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LETTER OF COMMENT NO. 104

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Russell G. Golden, Director
Technical Application & Implementation Activities
FASB
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PO Box 5116
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File Reference No. 1590-100

Dear Mr. Golden:

Hedge Trackers, LLC is a provider of FAS 133-related consulting and derivative accounting outsourcing services. Since 2000 we have served over 300 companies. Most of our clients have annual revenues under \$2 billion and many hold fewer than 10 derivatives at any period end. Ninety-five percent of the companies we serve use plain-vanilla option or forward type contracts to protect their margins from currency, interest rate or commodity price fluctuations. Most of our clients do not consider currency, interest rate or commodity risk core to their operations, but rather an input whose volatility requires management. Under the Pareto principle our clients are in the 80% of the companies that use 20% of the derivatives. Below we have attempted to summarize the reactions and responses of those clients to the proposed amendment to FAS133.

Since its initial adoption – and through subsequent years of interpretive guidance – FAS 133 has become an accounting challenge for both practitioners and their accounting advisers. We applaud the Board's intention to simplify hedge accounting rules.

We have found that the proposed guidance provides greater flexibility and simplicity in establishing hedge relationships, but it also proposes to increase the complexity of calculating and properly recording derivative gains and losses. It does not appear to offer any detailed guidelines to assist in practical application of the rules.

Key Findings:

1. We are concerned that the amendment's principle based approach will substantially increase corporate reliance on SEC speeches, audit firm internal documents and national office opinions making compliance increasingly difficult. This will be especially difficult for the numerous companies that do not have accounting staff dedicated to monitoring developing interpretations of derivative guidance. The experience of the last 8 years, laden with restatements and additional interpretations, amendments, and over 2,500 pages of internal application guidance by the Big 4 suggests that a substantial number of corporations and their audit teams appear to have very limited resources capable of appropriately applying principles based derivative accounting. Our constituents are finding their audit firms prohibited from providing substantive practical interpretations of the

guidance and believe increased transparency of the rules (more clarity and specificity in the standard) would facilitate increased compliance and consistency in application.

2. We expect increased audit and regulatory scrutiny related to capturing the changes in fair value of un-hedged and generally un-hedgeable risks. Especially when those changes in fair value will drive earnings effects from outperforming the derivatives. Disclosure numbers reflecting changes in un-hedged risks, will be difficult to capture and will obfuscate rather than clarify the effectiveness of hedge activity. Level 3 disclosures describing internal "models" used to forecast future changes in unobservable inputs associated with hedged underlyings will abound. It would be very helpful for the Board to provide additional examples of this application, e.g., showing the calculation of the overall changes and describing how changes in non-market pricing elements experienced to-date should be reflected in future expected changes. We welcome to opportunity to share client examples across risk categories.

Our currency clients require the Board to more fully define qualifying intercompany hedge activity. Functional currency decisions made decades ago require an overwhelming majority of US companies with foreign subsidiaries to use intercompany non-functional activity as a proxy for third party exposures to currency risk. The corporate community needs assurance that an economic long foreign currency position on a consolidated (enterprise) basis can be hedged by a derivative short position designated as hedging a non-functional currency intercompany transaction.

We are strongly opposed to the proposed restriction on dedesignations of foreign currency hedges when the hedged item is recognized on the financial statements. The exposure changes its accounting nature, but it is economically imprudent to close one derivative and reopen that same derivative. Simply adjusting the accounting for the derivative to match the change in accounting for the underlying is a more rational approach.

We see no reason to treat similar instruments differently based on the timing of the hedge designation. Requiring execution of a hedge at debt issuance in order to bifurcate benchmark interest rate risk is likely to result in similar instruments hedging the same exposure being accounted for differently.

We agree that it is inappropriate to assume that hedge relationships will be perfect and recommend language that requires modeling of a hypothetical derivative that recognizes an appropriate measure of ineffectiveness to reduce the likelihood of hedging entities improperly assuming perfect effectiveness.

We strongly support the move away from the audit scrutiny of regression test outputs and small number problems that the amendment offers in the move to a qualitative expectation of effectiveness. We remain concerned that this principled approach may be eroded over the years.

We oppose recognizing overperformance by the hedged item in a cash flow hedge. We oppose any suggestion that changes in unhedged portions of an exposure be included in the financial statements in any way.

In the following response we have first highlighted areas where our clients have concerns that were addressed in the Board's objectives, but not addressed by the Board's questions. Subsequently we addressed the questions proposed by the Board:

Simplify Accounting:

We believe that the proposed Statement would simplify qualifying for hedge accounting. We find recording of the changes in hedged item in OCI easier mathematically than taking the smaller of the change in derivative and the change in hedged item to OCI. However, we do not find the rationale for recording gains and losses in income on anticipated transactions compelling. Recording overperformance of the derivative was supportable, in that it precluded deferring changes in the value of the derivative that would not be offset by the hedged item. It served to "accrue" the ineffectiveness of the derivative. That treatment is more appropriate than accruing the change in an anticipated transaction in income and disclosing the impact as ineffective. Especially when that change may have no relation to the risk being hedged by the derivative (e.g. mix of regional spreads in transportation may cause ineffectiveness when changes in only fuel costs were being hedged).

Improve the financial reporting of hedging activities to make the accounting model and associated disclosures more useful and easier to understand:

We believe that disclosure and effectiveness measurements would be more appropriate if they did not include unhedged or unhedgeable risks. We do not believe that many preparers of financial statements, and even fewer readers, understand the sources of ineffectiveness in "overall" risk relationships under FAS133. We are concerned that derivative guidance is focused on financial institutions and active trading operations and what may be appropriate for those sophisticated users and their shareholders are distinct from corporate hedgers of debt, currency and commodities. We feel that our financial statement users are not conversant with FAS133 effectiveness testing criteria, that ineffectiveness associated with unhedged risks is not an intuitive concept and that the disclosed ineffectiveness misrepresents the derivative performance against management's expectations.

Many of our clients use derivatives to fix the value of revenue or cost elements for the period of time necessary for management to respond to and absorb substantial changes in market rates/prices. They rely on special hedge accounting to reflect the tool's effectiveness in their financial statements. They expect to improve shareholder value by reducing earnings volatility associated with unexpected sudden changes in revenue or costs. Replacing earnings volatility associated with changes in currency, interest rate or commodity prices with volatility associated with unhedged and unhedgeable risks will not be easy to communicate or to understand. Many corporations would prefer to be held to stricter measures of ineffectiveness (highly effective) on bifurcated risk, than reasonably effective measures on overall risk. Has the Board received any evidence that shareholders have benefited from the inability of commodity risk hedgers to bifurcate risk? Have they benefitted as these companies abandon hedge accounting? Have they benefitted as companies abandon hedging over the past year?

Has the Board considered defining a threshold below which companies with minimal derivatives activity would be permitted to substantially reduce their measure of ineffectiveness, disclosures and related audit efforts associated with unhedged risks by fully disclosing the critical terms of derivatives (individually) and those of the hedged item thereby providing transparency for shareholders.

