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The Effect of Foreign Exchange Forward Contracts on Bank Indonesia's Prudential Principles Report and Its Role in Moderating Exchange Rate Difference Profit and Loss

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Abstract

This study aims to analyze the effect of foreign exchange forward contract utilization on compliance with Bank Indonesia's prudential reporting principles and its role in moderating the relationship between forward contracts and corporate foreign exchange gains and losses at PT XX, an affiliated company of PT United Tractors Tbk. The research employs a quantitative approach using secondary data derived from the company's financial statements and prudential compliance reports over a specific observation period. Data were analyzed using linear regression and moderated regression analysis to examine the relationships among the research variables.

The results indicate that the utilization of foreign exchange forward contracts does not have a significant effect on compliance with Bank Indonesia's prudential reporting principles. In addition, forward contract utilization has not shown a significant impact on the company's foreign exchange gains and losses. Compliance with prudential reporting principles tends to moderate the relationship between forward contracts and foreign exchange gains and losses; however, the moderating effect is not statistically significant.

These findings suggest that exchange rate risk management is not solely determined by the use of forward contracts but is also influenced by other factors, such as exchange rate volatility and overall economic conditions. This study is expected to provide insights for companies in managing foreign exchange risk and improving the quality of prudential reporting practices.

Keywords**:** *foreign exchange forward contracts, prudential principles, Bank Indonesia compliance, foreign exchange gains and losses, moderation.*

INTRODUCTION

The increased involvement of Indonesian companies in international trade and financing activities has led to increasingly significant exposure to exchange rate risks. Uncontrolled exchange rate fluctuations can have a direct impact on a company's financial position, especially through the recognition of profit and loss of exchange rate difference in financial statements. This condition is a concern not only for the company's management, but also for regulators, considering that exchange rate risks have the potential to affect financial stability more broadly. Bank Indonesia, as the monetary authority, applies the principle of prudence through reporting obligations for non-bank companies that have debt and transactions in foreign exchange to monitor such risk exposures (Bank Indonesia, 2020). In this context, companies are required not only to be able to manage exchange rate risk, but also to ensure compliance with applicable reporting requirements.

In practice, one of the instruments that many companies use to manage the risk of exchange rate fluctuations is foreign exchange forward contracts. This instrument provides certainty of future exchange rates so that companies can minimize cash flow uncertainty and potential profit volatility arising from exchange rate changes. A number of empirical studies show that the use of derivatives-based hedging instruments plays a role in suppressing the negative impact of exchange rate volatility on a company's financial performance (Wardhana, 2024). The findings indicate that hedging policies are not only technical, but also part of risk management strategies that contribute to the stability of financial reporting.

In addition to having an impact on the profit and loss aspect, exchange rate risk management is also closely related to the company's compliance with applicable regulations. Compliance with the precautionary principle is important because regulators need accurate and timely information regarding foreign exchange risk exposures to maintain financial system stability. Nasriani (2024) emphasized that the effectiveness of exchange rate risk management is influenced by the consistency of company policies in disclosing risks and the transparent use of hedging instruments. This suggests that hedging practices, including the use of forward contracts, have implications not only for the company's financial results, but also for the quality and compliance of reporting delivered to regulators.

Although various studies have discussed hedging practices and their impact on company performance and risk, studies that have simultaneously linked the use of foreign exchange forward contracts, compliance with Bank Indonesia's prudential principle report, and exchange rate profit and loss recognition are still relatively limited. Most studies tend to focus attention on the effect of exchange rate fluctuations on a company's profit, without placing reporting compliance as an integral part of the analysis. In addition, the role of forward contracts in influencing the relationship between compliance with the prudential principle and profit and loss of exchange rate has also not been studied in depth.

Based on these limitations, this study becomes relevant to be conducted by placing foreign exchange forward contracts not only as an instrument to protect value, but also as a factor that affects the level of compliance of companies with the prudential principles set by Bank Indonesia, as well as to test the role of compliance as a moderation in the relationship between forward contracts and exchange rate loss and loss This study aims to analyze the effect of the use of forward contracts on compliance with the prudential principle report, as well as test whether compliance strengthens or weakens the influence of forward contracts on the profit and loss of exchange rate recognized in the financial statements, using quantitative approaches and secondary data sourced from financial statements and company compliance reports during certain observations.

