,
contractual discretion, equity instruments 567–568	231, 240, 262, 275
contractual split, KIKO collars 451	KIKO collars 456–457
contractually linked instruments 8–10	measurement, financial liabilities 18
contractually specified risk component 33	premium, bond yields 712
controls, operational resources 743	test of tranches of securitisations 8
convertible bonds 569–572	credit spreads 397–401, 417, 423
case studies 578–590	credit valuation adjustments (CVAs)

calculating 92–94	treasury centres 289
combining with DVA 86-87	debt instruments
definition 78	at amortised cost 7
fair valuation 71–95	case study 596
interest rate swaps 80-94	embedded derivatives in 373-375
Monte Carlo simulation calculation 87–94	fair value hedges 482
net investment hedges 314	at fair value through other comprehensive income 7
other effects 94	fixed rate liabilities 401
treasury centres 289	floating rate debt 13
critical terms method	foreign currency debt 304, 322-328
floating rate liabilities 376	interest rate swaps 101
future fixed rate issuance 420	linked to "base" instruments 596
hedge effectiveness assessment 42, 47, 312, 324,	net investment hedges 326, 328
332, 519–520	yield of 712–714
cross-currency swaps (CCSs) 102-105	default model, simple one-period 80-81
case studies 329–343	deferred hedge results, profit/loss 198-199
net investment hedges with 328-329, 336-343	delivery delay, Airbus 380 Superjumbo 745
product description 102-104	depreciation, net investment hedges 328
receive-fixed pay-fixed 538-561	derivative contracts
receive-fixed pay-floating 493-515	commodities 655-658
receive-floating pay-fixed 515-538	definition 656–657
receive-floating pay-floating 469-493	derivative netting 88
risk components 472	derivative simplification see hypothetical derivatives
settlement 330	derivatives
terms 330, 336	accounting for 25, 657
crude oil futures 683, 684	commodity contracts 657
accounting entries/fair valuation 704-705	definition 23
contract terms 694	inflation derivatives 716–725
fair values 687	introduction to 97–122
hedge effectiveness assessment 697–701	digital options 119
hedging relationship documentation 695–696	dilution risk, stock option plans 632-633
rolling hedging strategy 691–707	disclosures, IFRS 13 71
crude oil swaps 698–701, 704	discount factor, participating forwards 207-208
cumulative change	discounting overnight index swaps 95
net investment hedges 312–313	disposals, foreign operations 303
range accrual forwards 275	dividends
swaps in arrears 441	integral hedging 364-366, 368-369
time value 64, 68–69, 174, 196	intragroup foreign dividends 344-353
cumulative inflation caps and floors 722-723	stock appreciation rights 619
cumulative periodic inflation swaps 720-722	stock option plans 619
cumulative translation see translation differences	documentation
currency of entity, convertible bonds 570-571	cash flow hedging 682, 728-729
currency swaps see cross-currency swaps	commodity inventory hedging 673-674
CVAs see credit valuation adjustments	crude oil futures 695–696
	fair value hedging 666
data collection 89	hedge effectiveness assessment 39
see also historical data	hedging relationship 37-38, 131, 143, 166,
day 1 profit/loss, IFRS 13 79–80	184–188, 202, 228–229, 238, 249
debit valuation adjustments (DVAs)	cross-currency swaps 330-331, 337, 472-473,
calculating 92–94	496, 518
combining with CVA 86–87	fixed rate liabilities 403-404, 438-439
definition 78, 86	floating rate liabilities 377–378, 387
fair valuation 71–95	foreign exchange risk 131, 143, 166, 184–188,
Monte Carlo simulation calculation 87–94	202, 228–229, 238, 249
net investment hedges 314	foreign subsidiary earnings 356
other effects 94	future fixed rate issuance 418

future floating rate issuance 427–428	KIKO collars 457–463
hedged item/instrument description 215	knock-in forwards 234, 243, 253–254
KIKO collars 453–454	net investment hedges 314-315, 331-332, 338
net investment hedges 311-312, 322-323,	range accrual forwards 276-279
330–331, 337	effective interest rate (EIR) 11-13
range accrual forwards 272–273	effective parts
highly expected purchase with futures hedging 682	cash flow hedges 27–29
inflation-linked revenues, cash flow hedges 728–729	cross-currency swaps 333, 341, 496, 541
inflation risk hedging 728–729	floating rate liabilities 388
jet fuel swaps 695–696	future fixed rate issuance 419
DVAs see debit valuation adjustments	future floating rate issuance 429
	hedged instruments 135–136, 147, 153
EAD are expenses at default	KIKO forwards 265–266
EAD see exposure at default	participating forwards 208
earnings, foreign subsidiaries 353–364, 368	range accrual forwards 278–279
earnings before interest, taxes, depreciation and	risk management objective 178
amortisation (EBITDA) 149, 156, 162–163,	effectiveness assessment <i>see</i> hedge effectiveness
742–743	assessment
earnings before tax (EBT) 149, 156, 162	EIR (effective interest rate) 1)-13
EBITDA see earnings before interest, taxes,	embedded derivatives 19- 22, 216, 217, 373–375
depreciation and amortisation	employee stock ownership plans (ESOP) 618
EBT see earnings before tax	
economic compulsion, hybrid securities 568	energy industry commodity contracts 655–656
economic hedges 272, 741–742	enhanced equity s vaps 638–639
economic relationship	entity-level araiysis 741
cross-currency swaps 473–474, 497, 519–520, 542	equipment ales, intragroup transactions 293
fixed rate liabilities 404–405, 440	equity mounts, future fixed rate issuance 417
floating rate liabilities 379, 389	equity-based compensation plans see stock-based
forecast sales 168–170, 186, 188–189, 240	compensation plans
foreign subsidiary earnings 357	equity component, compound instruments 22
future fixed rate issuance 419–420	equity consolidation method 563–565
future floating rate issuance 429	equity instruments
future floating rate issuance 429 hedged item/instrument 39, 41, 186 KIKO collars 456 knock-in forwards 231, 240, 251–252	contractual discretion 567–568
KIKO collars 456	convertible bonds 569–572, 578–590
knock-in forwards 231, 240, 251–252	debt vs equity classification 565–566
net investment hedges 312, 331, 338	derivatives on own instruments 572–573
range accrual forwards 275	diagram of 564
economic upside, hedge accounting compliance versus	at fair value through other comprehensive income
744	hedging own instruments 572
economies, hyperinflationary 300	investments 563–565
effective amounts	recognition 566
cross-currency swaps 475–482, 499–505, 521–528,	equity investments 563–565
543–551	case study 601–610
fair value changes 173–175, 192, 195, 243	classification 565
cross-currency swaps 480, 503, 525–527,	hedging with put option 601–610
549–550	hedging under equity consolidation method 565
fixed rate liabilities 408–409, 444	impairment 565
floating rate liabilities 381–382	in other companies 563–565
foreign subsidiary earnings 357, 359	recognition of 563–565
future fixed rate issuance 422	equity issuance, foreign subsidiaries 365
future floating rate issuance 431	equity market risk 632–633
KIKO collars 458–460	equity method
net investment hedges 318, 338	foreign subsidiary earnings 361–362
fixed rate liabilities 406-410, 442-445	translation process 299
floating rate liabilities 380-382, 390-394	equity options 105–111
future fixed rate issuance 421–422	equity risk 563–615
future floating rate issuance 430–432	see also equity market risk