Resolve major practice issues related to hedge accounting that have arisen under Statement 133

We applaud what we perceive as an attempt by the Board to bring back principles based guidance, as the "unpublished rules" used to evaluate FAS133 compliance are being used to stifle or at least punish derivative use among companies exposed to market risk.

Hedgeable Transactions

Additional clarification is required with respect to hedge-ability of cash flow currency exposures that survive consolidation. The concept in the guidance appears to allow the hedging of intercompany or third party transactions that 1) relate to a non-functional currency exposure and 2) reflect an enterprise level currency exposure. This limits hedging to derivatives that hedged the economic consolidated risk of the consolidated entity and could be supported by any intercompany or third party non-functional currency exposure. We strongly support this view as long as the economic risk is broadly defined and not limited to a "back to back" transparent exposure (parent sends sub product, sub sells that product to 3rd party) . We believe the correct application would support the following cash flow exposures as qualifying transactions:

A US company has a subsidiary in Korea, the entity is KOW functional. The subsidiary sells product in KOW. The US parent has a cost sharing agreement with the subsidiary and invoices the subsidiary in USD. On January 1 the subsidiary enters in to a buy-USD/sell-KOW hedge and designates the June anticipated USD intercompany cost sharing invoice as the hedged exposure. The hedged transaction is the non-functional USD cost. The consolidated entity is long KOW (June revenue in KOW) and short USD (costs in USD) and KOW revenue survives consolidation. Therefore the buy-USD/sell-KOW hedge by the Korean subsidiary meets both test 1) and 2).

A US company has a subsidiary in Japan that owns a subsidiary in Korea, the intervening entity is JPY functional and the Korean entity is KOW functional. The Korean subsidiary sells product in KOW. The US parent has a royalty agreement with the JPY subsidiary and invoices the subsidiary in USD the Korean subsidiary has a similar agreement with the JPY entity. On January 1 the Korean subsidiary enters in to a buy-JPY/sell-KOW hedge and designates the June intercompany cost sharing invoice as the hedged exposure. On Jan 1 the Japanese subsidiary enters into a buy-USD/sell JPY hedge and designated the June intercompany cost sharing invoice as the hedged exposure. The consolidated entity was long KOW (sells product in KOW), and those revenue values survive consolidation. Therefore the individual contracts qualify under test 1) and the combination of buy-USD/sell-JPY & buy-JPY/sell-KOW hedges qualify under test 2). Without the additional facts and circumstances the buy-JPY/sell-KOW hedge would not meet test 2 a stand-alone basis.

A US company has a subsidiary in Norway where intellectual property has been transferred. This NOK functional sub licenses product in NOK. The sub pays corporate NOK denominated fees each month to cover management fees, royalties, R&D, etc. The fees are calculated using tax driven transfer pricing methodologies. The parent (USD functional) hedges the NOK interco charges, selling NOK/ buying USD. The long NOK revenue/short USD expenses survive consolidation; therefore the hedge meets both test 1) and 2).

A US company has a subsidiary in France, the entity is EUR functional. The subsidiary has substantial manufacturing operations in France and sells some product in USD. On Jan 1 the subsidiary enters in to a buy-EUR/sell-USD hedge and designates June third-party USD revenues as the hedged exposure. The consolidated entity is short EUR (operating costs in France in EUR)/long USD revenue, and those EUR expense values survive consolidation. Therefore the buy-EUR/sell-USD hedge meets both test 1) and 2).

A US company has a subsidiary in India, the entity is INR functional. The subsidiary invoices the parent for local INR costs plus 5%. To meet tax incentives in India the entity takes the 105% INR value multiplies it by the current INR/USD rate at month end and invoices the parent in USD. On Jan 1 the parent enters in to a buy-INR/sell-USD hedge and designates 95% of the June intercompany invoice as the hedged exposure. The amount of USD the parent will owe will vary with the INR exchange rate until the USD price is fixed at invoice date. The consolidated entity is short INR(operating costs in India in INR), and those expense values survive consolidation. Therefore the buy-INR/sell-USD hedge meets both test 1) and 2). (Clarification is required because paragraph 40 b. specifies the "hedged transaction is denominated in a currency other than the hedging units functional currency" yet H1 expands this to "a transaction (or has an exposure) denominated in a currency other than the unit's functional currency" (emphasis added). Suggesting that if changes in INR effect the cash flows of the parent as they do in this case, the denomination of the invoice generated is not critical.)

The following transactions would not qualify under this understanding:

A US company has a subsidiary in Sweden, the entity is SEK functional. The subsidiary sells product in SEK and has a loan payable to the parent. On Jan 1 the subsidiary enters in to a 5 year sell-SEK /buy –USD pay fixed SEK receive fixed USD cross currency interest rate swap and designates the swap as a cash flow hedge under FAS138 of the intercompany loan. The consolidated entity is long SEK due to sales; however the interest rate risk designated as the hedged item did not survive consolidation. Therefore the cross currency swap fails test 2). Gains and losses on the cross currency swap related to changes in spot exchange rates will offset in income.

A US company has a tax strategy that reallocates revenues generated by a purchase in the UK in GBP to subsidiaries around the globe. The revenues are re-allocated through intercompany transactions creating intercompany revenues and receivables in Australia, Canada, etc. On Jan 1 the company hedges the anticipated June AUD, CAD interco revenues. The consolidated entity is only long the GBP. The hedge would meet criteria 1, as a non-functional currency transaction is recorded, but not criteria 2 as there is no consolidated long/revenue exposure to AUD or CAD.

Address differences resulting from recognition and measurement anomalies between the accounting for derivative instruments and the accounting for hedged items or transactions.

This proposal does not adequately address differences resulting from recognition and measurement anomalies between the accounting for derivative instruments and accounting for hedged items. In the table provided in Attachment A the derivative designated late has a series of cash flows that differ substantially from the series of cash flows associated with a hypothetical derivative with a zero fair value at designation. Why is it appropriate to discount the cash flows using the same credit as the derivative when the cash flow timings are so distinct? Many clients use amortizing derivatives requiring the discounting application on a per cash flow basis. Amortizing derivatives and substantial differences in "late designation" hypothetical derivative cash flows do not appear to have been considered and will create unreasonable ineffectiveness under the current proposal.

Qualifying benchmark and currency hedges continue to measure ineffectiveness prior to credit effect under the proposal. Is the excluded credit effect most appropriate as an earnings impact (reducing overperformance of the derivative)? or as an OCI adjustment?

Our clients are interested in further clarification under the guidance with respect to qualifying foreign currency transactions that survive consolidation and the designation language of net investment hedges to reduce ineffectiveness associated with the changing balance in a hedged subsidiary should dedesignation not be permitted.

Voluntary Dedesignation

The proposed amendment eliminates the concept of dedesignation. With the relaxation of the effectiveness and testing protocols there should be substantially less need for de/redesignation. However, the need will not be totally eliminated. Under the proposal the measurement of ineffectiveness continues. Consider a corporate that has designated a hedge relationship, for example an accreting and amortizing interest rate swap to hedge interest expense on a construction project. If the construction project is delayed, throwing the notional values of the loan off from the swap, the entity may have other LIBOR based debt that they can designate. Or perhaps the hedging entity would choose to change the designation and prospectively pool the debt with other debt and hedge it with a pool of interest that would increase the effectiveness. There is no economic value in closing the swap and executing a new swap, as the company has sufficient debt, just not sufficient designated debt. The entire economic value in the closing of one swap and opening of another is for the counterparty who will earn a buy/sell spread.