PT. XX, as companies involved in import activities and foreign exchange transactions have exposure to exchange rate risk, there has been no empirical study that specifically analyzes the effectiveness of the use of forward contracts in the context of compliance with the prudential principles set by Bank Indonesia. Until now, the use of hedging instruments has been largely understood as a technical strategy to reduce the risk of exchange rate fluctuations, without an integrated analysis of their impact on the quality and consistency of a company's compliance reporting. However, compliance with the principles of prudence is an important aspect of ensuring transparent and regulatory risk management.

In addition, fluctuations in exchange rate profits and losses reflected in PT XX's financial statements from period to period indicate the dynamics of exchange rate risk that require more in-depth analysis. However, there has been no research examining whether adherence to the principles of prudence plays a role in strengthening or weakening the influence of futures contracts on earnings stability. The lack of research integrating these three aspects of futures contracts, prudential compliance, and exchange rate gains and losses suggests that there are empirical gaps that are relevant and worth exploring, particularly in the context of non-bank companies in Indonesia.

LITERATURE REVIEW

Exchange rate fluctuations are one of the sources of risk faced by companies that conduct transactions in foreign exchange, because changes in exchange rates can have a direct impact on the company's cash flow and profit. This risk arises especially when there is a time difference between the date of occurrence of the transaction and the date of settlement of payment, so that changes in the exchange rate during that period may result in a profit or loss in exchange rate difference. Nasriani (2024) explained that exchange rate volatility has a considerable influence on the company's financial stability, especially for companies that have debt exposure or transactions in foreign currencies. These findings show that the higher the foreign exchange exposure, the greater the financial risks faced if not balanced with adequate risk management.

In an effort to manage these risks, companies generally implement a *hedging* strategy by using derivative instruments, one of which is foreign exchange forward contracts. Wardhana (2024) found that the use of forward contracts can help companies reduce the impact of exchange rate fluctuations on profit and loss. Although not all forward transactions generate individual profits, the results show that overall the hedging strategy is still able to achieve its main objective, which is to reduce the risk of foreign exchange transactions. This indicates that the effectiveness of forward contracts is more appropriate to be seen from its ability to maintain financial stability, rather than solely short-term profits.

Similar results are also shown by Pangestuti (2022), who states that the use of forward contracts as a hedging instrument does not always provide favorable results. The study shows that the success of hedging is strongly influenced by market conditions and exchange rate movements during the contract period. Nevertheless, forward contracts still play an important role in reducing uncertainty due to exchange rate fluctuations. Thus, the decision to hedge needs to be considered as a risk management measure, not solely as an effort to gain financial gain.

Adams and Verdelhan (2022) explained that the profit and loss of the exchange rate difference reflected in the income statement can be used as an indicator of the level of exposure to exchange rate risks faced by the company. This study shows that companies that do not hedge optimally tend to have a greater impact on their profits and investment decisions when there are changes in exchange rates. Thus, exchange rate risk management through forward contracts becomes relevant not only to maintain profit stability, but also to support the sustainability of the company's business activities.

In addition to having an impact on financial performance, the use of hedging instruments is also related to the company's compliance with regulations set by monetary authorities. Putra (2023) emphasized that Bank Indonesia has an important role in encouraging the implementation of hedging policies through various foreign exchange market regulations. The policy aims to reduce systemic risks and maintain the stability of the national financial system. In this context, compliance with the principle of prudence is not only an administrative obligation, but also part of the exchange rate risk control mechanism that the company faces.

H1: Foreign exchange forward contracts have a significant impact on Bank Indonesia's prudential principle report.

Foreign exchange futures contracts are derivative instruments that companies use to manage the risk of exchange rate fluctuations. The use of derivatives is not only related to hedging strategies but also to the obligation to guarantee and comply with regulations. Utamie (2022) stated that companies that use derivatives are required to disclose in accordance with applicable accounting standards and regulations. Furthermore, Putra (2023) emphasized that hedging policies are driven by prudential principles set by Bank Indonesia to maintain financial system stability. Therefore, the greater the use of futures contracts, the greater the demand for companies to adhere to the principles of prudence in reporting.

H2: Bank Indonesia's prudential principle report moderates the effect of foreign exchange forward contracts on the profit/loss of exchange rate differences.

Forward contracts aim to reduce exchange rate risks that have an impact on profit/loss of exchange rate differences. Razak and Meiden (2024) and Hammad et al. (2024) show that derivative instruments are effective in reducing the risk of exchange rate fluctuations. Adams and Verdelhan (2022) also found that companies without hedging experienced higher profit volatility. However, the effectiveness of forwards is highly dependent on risk governance and regulatory compliance. Putra (2023) emphasized that the principle of prudence aims to control the risk of foreign exchange transactions. Therefore, compliance with the prudential principle is suspected to strengthen the effectiveness of forward contracts in reducing profit/loss in exchange rate differences.

