



LETTER OF COMMENT NO. 2

To whom it may concern,

I recently read guidance related to the implementation of FAS 133, and was somewhat surprised as the Board's position on a company's ability (or inability) to hedge major ingredients to purchased items; especially when those ingredients are called put specifically in a contractual agreement. As an example, in the purchase of stainless steel, company's typically pay a surcharge, the transaction of which is an addition to the normal purchase of the base metal. The surcharge is typically defined as:

XX% of Molybdenum in one lb. of alloy * price of Molybdenum

XX% of Nickel in one lb. of alloy * price of Nickel

XX% of Chromium in one lb. of alloy * price of Chromium

Of the three ingredients only Nickel can be hedged in the financial markets. Under current guidance, declaring the hedge and computing its effectiveness would be required to be based on all three elements of the stainless steel surcharge. However, the component of each element is clear as is the deterministic impact on the price of the surcharge. In effect, the company is purchasing XX lbs. of Nickel, XX lbs of Molybdenum, and XX lbs of Chromium and should be allowed to hedge each separately. The risk of the company would be no different if they were vertically integrated and purchased the individual elements and processed the steel themselves.

I would urge the board to consider to add a provision to FAS 133 which amends paragraph 29(b) and allows for the declaration as a cashflow hedge the component of transactions which have a "clear and deterministic" impact on a company's cashflow.

Cheers

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