Paragraph A11 states "Since the economics of the relationship between the hedging instrument and the hedged item (forecasted transaction) have not changed, the Board believes that the accounting should not change." In foreign exchange the accounting for the hedged item changes when the hedged item moves from unrecognized to recognized in the financial statements. Under FAS52 the changes in value prior to recording the derivative are generally collected in revenue or expense, while the changes in value after recognition are collected in "Foreign Exchange Gain/Loss". As a result the ability to dedesignate is fundamental to matching the derivative to the financial statement presentation of the foreign currency transaction. For example, consider a USD functional entity hedging the first \$5M of Euro denominated sales on or after Jan 1st with a forward currency contract that matures on March 1st in accordance with FAS133 paragraph 462 a. Under current guidance if each day EUR100K of sales are recognized an equivalent portion of the derivative is automatically dedesignated under paragraph 32a as the anticipated transaction is no longer anticipated. (The hypothetical derivative reflects ≈50 forward contracts for EUR100K with maturities on business days from Jan 1st to Mar 15th.) When the dedesignation happens daily, the forward contract's effective changes for the period prior to recording revenue impact revenue (per designation documentation) and all subsequent gains and losses are recorded in FX Gain/Loss. Under FAS 52 Remeasurement risk begins from the rate the transaction is recorded. With automatic dedesignation the hedge converts from cash flow to non-designated simultaneously with the currency transaction. The benefit is that the derivative efficiently and effectively serves as a hedge of revenue until the transaction is recorded and immediately after hedges the resultant receivable. Under H15 this treatment is available, but our understanding is that H15 is limited to companies that can and will track both the revenue and related payments through to cash. Our clients generally hedge the first Euro revenues (high volume, various products) or expenses (payroll, rent, etc) in a period. Tracking those first revenues or first expenses on a specific identification basis to actual cash flow dates is not feasible. In Attachment B please note how the auto-dedesignation aligns the financial statement recognition of the underlying with the financial

statement recognition of the derivative. Another group benefitting from auto-dedesignation are companies applying program accounting under SOP 91-1. For many of these companies very large revenue and/or cost commitments are made over long timeframes. For these companies the timing of revenue recognition may be very different from the foreign currency cash flows. The percent complete revenue recognition is driven by program costs. These companies designate hedges in layers based on cash flows: the first layer for example hedging the first \$50M in revenue, the next from \$50M to \$125M, the next from \$125M to \$193M, etc. As in the example described in DIG G16 there are uncertainties associated with the timing of the costs and therefore the revenues of these very large projects. At present the hedges are dedesignated in layers when revenue is recognized or invoiced (whichever is first). The receivables (or unbilled sales) are remeasured from the revenue rate and are automatically protected by the now non-designated portion of the hedge. These companies often exclude time value from hedge effectiveness recognizing the potential ineffectiveness associated with the timing of these contracts. In general the only ineffectiveness is calculated from comparing the present value of the spot to spot change of the derivative versus the present value of the spot to spot change reflecting estimated revenue recognition dates (either a series of dates updated from forecasts or a "worse case scenario" date). There is no economic, and should be no accounting or other rationale for closing (compensating) the derivatives on the revenue recognition date and replacing it with the exact same derivative to the cash flow date.

This is how the current proposal is currently understood: In January a company anticipates cash receipts in December for revenues expected to be recognized and recorded between February and June. The company could execute a forward contract to sell currency to December (because this is the economically correct thing to do) and then daily between February and June identify the amount of revenue recognized each day (a monumental task) and enter into a buy contract to December for that daily amount, and simultaneously execute a sell contract for that amount to December (replacing the current forward). We believe this exercise does not add value. It is much more practical under autodesignation to wait to the end of the month of February, identify the revenue values recognized in February, collect the effective changes at dedesignation and record them in revenue, and record all subsequent changes in that portion of the derivative to earnings, meanwhile the remaining portion of the hedge continues to protect against changes in March-June revenues. We would propose that paragraph 15 include the requirement to discontinue hedge accounting prospectively when a hedged anticipated non-functional currency transaction is recognized on the financial statements. This would obviate the need for DIG H15, which is cumbersome and generally impractical to implement given the need to track each specific hedged transaction through both the income statement and then through cash. Once the FAS133 benefit (derivative gain or loss in revenue for example) is recognized, how is the ineffectiveness captured if cash on that transaction is not delivered. Is the cash delivery irrelevant? If the derivative is not designated and changes impact earnings together with the remeasurement of the receivable there is no special accounting requirement. The only benefit of DIG H15 at present is the straight-line interest amortization the interpretation allows, which seems inconsistent with the fair value concepts of FAS133.

Additional Clarity

Amortizing Option Premiums

We do not understand what the Board meant by the "amortization of the cost of the option on a rational basis [to] be reclassified each period from other comprehensive income to earnings". It is common practice among our clients to purchase a simple put(s) or call(s) to hedge anticipated spending or revenue in a specific month. Many exclude time value, but those that include time value release the effective component (which is generally most of the premium paid at inception plus any intrinsic value) prorata when the hedged expense/revenue is recognized in earnings. These companies together with companies that currently exclude time value would welcome an approach that would amortize the time value component to earnings over the life of the derivative. *Is there a way to interpret the standard as suggesting straight-line amortization of the time value (specifically the premium paid at inception) would be a "rational basis"? Would this also be relevant for time value in forwards (DIG H15)?* The other "rational basis" we can interpret would be a market amortization over the life of the option, which would provide the same result as excluding time value. Please clarify, perhaps with an example.

If the guidance is specifically referencing caps and floors, it would be appropriate where time value were included in a hypothetical structure to assign caplet and floorlet premiums at designation.

Modeling the Hypothetical Derivative

One concern the Board tried to address in the standard relates to the improper modeling of the hypothetical derivative. Over the past few years many entities have erroneously assumed perfect hedge relationships. We do not believe the answer to poor implementation of the hypothetical derivative concept is best addressed by forcing uneconomic "real" derivative transactions. We believe the standard should provide stronger definitions of the hypothetical derivative concept and application across the spectrum of exposures (currency, interest rate, commodity, credit) and derivatives (forwards, options, collars). In trying to simplify, the Standard suggests "a derivative that settles within a reasonable period of time". This could be interpreted to suggest that as long as the derivative matures within a month of the hedged item, it could (and probably will be) modeled to precisely match the derivative (and we are back to perfect hedges with no accrued ineffectiveness). If you expect companies to model a derivative that captures ineffectiveness then you should more clearly define the hypothetical as "a derivative that settles within a reasonable period and captures an appropriate expectation of ineffectiveness". This would reaffirm the proposed guidance that "an entity shall not assume that there will be no ineffectiveness to recognize in earnings during the term of the hedge" (§8)

Net Investment Hedging

The proposed amendment does not adequately address the appropriate method for designating a hedge of a net investment in a foreign operation. Net investment hedges, like fair value hedges are currently designated in proportion to the net investment. Take a company with a foreign currency derivative selling forward currency units hedging the net investment in a sub whose functional currency is the same currency unit. Presently that derivative is de/re-designated quarterly, perhaps in the first quarter it hedges 50% of the quarter's beginning net investment, the second quarter perhaps 45%, the third quarter 48% reflecting changes in the subsidiaries equity and a constant derivative notional. Under the proposed guidance does the entity have to pick a % at designation and collect ineffectiveness due to changes in the entities profitability versus currency changes? Does the entity have to ladder out the anticipated changes over the life of the derivative? Or is the company supposed to execute currency transactions to close out the derivative each period and open a new hedge? We would prefer the ability to define the derivative in layers: the first 5M currency units of equity.

