

## Study and Propose Solutions to Implement Accounting of Derivative Financial Instruments to Prevent Risks in Vietnamese Enterprises

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**Abstract:** *The article has a general assessment of risk prevention by derivative financial instruments in Vietnamese enterprises. We have evaluated the contributions and limitations of derivative financial instruments in risk prevention of Vietnamese enterprises. Since then, we propose solutions to effectively use derivative financial instruments and derivative financial instruments to reduce risks for Vietnamese enterprises.*

**Keywords:** *Derivative financial instruments, derivative financial instruments, Vietnam*

### 1. Introduction

Derivative financial instruments are tools that are issued on the basis of existing financial instruments (value of stocks, interest rates, goods, etc.) with different objectives such as risk distribution, security protect profits or make a profit. The unpredictable volatility of the value of stocks, interest rates, goods ... in the market is the cause of risks for investors in their business process. To minimize the risks of potential losses, derivative financial instruments have been formed. Currently, derivative tools are rich and diverse, but there are four main instruments: forward contracts, futures contracts, option to buy or sell and swap contracts.

Derivative financial instruments: A contract that satisfies simultaneously the following three characteristics:

- a) Valid to change according to changes in market factors, such as interest rates, exchange rates, commodity prices or securities prices;
- b) Not investment at the time of contract commencement or only lower initial investment compared to other types of contracts with similar reactions to changes in market factors; and
- c) Be paid on a future date.

### 2. A general assessment of risk prevention activities with derivative financial instruments in Vietnamese enterprises

The derivative financial market appears to be the result of a long process of market structure development. In recent decades, derivative financial markets have developed strongly in trading volume as well as the importance and impact on the economy of each country.

Since Vietnam joined the World Trade Organization (WTO), our economy has had more positive changes, the development potential of the economy is still very large. In order to exploit this potential, the requirements for transparency, favorable mechanisms, and open policies have been increasingly focused and implemented more aggressively. As the economy grows, the competitiveness is increasing, the issue of publicity and transparency of information is increasingly required, higher requirements. The establishment and development of the CCTC derivative market will help these activities happen faster and more strongly.

Moreover, the roadmap for liberalization has gone through many development steps, capital inflows and outflows with increasing scale and frequency, changes in exchange rates, interest rates as well as commodity prices. The factor that motivates financial market participants to renew their thinking, the awareness of the role of CCTC derivatives in risk prevention.

In the face of fluctuations in exchange rates, interest rates, and commodity prices, many enterprises faced risks, greatly affecting the business performance of enterprises. Although risks are always hidden for businesses, the use of preventive tools has not been widely applied.

In fact, in recent years, some Vietnamese enterprises in general and reputable export enterprises in Hanoi, in particular, have suffered many risks when not using preventive measures. The risks appear to have affected the business results of some enterprises and affected the interests of shareholders and investors. The economic benefits achieved by enterprises are huge, but the losses of the exchange rate, interest rate as well as commodity prices are damaged, resulting in ineffective results, even losses.

Currently, derivative products are provided by commercial banks on the basis of an agreement with customers. Because the market capacity is very small, non-professional activities are decentralized, and there is a lack of strict control of legal bases and exchange rates ... so it limits the needs of customers.

The derivative financial instruments in risk prevention are a relatively new and complex product for the Vietnamese market. The propagation and promotion of forward and swap transactions of the state and credit institutions have not been focused on development. The service consultant team is poor, there is no strategy to attract businesses to participate in large-scale derivative financial contracts.

The report at the 2007 scientific conference on "solutions to develop derivatives market in Vietnam" also showed that: Up to nearly 80% of businesses surveyed said they have not or at least participated in options trading. currency. The proportion of enterprises that know and use the contract to choose foreign currency frequently is also about 21%. Through the above books, it partly reflects accurately the status of using foreign currency options transactions in Vietnam. The use of derivative products to prevent interest rate risk and commodity prices is too limited.

### **3. Contributions of derivative financial instruments in risk prevention of Vietnamese enterprises**

CCTC derivative is the indispensable product of the deep, wide and diverse development of financial markets. Unpredictable fluctuations of commodity prices, interest rates and exchange rates in the market are the causes of risks for businesses in the business process. To minimize the possible risks, CCTC derivative has been formed, which are essentially financial contracts whose value depends on a base purchase contract.

First: The economy has somewhat embraced derivatives as a new way to prevent risks. Through commercial banks, derivative financial instruments have access to users who are credit institutions, businesses, and retail investors.