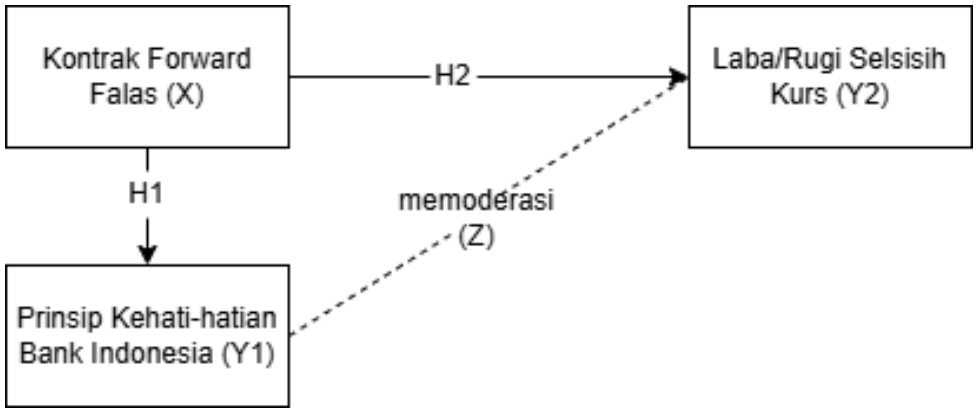

Image 1. Hypothesis Framework

RESEARCH METHODS

This study uses a quantitative approach with the type of causal research, which aims to analyze the causal relationship between research variables. The quantitative approach was chosen because this study examined the effect of the use of foreign exchange forward contracts on compliance with Bank Indonesia's prudential principle report, as well as the role of forward contracts in moderating the effect of compliance on exchange rate difference profit and loss based on statistically analyzed numerical data.

The research object in this study is PT XX, which is a non-bank company and an affiliate company of PT United Tractors Tbk. The selection of research objects is based on the characteristics of companies that have exposure to foreign exchange transactions and use forward contracts as a hedging instrument in exchange rate risk management. In addition, as a non-bank company, PT XX has an obligation to implement and report the prudential principle in accordance with the provisions of Bank Indonesia, so that it is relevant to the purpose of the research.

The data used in this study is secondary data sourced from the Prudential Principle Activity Report and Financial Statements of PT XX during a certain observation period. The Prudential Principle Activity Report is used to obtain information on the level of compliance of companies with Bank Indonesia's reporting provisions, while the Financial Statements are used to obtain data related to the use of foreign exchange forward contracts and the recognition of profit and loss in exchange rate differences.

The independent variable in this study is the use of foreign exchange forward contracts, which are measured based on the value of the forward contracts used by the company in managing exchange rate risk in each observation period. The dependent variable consists of two variables, namely compliance with Bank Indonesia's prudential principle report and profit and loss from exchange rate difference. Compliance with the prudential principle report is measured based on the level of conformity and completeness of the company's statements with applicable regulations, while profit and loss from exchange rate differences is measured based on the value of profit or loss due to exchange rate differences recognized in the financial statements. In this study, the use of prudential principle reports was also positioned as a moderation variable to test its role in influencing the relationship between forward contracts and profit and loss in exchange rate differences.

The data analysis methods used are linear regression analysis and *moderated regression analysis*. Linear regression analysis was used to test the effect of the use of foreign exchange forward contracts on compliance with Bank Indonesia's prudential principles report. Furthermore, moderation regression was used to test the role of forward contracts in moderating the effect of compliance with the prudential principle on profit and loss of exchange rate difference. Before the regression analysis is carried out, the data is first tested through a classical assumption test to ensure that the model used is statistically qualified so that the test results can be interpreted appropriately.

RESULTS AND DISCUSSION

In a descriptive statistical test, testing is carried out to provide a description of the data through the minimum values (min), maximum (max), mean (mean), and standard deviations resulting from the variables used in this study.