How are non-derivative hedge (i.e. 3rd party foreign currency debt) relationships terminated? Some additional clarification is required in addressing net investment hedging. [Also note that the wording addressing modifications to H8 appears to relate to cash flow hedges rather than net investment hedges.]

Transition: Would a company have the opportunity change the election to include or exclude time value in the hedge of a net investment in a subsidiary at transition?

Assuming Effectiveness

How does a company qualitatively conclude that changes in the fair value of the hedging instrument would be reasonable effective in offsetting changes in the hedged items fair value or cash flows or the variability in the hedged cash flows when:

At inception of the hedge relationship the derivative counterparties have different credit qualities and therefore any period in which the derivative went from being an asset to being a liability the change in fair value of the derivative might differ substantively from the change in the hedged item.

When "other" unhedged risks or sources of volatility are required to be included in the hypothetical derivative hedging overall changes are not under the company's control: taxes, transportation charges, spread over index increases, changes in mix.

Below please find our responses to the questions posed in the exposure draft.

Hedged Risk

Issue 1: Do you believe that the proposed Statement would improve or impair the usefulness of financial statements by eliminating the ability of an entity to designate individual risks and requiring the reporting of the risks inherent in the hedged item or transaction?

We believe that the proposed statement would impair the usefulness of financial statements by reducing even further the ability of an entity to designate individual risks for three reasons.

The complexity and subjectivity in identifying tracking and valuing the unhedged risks combined with little practical guidance will exacerbate the current variations in practice and variation in interpretations by auditors. The same derivative executed on a different date but hedging the same exposure would receive different accounting treatment

Corporate hedgers use derivatives to reduce the volatility in earnings associated with variable market rates. The proposed guidance will replace risks associated with cash flow volatility associated with currency, interest rate or commodity risk with volatility associated with credit, market sentiment and other "overall" related changes. Many companies feel unable to mitigate commodity risk due to the inability to bifurcate risk because the complexities involved in capturing and measuring "unhedged risks" or what for many of our clients are unhedge-able risks. Others have just abandoned hedge accounting which disconnects the cash flows of the derivative with the earnings effect and geography of the underlying.

For example a food processor wanted to hedge the risk of changes in his fuel surcharge on a transportation contract but was required to look at the entire change in cost per mile of his contract. These costs included regional uplifts and other elements independent of the fuel surcharge that limited the "effectiveness" of the derivative because the fuel surcharge could not be bifurcated from the distribution contract. The hedge that would have been highly effective in offsetting the fuel surcharge specifically was not allowed hedge accounting treatment. Even under reasonable effectiveness criteria it would not offset much of the periodic changes in cost per mile. In addition the company felt that shareholders would not understand P&L volatility associated with marking to market fuel hedges that would have protected the company cash from changes in fuel surcharges, but would not even be reflected in transportation costs in operating results.

The complexity of capturing overall changes will now be extended to interest rate hedges of LIBOR and treasury based interest rate risk. The actual cash flows exchanged on a swap at settlement will be easy to identify. The change in the underlying can also be calculated when interest payments are made by comparing the fixed rate on the hypothetical set to zero at inception and the interest rate on debt. Complexities arise when calculating the change in value associated with the anticipated future cash flows. On cash transactions there are no credit quality issues. However, on the fair value of the swap and the fair value of the hypothetical swap (used to calculate potential ineffectiveness) credit and other (supply, demand, industry, etc.) features will need to be captured and impact earnings. Complexities that are dampening the use of commodity derivatives will dampen the use of interest rate derivatives. These adjustments are difficult to assess accurately but will be the source of ineffectiveness that the Board proposes recording in earnings and disclosing under FAS161 as ineffectiveness. This will drive increased subjectivity and audit scrutiny and will likely confuse rather than enlighten readers of the financial statements. At present there is general confusion about the appropriate application of FAS157 to derivative instruments. The principles based concepts of this proposed amendment will be lost to subjective rules established by individual audit partners faced with attesting to ineffective amounts quantified, recorded and disclosed in footnotes associated with the credit quality of a reporting company with no credit derivatives, no public debt and often no formal credit rating. We do not believe that recording ineffectiveness in unhedged risks is useful when currently applied to commodity hedging and do not believe it will be at all useful when applied to interest rate risk.

Among our client base it is not unusual for smaller companies with interest rate swaps to execute those instruments only because their lenders require them for the first 3 years of a financing. At the end of the three year term it is not unusual for the borrower to swap another 3 year term. Under the proposed guidance these two derivatives hedging the same term loan would be treated differently: the first would qualify as a hedge of the benchmark interest rate while the second would require designation as a hedge of the overall changes in cash flows. Some lenders require that a specified percent of the debt be swapped. If a company executed a swap for 50% of the debt at issuance, and perhaps a year later executed a second swap for an additional 25% of the debt, the two swaps, hedging the same debt would be accounted for differently. The guidance suggests that any hedges placed subsequent to issuance of the debt are dubious hedges, where many risk managers believe it more prudent to place hedges over time rather than fixing the entire rate on a single date.

Companies that hedge their interest rate risk would be required to capture, record in income and disclose changes in both their own and their counterparty's credit quality associated with future cash flows. Companies that do not hedge their interest rate risk would not capture, record in earnings or disclose the impact changes in their own credit quality may have on future payments.

For many corporations, the risks of the exposures are managed separately. Cash flow interest rate risk management is generally about fixing the interest expense line. There is no value to management and we can perceive little value to the readers of financial statements in representing as ineffectiveness the changes in fair value of the relationship that reflects the changes in credit quality of either the company or the counterparty. Companies hedging to reduce interest expense volatility are being asked to introduce credit quality volatility into their income statements and report it as ineffectiveness. The proposal to allow the credit quality of the derivative in a cash flow hedge to be applied to the hedged item does not address the concerns. The cash flows and related discounts on the cash flows of a late designation are not at all similar to cash flows of the zero fair value hypothetical derivative representing the underlying. (See Attachment A outlining the cash flows of a late designation and the hypothetical derivative representing the underlying debt). Although the Board would like to better understand unhedged risks in order to provide financial statement users with a more complete picture, it seems unfair to penalize entities that choose to manage cash flow benchmark risks with the earnings volatility associated with credit and other risks. Already the documentation, effectiveness assessments and disclosure requirements are punitive to companies trying to manage risk. The inability to bifurcate risks reflects an impression that hedging is a speculative/bad practice. Increasingly management is faced with weighing audit risk under FAS133 against market risk of volatile expenses. Although the proposal in general seems to move toward substantially reducing that audit risk, the limitations being placed on bifurcation of benchmark seem to replace some of that risk with unhedged risk volatility in earnings.