"base"/debt instrument linkage 596	intercompany foreign dividends 347–348, 351
case studies 579–615	KIKO forwards 257, 263, 269
convertible bonds 569-572, 578-583	knock-in forwards 223-224, 232, 240-241, 251,
debt vs equity classification 565–566	254–255
derivatives on own equity instruments 572–573	minority interests effect 303
forward selling on own shares 610–615	net investment hedges 324–325, 327–328, 332, 335,
hedging investment with put option 601–610	339–340, 343
hybrid securities 567–569	participating forwards 181, 188–190, 204–205,
investments in other companies 563–565	212–214, 221
step-up callable perpetual preference shares	range accrual forwards 270-272, 275-276, 286
590–595	subsidiary's statement of financial position 309–310
stock lending case study 573–578	EUR-USD spot prices 684, 689–691
total return swaps 596–601	exchange differences <i>see</i> translation differences
equity swaps	exchange rate risk, cross-currency swaps 472, 495
accounting entries 643–645	exchangeable bond issuance example 22
call options 638	exercise period
combined effects on balance sheet 646, 647	stock appreciation rights 619
combined effects on profit or loss 646	stock option plans 619
fair valuation of SOP at each reporting date	exercise price
642–643	stock appreciation rights 619
put options 638	stock appreciation it said of 9
settlement amount 636	exercised/unexercised expiry
stock appreciation rights 635–638	stock approciation rights 631
stock option plans 634–635, 641–647	stock appree from Fights 057
Ericsson group 742	exercising options 213, 246–247
ESOP (employee stock ownership plans) 618	exolic instruments
EUR amount	see also KIKO
floating rate liabilities 395	quantity of hedged item estimation 246
FX forwards 99	standard derivatives and 222–223
KIKO forwards 258–259	exotic options 105, 118–119
knock-in forwards 224	expected dividends, foreign subsidiaries 368–369
participating forwards 182	expected inflation, bond yields 713
range accrual forwards 280	expected life
KIKO forwards 258–259 knock-in forwards 224 participating forwards 182 range accrual forwards 280 EUR leg, cross-currency swaps fixed-to-fixed 342	stock appreciation rights 619
fixed-to-fixed 342	stock option plans 619
floating-to-floating 333–334	expected net earnings, foreign operations 368
receive-fixed pay-fixed 544, 547, 552–556, 558	expected new capital injection, foreign subsidiaries
receive-fixed pay-floating 501, 504, 506–510	368
receive-floating pay-fixed 519, 521, 524, 528–533,	expected translation differences, foreign subsidiaries
535	369
receive-floating pay-floating 478, 481, 483–485,	export transactions, FX forwards 130
487–489	exposure at default (EAD)
European Consumer Price Index 725	credit valuation adjustments 80, 83–85
European KIKO 449	Monte Carlo simulation 88–94
Eurozone Inflation Index 711–712	profile calculation 90
EUR-HKD exposure example 50	exposures
EUR–USD derivatives, intragroup transactions	foreign subsidiaries 295, 364
293–294	treasury centres 290–292
EUR-USD options 112-114	external parties, hedged items 35
EUR-USD rate	
cross-currency swaps 470, 474–475, 494, 498, 516	fair valuations
economic relationship assessment 169	call options 648–649
foreign subsidiary earnings 357	collars 391, 396, 457
FX forwards 99, 128–129, 133, 136, 138, 140, 142,	commodity inventory hedging with futures
148–149, 154–156, 367	677–678
integral hedging 370	credit/debit valuation adjustments 71–95

	cross-currency swaps 475–482, 499–505, 521–528,	receive-floating pay-fixed 518, 525-527, 529
	543–551	receive-floating pay-floating 480, 483, 485,
	crude oil futures 687, 704–705	487–488, 490
	crude oil swaps 704	fixed rate liabilities 408–411, 442, 444
	equity investment hedged with put option 605-606	floating rate liabilities 381–384, 388, 395
	fixed rate liabilities 406-410, 442-445	foreign subsidiary earnings 357, 358–359
	floating rate liabilities 380–382, 390–394	future fixed rate issuance 422
	forward contracts 151-153	future floating rate issuance 428, 431, 433
	future fixed rate issuance 421–422	FX forwards 316–317, 319
	future floating rate issuance 430–432	interest rate swaps 404
	hedged item 315, 407–408, 443–444, 475–477,	KIKO collars 455, 458–460, 464–466
	499–500	net investment hedges 318, 338
	hedging instrument 314–315, 406–407, 421–422,	residual derivatives 283–284
	430-431, 442-443, 478-480, 500-503, 521-523,	swaps in arrears 439
	526, 543–546	fair value collars 394–395
	hypothetical derivatives 134–136, 146–147, 234,	fair value forwards 70
	339–340, 421–422, 430–431, 523–526, 546–548	fair value hedges/hedging 24-27
	IFRS 13 overview 71–80	accounting entries 670–672
	insurance-linked securities 732–735	case study 664–672
	interest accruals 399-401	cross-currency swaps 10-2, 472, 495–496, 526, 549
	interest rate risk 375	debt instruments 482
	jet fuel swaps 702-704	discontinuance 55-57
	KIKO collars 457–463	effectiveness as essment 667–669
	knock-in forwards 233–236, 242–243, 253	fair valuations of hedging instrument and hedged
	oil futures 686–687, 704–705	iten. 659–670
	participating forwards 191–196, 206–208, 210, 216,	fixed rate liabilities 401, 403, 438
	218, 220	hedging relationship documentation 666
	range accrual forwards 276–279	hypothetical derivative simplification 48
	relevant dates 146–147, 170–173, 193–196, 253,	interest accruals 397–401
		interest rate risk 371–372
	residual derivatives 457	rebalancing 52
	264–266 residual derivatives 457 stock appreciation rights 648–649 stock option plans 642–643	fair value option (FVO) 3, 19
	stock option plans 642–643	fair value through other comprehensive income
	ir value	(FVOCI)
	cross-currency swaps 332–333, 334, 341, 520	debt instruments 7
	definition 72–73	equity instruments 7
	fixed for variable convertible conds 588	financial assets 2, 6–7, 10–11
	floating rate liabilities 380, 100	fixed rate bonds 15–16
	forecast sales 167, 169, 179, 185, 187, 193–194,	hedged instruments 37
	196–198, 200, 239	fair value through profit or loss (FVTPL)
		financial assets 2, 6–7, 10–11
	FX forwards 132–133, 137, 140, 144, 148–149, 154, 158	financial liabilities 17–18
	hierarchy 74	hedged instruments 36
		ε
	knock-in forwards 230, 232, 239, 250–251	final cash flows, bond/CCS combination 471, 495,
	net investment hedges 314–315, 318	517, 540
	pricing 73	financial assets
	swaps in arrears 441	at amortised cost 2–6, 10–11
	ir value adjustments	categories 2–11
	cross-currency swaps 481–482, 504–505, 513	embedded derivatives in 19–22
C	net investments 301	fair value option 19
ta	ir value changes 173–176, 187, 192, 195, 243,	at fair value through other comprehensive income 2
	266–268	6–7, 10–11
	cross-currency swaps	at fair value through profit or loss 2, 6–7, 10–11
	receive-fixed pay-fixed 541, 549–550	host contract 20
	receive-fixed pay-floating 496, 503, 505–508,	initial recognition 6–11
	510, 512	backing insurance contracts 4