Table 1. Descriptive Analysis Test Results

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Kontrak Forward VA	31	.00	288468.00	58097.6129	82955.03654
Y1_Kepatuhan KPPK	31	.70	1.28	.9497	.15624
Y2_Selisih course	31	-13198.00	12524.00	555.4194	5914.36418
Moderation	31	.00	282699.00	57207.9677	82842.05965
Valid N (listwise)	31				

(Source: Data processed SPSS 2026)

Based on the results of the descriptive analysis test in the table above, it can be concluded that the variable Foreign Exchange Forward Contract (X1) has a minimum value of 0.00, a maximum value of 288268.00. The mean value was 58097.6129 < the standard deviation was 82955.03654 indicating that the data was heterogeneous. The KPPK Compliance Variable (Y1) has a minimum value of 0.70, a maximum value of 1.28. The mean value is 0.9497 > the standard deviation is 0.15624 showing that the data is homogeneous. Furthermore, the Exchange Rate Difference Variable (Y2) has a minimum value of -13198.00, a maximum value of 12524.00. The mean value was 555.4194 < the standard deviation was 5914.36418 indicating that the data was heterogeneous. Meanwhile, the Moderation Variable (X1. Y1) has a minimum value of 0.00, maximum value of 282699.00. The mean value is 57207.9677 < the standard deviation of 82842.05965 shows that the data is heterogeneous.

This classic assumption test is carried out to ensure that the data to be used in this study is normal and valid. The tests carried out were normality tests, multicollinearity tests, heteroscedasticity tests, multicollinearity tests, heteroscedasticity tests, and autocorrelation tests.

The normality test in this study was carried out with a statistical test of one sample kolmogorov smirnov (K-S) and a normality test with a probability plot graph.

Table 2. Results of the One Sample Kolmogorov-Smirnov Test (Y1)

One-Sample Kolmogorov-Smirnov Test	
	Unstandardized Residual
N	31
Asymp. Sig. (2-tailed)	.140c

(Source: Data processed SPSS 2026)

Table 3. Results of the One Sample Kolmogorov-Smirnov Test (Y2)

One-Sample Kolmogorov-Smirnov Test	
	Unstandardized Residual
N	31
Asymp. Sig. (2-tailed)	.200[c,d]

(Source: Data processed SPSS 2026)

Based on the results of the normality test using the One Sample Kolmogorov Smirnov (KS) method, it shows that the variables in this study have been distributed normally with a significant value of Asymp Sig (2-tailed), which is 0.140 ≥ 0.05 for the Y1 variable and 0.200 ≥ 0.05 for the Y2 variable. Furthermore, the test was carried out with the P-P Plot of Regression Stadardize Residual graph, which can be seen in the image below.

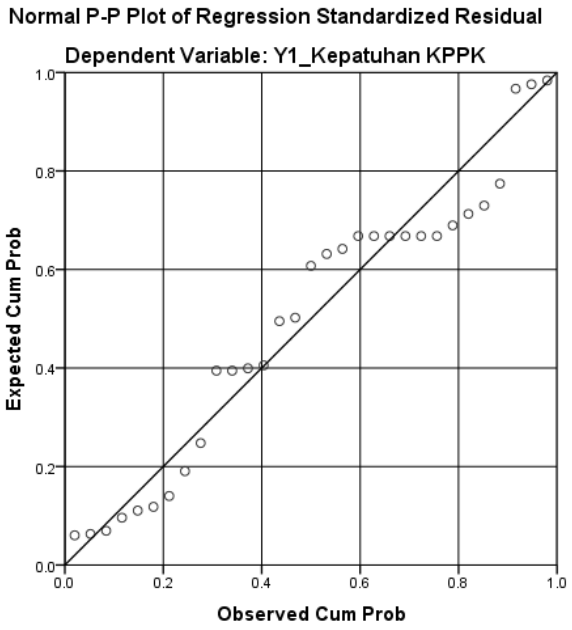

Image 2. Results of the P-P Normality Test Residual Standardization Regression Plot (Y1)

(Source: Data processed SPSS 2026)

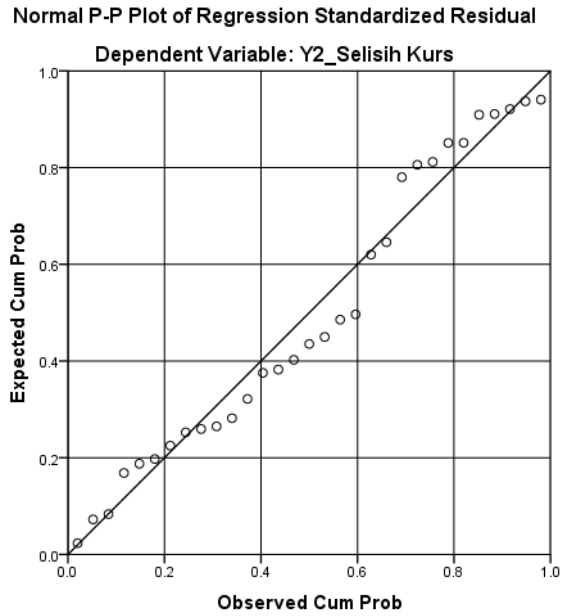

Image 3 . Results of the P-P Normality Test Residual Standardization Regression Plot (Y2)

(Source: Data processed SPSS 2026)

Based on the results of the normality test with the P-P Plot of Regression Standardize Residual method in the figure above, it can be seen that the distribution of data in the graph is around the diagonal line and follows the direction of the line. Thus, it can be concluded that the residual data and regression models in this study have been distributed normally.