We have very few clients taking advantage of fair value hedging, however this guidance seems to eliminate the benefit of FAS133 over FAS159 of permitting the hedging of the benchmark interest rate of financial instruments. The distinctions between FAS159 and FAS133 fair value hedge accounting for financial instruments should be clarified or if there are no remaining differences they should be consolidated.

Issue 2: Do you believe the Board should continue to permit an entity to designate those individual risks as a hedged risk?

We believe the board should permit an entity to designate at a minimum benchmark interest rate and foreign currency exchange risks as individual risks. Virtually all of our clients are currently using the ability to designate benchmark interest rate as the hedged risk on their debt and/or foreign exchange risk as the hedged risk on their foreign currency denominated intercompany or 3rd party revenues or expenses.

We disagree with the Board's determination that hedging interest rate risk as a risk management tool should not qualify for hedge accounting. We believe benchmark interest rate hedging should continue to be available under all interest rate risk scenarios. However, if the benchmark interest treatment is to be limited to a company's rate risk related to its own issued debt, we believe that treatment should not be limited to debt hedged at issuance. As mentioned in response to Issue 1 it is not considered best practice to hedge 100% of a financing at inception. The Board has not clearly articulated their concerns about entities that execute a derivative prior to issuance or post issuance. Again, the derivative strategies our clients use are generally to hedge their cash flow risk of rising interest rates on issued debt or soon to be issued debt. If they are fixing budgets and margin prior to the issuance of the debt or determine that they are no longer comfortable with the risks of volatile interest rates will management welcome the measurement, recording or disclosure of credit and other unhedged and often unhedgeable risks? Companies that borrow funds to purchase and then lease capital assets need to fix borrowing costs while negotiating lease income, which generally requires the issuance of forward starting instruments. The alignment of lease revenues and interest costs designed to fix transaction profitability should not be subject to less favorable accounting treatment because the swap was executed prior to finalization of the financing.

Numerous entities with foreign operations feel that their revenues and/or expenses and the related cash flows are at risk to changes in currency rates. Margins and therefore profitability are at risk with the extreme volatility in currency. These companies use derivatives to protect the USD value of foreign revenues or costs. This allows them to plan and execute against those plans in spite of changes in currency rates. New hedges lock in new rates giving management time to respond to the new currency environment. These companies generally protect themselves against changes on some portion of the expected foreign revenues or expenses. For hedgers of high-volume, low-dollar revenues there is not a detailed by product forecast. Even high-dollar low-

volume vendors do not specify which product components will be delivered against the hedges as clients upgrade and adjust during the manufacture of the product. They hedge based on total revenue forecasts in currency units. Any requirement that would create ineffectiveness due to product mix would not serve these companies or their shareholders. Expenses, likewise, are generally hedged from budgeted currency amounts and the hedging company is equally protected if the hedge is applied to XM currency units of salary or the same currency units of lease expense or advertising expense. Eliminating the ability to hedge the foreign currency exchange risk would require management to 1) abandon the tools that provide the time to plan and mitigate earnings volatility, 2) accept new volatility and report ineffectiveness related to product pricing and mix or 3) accept volatility from non-designated hedges. As the purpose of using the currency derivatives is to provide the time to adjust operations to changing currency environments thereby reducing unexpected earnings volatility it is unlikely that management would continue to take advantage of currency hedging.

We believe that more, rather than less bifurcation of risk would in fact improve the shareholders understanding of the effectiveness of a hedge strategy. Recording and reporting of ineffectiveness should raise concerns by shareholders. The value of the effectiveness information is obfuscated by throwing in unhedged and mostly unhedgeable risks especially when the quality and comparability of those measurements are in question. We believe shareholders are more concerned with over hedging (when the notional amount on derivatives exceed the notional amount on the exposure) and the ineffectiveness of proxy hedging (when indexes don't match). The ineffectiveness of the bifurcated risk relationship is more meaningful than the price, volume, transportation, customs and duties, and VAT ineffectiveness required of "overall" relationships.

This very complexity keeps many companies from using derivatives to fix commodity prices and thereby they have no time to react to commodity price changes. It is our belief that the lack of an ability to bifurcate risk has severely restricted the use of commodity derivatives by some public companies over the past few years, in spite of the sometimes crippling effects of not hedging. We believe it forced other companies to sidestep hedge accounting altogether and disconnected the effectiveness of the hedge relationships from appropriate income statement geography and timing.

Hedge Effectiveness

Issue 3: Do you foresee any significant operational concerns or constraints in calculating ineffectiveness for fair value hedging relationships and cash flow hedging relationships?

Do you believe that the proposed Statement would improve or impair the usefulness of financial statements by eliminating the shortcut method and critical terms matching, which would eliminate the ability of an entity to assume a hedging relationship is highly effective and to recognize no ineffectiveness in earnings?

We believe that there are constraints in calculating ineffectiveness in overall relationships in both cash flow and fair value hedge relationships for small entities. We work with entities that have small plain vanilla swaps or foreign currency forward contracts. We find there has been limited training for professional accountants in valuing even these simple instruments: both among professional service firms as well as practicing accountants. There are easy to use models available for the plain vanilla interest rate and currency derivatives they use, however smaller entities have difficulty in finding appropriate data to input into these models at month end (volatilities, LIBOR swap rates at appropriate intervals, forward rates at appropriate intervals and now credit discount rates). Data providers may be too expensive for small companies with limited derivatives. Even larger entities actively hedging and receiving live data feeds are struggling to find 1) appropriate credit rates to discount future cash flows and 2) methodologies to capture future value changes in unhedged risk components. We were informed at the quarter ended June 30, a large equipment manufacturer was required to discount plain vanilla forward currency contracts for credit using a specified Monte Carlo like simulation to capture "the variability of expected future cash flows associated with counterparty credit". Needless to say the equipment manufacturer does not have appropriate tools or valuation expertise to meet these "requirements". If the "rules" created to support the principle of fair value are going to such extremes we do expect to see difficulties in both the mathematical computations as well as the access to appropriate data and discount models that will be required under the standard.

We believe that eliminating the short-cut method and matched terms will improve the usefulness of the financial statements due to the tendency of companies to misapply these assessments. The resulting restatements disconnect the cash flows from the earnings effect over the remaining life of the derivative. It is disconcerting to

realize that the multi-billion dollar restatement by Fannie Mae years ago will result in their recording of income billions of dollars in excess of actual cash flows over the next 15-20 years. These restatements provide no value to the reader of the financial statements: note that notices of restatement due to FAS133 no longer seem to faze investors. The only way to eliminate this risk is to eliminate critical terms matching and short-cut elections. The new qualification criteria will continue to allow very positive hedge accounting results for highly effective hedges that would have qualified for this treatment.

