

# 2 DAY COURSE OUTLINE ON ACCOUNTING FOR DERIVATIVES AND FINANCIAL INSTRUMENTS

## DAY 1

**Session 1:** What are financial instruments and derivatives

- Meaning of financial instruments
- Meaning of derivatives
- What transactions are not financial instruments
- What transactions are/ are not derivatives
- Meaning of embedded derivatives

**Session 2:** Understanding of the world of derivatives

- Basic types of derivatives
  - OTC and exchange traded
  - Options, futures and swaps
  - Examples of each
  - Some significant derivatives
    - Interest rate derivatives
    - Exchange derivatives
    - Credit derivatives
    - Equity derivatives
    - Property derivatives
    - Weather derivatives
    - Commodity derivatives

**Session 3:** Basics of Mark to Market Accounting

- Why and what is mark to market
- Understanding fair value accounting as an exception to classic historical cost accounting rule
- Classification of financial instruments into
  - Loans and receivables
  - Hold to maturity
  - Held for sale
  - Trading assets

**Session 4:** Accounting for loans and receivables

- What is a loan/receivable?
- Illustrations of what is and what is not included
- Meaning of amortization of a loan
- Treatment of upfront costs/revenues

**Session 5:** Accounting for hold to maturity assets

- Meaning
- Precautions as to hold to maturity classification
- Illustration of what can and cannot be treated as HTM

- When can an HTM asset be sold before maturity
- Examples of accounting for HTM assets

**Session 6:** Accounting for available for sale

- Illustrations
- Re-classification of an AFS asset into trading/HTM category

**DAY 2**

**Session 1:** Accounting for trading assets

- Meaning of trading assets
- Qualifying conditions for trading assets
- Illustrations

**Session 2:** Hedging treatment

- Conditions for a hedge and hedge effectiveness
- Understanding hedging instruments and hedged items
- Cashflow and fair value hedges
  - Understanding nature of each
- Accounting for derivatives under hedging approach
- Accounting for derivatives when hedging treatment not applied
- Illustrations
- Guide to testing hedge effectiveness
- What happens when it ceases to be an effective hedge

**Session 3:** Examples of major derivatives

- Interest rate derivatives
- Exchange rate derivatives
- Investments in foreign enterprises
- Credit derivatives

**Session 4:** Treatment of embedded derivatives and composite financial instruments

- Guide to separation of composite instruments
- Accounting for embedded instruments
- Illustrations

**Session 5:** Guide to computing fair value

- Guide to projected cashflows
- Use of present value techniques for valuation
- Choice of discounting rates
- Use of expected value approach

**Session 6:** Examples, exercises and case studies

**For whom**

- Accountants and accounting professionals concerned with financial reporting
- Standard setters and securities regulators
- Corporate finance professionals and controllers
- Financial advisers, consultants, etc

### **USP of the Course**

- Clear understanding of several complex derivatives and financial instruments
- Awareness of what is happening on the mark-to-market rule and why is it currently in controversy
- Clear understanding of the application of accounting standards on several financial instruments
- Ability to apply the learning to cases that you may have in mind, with enough chance to put your questions across (provided you send in advance particulars of your case)
- Interactive workshop with plenty of Excel examples