This multicollinearity test was carried out to test the regression model between dependent variables and found a correlation. In this study, to detect the presence of multicollinearity, it can be done by looking at the values of the Tolerance and Variance Inflation Factory (VIF). The regression model that is free from multicollinearity is if it has a Tolerance value of > 0.10 and a VIF value of < 10. The results of the multicollinearity test can be seen in the table below.

Table 4. Multicollinearity Test Results (Y1)

Coefficients[a]			
		Collinearity Statistics	
Model		Tolerance	VIF
1	Kontrak Forward VA	1.000	1.000

a. Dependent Variable: Y1_Kepatuhan KPPK

(Source: Data processed SPSS 2026)

Table 5. Multicollinearity Test Results (Y2)

Coefficients[a]			
		Collinearity Statistics	
Model		Tolerance	VIF
1	Kontrak Forward VA	.145	6.895
	Moderation	.145	6.895

a. Dependent Variable: Y2_Selisih Kurs

(Source: Data processed SPSS 2026)

Based on the results of multicollinearity above, it can be seen that the independent and moderate variables in this study showed a tolerance value of > 0.10 and a VIF value of < 10. Thus, it can be concluded that the independent and moderation variables in this study are free from multicollinearity.

This heteroscedasticity test was carried out to test the regression model between independent variables whether there is an inequality in the variance between residuals from one observation to another. In testing heteroscedasticity, this study used the glacier test method and scatterplot graph test. The results of the heteroscedasticity test using the glyceceticity test can be seen below:

Table 6. Results of Heteroscedasticity Test with Glejser Test (Y1)

Coefficients[a]			
Model		T	Sig.
1	(Constant)	6.208	.000
	Kontrak Forward VA	-.641	.527

a. Dependent Variable: ABS_Res

(Source: Data processed SPSS 2026)

Table 7. Results of Heteroscedasticity Test with Glacier Test (Y2)

Coefficients[a]

Model		T	Sig.
1	(Constant)	6.643	.000
	Kontrak Forward VA	.014	.989
	Moderation	.034	.973

a. Dependent Variable: ABS_Res2

(Source: Data processed SPSS 2026)

Based on the results of the heteroscedasticity test using the glycetest above, it can be seen that the result of the significance value of each variable is independent and moderation is more than 0.05. Thus, it can be concluded that the data used in this study are free from heteroscedasticity symptoms. The next method is to use a scatterplot graph, The results of the heteroscedasticity test using a scatterplot graph can be seen in the image below:

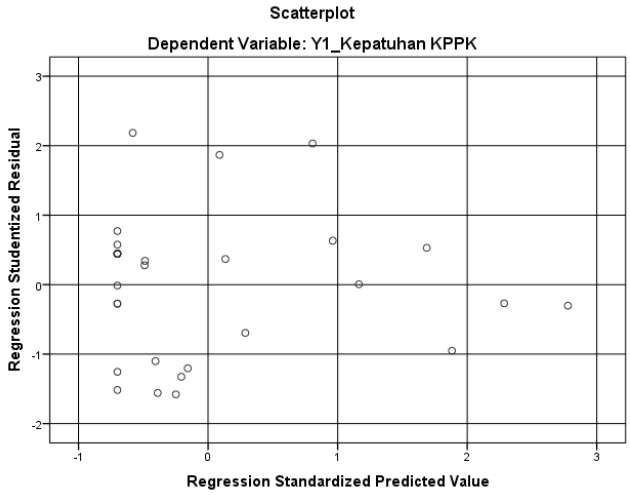

Image 4. *Heteroscedasticity Test Results with Scatterplot Graph (Y1)*

(Source: Data processed SPSS 2026)

