UDC 336 .011

APPROACHES TO UNDERSTANDING THE DEFINITIONS OF DERIVATIVES

H. SHYNKEVICH, I. STROHANAVA
Polotsk State University, Belarus

The modern economy is characterized by significant price fluctuations for many types of goods. Producers and consumers are interested in creating effective mechanisms that can protect them from unexpected price changes and minimize negative economic consequences. Currently, the derivatives market in the Republic of Belarus is immature in terms of both the Belarusian Currency and Stock Exchange and OTC market.

In any business, whether it is an investment fund or an agricultural producer, there is always a financial risk. They can be related to the following: the sale of manufactured products, the risk of depreciation of capital invested in certain assets, the purchase of assets. This means that in the course of their activities, companies, other legal entities and individuals face the possibility that as a result of their business they will take a loss or the profit will not be as they expected, due to unforeseen changes in the prices of the assets at which the transaction is completed. Risk includes both the possibility of losing and the possibility of winning, but people, in most cases, are not afraid of risk, and therefore they are willing to give up more profits to reduce the risk of losing.

Therefore, the market of derivative financial instruments today is an actively developing and significant part of the financial market. Unlike the Republic of Belarus, foreign countries actively conduct transactions with derivatives along with classical financial instruments and get quite a lot of advantages from their use. Focusing on the prevalence of the use of derivative financial instruments (DFI) in the Belarusian financial market, we also examine the prospects for the development of this segment of the financial market in the current economic conditions of the Belarusian economy. This issue is relevant today, as it can actively contribute to the development of the financial market and the country's economy as a whole. There are different interpretations of derivative financial instruments. For example, in the United States, a derivative is a contract in which the price is derived from the value of one or more underlying securities, debt instruments, indices, commodities, and other derivatives. In the Russian Federal Law "On the Securities Market", DFI is also defined as a contract. In European countries (Germany), derivatives are considered as rights that are traded on the market, and the price is directly or indirectly related to the movement of the market value of the currency.

For this purpose, financial instruments, derivatives or derivatives market instruments, hedging instruments, etc. were created. Their definitions are presented in the table:

Table 1. – Definitions of the "Derivatives"

№	Definition	Source of information
1	A derivative financial instrument is a derivative security and (or) other financial instrument, the result of which is the acquisition of the right and (or) the establishment of the obligation to buy or sell the underlying asset. The underlying assets of a derivative financial instrument may be cash, securities, other currency values, precious metals, interest rates, credit resources, stock indices, standardized services, goods and other assets that are the subject of transactions made on the territory of the Republic of Belarus and (or) abroad	[1]
2	A derivative financial instrument is a contract that has arisen when an asset is acquired/sold in the future and with the desire to insure (hedge) the risks of the buyer/seller	[2, p. 132]
3	A derivative financial instrument is a financial instrument whose prices or terms are based on the corresponding parameters of another financial instrument, which will be the base one.	[3]
4	A derivative is a financial instrument whose value is derived from the value and characteristics of another security (the underlying asset). The value of a derivative changes following changes in the interest rate, the price of a commodity or security, the exchange rate, the price index or rates.	[4, p. 12]
5	A derivative is a marketable security whose value is derived from the actual or estimated price of an underlying asset (commodity, security, or currency). Derivatives include futures contracts, stock market index futures, options, and swaps. Stock market derivatives (derivatives) are used for hedging, risk reduction, or speculative purposes.	[5, p. 341]

Source: compiled by the author on the basis of [1, 2, 3, 4, 5].

After analyzing these definitions, we can make a clear conclusion that there are no significant differences in the definitions we have chosen, and the definitions we are considering are more consistent with each other. The main DFIs of the derivatives market, designed to hedge currency risks, can be currency forwards, currency futures, currency options and swaps.

Based on the results of the analysis, we can give the author's definition of the term derivative financial instruments (DFI). DFI are certain rights/obligations, or contracts that are most often not formalized to the extent of a security, but can be presented in its form, namely: a future, forward, option, swap. Which, in turn, allow you to hedge risks, divide them into financial transactions, and they can also be a tool for obtaining speculative profits. In the further analysis, we will adhere to the author's definition of derivative financial instruments.

An important point here is that the presence in the economy of the futures market (the market of the basic DFI asset) and the derivatives market of the DFI, absolutely different from the point of view of their functioning mechanisms, leads to the emergence of a hedging phenomenon, in the course of which the results of two transactions - a forward transaction with the underlying asset and transactions with DFI are balanced.

We can state that the derivative instruments, in addition to their stated above main purpose to fix the future price, have one more additional purpose – to hedge the unfavorable development of the price situation (exchange rate volatility) in the derivatives market.

REFERENCES

1. Постановление Правления Национального банка Республики Беларусь, 28 сентября 2006 г. № 137 // Официальный сайт Национального Банка Республики Беларусь. – Режим доступа: https://www.nbrb.by/legislation/documents/pp_137_47-19.pdf. – Дата доступа: 12.03.2021.
2. Волегова Н. В. Учет производных финансовых инструментов инвесторами: учебник / Н. В. Волегова, – М.РЕД-В – М. 2012. – 531 С. с.132.
3. Постановление Совета Министров Республики Беларусь и Национального Банка Республики Беларусь 30 декабря 2016 г. № 1119/35. – Режим доступа: http://government.by/upload/docs/file784047cb82ebb230.PDF. – Дата доступа: 12.03.2021.
4. А.О. Тихонов, С.Л. Кисель учебно-методическое пособие «Форвард, фьючерс, опцион на финансовым рынке» е / А. О. Тихонов , С. Л. Кисель. - Минск : Мисанта, 2007. - 120 с.
5. Королёв, М.И. Экономика. Риск. Защита: словарь-справ. / М.И. Королёв. – М.: Анкил, 2008. – 832 с. 341.