



Sent via e-mail to director@fasb.org

March 2, 2007

Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, Connecticut 06856-5116

Re: File Reference No. 1510-100 – Exposure Draft – Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133

Dear Sirs and Madams:

Nike appreciates the opportunity to share our views on the Exposure Draft ("ED") of the proposed amendment to FASB Statement No. 133 ("SFAS 133") issued on December 8, 2006. We fully support the Board in its efforts to improve the disclosures for derivative instruments. We have provided a detailed response for 8 of the 11 issues listed in the forepart of the ED that we believe to be the most relevant.

## Who we are

Nike is the world's largest athletic footwear and apparel company. We do business in over 160 countries. Our operations include the purchase and sale of merchandise across a vast network of distribution points and resellers. As a result of the cross-border purchases and sales, we are exposed to the volatility of the foreign exchange markets. We rely heavily on derivative instruments to reduce our exposure to fluctuating currencies.

## **Our viewpoint**

We believe that the goals of the Board for a company like ours – to better convey the risks we are intending to manage and the additional risks we take on as a result of derivatives – can best be achieved through quantitative disclosure and discussion around (a) the risk that is managed by derivatives and (b) the risk that we do not hedge. We do not believe that the users of our financial statements will gain a better understanding of the risks we manage through derivatives by providing the added detail of derivative notional and fair values by purpose called for in the tabular summaries prescribed in the ED. In many cases, such disclosure will be less clear and introduce confusion.

Our experience is that the users of our financial statements want information to understand how changes in foreign exchange rates impact our profitability and how well we are managing the underlying exposures

that are affected by changes in foreign exchange rates. The challenge is how to best meet this need in a way that is simple, clear and understandable. The added line item detail prescribed in the ED, although more complete than current requirements, will not enhance the user's ability to determine how changes in foreign exchange affect our financial results or how effectively we are managing our exposures. In addition, quantitative information by derivative purpose could also have the unintended consequence of revealing strategic pricing information to foreign competitors (see response to Issue 3 below).

## Our recommendation

We recommend that the Board emphasize the need for clear linkage between the underlying risks (currency exposures, for example) and how entities are impacted by those risks. Where companies seek to manage their risk through the use of derivatives, we believe they should address the context of offsetting impacts that may be reflected elsewhere in the financial statements. Where companies choose not to hedge, it would be useful for the reader to know why the entity tolerates that risk exposure. By moving towards an enterprise view of derivative disclosures, readers will be able to analyze how effectively entities manage their risk and how the entities' results were affected by hedging.

In that light, you will see that we have provided comments to several of the issues raised by the Board. Our comments can be reduced to three principle areas of concern with the ED: (1) relevance of notional amounts, (2) level of disclosure to be included in the proposed table and (3) timing of the proposed disclosures.

## **OUR SPECIFIC COMMENTS ON THE PROPOSED MODIFICATIONS**

**Issue 1:** Do you agree with the Board's decision to exclude from the scope of this proposed Statement prescriptive guidance about how derivative instruments should be presented and classified in the financial statements?

We agree with the Board's decision to exclude accounting guidance and classification from this ED. We believe that the proposed requirement to expand the disclosures to include impact of derivatives by income statement line items provides additional transparency as to how entities are accounting for derivatives. This effectively nullifies the need for guidance with respect to classification and presentation.

Issue 2: Do you agree that this proposed Statement should apply to both public and private entities?

We agree that the proposed scope should apply to both public and private entities. The application of a common set of accounting and disclosure rules for derivatives is necessary for the consistent application and interpretation by all stakeholders, especially with the recent proliferation of private entities involved in the global capital markets.

There is an opportunity, however, for convergence and alignment with the international rules-making bodies for derivative disclosures as more and more non-U.S. entities are involved in our competitive landscape. We believe that without more consistency in the application of new disclosure requirements across a broader scope, the comparability of derivative information with that of non U.S.-listed foreign entities is jeopardized. It is worth noting that the disclosure requirements of the Board's proposed Statement are much more significant than those of IFRS 7 Financial Instruments: Disclosures ("IFRS 7"), which recently became effective. Besides the comparability issues, we believe this discrepancy between disclosure requirements provides unfair strategic advantages (see our response to Issue 3 below) to our non-U.S. competitors.

**Issue 3:** Do you foresee any significant operational concerns or constraints in compiling the information in the format required by this proposed Statement? Are there any alternative formats of presentation that would provide the data more concisely?