interest rate hedging 371, 373	fixed for variable convertible bonds 571, 586–590
leveraged 8	fixed-to-fixed cross-currency swaps 336-343
non-recourse 8	floating CCSs 328–329, 335
reclassifications 10–11	floating debt, fixed rate liabilities 402
subsequent recognition 6–11	floating leg
financial instruments	cash flows 100
IFRS 13 level 1 74–75, 79	interest accruals 399-400
IFRS 13 level 2 75–76, 79	interest rate swaps 100, 375
IFRS 13 level 3 76–77, 79	swaps in arrears 436–437
recognition of 1–22	floating rate bonds 115, 117-118, 449, 517
theoretical framework 1–22	floating rate debt effective interest rate 13
financial liabilities	floating rate foreign currency liabilities
categories 16–18	receive-floating pay-fixed CCS 515-538
classification categories 17	receive-floating pay-floating CCS 469-493
embedded derivatives in 19-22	floating rate futures 426–436
fair value option 19	floating rate liabilities 49
at fair value through profit or loss 17–18	inflation-linked assets 738–740
host contract 20–22	interest rate swaps 376–385
interest rate hedging 371, 373	KIKO collars 448–468
measurement of credit risk 18	zero-cost collars 365–397
partial repurchases 17	floating-to-floating CCSs 329–336
financial reporting date, FX transactions 125	floorlets 115, 117, 450–451
financial statements	floors
see also balance sheets	see a'so collars; put options
foreign subsidiaries 297–298, 308, 309–310	hedged items 33–34
intercompany foreign dividends 344–353	u. vation floors 722–725
intragroup transactions 292–293	interest rate options 115–118
translation of 309–310	interest rate terms 386–387
firm commitments 30, 35–36, 56	KIKO collars 449–450
	written options 69–70
Fischer equation, bond yields 713–714	<u> -</u>
fixed CCSs 328–329, 336–343	zero-cost collars 396
fixed for fixed convertible bonds 570, 583–586	forecast intragroup transactions 292–294 forecast sales
fixed income market, interest rate risk 373	
fixed leg	foreign subsidiary earnings 363
cash flows 100	FX forwards 128–163, 354
interest accruals 400–401	hedging 163–222, 238–245, 246–256, 282–287
interest rate swaps 100, 375	range accrual forwards 282–287
swaps in arrears 436	treasury centres 288
fixed parity mandatory convertible bonds 578–580,	forecast transactions 30–32
583	cash flow hedges 56
fixed rate	versus firm commitment 35–36
future fixed rate issuance 416–426	intragroup 292–294
hypothetical derivatives 378	foreign currency convertible bonds 571–572
fixed rate bonds 402–403	foreign currency debt 304, 322–328
effective interest rate 12	foreign currency liabilities
examples of accounting for 14-16	case studies 469–493, 515–561
at fair value through other comprehensive income	hedging 469–561
15–16	foreign currency transactions 126–127
future fixed rate issuance 416–417	foreign dividends 344–353
interest rate risk 373–374	foreign exchange see FX
fixed rate foreign currency liabilities	foreign operations
receive-fixed pay-fixed CCS 538-561	see also foreign subsidiaries
receive-fixed pay-floating CCS 493-515	disposal of 303
fixed rate liabilities	integral hedging of 364–370
interest rate swaps 401–416	net investments in 303–311
swaps in arrears 436–448	foreign sales, highly expected 222–226, 257–270

foreign subsidiaries	knock-in forwards 223
case studies 304–328, 344–370	subsidiaries 355
earnings 353–364, 368	translation process 306, 309
hedging 295–307, 353–364	funding comparison, swaps in arrears 448
long-term investments 301–302	funding department, fixed rate liabilities 402
net asset elements 305–306	funding savings, KIKO collars 467–468
translation process 298–300	funding value adjustment (FVA) 76, 78–79
"foreseeable future" terminology 302	future fixed rate issuance 416–426
forfeiture	future floating rate issuance 426–436
stock appreciation rights 619	futures contracts
stock option plans 619	commodity inventory hedges 672-680
formal designation, hedge effectiveness assessment 39	highly expected purchase hedging 680-691
forward basis fair valuation 315	variation margin 672
forward component/element	FVO see fair value option
changes through profit/loss 153-156, 158	FVOCI see fair value through other comprehensive
exclusion from hedging relationship 151–161	income
forward contracts 70, 128–141	FVTPL see fair value through profit or loss
hedging relationship 147–150, 162–163	FX derivatives, summary of most commonly used 126
inclusion versus exclusion 162–163	FX forward-cash flow hedging
forward contracts 70	accounting entries 688-691
see also FX forwards; KIKO forwards; knock-in	effective and ineffective amounts 688
forwards; range accrual forwards	effectiveness assessment 683–685
case study 659–662	fair valuation of
cross-currency swaps 493	hedge Titem 686
excluded forward component/element 70, 162–163	hedging instrument 686–687
fair valuation 151–153, 264–265	high v expected purchase hedging 680–691
gold production 659-662	FX forward points implications 320–322
hedged instruments 38	5X forwards 97–99
included forward component/element 70, 162–163	see also knock-in forwards
	average rate 354–355, 358–364
net investment hedges with 311–322	fair value change 316–317, 319
JPY-GBP forwards 290–291 net investment hedges with 311–322 own-use contracts 659–662 settlement 98 splitting KIKO forwards 259–262, 270	forecast sale hedging 141–163
settlement 98	hedge accounting 127
splitting KIKO forwards 259–262, 270	integral hedging 367
splitting participating forwards 182-201	intercompany foreign dividends 349-353
subsequent receivables with 180-222	net investment hedges with 311
forward exchange rates, hypothetical aerivatives 191	product description 97–98
forward-forward basis, hedge effectiveness assessment	terms 97
144, 185, 230, 239, 274	treasury centres 288–289
forward points	FX hedges 744
excluded from hedging relationship 317-321	FX options 111-114, 127, 164
FX forwards 99	see also knock-out options
in hedging relationship 316–317, 320	FX rate
implications 320–322	FX forwards 98
forward rate, spot rate function 181	intragroup transactions 292
forward starting swaps 416-417, 426-427	knock-in forwards 225
forwards case study 610–615	net investment hedges 325
accounting treatment 610–615	range accrual forwards 275–277
forward treated as derivative 612-615	scenario analysis 43
physical settlement 610-612	FX risk
selling on own shares 610–615	case studies 128-226, 246-256, 257-281
France, Consumer Price Index 712	definitions 124–125
fuel consumption 691–707	foreign subsidiaries 295
functional currency	group basis hedging 287–292
definition 124	hedging 123–294
foreign subsidiaries 321	types of exposure 123

