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Recognition For Index Optıon Contracts Under IAS 39 And IFRS 9 – The Case Of Option Contracts Bound To BIST 30 Index

Nevran KARACA
Sakarya University
Faculty of Business Administration
Esentepe Campus,Sakarya,Turkey
nkaraca@sakarya.edu.tr

Tansel HACIHASANOĞLU
Bozok University
Faculty of Economy
Erdoğan Akdağ Campus,Yozgat,Turkey
tansel@bozok.edu.tr

Şuayyip Doğuş DEMİRCİ
Sakarya University
Faculty of Business Administration
Esentepe Campus,Sakarya,Turkey
sdemirci@sakarya.edu.tr

Extensive Summary

Four standards related to presentation of derivative instruments in financial statements have been brought out by IASB so far. The standards related to presentation of financial instruments also including derivative instruments were discussed in IAS32 'Financial Instruments: Presentation'; disclosure clauses were discussed in IFRS 7 'Financial Instruments: Disclosures'; issues about recognition and measurement of financial instruments were discussed in IAS 39 'Financial Instruments: Recognition and Measurement and IFRS 9 'Financial Instruments'. In addition to this, IAS 39 used for recognition and measurement of financial instruments is going to be superseded by IFRS 9.

IAS 39 'Financial Instruments: Recognition and Measurement' was published for the purpose of classification, measurement and recognition of financial assets in December of 2003 by International Accounting Standards Board (IASB), and was started to be used by business firms in 2005. The standard at issue was published as TMS 39 by being translated into Turkish and was put into use for business firms. The standard not only pursues a goal of solving problems about only classification and accounting records, but also brings many important

innovations in demonstrating real values of derivative products in financial statements, determining hedge criteria and principles in speculation accounting.

International Accounting Standards Board started working on a new standard (IFRS 9) which would supersede IAS 39 'Financial Instruments: Recognition and Measurement' in 2009. Because a set of problems related to IAS 39 were confronted in practice and the criticisms towards IAS 39 are grouped in two main subjects. One of them is that clear information about risk management cannot be given to users of financial statements; and the other one is that IAS 39 is considered as overcomplicated and difficult for practitioners' usage. With IFRS 9, it was aimed to simplify complicated principals related to classification and measurement about financial instruments in IAS 39; and by this way, it was aimed to give more useful information to users of financial statements. As a matter of fact, studies about IFRS 9 Financial Instruments were started in 2009 and completed in 24th July 2014.

In TFRS 9 'Financial Instruments' there are financial reporting principles related to classification, first recognition and measurement of financial instruments. The differences between TMS 39 and TFRS 9 which will supersede this standard are below:

- Classification and Measurement: Financial assets are divided into four groups in TMS 39. Each of them is dependent on a different measurement principal. These assets were classified as assets having fair values, assets which is held until maturity, credits and trade receivables and available for sale financial assets. In IFRS 9, financial assets in terms of measurement category are divided into two groups. In this classification, business model is taken into account for management of business firm's financial assets, and cash flow features of financial asset contractually are taken into account. Financial assets were classified as assets having fair values and amortized assets.
- Depreciation: Depreciation is defined as differential which emerges between amortized cost, fair value and valuation methods according to TMS 39, and recognition is done. It is forbidden to make depreciation implementation in some financial assets. According to TFRS 9, depreciation can be done for assets whose valuation is done by only amortized cost method. The previous depreciation done before can be cancelled if required.
- Financial Assets of which Fair Value Recognition is done in Another Comprehensive Income: There is no question of presentation option for these assets in TMS 39. In IFRS 9, a presentation option in first recognition of investments in financial instruments based on equity is provided for business firms. Hereunder, if business firm is in conformity with the criteria, it appraisals these investments with fair value and does differential recognitions in another comprehensive income. Dividends acquired from

these investments are accounted as profit and loss. Amounts accounted in other comprehensive income are not allowed to be reported as profit and loss in case of asset's sale.

- Measurement with Cost Value: In TMS 39, cost value and measurement of financial assets which are not traded at the stock market and whose fair value cannot be measured reliably are allowed. In IFRS 9, all investments based on equity are measured over fair value.

In this study, it is aimed to show transactions required to be done and records within the scope of IFRS 9 and IAS 39 with regard to index option contracts. In this sense, accounting transactions to be followed for option contracts can be summarized as purchase or sale of contracts, premium incomes or payment, seller's deposit in specific to stock market options , record in periods of reporting changes in contract value, record of profit or loss which comes up in or before maturity date, and warranty return in specific to stock market options. In this sense, the points to be considered about recognition of index option contracts (speculative demand) can be summarized as below:

- In lieu of IFRS 9 / TFRS 9 derivative instruments are classified as assets having fair value and measured with its fair value at initial measurement. Thus, option contracts also need to be recorded with market value in first date of acquisition. To monitor these contracts in off-balance sheets will be better due to the fact that option contracts are evaluated as right and obligation for stakeholders.
- In accordance with standards at issue, transaction costs in acquiring derivative products cannot be added to fair value. In this sense, transaction costs in acquiring option contracts will be reported in another account by not adding it to contract value.
- In accordance with concerned standards, premium amount paid by option buyer will be followed in asset accounts at the time when the contract is done and will be transferred to expense account at the end of maturity. On the other hand, option seller will consider premium paid as direct income.
- Deposit amounts paid by option seller to clearing house via brokerage house will be followed in asset accounts.
- Derivative instruments are measured with their fair values also after periods of acquisition. In index option contracts while option buyer does not have to do any transaction on valudation day, option seller have to update contract value. Because if there is a decrease in contract value after the update process and this decrease makes

initial margin go down below maintanence margin, this situation will cause loss to option seller and this loss will need to be reported within operating result.

- In specific to VIOP index options are executed as European contracts, and thus, contractual rights acquired from option contracts will be only used at the date of maturity. Hence, profit or loss of buyer and seller who accede to contract will become definite at maturity date.
- If option buyer do not abide by option contract terms, the loss will be as much as premium amount. The premium amount which option buyer records in asset accounts at the time of the contract signed will be transferred to expense account. In this situation, option seller will have nothing to do, except to close off-balance sheets which option seller have opened with the aim of following option contracts.