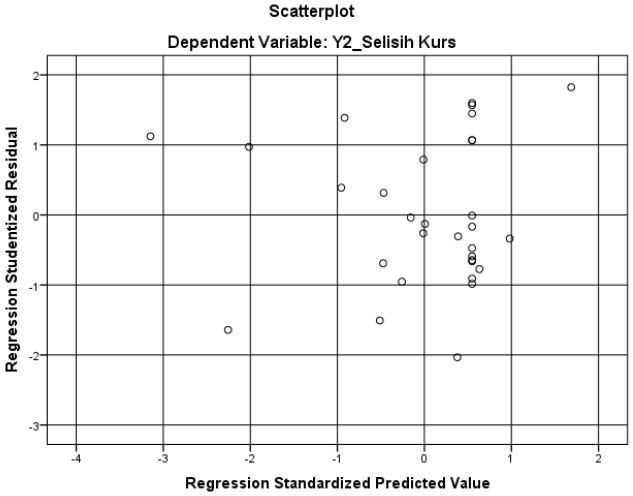

Image 5. Heteroscedasticity Test Results with Scatterplot Graph (Y2)

(Source: Data processed SPSS 2026)

Based on the results of the heteroscedasticity test using the scatterplot graph in the image above, it can be seen that the data distribution points are scattered and do not form a clear pattern. Thus, it can be concluded that the independent variable data in this study do not experience symptoms of heteroscedasticity and are suitable for use for research.

The autocorrelation test is used to determine whether there is a correlation in the regression model. The test was carried out with the Durbin-Watson (DW) test using a sample number (n) of 31. For the KPPK Compliance variable (Y1) with k = 1, the values of dU = 1.4957 and dL = 1.3630 were obtained, while for the variable of Exchange Rate Difference (Y2) with k = 2, the values of dU = 1.5701 and dL = 1.2969 were obtained. The results of the next test are shown in the following table:

Table 8. Autocorrelation Test Results (Y1)

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.162a	.026	-.007	.15680	2.127

a. Predictors: (Constant), Kontrak Forward VA

b. Dependent Variable: Y1_Kepatuhan KPPK

(Source: Data processed SPSS 2026)

Table 9. Autocorrelation Test Results (Y2)

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.472a	.223	.167	5397.96729	1.189

a. Predictors: (Constant), Moderasi, Kontrak Forward VA

b. Dependent Variable: Y2_Selisih Course

(Source: *Data processed SPSS 2026)*

Based on the results of the autocorrelation test in the table above, it can be seen that the Durbin Watson (DW) value for the KPPK Compliance variable (Y1) is 2.127 and meets the criteria dU < dW < 4 – dU (1.4957< 2.127< 2.5043). Meanwhile, the Durbin Watson value (DW) for the Exchange Rate Difference variable (Y2) is 1.189 and meets the criteria of dU < dW < 4 – dU (1.5701 < 1.189 < 2.4299). Based on the decision making criteria of the Durbin Watson (DW) autocorrelation test, it can be concluded that the data in this study is free from autocorrelation symptoms.

Multiple linear regression analysis in this study was conducted to test the effect of the relationship between the foreign exchange forward contract variable (X1) and the compliance variable of Bank Indonesia's prudential principle report (Y1). The results of multiple linear regression analysis can be seen in the table below:

Table 10. Multiple Linear Regression Test Results

Coefficientsa

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	T	Sig.
(Constant)	.932	.035		26.957	.000
Kontrak Forward VA	3,054E-7	.000	.162	.885	.383

a. Dependent Variable: Y1_Kepatuhan KPPK

(Source: Data processed SPSS 2026)

Based on the results of the multiple linear regression test in the table above using Standardized beta Coeffiecients for the regression model, the multiple linear regression analysis with the regression equation is as follows:

$Y= \alpha + \beta 1 (X1) + e$

$Y= 0.932 + 3.054+ e$

Therefore, it can be concluded that the above regression model, namely the value of the coefficient or constant (α) is 0.932, which means that if the variable of the foreign exchange forward contract is considered consistent and there is no change, then the compliance variable of Bank Indonesia's prudential principle report is 0.932. The value of the coefficient (β1) of the foreign exchange forward contract variable is 3.054 which means that every increase in the recruitment variable is one unit, the KPPK Compliance variable will increase by 3.054 assuming that the variable regression coefficient is constant.

Furthermore, the Kotrak Forward variable (X1) has a t-value of 0.885 and its significance of 0.383. Therefore, it can be concluded that the Forward Contract has a positive but insignificant effect on the Compliance of Bank Indonesia's Prudential Principle Report, thus the higher the influence of the foreign exchange forward contract owned by the company, the more likely it is to further increase the level of compliance with Bank Indonesia's Prudential Principle Report. However, this influence has not been statistically significant.