FX risk component	participating forward split 185–191
hedged instruments 38	range accrual forwards 273–276
highly probable forecast 31–32	hedge inception
intragroup monetary item 31	FX forwards 132–134, 158
FX transactions 125, 126–127	hedge effectiveness assessment at 145-146,
	168–170, 186, 188–191, 231–233, 240–242,
	250-253, 262-264, 275-276, 313-314, 324-325,
gas industry commodity contracts 655–656	332, 338–340, 357–358
GBP–JPY forwards 290, 291	participating forward in entirety 203, 216
Germany, Consumer Price Index 725	time value 62–64, 68
gold buying 673–680	hedge ineffectiveness rebalancing 49–50
gold futures 673, 675	see also ineffective
gold loans 662–664	hedge objective unchanged 136–139
gold production 659–662	hedge performance analysis, foreign subsidiaries
goodwill 301, 306–307, 311	369–370
government bonds, inflation-indexed	hedge ratio 40–41
see inflation-linked bonds	adjustments to 49, 51–52
grant date, stock appreciation rights/option plans 618	cross-currency swaps 473–475, 497–498, 519–520,
group basis hedging 287–292	542–543
see also intragroup transactions	discontinuance 55
	economic relationship assessment 170, 186
Hammonicad Indox of Congumen Bridge (HICD)	<u> </u>
Harmonised Index of Consumer Prices (HICP) 711–712	fixed rate liabilities 404–405, 440 floating rate Vabilities 379, 389
hedge accounting	foreign subsidiary earnings 358
discontinuance 29, 53–57	future fixed rate issuance 419–420
double-edge sword of 741–747	trure floating rate issuance 429
optimisation 259–261	FX forwards 134, 146
qualifying criteria 39–40, 144, 168, 185–186, 230,	KIKO collars 456–457
239, 250, 338–339	KIKO forwards 262, 264
standards implementation 178	knock-in forwards 231, 232–233, 240, 242,
theoretical framework 23–70	247–248, 252
hedge accounting compliant derivatives 451–453,	net investment hedges 324, 332
741–742, 744	participating forwards 189-191, 203, 206, 211-222
hedge effectiveness assessment 39–43	range accrual forwards 275
at hedge inception 168–170, 186, 188–191,	re-estimation 216–219
231–233, 240–242, 250–253, 262–264, 275–276,	readjustments to 211–222
313–314, 324–325, 332, 333–340, 357–358	hedged item
at start of hedging relationship 203-206, 379-380,	candidates 30–36, 290–292
389–390, 405–406, 420–421, 430, 440–442,	cap and floor 33–34
456–457, 497–498, 542–543	components of item eligible for designation as
cross-currency swaps 473-474, 496-498, 518-521,	32–33
541–543	cross-currency swaps 473, 475-477, 496, 499-500,
fixed rate liabilities 404–406, 439–442	518, 540, 543
floating rate liabilities 378–380, 388–390	decreasing volume 52
forecast sales 166-168, 238-242	definition 24
foreign subsidiary earnings 356–358	description in hedging relationship documentation
future fixed rate issuance 418–421	215
future floating rate issuance 428-429	effectiveness assessment 41, 186
FX forwards 131–134, 143–146	eligible for hedge accounting 39
KIKO collars 454–456	external parties 35
KIKO forwards 262–264	fair valuation 170–173, 407–408, 443–444,
knock-in forwards 228–233, 249–253	475–477, 499–500
methods 41–42	fixed rate liabilities 403, 407–408, 438, 443–444
net investment hedges 312–314, 323–324, 331–332,	floating rate liabilities 377, 387
337–340	forecast sales 166, 238
participating forward in entirety 202–206	foreign subsidiary earnings 356

forward basis fair valuation 315	tunnel as 180
future fixed rate issuance 418	hedging relationship
future floating rate issuance 428	discontinuance 53–55, 139
FX forwards 131, 134-136, 143	forecast sale hedging 165-166, 185-186, 239-240
increasing volume 51	foreign subsidiaries 355
items not eligible for designation as 35	forward element excluded from 151-161, 162-163
KIKO collars 454	forward element in 128-141, 147-150, 162
knock-in forwards 229, 238, 249	forward points excluded from 317–321
layer component 34–35	forward points in 316-317, 320
net investment hedges 312, 323, 331, 337	hedge accounting qualification 144
OCI accumulation 60–61	hedge effectiveness assessment at start of 379-380,
other restrictions 35	405-406, 420-421, 430, 440-442, 456-457,
participating forward elements 201-202	497–498, 542–543
participating forward split 184, 186, 193-196	interest rate swaps 101
quantity estimation 246–249	intragroup transactions 294
range accrual forwards 273, 274	knock-in forwards 230, 239-240, 250
rebalancing 49	net investment hedges 312, 330-331, 337
recognition of 26	participating forward in entirety 203-206
time-period related 60-62, 65-69	participating forward split 133–184, 191–196
transaction related 60–65	range accrual forwards 274–275
hedges, types 23–30	rebalancing 50
hedging alternatives, limited access to 744	requirements for effectiveness 168
hedging instrument	setting the term (28–131, 142
candidates 36–37	hedging relationship documentation 37–38
cross-currency swaps 473, 478-480, 496, 518,	cash flow nedging 682, 728-729
521–523, 526, 541, 543–546	compodity inventory hedging with futures 673–674
decreasing volume 51	cross-currency swaps 330–331, 337, 472–473, 496,
definition 24	518
description in hedging relationship documentation	crude oil futures 695–696
215	fair value hedging 666
discontinuance 54–55	fixed rate liabilities 403-404, 438-439
effectiveness assessment 41, 186	floating rate liabilities 377–378, 387
eligible for hedge accounting 39	foreign exchange risk 131, 143, 166, 184-188, 202,
fair valuation 314–315, 421–422, 430–431, 442–443,	228–229, 238, 249
478–480, 500–503, 521–523, 526, 543–546	foreign subsidiary earnings 356
fair value calculation 135, 147, 153, 264–265	future fixed rate issuance 418
fair value recognition 144	future floating rate issuance 427-428
fixed rate liabilities 404, 406–407, 439–443	hedged item/instrument description 215
floating rate liabilities 378, 380–381, 387, 390–392	highly expected purchase with futures hedging 682
forecast sales 166, 238	inflation-linked revenues, cash flow hedges 728-729
foreign subsidiary earnings 356	inflation risk hedging 728–729
forward contracts 38, 264–265	jet fuel swaps 695–696
future fixed rate issuance 418, 421–422	KIKO collars 453–454
future floating rate issuance 427, 428, 430	net investment hedges 311-312, 322-323, 330-331,
FX forward as 129, 131, 143	337
FX risk component 38	range accrual forwards 272–273
increasing volume 52	HICP (Harmonised Index of Consumer Prices)
KIKO collars 454	711–712
KIKO forward as 260-261	hierarchy of fair value 74
knock-in forwards 229, 238, 242-243, 249	highly expected foreign sale 222-226, 257-270, 354,
net investment hedges 312, 323, 331, 337	363
participating forward and 182, 185, 186, 201-202	highly expected purchase with futures hedging
range accrual forwards 273, 274, 277-278	680–691
rebalancing 49	accounting entries 688-691
recognition of 26	effective and ineffective amounts 688
standard forward contract 233-234	effectiveness assessment 683–685