Second: In terms of the ratio of transaction turnover in the interbank foreign exchange market, it can be seen that the trading turnover of derivatives is increasing. This proves that derivative instruments have been holding an important position in the foreign exchange market.

Separate assessment of the results achieved by derivative tools found that:

- Futures and futures transactions are mainly used in the interbank foreign exchange market. A few are used in the commodity market to prevent commodity price fluctuations

- Swap: Early access to the market, when only used by banks, swap transactions solved the difficulties of the market. The foreign exchange market, the goods market and the inter-bank monetary market in Vietnam have stabilized against the crisis as well as many psychological developments.

- Increasing transaction turnover is a testament to the development of options trading since it was introduced into Vietnam market in 2005.

### **4. Restrictions on risk prevention by derivative financial instruments of Vietnamese enterprises**

Currently, the financial market has developed strongly along with the development of the economy, many commercial banks, and the Exchange have provided SPPS to businesses, but the use to prevent risks at Vietnamese enterprises in general and surveyed enterprises, in particular, are still limited because CCTC derivative is a too complicated and new issue in Vietnam without the full guidance of the State. On the other hand, in Vietnam, there is no complete market like developed countries and most enterprises have not

implemented risk determination and introduced a risk management policy to use CCTC derivatives for prevention purposes. risk.

The State Bank has issued a number of relatively complete and specific guidance documents on CCTC derivatives and commercial banks also have many detailed guidelines and implement the provision of derivative financial instruments. This is for businesses to use. However, enterprises still have many difficulties in using these products because they do not understand the positive impacts of CCTC, especially CCTC derivative for the purpose of preventing risks in business activities of enterprises. Until now, there are no specific guidelines on accounting so that enterprises can easily apply in accounting when using SPPS to prevent risks.

SPPS has been provided by commercial banks since the beginning of 1998. But, these operations are also experimental and single. The number of transactions of these derivative instruments is still very modest. Most businesses that the author surveyed do not use these derivative financial instruments.

In order for the SPPS market to thrive, we need to have a broad view of this market, identify the reasons for limiting the development, thereby giving appropriate solutions to the market for derivative tools to develop and This contributes greatly to helping Vietnamese enterprises to actively use this type of tool in the process of operation. There are many main reasons why companies restrict their use and make Vietnam's derivatives market slow to develop:

First: In Vietnam, derivative financial instruments appeared on the market many years ago, but still small and unfocused. The low level of capital market development lacks knowledgeable investors as well as calculating benefits from this profession. Brokers and speculators are too few in the market to motivate businesses to participate. Most Vietnamese enterprises are not interested in professional financial management activities, do not measure all risks in business. Moreover, with the new history of development and development of SPPS, it is still quite new, which greatly affects the application of enterprises to prevent risks for their businesses.

Second: Financial institutions, credit institutions, intermediary human resource brokers are limited, management information systems are not developed; Customers purchasing CCTC derivatives derive from limited commercial banks. Therefore, these organizations are not in need, actively developing and providing derivative financial instruments.

Third: The level of participation in the money market of enterprises is not large, enterprises' managers are not in need, do not know much about SPPS benefits and applications in risk management and prevention. Moreover, derivative financial instruments are quite new to Vietnamese enterprises, so managers believe and care properly.

Fourth: Transaction costs related to buying and selling CCTC derivatives are still high. Most domestic banks that provide SPPS are connected to foreign financial institutions and almost act as intermediaries, therefore, when companies buy derivative financial instruments, they have to pay additional expenses for Domestic commercial banks.

Fifth: Business managers find it difficult to explain to business owners when the market fluctuates in the opposite direction with the prediction of risk prevention - then there will be big losses. Fear of responsibility has led to restrictions on the use of derivative financial instruments in risk prevention at enterprises.

Sixth: In developed countries, according to international business practice, units with public interests such as public companies, credit institutions, insurance companies, and the State require these enterprises to be really present risk analysis, risk management and use of tools and measures to prevent risks in business operations. The State promulgates and regulates laws for markets to develop and promote CCTC derivative transactions. Therefore, all businesses with public interest must use CCTC effectively to derive business purposes and prevent risks of fair value, cash flow and net investment abroad. In Vietnam, the CCTC derivative is still new, too complicated and not only for businesses but also for officials and experts to study policies and regimes in state agencies. That is an important cause of limitations on using CCTC derivative in order to prevent risks in Vietnamese enterprises in particular and enterprises that the author surveyed in general.

