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Usage Derivatives in Management Financial Risks: A Study on Firms in Borsa Istanbul (Bist) 100 Stock Index

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Extensive Summary

In general, derivatives are financial agreements signed by counterparties to trade pre-determined asset(s) today based on their future values. Main financial tools are cash on hand, assets, liabilities, equity shares and owner's equity and on the other hand financial derivatives are forward, future, option, swap and other derivative financial tools. Today, increasing uncertainties in global economy and price fluctuations make the attentive risk management an obligation. Emerging risk management techniques along with the development of financial system rise in importance day by day. Derivative products have been appeared as important financial products developed as the most proper risk management tool for both providing a protection against global financial crisis and undertaken financial risks and meeting the need to monitor the variables constantly and instantly.

Although there are other derivative tools used in markets, derivative tools might be generally classified into topics stated below:

- Dated trading agreements (forward agreements, future agreements)
- Option agreements
- Swap agreements

Along with globalization firms' business segments are expanded and complicated and as a result risks exposed are increased. These risks are classified as follows: loan risk, liquidity risk, interest risk, exchange risk and other price risks. Turkish Financial Reporting Standard (TFRS 7) aims the information needed for financial statement users to evaluate the characteristics and level of risks exposed within the period or at the end of the reporting period due to financial tools and business' risk management models of the concerned risks, declared to public in their financial statements. According to the

TFRS7, these risks are categorized as loan risks, liquidity risks and market risks. Market risks are split up to sub-categories as interest risk, exchange risk and other price risks.

Capital Market Boards of Turkey had been determined the minimum components that must be in financial report format declared to public through Public Disclosure Platform based on “Financial Statements Samples and User Guide” published by Public Oversight – Accounting and Auditing Standards Authority. In this study, by examining yearly-financial statements (2013-2014) and annotations of 67 firms that takes place in BIST-100 index other than financial sector, authors research the exposed financial risks and to what extent firms used derivative products to manage these risks. As a result, it is found that almost all firms within the study indicated the exposed financial risks in their financial statements and annotations. These risks are juxtaposed as loan risk, liquidity risk, interest risk, exchange risk and other price risks. Firms’ levels of using derivative products to manage the indicated risks are actualized 36 % in 2013 and 45 % in 2014.

Derivative products are used as a protection against interest risk, exchange risk and other price risks. It is found that no derivative products are used against the loan risk and liquidity risk among the exposed risks. Mostly, in-firm techniques are used to manage the indicated risks. Subject to the study, 27% of the firms used derivative products against interest risk, 31% of them against exchange risk and 9% of them against other price risks in 2013 and respectively 31% against interest risk, 36% of them against exchange risk and 10% of them against other price risks in 2014.