Fair Value Hedge (Silent)

- There is already a binding contract to buy or sell goods even if the passage of title is on a future date.
- There is an underlying asset/liability in the Hedge item, therefore, there will be forex gains and losses in the Hedge item.
- All gains and losses of both Hedge item and Hedging instrument will go to Profit or Loss.

Cash Flow Hedge (Anticipated)

- No binding contract because it is a hedge of a highly probable forecasted cashflow.
- No underlying asset/liability in the Hedge item, therefore, no gains and losses in the Hedge item.
- Gains and losses of the Effective (Intrinsic Value) portion will go to OCI while gains and losses of the Ineffective Portion (Time Value) will go to P/L.

Option Contracts

- It's also a derivative contract that provides the holder of the contract the right to buy or sell in the future for a price set today.
    - Call option – Buy
    - Put option – Sell

Strike Price – option price to buy or sell.

Intrinsic Value

- Difference between the market price and the strike price.
- Difference must be favorable to the entity.
    - If buyer = Strike Price < Market Price
    - If seller = Strike Price > Market Price
- Effective Portion

Time Value
- Difference between the FMV of the option and intrinsic value.
- Ineffective portion.

Hedge Item Gain/Loss – Changes in market price.

Hedging Instrument Gain/Loss – Changes in FMV of Option.

*At the settlement date, the FMV option and Intrinsic value will be equal.