Seventh: Commodity transactions on the futures market and the use of futures contracts to execute transactions is a very complex issue and is still very new in Vietnam, so it requires a strong professional qualification to join the transaction.

## **5. Solutions to improve accounting of derivative financial instruments in risk prevention activities at Vietnamese enterprises today.**

### **5.1. Group of short-term solutions.**

First: The State needs to complete regulations, provide specific guidance on derivative financial instruments and account them. For businesses to be assured of using those derivative financial instruments.

Second: Enterprises need to conduct research and risk analysis seriously so that they can see the necessity of risk prevention tools such as derivative financial instruments.

Third: Applying international accounting standards, determining the fair value of assets, from then slowly understanding derivative products for the purpose of risk prevention of enterprises.

### **5.2. Group of strategic solutions.**

Firstly, the State needs to research and develop derivative financial markets at the same level as developed countries such as the US, Australia, and Europe ...

Second: Create a perfectly competitive environment with perfect financial information to ensure transparency, objectivity, and honesty so that businesses can make predictions about the most accurate risk fluctuations. From there, businesses can decide to use derivative financial instruments for the most effective risk prevention or speculation purposes.

Third: Completing derivative trading floors, opening derivative trading floors such as Buon Ma Thuat coffee trading floor. At the same time linking domestic and international derivative exchanges to make our goods traded not only domestically but also in the world through derivative financial channels to minimize risks. businesses may encounter.

Fourth: Constantly train, propagate and advise on derivative financial instruments for all Vietnamese enterprises in particular and import-export enterprises in general, so that businesses understand the nature of the This derivative product and they will actively approach them, not passive.

Finally: Regularly update international standards of financial instruments in general and derivative financial instruments in particular to improve Vietnam's accounting system. Provide accounting system suitable to international practices while ensuring simple and easy to implement for businesses.

## **6. Conditions to implement solutions to complete accounting of derivative financial instruments in risk prevention activities at Vietnamese enterprises**

### **6.1. Complete the legal framework for derivative financial instruments.**

The economy of the country is growing, the trend of integration and opening up increasingly demands the use of derivative financial instruments. Based on research on the derivative market of countries in the world combined management experience in the process of formation and development of derivative transactions in our country in the past, to gradually build the framework. legal for derivative transactions in an appropriate and effective way, to proceed to formulate official derivative transaction regulations.

First of all, the State needs to adjust decrees, regulations, guidelines ... on buying and selling derivative financial instruments. After that, it is possible to draft and issue fully documents on derivative CCTC to standardize the contents specified in some current documents relating to CCTC derivative.

Next, the State must synchronize the relevant legal documents: Currently, the legal documents regulating and controlling CCTC transactions are not much, lack of guiding documents. That is one of the reasons why businesses and investors are not assured when participating in this market. Therefore, relevant state agencies such as the State Securities Commission and the Ministry of Industry and Trade need to issue specific provisions for the use of derivative CCTC derivatives for risk prevention. in each field of currency, commodities, and derivatives.

In order to expand and enhance the scale of CCTC derivative market, the State needs to regulate all units with public interests such as public companies, credit institutions, and insurance companies to analyze risk,

have risk management policies and use tools and measures to minimize risks and must explain on the financial statements the above information. Thereby promoting these enterprises to study and use CCTC derivative in order to prevent risks accordingly.

The state should facilitate both businesses and individuals to participate in derivative transactions. Expand the transaction term and limit the turnover of transactions compared to the current regulations. Allow credit institutions other than banks to conduct derivative transactions in order to increase the number of suppliers and improve the competitiveness of the market.

The state needs to develop a standard model of checking documents to ensure that future transactions are carried out on the basis of real goods, the purpose is to avoid taking advantage of future contracts to speculate.

### **6.2. Separating the role of the State in the financial market.**

In the context of the economy being integrated into our country today, according to the integration roadmap that our country has committed to WTO, the State needs to gradually loosen the policy of direct intervention in the market. Meanwhile, businesses will clearly see risks to transactions, causing greater losses, forcing businesses, individuals and investors to pay attention to risk prevention measures in particular and CCTC type derivative in general to prevent risks for their own businesses.

Trading activities with derivative financial instruments will really make sense in the context of market fluctuations completely objective. Investors, businesses, business people, ... based on judgments about market developments, they will choose the appropriate derivative financial instruments to implement their specific objectives, namely joint or prevent or limit risks.

On the other hand, in the capital market, the policy of liberalization will bring positive effects and high objectivity, reflecting relatively the situation of capital supply and demand in the market. Thus, if the volatility of the factors to the market is more objective, then this will be an important factor to stimulate investors interested in derivative transactions.