Issue 4: Do you believe that modifying the effectiveness threshold from highly effective to reasonably effective is appropriate? Why or why not? For situations in which interest rate risk is currently designated as the hedged risk for financial instruments but would no longer be permitted under this proposed Statement (except for an entity's own issued debt at inception), do you believe you would continue to qualify for hedge accounting utilizing your current hedging strategy? If not, would you (a) modify your hedging strategy to incorporate other derivative instruments, (b) stop applying hedge accounting, (c) elect the fair value option for those financial instruments, or (d) adopt some other strategy for managing risk?

We are very supportive of the move from highly effective to reasonably effective at offsetting changes. This together with the elimination of ongoing effectiveness testing will significantly reduce the administrative burden of FAS133. The application of the highly effective criteria coupled with the overall change requirements often precluded hedging of commodity exposures. The change also eliminates the small numbers problem that occasionally forced companies to record large income effects because the cumulative change in the derivative and underlying were small and did not offset between 80 and 125%. We believe that the original purpose of affirming relationships as highly effective was appropriate to determine if there was correlation between the hedged item (e.g. canola oil) and the derivative instrument (soy bean mash futures) when there was not a clear relationship. We also believe that these testing requirements became unreasonable as clients were required to perform regression tests of changes in spot currency rates against the present value of the same spot currency rates in cash flow hedges where time value was excluded. Companies trying to avoid the pitfalls of "small numbers" were admonished when only r-square, beta slope and F-Significance were provided on a 52-weekly data points for one year hedges. Where was the analysis of the alpha, where the P or T-tests?

The amounts of ineffectiveness currently required to be measured and disclosed will highlight ineffectiveness as FAS161 places on a single line within a table the fair value and ineffective amounts associated with derivative strategies.

Most hedges that corporate clients execute are plain vanilla strategies to hedge interest rate risk on their own debt, currency risk on their international sales or costs and commodity hedges of their operational inputs (natural gas for manufacturing operations, wheat for cookies, fuel surcharges for trucking related delivery) or their outputs (copper pipes, corn ethanol, dental silver for fillings). There are generally not "other derivatives" available to incorporate or perfect their relationship. Our clients are generally unaware of derivatives that further hedge against counterparty credit. What is the appropriate notional for a credit default swap of a forward contract? At inception the derivative has zero fair value or perhaps a premium payment for an option--that is clearly not the notional. Same with the interest rate swap users. The cookie manufacturer cannot find a basis swap that incorporates not only the fuel surcharges but the geographical surcharges across the country. If there were markets in basis that would eliminate the volatility for that company's entire transportation costs our client would fix those prices. As a result we do not expect our clients to be able to find "other derivatives" that they could incorporate.

We would not expect our clients to stop hedging because they already engage us to manage the calculation of ineffectiveness, but we would anticipate more business as very plain vanilla hedge programs would need assistance to identify, capture and record ineffective amounts from "overall" designations. We do not foresee any corporate clients opting to fair value their debt. Even the few fair value FAS133 hedgers of financial instruments plan to keep FAS133 treatment to continue to amortize the fees associated with the underlyings.

The only alternative strategy would be for our clients to force their vendors, customers and financiers to deal only in USD, or to fix their product prices or provide fixed rate debt. Most of our clients do not have the

economic clout to dictate those terms and are comfortable using well developed markets to exchange the hedge-able risks.

Issue 5: Do you foresee any significant operational concerns in creating processes that will determine when circumstances suggest that a hedging relationship may no longer be reasonably effective without requiring reassessment of the hedge effectiveness each reporting period?

Do you believe that requiring an effectiveness evaluation after inception only if circumstances suggest that the hedging relationship may no longer be reasonably effective would result in a reduction in the number of times hedging relationships would be discontinued? If so, why?

We are very supportive of the concept that after an inception assessment further assessments would only be necessary if circumstances suggested that the hedging relationship may no longer be effective. Unfortunately we do see some operational difficulty in assessing when a hedge relationship would no longer qualify. Without dictating any constraints it will become very subjective. Does the relationship no longer qualify if there is a temporary dislocation in the market? What is temporary? In a 10 year swap is 1 quarter of dislocation a problem. In a six-month forward proxy-currency hedge would a 1 week dislocation be enough to discontinue the relationship? If transportation costs become volatile over 2 months while the hedged commodity price stabilizes is that enough to discontinue a 3 year hedge relationship? We believe that practicing accountants would prefer published guidelines that are consistent between firms and partners over subjective application of this principle. In the absence of formal guidelines companies feel at risk to unpublished brightlines that are communicated after the fact.

We do believe that the number of times hedging relationships would be discontinued would be reduced because failed dollar offset due to small numbers or a single bad data point (Hurricane Katrina) in regressions would no longer force generally effective relationships to be discontinued.

Issue 6: Do you agree with the Board's decision to continue to require that hedge accounting be discontinued if a hedge becomes ineffective? Alternatively, should an effectiveness evaluation not be required under any circumstances after inception of a hedging relationship if it was determined at inception that the hedging relationship was expected to be reasonably effective over the expected hedge term?

We agree in principle that hedge accounting should be discontinued if a hedge becomes ineffective. However, with broad guidelines of "reasonably effective" and subjectivity about what defines "becoming ineffective" we believe that the Board needs to provide guidelines defining at what point a hedge is too ineffective (perhaps if the change in fair value of the derivative is greater than X% of the contract notional amount and dollar offset does not exceed YY% or when dollar offset fails to exceed YY% for over Z months) or not require additional testing after inception of the hedge relationship. The overperformance (and perhaps underperformance) of the derivative will impact earnings currently and will be specifically disclosed. The level of ineffectiveness will be obvious. Unfortunately we believe that the inability to bifurcate risks will misrepresent hedge effectiveness to shareholders, making that number valueless. A CFO may find himself explaining that his receive-LIBOR pay-fixed interest rate swap on his LIBOR based debt is reporting substantial ineffectiveness or perhaps has lost hedge accounting in this period because in renegotiating his financing he was able to reduce his spread over LIBOR.

Presentation of Hedging Gains and Losses

Issue 7: Do you believe that Statement 133 should be amended to prescribe the presentation of these amounts? For example, the Statement could require that the effective portion of derivatives hedging the interest rate risk in issued debt be classified within interest expense and that the ineffective portion and any amounts excluded from the evaluation of effectiveness be presented within other income or loss.

We believe that the current requirement under FAS133 to specify at designation and the ongoing FAS161 requirement to disclose the location in earnings where effective, ineffective and excluded gains and losses are to be recorded is sufficient. There are many relationships that the FASB would need to evaluate to proscribe income statement geography. For example, take a US corporation with operating costs in the UK, the UK subsidiary is GBP functional, but has USD sales. The parent wants to hedge the effect of GBP operating expenses on the consolidated company (sell USD/buy GBP). The US corporation might not have a non-

functional currency short position in GBP so may instruct the UK subsidiary to hedge USD sales (sell USD/buy GBP). The Board might specify that hedges designated against revenue should be recorded in revenue, but in this case the exposure that survives consolidation is GBP expenses. The company may elect under current guidance to document at inception their decision to take the gains and losses on the derivative in operating expense. This would be consistent with the consolidated intent and economics of the hedge for the consolidated entity.