Determination coefficient (R2) analysis was carried out to test the extent to which the regression model in this study can explain the variation in dependent variables. The results of the determination coefficient (R2) test can be seen in the table below:

Table 11. Determination Coefficient Test Results (R2)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.162a	.026	-.007	.15680

a. Predictors: (Constant), X1_Forward

(Source: Data processed SPSS 2026)

Based on the results of the determination coefficient test (R^2), it can be seen that the value of R Square is 0.026 which can be interpreted that the independent variable in this study can affect 2.6% of the dependent variable. Meanwhile, the remaining 97.4% is influenced by other factors.

The significance test of individual parameters or the statistical test t is carried out to see the extent to which the influence of individual independent variables can explain the variation in the dependent variable. The results of the t-test can be seen in the table below:

Table 12. T Test Results

Coefficients[a]			
Model		T	Sig.
1	(Constant)	26.957	.000
	X1_Forward	.885	.383
a. Dependent Variable: Y1_Kepatuhan KPPK			

(Source: Data processed SPSS 2026)

Based on the table of t-test results above, it can be seen that the statistical value t shows the significance value (Sig.) of the Forward Contract variable (X_1) of 0.383 > 0.05. Thus, the forward contract variable has no effect on the compliance variable of Bank Indonesia's prudential principle report.

The moderation regression analysis was conducted to test whether the variables of Bank Indonesia's prudential principle compliance can play a role in strengthening or weakening the influence of the Foreign Exchange Forward Ratio on Exchange Rate Difference. The results of the moderation regression analysis can be seen in the table below:

Table 13. Results of Regression Test Moderation (Coefficients)

Coefficients[a]						
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	T	Sig.
1	(Constant)	1550.338	1328.689		1.167	.253
	X1_Forward	-.163	.102	-2.287	-1.604	.120
	X1Y1_Moderasi	.175	.094	2.453	1.863	.073
	X1. M	-1,554E-7	.000	-.524	-.914	.369
a. Dependent Variable: Y2_Selisih Kurs						

(Source: Data processed by SPSS 2026).

It can be seen in the table above that the significance of the interaction variable between the Forward Contract and the result of the effect of the Forward Contract on KPPK compliance is 0.369 > 0.05. Thus, it can be concluded that the variable of the influence of forward contracts on KPPK (M) compliance is not able to moderate the effect of forward contracts on profit and loss of exchange rate differences.

Table 14. Results of the Moderation Regression Test (Model Summary)

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.496a	.246	.162	5413.90872
a. Predictors: (Constant), X1. M, X1Y1_Moderasi, X1_Forward				

(Source: Data processed SPSS 2026)

It can be seen in the table above that the value of R Square is 0.246, so it can be interpreted that the contribution of the influence of the variables of Forward Contract (X_1) and Exchange Rate Difference (Y_2) with the variable Influence of Forward Contact on KPPK Compliance (M) is 0.246. Thus, structurally the moderation variable is able to improve the apparent power of the model compared to without moderation, but inferentially this moderation variable has not been able to prove the existence of a significant role of moderation.

Based on the results of linear regression analysis, the use of Foreign Exchange Forward Contracts has a positive effect, but does not have an impact on Bank Indonesia's Prudential Principles Compliance Report. A significance value of 0.383 indicates that the intensity of the use of foreign exchange forward contracts does not directly determine the level of compliance of companies with regulatory reporting obligations. These results show that the higher the use of foreign exchange forward contracts in PT. XX, compliance with Bank Indonesia's Prudential Principles Report also tends to increase, but this influence has not been proven to be statistically strong.

Theoretically, a foreign exchange forward contract is a hedging instrument that aims to reduce the uncertainty caused by exchange rate fluctuations. However, its effectiveness is greatly influenced by market conditions and exchange rate volatility at the time the contract is executed. While the use of futures contracts can help reduce transaction risk, it does not completely eliminate the impact of exchange rate fluctuations on a company's profits, as external factors remain dominant (Wardhana, 2024). In addition, exchange rate differential income is highly sensitive to global macroeconomic dynamics, such as international interest rate policies and financial market pressures, so the company's internal policies, including administrative compliance, are not always able to significantly control their impact (Adams & Verdelhan, 2022).