### **6.3. Propagating and guiding enterprises to raise awareness about derivative financial instruments.**

Improving the level and awareness of those who need to use SPPS should be done regularly, continuously, with a focus and a clear purpose. State management agencies need to support and coordinate with financial institutions to provide derivative services to develop market development strategies to professionalize these transactions, making them become familiar, useful and popular transactions in the business community, investors and financial institutions. To do that, the State and financial institutions need to:

- Propagating and disseminating to businesses to fully and accurately perceive the effects of fluctuations in exchange rates, interest rates, and prices through seminars, experience exchanges or on communication channels. news such as newspapers, television, internet ...

- Regularly organize seminars and seminars to discuss risks of exchange rates, interest rates, prices, build and deploy short-term training courses for enterprises on the need for preventive measures risks above.

- In the future, more knowledge about derivative instruments and their transactions as well as knowledge of risk management should be included in teaching at universities and financial teaching institutions. ... to equip future generations with full awareness of the use of derivative tools in their risk management activities.

### **6.4. Create a perfect information channel, thanks to the publicity and transparency of information.**

Vietnam financial market has only developed in a short time, the financial information has not been publicized, the issue of financial communication has also received the attention of the society. However, financial communications in Vietnam are almost spontaneous, lack of management, and accountability from state management agencies. With a high-end financial market such as derivative market, information plays a very important role in investment decisions, risk prevention of businesses and investors ... Therefore, to develop this market, Specific directions and methods need to be given to promote the development of financial communication, to improve the quality of financial information to ensure transparency, openness, accuracy, and honesty. The State should continue to issue more specific guidelines on disclosure of information to the market as well as severe sanctions against violations of information disclosure.

In addition, it is necessary to promote diverse, complete, accurate and necessary sources of information to all market participants. It is necessary to set up specialized research institutions to develop tools to forecast

and announce the forecasts of exchange rates, interest rates, and prices through mass media or through specialized journals for enterprises to have a basis for analyzing, evaluating and making business decisions or hedging for themselves.

### **6.5. Gradually improve the professional level of employees**

Through the survey results of the author and of Dr. Nguyen Phi Son in his doctoral thesis, enterprises show that they are very indifferent to derivative financial instruments, largely due to lack of knowledge about This type of product, sometimes never heard of the names of these products. Therefore, Vietnamese enterprises in general and enterprises surveyed in particular need to build and implement training and improvement plans to improve the qualifications of officials and employees, especially focusing on some fields. areas such as accounting, risk management, and financial analysis, ...

Enterprises must have training plans, constantly improve the qualifications and quality of personnel to have professional staff, capable of performing derivative operations when companies use CCTC derivative in production and business activities. In order to effectively implement this solution, enterprises must regularly organize training and re-training of managers and professional staff in the direction of both intensive and general and versatile because they are direct performing operations related to CCTC derivative. In addition, the training program must ensure that the knowledge of the general market economy, especially the knowledge of CCTC derivative, is available, especially for positions that are frequently exposed to it. At the same time, it is necessary to build experts with strategic management, business management, ability to analyze and forecast the fluctuation of basic assets when using SPPS, able to pave the way and guide people practice staff.

### **6.6. Carefully research and flexibly apply derivative financial instruments in enterprises**

The CCTC derivative market is very diverse and complex, requiring the staff of enterprises to have a high level of expertise in this field, understanding the derivative techniques. Especially financial officers and accountants must be able to flexibly apply risk prevention tools for exchange rates, interest rates as well as commodity prices. In addition, employees who perform this operation must also have the ability to analyze and forecast to be able to finish derivative transactions without causing losses to businesses. Eg:

- Only transactions after equipping the derivative market, so it is necessary for employees to participate in courses or seminars on derivative products and transactions of derivative contracts to equip professional knowledge and trading skills training.
- It is very important to keep a good place to sell reliable products and to ensure the quality of goods. Strengthening the link between businesses and farmers in collecting goods and setting out the optimal method and time of sales, keeping a good relationship with the purchasing system of the company by measures such as buying pillows, supporting capital for farmers.
- Enterprises need to increase sales to reliable traders and long-term benefit sharing, re-evaluate their partners to see if they can survive the crisis during the past crisis. the maturity period should have sufficient professional staff who are knowledgeable about the future market forecast relatively accurately,
- Establishing a research room for market fluctuations, technical analysis, risk prevention.

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