fair valuation of hedged item 686	IFRS 13 Fair Value Measurement
fair valuation of hedging instrument 686–687	level 1 financial instruments 74–75, 79
hedging relationship documentation 682	level 2 financial instruments 75–76, 79
highly probable forecast 30, 31–32	level 3 financial instruments 76–77, 79
highly probable transactions, risk of reassessment 744	mid-to-bid/offer adjustments 77
historical data, preliminary hedge ratio 213–215	overview 71–80
HKD–EUR exposure example 50	summary 72
host contract	ILB see inflation-linked bonds
financial assets 20	ILS (insurance-linked securities) 732–735
financial liabilities 20–22	impairment of equity investments 565
hybrid contracts 19–22	implied delta, preliminary hedge ratio 212–213
hybrid instruments inflation risk 725–726	in-the-money options 58, 59, 213, 247
hybrid securities 567–569	in-the-money tunnels 178
contractual discretion 567–568	income statements 364
convertible bonds 583	independence of market participants 74
degree of subordination 568	index swap discounting, overnight 95
distribution history 569	indices, inflation measurement 711–714
economic compulsion 568	individual statements 344–349
issuer's perspective 567–569	see also stand-alone financial statements
legal form 568–569	ineffective amounts
preference shares 567–569	cross-currency swaps 475–482, 499–505, 521–528,
hyperinflationary economies 300	543–551
hypothetical derivatives	fair value changes 173–175, 192, 195, 243
cross-currency swaps 517–519, 523–526, 540–541,	cross currency swaps 480, 503, 525–527,
546–548	49–550
fair valuation 242–243, 278, 339–340, 421–422,	fixed rate liabilities 408–409, 444
430–431, 523–526, 546–548	floating rate liabilities 381–382
floating rate liabilities 378, 380–381, 388	foreign subsidiary earnings 357, 359
forecast sales 167, 170–173, 187, 191–196	future fixed rate issuance 422
future fixed rate issuance 419, 421–422	future floating rate issuance 431
future floating rate issuance 428–430	KIKO collars 458–460
FX forwards 130–132, 134–136, 143–144,	net investment hedges 338
146–147, 152	fixed rate liabilities 406–410, 442–445
KIKO collars 454–455, 458–459	floating rate liabilities 380–382, 390–394
KIKO forwards 260–261, 264–256	future fixed rate issuance 421–422
knock-in forwards 233–234, 242–243	future floating rate issuance 430–432
range accrual forwards 274, 275, 278, 282	KIKO collars 457–463
relevant dates 134–136, 191–196, 233–234,	knock-in forwards 234, 243, 253–254
242–243	net investment hedges 314–315, 331, 338
simplification 48–49	range accrual forwards 276–279
terms 215–216, 217, 219	ineffective parts
	cash flow hedges 27–29
IAS 21 The Effects of Changes in Foreign Exchange	cross-currency swaps 333, 336, 341, 496, 541
Rates 123, 125–126, 292	floating rate liabilities 388
IBM stock 58, 106–107, 109–111	future fixed rate issuance 419
ICE futures prices 683, 684	future floating rate issuance 429
identical assets/liabilities 74	hedged instruments 135–136, 147, 153
IFRS 2 Share-Based Payment 619–624	KIKO forwards 265–266
IFRS 9 Financial Instruments	participating forwards 208
classification categories 3, 17	range accrual forwards 278–279
cross-currency swaps 104–105	risk management objective 178
FX risk 123	inflation
hybrid contracts accounting treatment 20	Consumer Price Index 712, 715, 725
inflation risk hedging 725–727	Eurozone Inflation Index 711–712
interest rate swaps 101	Harmonised Index of Consumer Prices 711–712
nature of 1–2	hyperinflationary economies 300

indices 711–714	insurance companies 710
measurement of 711–714	insurance contracts 4
Retail Price Index 711, 712, 725	insurance-linked securities (ILS) 732-735
inflation caps 722–725	integral hedging, foreign operations 364–370
inflation derivatives 716–725	intercompany foreign dividends 344–353
cumulative periodic inflation swaps 720–722	interest accruals 375, 397–401
inflation caps 722–725	interest expense
inflation floors 722–725	cross-currency swaps 493, 515
non-cumulative periodic inflation swaps 719–720	fixed rate liabilities 410, 412–413, 416, 445–446
periodic inflation swaps 719–722	floating rate liabilities 385
zero-coupon inflation swaps 717–718	future fixed rate issuance 426
inflation floors 722–725	future floating rate issuance 436
inflation-linked assets and floating rate liability	net investment hedges 325–326, 333, 341
738–740	interest flows
inflation-linked bonds (ILB) 374–375, 714–716	credit spreads 399
inflation-linked revenues, cash flow hedges 727–738	cross-currency swaps 333, 341
inflation markets 709–714	future floating rate issuance 427
bond yield components 712–714	swaps in arrears 439
breakeven inflation rate 713, 714	interest income 385, 411, 4.3, 446
Fischer equation 713–714	interest payable see payable amounts
indices 711–714	interest payable see payable daniounts interest rate amortised cost 11–13, 481–482
participants 709–710	interest rate derivatives, most common 376
inflation payers 709–710	interest rate hearing strategies 371–372
inflation receivers 710	interest rate field in g strategies 371–372
inflation risk hedging 709–740	interest rate risk 371–468, 472, 495
2 2	
accounting entries 735–737 accounting issues 725–727	interes, rate swaps 99–101, 376
•	fixed rate liabilities with 401–416
case study 727–738 cash flow hedging of inflation-linked revenues	
	floating rate liabilities with 376–385 flows 101
	<b>y</b>
derivatives 716–725	future fixed rate issuance with 416–426
effectiveness assessment 729–731	future floating rate issuance with 426–436
1	interest accruals 375, 398
fair valuation of insurance-linked securities	product description 99–100
732–735	step-up callable perpetual preference shares 592
floating rate liability and inflation linked assets	terms 100, 377
738–740	interest receivable see receivables
hedging inflation as risk convoluent 726–727	intermediate cash flows, bond/CCS combination 471
hedging relationship documentation 728–729	495, 517, 539
hybrid instruments 725–726	International Financial Reporting Standards see
hypothetical derivative case study 729–735	IFRS
inflation-linked bonds 374–375, 714–716	intragroup foreign dividend hedging 344–353
insurance-linked securities valuation 732–735	intragroup monetary item, FX risk component 31
under IFRS 9 725–727	intragroup transactions 31–32, 292–294, 296, 299
inflation swaps	intrinsic value
cash flows 728	collars 392, 394
cumulative periodic inflation swaps 720–722	hypothetical derivatives 172, 196
fair value hedging 739	non-zero initial value 397
non-cumulative periodic inflation swaps 719–720	options 57-59, 164-165, 193-194, 199, 386
periodic inflation swaps 719–722	versus time value 57–58
zero-coupon inflation swaps 717–718	tunnels 176
information systems 743	inventories 672, 673
infrastructure companies 710	inverse floaters 373–374
initial cash flows, bond/CCS combination 471, 495,	investments in other companies 563-565
517, 539	investors, inflation markets 710
initial gains/losses, IFRS 13 79	irrevocable choice, equity investments 565

item-to-item relationships, foreign subsidiaries 298–299	liabilities, recognition as 566  see also financial liabilities; fixed rate liabilities;
"int fivel arreads" 600	floating rate liabilities; foreign currency liabilities; identical assets/liabilities; recognised
"jet fuel crack spreads" 692 jet fuel production process 695	asset/liability
jet fuel swaps	liability component, compound instruments 22
accounting entries 702–704	linear regression method, hedge effectiveness
contract terms 693	assessment 42
fair valuation 702–704	linkers see inflation-linked bonds
hedge effectiveness assessment 697–701	liquidity portfolio example 4
hedging relationship 698	liquidity risk
hedging relationship documentation 695–696	premium, bond yields 712
rolling hedging strategy 691–707	stock appreciation rights 633
joint operations, foreign operation disposal 303	long-term investments, foreign subsidiaries 301–302
JPY risk 290–292	look-through test, tranches of securitisations 8
JPY-GBP forwards 290, 291	loss see profit/loss
J1 1-OD1 101 wards 290, 291	loss given default (LGD) 81
KIKO collars 376	1000 given detaut (202) of
in entirety 452	macrohedging 745–746
•	mandatory convertible bond case study 578–583
floating rate liabilities with 448–468 splitting 451–453	accounting for 578–583
KIKO forwards 127	fixed parity bands 578–580, 583
in entirety 260	issuer's perspective 578–583
fair valuation 264–266	variable parity 581–583
hedge accounting not applied 260–261	mark-w-market (MtM) 90
highly expected foreign sale 257–270	men et data, observable 75
split into forward/residual derivative 259–262,	narket factors
270	foreign subsidiaries 296
split into option/residual derivative 260	netting set data 89
knock-in barrier options 119, 120–121	simulating 89–90
knock-in barrier options 119, 120–121 knock-in floorlets, KIKO collars 451 knock-in floors, KIKO collars 449–450 knock-in forwards 127 see also KIKO forwards	market participant qualities 74
knock-in floors, KIKO collars 449–450	market vesting conditions, stock-based compensation
knock-in forwards 127	plans 620
see also KIKO forwards	market yield curve, interest rate swaps 407–408
accounting optimisation 225–226	markets, principal versus most advantageous 73–74
in entirety 238–245	maturity
highly expected foreign sale hedging 222–226	cross-currency swaps 103, 336
subsequent receivable with 226–237, 238–245,	FX forwards convergence at 99
246–256	FX options 113
terms 223	KIKO collars 467
knock-out barrier options 119–120	spot/forward rate 181
knock-out caplets, KIKO collars 450	microhedging 745
knock-out caps, KIKO collars 449	mid-market fair valuation, IFRS 13 level 2 75–76
knock-out options	mid-to-bid adjustments, IFRS 13 77
see also KIKO forwards	mid-to-offer adjustments, IFRS 13 77
fair valuation 234–235	mining industry inventories recognition 672
knock-in forwards and 225, 227-228, 236, 246-247	minority interests effect on translation differences 303
terms 227–228	model uncertainty adjustments, IFRS 13 79
	modelling tools 743
layer component, hedged items 34–35	modified economic relationship, contractual
lease accounting, commodity contracts 657	cash flow 5–6
lease contracts 655–658	monetary items
leasing transactions, IFRS 13 71	IAS 21 125–126
least squares method, regression analysis 44	intercompany foreign dividends 348–349
leveraged financial assets 8	part of net investment 302
LGD (loss given default) 81	translation process 299