In practice at PT XX, foreign exchange forward contracts are used as part of a risk management strategy to maintain the stability of foreign exchange transactions. However, the Treasury function that manages forward contracts and handles prudential principle reporting runs in a different mechanism. However, the decline in foreign exchange income is still significantly influenced by fluctuations in the rupiah exchange rate against foreign currencies and global market conditions. This means that increased hedging activities do not automatically improve the quality or level of compliance reporting, as compliance is more influenced by the company's internal control and governance systems.

Furthermore, the results of the moderation regression analysis showed that the interaction variable between the Forward Contract and the Compliance of the Bank Indonesia Prudential Report was not significant at the level of 5% (Sig. 0.369). This means that Compliance with the Prudential Principle is not able to moderate the effect of Forward Contracts on Profit and Loss of Exchange Difference. In other words, compliance does not strengthen or weaken the relationship between the use of forward contracts and exchange rate fluctuations. Although the effect of moderation was not significant, simultaneously the regression model showed a considerable increase in explainability. The R-Square value increased from 2.6% in the model before moderation to 24.6% after the moderation and interaction variables were incorporated into the model. This improvement shows that structurally the model has become more comprehensive in explaining the variation in Profit and Loss of the Exchange Rate Difference.

This strengthens the research argument from Jefri Yanto Cahya Putra (2023) and Pangestuti (2022) that exchange rate risk is a complex and multidimensional phenomenon, so the use of forward contracts has been proven to help companies suppress exchange rate fluctuations, so that exchange rate losses can be minimized. Exchange rate gains and losses are influenced not only by hedging and internal compliance policies, but also by exchange rate market dynamics, domestic and global monetary policies, and international macroeconomic conditions. In the context of PT XX, although the company has implemented futures contracts and complied with careful reporting requirements, fluctuations in profits and losses in exchange rates are still strongly influenced by the movement of the rupiah exchange rate against foreign currencies and global market conditions.

Overall, the results of this study confirm that the use of foreign exchange forward contracts at PT XX functions as a transaction risk management instrument that protects exchange rate exposure, especially in maintaining cash flow stability and minimizing potential losses due to exchange rate fluctuations. Meanwhile, compliance with Bank Indonesia's prudential principles functions more as a regulatory oversight mechanism and a form of corporate administrative responsibility in meeting applicable reporting requirements. Both variables are equally important in corporate governance, but they are in different dimensions: futures contracts are oriented towards financial protection, while compliance is oriented towards regulatory certainty.

Thus, exchange rate risk management management at PT XX cannot rely solely on hedging and administrative compliance strategies. A more comprehensive and strategic approach is needed, which can include proactive financial planning, sensitivity analysis to exchange rate fluctuations, risk diversification, and ongoing monitoring of market conditions. Integrating risk management, treasury functions, and corporate governance is key to ensuring companies are not only compliant with regulations but also financially resilient in the face of ever-changing global market dynamics.

CONCLUSIONS AND SUGGESTIONS

Based on the results of this study, it can be concluded that the use of Foreign Exchange Forward Contracts at PT XX has a positive but not significant effect on Compliance with Bank Indonesia's Prudential Principles Report. This suggests that increased use of Forward contracts tends to be followed by increased compliance, but this relationship has not been statistically robust. In addition, the results of the moderation regression show that compliance with Bank Indonesia's prudential principle is not able to moderate the effect of futures contracts on exchange rate gains and losses. This means that the effectiveness of futures contracts in reducing the impact of exchange rate fluctuations is not affected by the company's level of administrative compliance. Although the value of the R Square increased after the inclusion of the moderation variable, most of the variation in exchange rate gains and losses remained influenced by external factors such as exchange rate volatility and global macroeconomic conditions.

Based on these findings, PT XX is advised not to rely solely on forward contracts and administrative compliance as the only approach in managing exchange rate risk. Companies need to develop more comprehensive and integrated risk management strategies, such as conducting periodic sensitivity analyses to exchange rate fluctuations, strengthening treasury functions in hedging policy planning and evaluation, and improving coordination between finance and compliance functions. Furthermore, continuous monitoring of foreign exchange market conditions and monetary policy developments, both domestically and globally, is needed so that companies can make more adaptive and responsive decisions to economic dynamics.

Further research is recommended to include other variables that theoretically affect foreign exchange gains and losses, such as exchange rate volatility, interest rates, foreign currency debt exposure, and the use of other derivative instruments. Extending the observation period and research subject to more than one company is also important to ensure stronger generalizations and provide a more comprehensive picture of the effectiveness of hedging strategies and regulatory compliance in managing exchange rate risk. As well as for further research, it is recommended to add other relevant variables and expand the period or object of research to obtain more comprehensive results and have stronger generalization power.

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