With commodity "overall" hedges of purchases the ineffectiveness in a hedge relationship would be expected to be another cost component. Any mandate to record ineffectiveness in other income or loss might be inappropriate. FAS161 requirements to disclosure amounts and geography of ineffectiveness should provide more than adequate information.

An SEC speech indicated that body's preference to see derivative gains or losses in the same line item as hedged exposure, however their brief comment did not specify whether they were contemplating the larger issue of the consolidated enterprise level risk (GBP expense in the above example) or the local non-functional qualifying risk (USD revenue in the above example). Any proscriptive guidance should contemplate the enterprise risk of the consolidated organization.

Effective Date and Transition

Issue 8: Do you believe that the proposed effective date would provide enough time for entities to adopt the proposed Statement? Why or why not?

We are confused by the statement "At the date of initial application, this proposed Statement would require an entity to dedesignate, with one exception, all hedging relationships designated under Statement 133". If our understanding of the guidance is correct most companies we work with would not require dedesignation of the hedge relationship under the proposed guidance as 1) foreign currency cash flow risk, 2) benchmark cash flow risk of an entities own debt, and 3) overall hedges of commodities are permitted now and will continue to be permitted under the new Statement. Would memos noting the modifications to testing and measurement protocols be adequate?

We believe that our clients are anxious to embrace the reduced quantitative testing and increased qualitative review of hedge relationships. If the need to evaluate credit in all relationships eliminates the ability to qualitatively identify reasonably effective hedges, they will be less enthusiastic because in many cases they will not understand how to incorporate the credit effect.

This guidance will have a profound effect on companies who have made assumptions of short-cut or matched terms. They will need to design and implement modeling to capture the changes in value of the hedged item and find appropriate data sources. There is very little practical training available in this area and we would recommend substantive training materials of practical applications be made available on the FASB website. We encourage the guidance to provide more examples of ineffectiveness data capture and application. Preparation of such guidance would be difficult in the proposed time frame. Again we would be anxious to see practical examples across risk types.

Issue 9: No Comment

Issue 10: No Comment

Benefit-Cost Considerations

Issue 11: Do you believe the Board identified the appropriate benefits and costs related to this proposed Statement? If not, what additional benefits or costs should the Board consider?

We disagree with the assertion that a benefit would be derived from "more transparency of the risk(s) not being managed or transformed by the hedging instrument". There is currently no requirement to discuss the modeling of the hedged item and what unhedged or unhedge-able exposures are creating ineffectiveness. Except among a very few sophisticated and FAS133 enlightened readers of the financial statements there will just be the

impression that companies are incompetent at hedging bifurcated risk. This will only further undermine confidence in the use of derivative instruments to manage risk.

We agree that there will be substantial cost savings by eliminating the frequency of quantitative assessments required to initiate hedge accounting and eliminating the need to formally assess hedge effectiveness on a quarterly basis. This would also reduce related audit expense.

The cost not addressed by the Board is the increased scrutiny of the hypothetical derivative and its component parts that will drive entries and disclosures. Without additional guidance on the modeling costs to capture and analyze unobservable inputs compliance costs will rise, along with the related attest work.

Conclusion:

We appreciate the opportunity to share our thoughts on the proposed amendment. We would welcome the opportunity to provide practical examples and case studies from corporate portfolios to improve the look forward to additional clarity and remain optimistic that the final standard will indeed simplify hedge accounting and provide additional clarity to users of financial statements.

Sincerely,

A handwritten signature in black ink, appearing to read "Helen M. Kane". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Helen M. Kane
President
Hedge Trackers, LLC

ATTACHMENT A

The following table highlights the differences in credit affecting a late designated swap and the hypothetical derivative with a fair value of zero at inception.

Using the same Credit Discounting on cash flows of an amortizing swap and a hypothetical swap with a fair value of zero at designation (late)

	Swap: 3.45% Fixed	Credit Discount 2.00%	Hypo: 4.066% Fixed	Credit Discount 2.00%
7-Jul-2008	(12,626.80)	(\$9.11)	20,013.35	\$14.44
6-Aug-2008	(26,446.61)	(\$63.03)	44,365.15	\$105.73
8-Sep-2008	(15,991.48)	(\$67.24)	35,648.75	\$149.88
6-Oct-2008	(10,498.99)	(\$60.31)	27,138.27	\$155.90
6-Nov-2008	(11,514.78)	(\$85.72)	29,888.36	\$222.49
8-Dec-2008	(6,991.63)	(\$64.27)	25,903.74	\$238.12
6-Jan-2009	201.03	\$2.17	16,890.46	\$181.94
6-Feb-2009	1,917.37	\$23.88	16,297.72	\$202.97
6-Mar-2009	1,719.28	\$24.02	14,688.20	\$205.18
6-Apr-2009	5,587.87	\$87.40	12,520.80	\$195.83
6-May-2009	7,608.99	\$131.28	9,861.39	\$170.14
8-Jun-2009	8,363.52	\$159.08	10,788.61	\$205.20
6-Jul-2009	10,964.53	\$224.93	5,237.03	\$107.44
6-Aug-2009	14,129.83	\$313.18	3,747.01	\$83.05
7-Sep-2009	14,549.81	\$347.18	3,839.34	\$91.61
6-Oct-2009	17,386.12	\$441.50	(775.75)	(\$19.70)
6-Nov-		\$555.28		(\$77.11)

2009	20,545.36		(2,852.91)	
7-Dec-2009	20,481.04	\$586.88	(2,851.83)	(\$81.72)
6-Jan-2010	24,540.09	\$741.72	(7,541.04)	(\$227.93)
8-Feb-2010	29,155.62	\$931.40	(10,532.04)	(\$336.45)
8-Mar-2010	24,621.01	\$822.38	(8,873.24)	(\$296.38)
6-Apr-2010	28,491.51	\$994.48	(12,240.62)	(\$427.25)
6-May-2010	30,774.27	\$1,121.85	(14,026.96)	(\$511.34)
7-Jun-2010	32,712.86	\$1,246.42	(14,921.54)	(\$568.54)
6-Jul-2010	32,366.62	\$1,281.40	(16,303.95)	(\$645.48)
6-Aug-2010	35,543.06	\$1,463.53	(18,442.28)	(\$759.38)
6-Sep-2010	35,029.96	\$1,497.77	(17,998.37)	(\$769.55)
6-Oct-2010	30,292.24	\$1,341.39	(13,872.82)	(\$614.31)
8-Nov-2010	31,595.51	\$1,451.92	(13,608.88)	(\$625.37)
6-Dec-2010	26,701.77	\$1,264.78	(11,493.99)	(\$544.44)
6-Jan-2011	32,552.52	\$1,592.71	(15,782.43)	(\$772.19)
7-Feb-2011	42,645.14	\$2,154.98	(25,410.29)	(\$1,284.05)
7-Mar-2011	37,168.78	\$1,930.29	(22,146.41)	(\$1,150.13)
6-Apr-2011	39,643.11	\$2,118.08	(23,614.15)	(\$1,261.67)
6-May-2011	39,500.50	\$2,169.35	(23,537.72)	(\$1,292.68)
Total Credit Effect		\$26,671.51		(\$9,935.75)

ATTACHMENT B

The following table presents the debits and credits of a currency cash flow hedge where autodesignation permits the derivative to change hedge protection from revenue (prior to revenue recognition) to remeasurement protection after.