monetisation of assets 597–599	one-period model of default 80–81
Monte Carlo simulation 42, 46–47, 87–94, 252–253	operational complexity minimisation 225–226
most advantageous market, principal market versus	operational resources 743–744
73–74	options
MtM (mark-to-market) 90	see also FX options; knock-out options
multinationals 353, 364	case studies 163–165
	deltas 213–214, 217, 247–248
net assets	exercising 213, 246–247
cross-currency swaps 337, 340	floating rate liabilities 386
foreign subsidiary 305–306, 364, 367	forwards and 141, 196–198
net earnings, foreign operations 368	FX options 127, 164
net investments/net investment hedges 24, 29–30, 105	hedge accounting and 57–70
see also cash flow hedges/hedging	intrinsic value 57–59, 193–194, 199, 386
case studies 329–343	KIKO forwards 261, 269
cross-currency swaps 328–329, 336–343	knock-in forwards and 225, 227–228, 236, 246–247
fixed-to-fixed CCSs 336–343	participating forward in entirety 206, 216
floating-to-floating CCSs 329–336	participating forward split 182–201
	settlement 227
foreign currency debt 304, 322–328	splitting KIKO forwards ?60
in foreign operations 303–311, 366	
with a forward 311–322	standard options 105–110, 233–234
integral hedging 364, 366	time-period related hedged items 65–69
intercompany foreign dividends 347–348, 352	time value 57–60, 180, 187, 193–195, 199, 386
monetary items part of 302	transaction related hedged items 62–65
retranslation gains/losses 315, 318–320	orderly transactions definition 72
special items 301–303	OTC (over-the-counter) derivatives 88
summary of impacts 328	other comprehensive income (OCI)
using derivatives 304	accumulation in 60–61
net realisable value (NRV), inventories 672	eash flow hedges 28–29
net settled commodity contracts 659	financial liabilities 17–18
netting set data, exposure at default 89	forecast sales 167, 175, 221
no net premium requirement, written options 69	forward element in 163
nominal interest rate, bond yields 712–713	future fixed rate issuance 422–423
non-contractually specified risk component 33	FX forwards 151, 156-161
non-controlling interest, foreign subsidiaries 307	integral hedging 365
non-cumulative periodic inflation swaps 719–720	knock-in forwards 235, 248, 255
non-financial hosts 20–22	profit/loss statement 742
non-market vesting conditions, stock-based	range accrual forwards 285
compensation plans 620	subsidiary's statement of financial position 310
non-monetary items, IAS 21 125–126	time-period related hedged item 66–67, 69
non-recourse financial assets 8	transaction related hedged item 63–65
non-vesting conditions, stock-based compensation	out-of-the money options 59
plans 620	over-the-counter (OTC) derivatives 88
non-zero initial intrinsic value 397	overnight index swap discounting 95
	own-use accounting, commodity contracts 657
non-zero initial time value 397	own-use contracts
NWE jet fuel price 692	case study 659–662
	•
observable market data, IFRS 13 level 2 75	commodities 655–658
obsolete strategies, linked "base"/debt instruments 596	definition 656–657
OCI see other comprehensive income	
offset degree	parent company/entity
cross-currency swaps 498, 520, 543	foreign subsidiary earnings 354-355, 360-362
floating rate liabilities 380	treasury centres 288
future fixed rate issuance 420	parent-only financial statements 297, 345, 348,
knock-in forwards 252	350–353
participating forwards 205	partial repurchases, financial liabilities 17
oil futures 680–691	participating forwards 127

in entirety 201–222	fixed rate liabilities 410–413, 416, 445–446
hedge accounting issues 182	floating rate liabilities 400–401
split into forward and option 182-201	forecast sales 174, 178, 180, 198-199
subsequent receivables with 180-222	foreign currency liabilities 469
path-dependent options 118-119	foreign subsidiaries 298, 300, 321-322, 355,
pay fixed/receive fixed CCSs 329	360–362, 363–364
see also receive-fixed pay-fixed CCS	forward element changes through 153-156, 158
pay fixed/receive floating CCSs 328	future floating rate issuance 435–436
see also receive-floating pay-fixed CCS	FX forwards 137-138, 140, 142, 148, 150,
pay floating/receive fixed CCSs 329	151–156, 159–162
see also receive-fixed pay-floating CCS	integral hedging 365
pay floating/receive floating CCSc 328, 335	intercompany foreign dividends 347, 351–352
see also receive-floating pay-floating CCS	KIKO collars 461
payable amounts, cross-currency swaps 481, 504,	KIKO forwards 267, 270
506–512, 527–528, 530, 532, 534–535, 539,	knock-in forwards 228, 236
550-558	participating forwards 182, 188
payoff graphs	positive influence on statement 742
caplets 116	range accrual forwards 280, 285–287
floorlets 117	sales transactions 176, 209
KIKO collars 452	time-period related hedged item 67
KIKO forwards 258	timing of 741
options 108–110, 112, 114	volatility 286
pension funds, inflation markets 710	protecting participating forwards 181
periodic inflation caps and floors 723–725	purcha ca caps/floors 376
periodic inflation swaps 719–722	purchased options and written options 69
physical delivery, forward contracts 98	purchasing entity, intragroup transactions 293
physical settlement	options 105, 109–111
call options 105–106	see also floors
commodity contracts 658, 659	equity swaps 638
forwards case study 610–612 FX forwards 138, 140, 155, 160 put options 109 Platts spot prices 691 portfolio hedging see also liquidity portfolio decision process 746	forecast sale hedging 163–164
FX forwards 138, 140, 155, 160	FX options 111–114
put options 109	hedging equity investments 601–610
Platts spot prices 691	intrinsic value 57–58
portfolio hedging	KIKO forwards 257, 261, 269
see also liquidity portfolio	settlement 109–110
decision process 746	put time values 602–610
low compatibility 745–746	excluded from hedging relationship 602–609
preference shares 567–569, 590–595	hedging equity investments 602–610
preliminary hedge ratio 212–215	included in hedging relationship 609–610
present value (PV), exposure at default 83	PV (present value), exposure at default 83
presentation currency	•
definition 124	quantitative assessment 145, 204
foreign subsidiaries 321	see also scenario analysis
translation process 306, 309	quantity estimation, hedged item 246–249
pricing	quanto options 119
call options 108	1
fair value 73	range accrual forwards 127
put options 110	in entirety 272–281
primary indicators, functional currency 124	fair valuation 277–278
principal market versus most advantageous 73–74	splitting 271, 282–287
principal test, tranches of securitisations 8	subsequent receivable with 270–281, 282–287
probability, exercising options 213	range accrual interest rate risk 374
probability scale, forecast transactions 36	range accrual options 119, 121–122
profit/loss	range floater bonds 374
cross-currency swaps 335–336, 493, 515, 538, 561	ratchet floater bonds 374
day 1 79–80	real bonds see inflation-linked bonds