We agree that disclosure of the results of derivative instruments by income statement line item contributes to the second objective for this proposed Statement – to provide an enhanced understanding of how derivative instruments and related hedged items are accounted for – by providing a link between specific line item affected and the hedge instrument.

We do not expect any difficulties in compiling the information included in the proposed requirements. We are concerned however that the proposed expansion of the level of detail (to include derivatives by purpose) will allow for the disclosure of key elements of strategic information that serves as the basis for our pricing structure.

For a global company like Nike that depends heavily on its hedge program to reduce the impact of foreign exchange risk, the disclosure of hedge amounts by purpose has the unintended consequence of potentially providing the building blocks of strategic pricing formulae to the public. We recommend that the Board reconsider the level of disclosure to that of IFRS 7, which provides for disclosure by accounting designation and primary underlying risk. This would also place us on the same level as our principal competitors.

In addition, we believe that the proposed frequency of disclosure will generate repetitive information in a world of quicker reporting timetables. We recommend that the Board mandate annual disclosures for this proposed Statement, and require interim disclosure only when there are significant changes during an interim period. If there were no significant and/or unusual changes during an interim period, we recommend that no additional interim reporting be required.

**Issue 4:** Do you foresee any significant operational concerns or constraints in compiling the information for contingent features for this disclosure?

We do not expect any difficulties in compiling the information regarding contingent features as we do not have any of these features in the instruments that make up our hedge program.

Issue 5: Do you agree that this proposed Statement should require the disclosure of notional amounts?

We do not believe that requiring the disclosure of notional amounts achieves the Board's objective for reasons outlined below.

The Board included notional amounts as a disclosure because it believes notional amounts provide insight into the volume of derivatives and the magnitude of risk being managed. For companies such as Nike, however, the most meaningful indicator of risk is the value of hedged exposure as a ratio of total exposure.

In some cases, the notional amount of the hedge instrument does not reflect the entity's total exposure to a given risk as most entities elect to hedge only portions of their total exposure. We therefore believe a reader of financial statements may have difficulties grasping the magnitude of risk being managed through disclosure of notional amounts when the correlation between the two is not always apparent. Nike accomplishes the objective of conveying the company's true risk through the qualitative disclosure of our hedging strategies and risk assessment called for by the current interpretations of SFAS 133.

In addition, we believe the Board should reconsider its proposal with respect to the use of absolute notional values. Pursuant to paragraph 40B of SFAS 133 as amended, many entities utilize internal derivative contracts with an internal treasury center that are offset, on a net basis, by a derivative contract with an unrelated third party. Requiring the absolute value of notional amounts could cause a reader to believe that the overall risk being managed is larger than it actually is because of the offsetting nature of the contracts.

**Issue 6:** Do you agree that this proposed Statement should not require the disclosure of the aggregate notional amounts related to derivatives that no longer exist at the end of the reporting period?

We agree that this proposed Statement should not require notional amounts related to derivatives that no longer exist at the end of the reporting period. The disclosure of notional amounts for hedges of balances that end during the reporting period will confuse the reader because the notional amount would represent duplicative notional amounts during the reporting period.

**Issue 7:** Do you agree that information about "hedged items" that are not in designated and qualifying Statement 133 hedging relationships should be excluded from the disclosure tables?

We agree that information about hedged items should only include those transactions that are designated and qualify as hedges under SFAS 133. Since there is no requirement to define exactly what the "hedged items" are in non-designated or non-qualifying hedge relationships, there may be circumstances where it would be difficult to determine the amounts that should be disclosed in the table. However, we recognize that it is important for the financial statement user to understand the purpose of these derivatives and the overall financial impact of the underlying risk that these derivatives intend to manage. Therefore, we propose that qualitative information be required to explain the risk management objectives and strategy for derivatives that are not in designated and qualifying hedging relationships.

Issue 11: Does the effective date provide sufficient time for implementation?

We believe that the effective date does not provide sufficient time for implementation for non-calendar year large filers such as Nike. The first compilation and disclosure (assuming early adoption is not elected for our May 31, 2007 fiscal year end) will be done during an interim period with a 35-day SEC reporting window versus a window of 60 days for large calendar year filers. We recommend that the Board change the effective date to be effective for fiscal years ending after December 15, 2007.

In addition, the shorter reporting deadlines for quarterly reports should argue for full disclosure only in annual reports, supplemented by disclosure of material changes in interim reports. See our response to Issue 3 above.

We appreciate your consideration of our comments and concerns. Please do not hesitate to contact us if any of our comments require further clarification.

Sincerely yours,

Bernard F. Pliska

VP, Corporate Controller

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