real estate companies 710	fixed rate liabilities 404–405
real interest rate, bond yields 713	floating rate liabilities 389
reassessment risk, highly probable transactions 744	foreign exchange risk 133, 144–145, 186, 188,
rebalancing approach 49–52	240, 262, 275
accounting for 50	interest rate risk 379
hedge ratio 212–215	JPY risk 290-292
knock-in forwards 246–256	KIKO collars 456–457
receivables 163-222, 226-237, 238-245, 246-256	measurement, financial liabilities 18
cross-currency swaps 481, 483-484, 486-487, 489,	of reassessment, highly probable transactions 744
504–512, 527–528, 531–535, 550–551, 553–557	stock appreciation rights 632–633
FX forwards 128–141, 149, 154–155, 159	stock option plans 632–633
range accrual forwards 270–281, 282–287	risk components
recognition 178, 197, 280	cross-currency swaps 472
revaluation 176, 199, 236, 285	hedged items 31–33
rolling trade 302	hedging instruments 38
settlement record 210, 221, 244, 255, 267, 280, 284	risk management objective
receive-fixed pay-fixed CCS 538–561	cross-currency swaps 472, 496, 518, 540
see also pay fixed/receive fixed CCSs	discontinuation 139–141, 178–180
receive-fixed pay-floating CCS 493–515	fixed rate liabilities 403, 13
see also pay floating/receive fixed CCSs	floating rate liabilities 277, 387
receive-floating pay-fixed CCS 515–538	forecast sale hedging 166, 184, 186, 238
see also pay fixed/receive floating CCSs	
receive-floating pay-floating CCS 469–493	foreign subsidiary earnings 356 future fixed rate issuance 418
see also pay floating/receive floating CCSc	future fracing rate issuance 428
recognised asset/liability 30	FX forwards 130–131, 143
recognition	KIK 7 collars 453
equity instruments 563–565, 566	krock-in forwards 229, 238, 249
equity investments 563–565	net investment hedges 311, 323, 330, 337
financial instruments 1–22	participating forwards 201–202
liabilities 566	range accrual forwards 273
receivables 178, 197, 280	risk management strategy versus 53–57
recycling of amounts, OCI accumulation 60-61	risk management optimisation 746
regression analysis/method	risk management strategy
gold futures 675	cross-currency swaps 472, 496, 518, 540
hedge effectiveness assessment 42, 44-47, 275–276,	fixed rate liabilities 403, 438
440–442	floating rate liabilities 377, 387
reliably measurable hedged item 32, 33	forecast sale hedging 166, 184, 186, 202, 238
reporting date, translation process on first 307–311	foreign subsidiary earnings 356
reserve amounts, time value 393, 460–463	future fixed rate issuance 418
residual derivatives	future floating rate issuance 428
fair valuation 265, 268, 457, 466	FX forwards 131, 143
settlement amounts 463	KIKO collars 453
splitting KIKO collars 451–453	knock-in forwards 229, 238, 249
splitting KIKO forwards 259-262, 270	net investment hedges 311, 323, 330, 337
splitting range accrual forwards 282–284	range accrual forwards 273
retail investors 710	versus risk management objective 53-57
Retail Price Index (RPI) 711, 712, 725	risk tests, tranches of securitisations 8
revenue forecasts, treasury centres 288	risk translation, foreign earnings 353
risk	rolling hedging strategy
see also credit risk; equity risk; FX risk; interest	airlines 691–707
rate risk	effectiveness assessment 697-701
changes, financial liabilities at FVTPL 17-18	fair valuations 701–707
fixed rate liabilities 416	first hedging relationship 698
future fixed rate issuance 419–420	fuel consumption accounting entries 701–702
future floating rate issuance 429	hedge adjustment to maintain strategy 706–707
hedge effectiveness assessment 39	hedging relationship documentation 695–696

jet fuel swap accounting entries/fair valuation	simulation period
702–704	range accrual forwards 275
risk components 694–695	swaps in arrears 441
second hedging relationship 698-701	solely payments of principal and interest on the
rolling trade receivables 302	principal amount outstanding (SPPI) 5, 9
RPI see Retail Price Index	SOP see stock option plans
	sovereigns, inflation markets 709-710
sale agreements	speculative derivatives 25
forward contracts 158–159	see also undesignated derivatives
KIKO forwards 267	splitting approach
knock-in forwards 235, 244	KIKO collars 451–453
range accrual forwards 280, 284	KIKO forwards 259-262, 270
sales amount, FX forwards 156	knock-in forwards 226–237
sales forecast 163–180, 238–256	participating forwards 182–201
foreign subsidiary earnings 363	range accrual forwards 271, 282–287
FX forwards 128–163, 354	spot component/element, forward contracts 70, 152,
range accrual forwards 270–287	154, 158
treasury centres 288	spot rates
sales hedging, knock-in forwards 222–226	cross-currency swaps 174–475, 498
sales transactions	economic relationship assessment 169
FX forwards 148, 159	foreign subsidiary earnings 357
profit/loss 176, 209	FX forwards 99, 129, 133–134, 138, 140, 148–149
SAR see stock appreciation rights	intercompany foreign dividends 346
scenario analysis	KIKO forwards 263
cross-currency swaps 474–475, 498, 520, 542–543	knock-in forwards 223–224, 232, 240–241, 244,
economic relationship assessment 169–170	251, 253–255
fixed rate liabilities 405–406	maturity 181
floating rate liabilities 380, 389–390	net investment hedges 319, 324, 332, 335, 339–340,
foreign exchange risk 134, 145–146, 168, 188–190	343
204–205, 231–232, 240–241, 250–252, 262–263	participating forwards 189-191, 204-205, 208,
foreign subsidiaries 313, 324–325, 340, 357, 358	212–214, 221
future fixed rate issuance 420	range accrual forwards 270-271, 276-277
future floating rate issuance 429	subsidiary's statement of financial position 309-310
hedge effectiveness assessment 42–43, 47	SPPI see solely payments of principal and interest on
KIKO collars 456–457	the principal amount outstanding
KIKO forwards 258	spread options 119
secondary indicators, functional currency 124	see also cap spread; credit spreads; "jet fuel crack
securitisation tranches 8–10	spreads"
seller payoff, options 109	stand-alone financial statements 297-298, 308, 345,
separately identifiable risk component 32	347–348, 350–353
service vesting conditions, stock-based compensation	standard call options 639-640
plans 620	standard collars, KIKO collar splits 452–453
settlement date, FX transactions 125	standard derivatives, knock-in forwards and 222-223
share-based payments 71	standard deviation, knock-in forwards 251
share plan types 618	standard forwards 233-234, 236, 282-283
shareholders' equity, foreign subsidiaries 305–306,	standard options 105–118
310	see also options
shares	equity options 105–111
fixed for variable convertible bonds 589–590	forward contracts 233-234
forward selling on own shares 610-615	FX options 111–114
total return swaps 596–601	product description 105
significant influence, equity instruments 563–564	standard swaps versus swaps in arrears 437
significant input, IFRS 13 level 3 76	standards implementation, hedge accounting 178
silver buying 664–672	step-up callable perpetual preference shares 590-595
simple one-period model of default 80–81	stock appreciation rights (SAR) 622-624
simple scenario analysis 42–43, 47	accounting entries 650-652

call option hedging 647–653	reporting date during life of award 621–622,
case study 624–632	626–627
compensation expense calculation 623, 630	required actions on grant date 625–626
definition 618	risks 632–633
enhanced equity swaps 638–639	standard call options 639–640
equity market risk 633	terminology 618–619
equity swaps 635–638	Treasury shares 633–634
example 624–632	underlying risks 632–633
exercised/unexercised expiry 631	strike price
fair valuation at reporting date 649	call options 108
fair valuation of call option 649	put options 110
hedging strategies 632–640	structured debt instruments, embedded derivatives in
liquidity risk 633	373–375
main dates 619, 624	subordination degree, hybrid securities 568
payoff as function of price upon exercise 625	subsequent receivables 163-222, 226-237, 238-245,
reporting date during life of award 622-624,	246–256
629–631	FX forwards 128–141
required actions on grant date 622, 629	range accrual forwards 270-281, 282-287
risks 632–633	subsidiaries
standard call options 639-640	equity risk 563
terminology 618–619	financial statements 297
Treasury shares 633–634	foreign subsidiaries 295–307
underlying risks 632–633	functional currency 355
stock-based compensation plans 617–653	intercon oany foreign dividends 344, 346-348, 350
accounting for 619–624	intragroup transactions 293
case studies 624–632, 641–647	trans ation of statement of financial position
employee stock ownership plans 618	309–310
examples 624–632, 641–647	treasury centres 287–289, 291
market vesting conditions 620	swap interest, cash flows 398
non-market vesting conditions 620	swap rate, constant maturity swap 6
non-vesting conditions 620	swaps
non-vesting conditions 620 risks 632–633 service vesting conditions 620 share plans 618	see also cross-currency swaps; forward starting
service vesting conditions 620	swaps; interest rate swaps; total return swaps
share plans 618	accrual amounts 432–434
stock appreciation rights 618, 622–640,	in arrears 376, 436–448
647–653	credit valuation adjustments 82–86
stock option plans 617, 621–617	overnight index swap discounting 95
terminology 618–619	range accruals 121
types 617–618	settlement amounts 382, 393, 445
vesting conditions 620	Settlement uniounts 302, 373, 113
stock lending case study 573–578	44
stock option plans (SOP)	target funding, swaps in arrears 448
accounting entries on grant date 621	tax effects, foreign subsidiary earnings 363
accounting for 621–622	temporary recognition, other comprehensive income
case study 624–632, 641–647	156–161, 163
compensation expense calculation dates 627	time grid, exposure at default 89
definition 617	time-period related hedged item 60–62, 65–69
dilution risk 632–633	time value
equity market risk 632–633	see also actual time value; put time values
1 2	collars 390–392, 455
equity swaps 634–635, 641–647	intrinsic value versus 57–58
examples 624–632, 641–647	non-zero initial 397
exercised/unexercised expiry 627–628	options 57–60, 164–165, 180, 187, 193–195, 199,
expense calculation 621–622	386
fair value estimation 621	other comprehensive income 167
hedging strategies 632–640	reserve amounts 393, 460–463
main dates 619, 624	time-period related hedged item 61–69

transaction related hedged item 61-65	knock-in forwards 226
tunnels 170-171, 174-176, 178	United Kingdom (UK) Retail Price Index 711, 712,
timing differences, treasury centres 291	725
total return swaps (TRSs) case study 596-601	United States (US) All Items Consumer Price Index
accounting entries 599-601	for all urban consumers 712
asset monetisation strategy 597-599	unobservable valuation, IFRS 13 level 3 76
parking shares 596–601	unrecognised firm commitment 30
trade receivables, rolling 302	US see United States
trading purposes contracts, commodities 658	USD leg, cross-currency swaps
tranches of securitisations 8–10	fixed-to-fixed 341–342
transaction date, FX transactions 125	floating-to-floating 333–334
transaction/hedging relationship 166	receive-fixed pay-fixed 544, 551–556
transaction related hedged item 60-61, 62-65	receive-fixed pay-floating 501, 504-512
translation differences	receive-floating pay-fixed 528-533, 535
account 300-301	receive-floating pay-floating 478, 481, 483–485,
allocation of 310	487, 489
calculation of 310	USD-EUR derivative, intragroup transactions
cross-currency swaps 334, 336, 342	293–294
due to goodwill 311	USD–EUR options 112–114
foreign subsidiaries 295, 298–301, 303–305,	USD–EUR rate
309–310, 313, 317, 321, 369–370	cross-currency swaps 470, 474–475, 494, 498, 516
intercompany foreign dividends 346	economic relationship assessment 169
minority interests effect 303	foreign subsidiary earnings 357
net investment hedges 331–332	FX forwards 99, 128–129, 133, 136, 138, 140, 142,
translation exposure, foreign subsidiaries 295	143–149, 154–156, 367
translation gains/losses, foreign currency liabilities	thregral hedging 370
469	intercompany foreign dividends 347–348, 351
translation process	KIKO forwards 257, 263, 269
on acquisition date 306–307	knock-in forwards 223–224, 232, 240–241, 251,
basic procedures prior to 299	254–255
basic procedures prior to 299 cross-currency swaps 481–482, 504–505 on first reporting date 307–311 foreign subsidiaries 298–300, 306–307	minority interests effect 303
on first reporting date 307–311	net investment hedges 324–325, 327–328, 332, 335,
Torongir substantines 250 300, 300 301	339–340, 343
specific procedures 299	participating forwards 181, 188–190, 204–205,
translation rates, IAS 21 125–126	212–214, 221
translation risk, foreign earnings 353	range accrual forwards 270–272, 275–276, 286
treasury centres	subsidiary's statement of financial position 309–310
consolidated level 290–292	utility companies inflation markets 710
group basis hedging 287–292	
portfolio hedging 745	valuation model, IFRS 13 level 2 75
Treasury shares 633–634	value at risk (VaR) approach 745
TRSs see total return swaps	vanilla options see standard options
tunnels	VaR (value at risk) approach 745
combinations 114	variable parity mandatory convertible bonds 581–583
FX tunnel 127	variable rate see floating rate
intrinsic value 176	variation margin, futures contracts 672
subsequent receivable with 163–180	vesting conditions
time value 170–171, 174–176, 178	stock appreciation rights 618–619
	stock-based compensation plans 620
UK see United Kingdom	stock option plans 618–619
uncertainty adjustments, IFRS 13 79	vesting period
underhedging 28	stock appreciation rights 619
undesignated derivatives 25	stock option plans 619
see also speculative derivatives	volatility
KIKO collars 452	foreign subsidiaries 296
KIKO forwards 269–270	minimisation, knock-in forwards 225–226

profit/loss 286, 741 range accrual forwards 286 voluntary discontinuation prohibition 53, 139, 184

weak controls, operational resources 743 written options 69–70 WTI crude oil price 692

year-end net assets, foreign operations 367

zero-cost collar strategy 116, 118, 385–397 zero-cost tunnel strategy 114, 164 zero-coupon inflation caps and floors 722–723 zero-coupon inflation swaps 717–718 zero fair value, tunnels 175

nttp.//www.phookshop.com