EURO CASH FLOW HEDGE OF FOREIGN CURRENCY ANTICIPATED REVENUE
Time Value Excluded In Assessment of Effectiveness

				Market Data				Derivative Fair Value Calcs				Underlying FV Calcs				
				Spot	Fwd points	Fwd Rates	LIBOR Rates	Cparty-Credit	Own Credit	Undiscounted	FV Discounted	Spot-Spot Undiscounted	Spot-Spot Discounted	Spot-Spot Undiscounted	Spot-Spot Discounted	
Forward Contract	EUR	(25,000,000.00)	T0	7-Feb	1.46330	(0.01298)	1.45032	5.13%								
Forecasted Revenue	EUR	25,000,000.00	T1	28-Feb	1.45890	(0.01136)	1.44754	4.70%	0.92%	1.25%	\$69,444	\$67,210	\$110,000	\$106,460	(\$110,000)	(\$105,932)
All-in-rate	EUR/USD	1.45032	T2	30-Mar	1.48610	(0.01090)	1.47520	3.11%	0.86%	1.25%	(\$621,944)	(\$609,707)	(\$570,000)	(\$557,707)	\$570,000	\$555,534
Derivative maturity		28-Sep	T3	30-Apr	1.51790	(0.00950)	1.50840	3.05%	0.90%	1.25%	(\$1,451,944)	(\$1,428,281)	(\$1,365,000)	(\$1,340,817)	\$1,365,000	\$1,335,645
Hedge Period Start		1-Aug	T4	31-May	1.57880	(0.00890)	1.56990	2.69%	0.89%	1.25%	(\$2,989,444)	(\$2,954,211)	(\$2,887,500)	(\$2,850,088)	\$2,887,500	\$2,839,969
Hedge Period End	(hypo date)	31-Oct	T5	30-Jun	1.56220	(0.00660)	1.55560	2.85%	0.91%	1.75%	(\$2,631,944)	(\$2,607,435)	(\$2,472,500)	(\$2,444,390)	\$2,472,500	\$2,434,242
Revenue Recognition	15-Sep	(25,000,000)	T6	31-Jul	1.55540	(0.00460)	1.55080	2.68%	0.92%	1.75%	(\$2,511,944)	(\$2,497,211)	(\$2,302,500)	(\$2,285,904)	\$2,302,500	\$2,276,725
			T7	31-Aug	1.57550	(0.00250)	1.57300	2.78%	0.89%	1.75%	(\$3,066,944)	(\$3,058,215)	(\$2,805,000)	(\$2,795,152)	\$2,805,000	\$2,783,633
			T8	28-Sep	1.47890		1.47890	2.79%	0.89%	1.75%	(\$714,444)	(\$714,444)	(\$390,000)	(\$390,000)	\$390,000	\$388,384
			T9		1.50000											

	Cash	Receivable	OCI	Derivative Asset	COGS	Revenue	FX P&L
T0 Sell Forward EUR Contract Amount to Derivative Maturity Dai No accounting entry							
T1 Recognize change in fair value of Forward Contract; put through OCI							
OCI			(105,932)				
Derivative Asset/Liability	67,210			67,210			
COGS - Interest Differential	38,722				38,722		
	-	-	(105,932)	67,210	38,722	-	-
T2 Recognize change in fair value of Forward Contract; put through OCI							
Reverse OCI	105,932		105,932				
Reverse Derivative Asset/Lia		(67,210)		(67,210)			
Reverse COGS - Interest Diff		(38,722)			(38,722)		
OCI	555,534		555,534				
Derivative Asset/Liability		(609,707)		(609,707)			
COGS - Interest Differential	54,173				54,173		
	-	-	555,534	(609,707)	54,173	-	-
T3 Recognize change in fair value of Forward Contract; put through OCI							
Reverse OCI		(555,534)	(555,534)				
Reverse Derivative Asset/Lia	609,707			609,707			
Reverse COGS - Interest Diff		(54,173)			(54,173)		
OCI	1,335,645		1,335,645				
Derivative Asset/Liability		(1,428,281)		(1,428,281)			
COGS - Interest Differential	92,635				92,635		
	-	-	1,335,645	(1,428,281)	92,635	-	-
T4 Recognize change in fair value of Forward Contract; put through OCI							
Reverse OCI		(1,335,645)	(1,335,645)				
Reverse Derivative Asset/Lia	1,428,281			1,428,281			
Reverse COGS - Interest Diff		(92,635)			(92,635)		
OCI	2,839,969		2,839,969				
Derivative Asset/Liability		(2,954,211)		(2,954,211)			
COGS - Interest Differential	114,242				114,242		
	-	-	2,839,969	(2,954,211)	114,242	-	-



			Cash	Receivable	OCI	Derivative Asset	COGS	Revenue	FX P&L
T5	<i>Recognize change in fair value of Forward Contract; put through OCI</i>								
Reverse	OCI				(2,839,969)				
Reverse	Derivative Asset/Lia	2,954,211				2,954,211			
Reverse	COGS - Interest Diff				(114,242)		(114,242)		
	OCI	2,434,242			2,434,242				
	Derivative Asset/Liability				(2,607,435)				
	COGS - Interest Differential	173,193					173,193		
			-	-	2,434,242	(2,607,435)	173,193	-	-
T6	<i>Recognize change in fair value of Forward Contract; put through OCI</i>								
Reverse	OCI				(2,434,242)				
Reverse	Derivative Asset/Lia	2,607,435				2,607,435			
Reverse	COGS - Interest Diff				(173,193)		(173,193)		
	OCI	2,276,725			2,276,725				
	Derivative Asset/Liability				(2,497,211)				
	COGS - Interest Differential	220,486					220,486		
			-	-	2,276,725	(2,497,211)	220,486	-	-
T7	<i>Recognize change in fair value of Forward Contract; put through OCI</i>								
Reverse	OCI				(2,276,725)				
Reverse	Derivative Asset/Lia	2,497,211				2,497,211			
Reverse	COGS - Interest Diff				(220,486)		(220,486)		
	OCI	2,783,633			2,783,633				
	Derivative Asset/Liability				(3,058,215)				
	COGS - Interest Differential	274,582					274,582		
			-	-	2,783,633	(3,058,215)	274,582	-	-
T8	<i>Recognize T8 Revenue; Trigger & Release related OCI, rest to OCI</i>								
Reverse	OCI				(2,783,633)				
Reverse	Derivative Asset/Lia	3,058,215				3,058,215			
Reverse	COGS - Interest Diff				(274,582)		(274,582)		
HB	Revenue							(39,387,500)	
HB	Receivable	36,972,500		36,972,500					
HB	FX Gain/Loss	2,415,000							2,415,000
HB	OCI								
HB	Cash		(714,444)						
HB	Revenue	2,783,633						2,783,633	
HB	COGS - Interest Differential	324,444					324,444		
HB	FX Gain/Loss				(2,393,633)				(2,393,633)
HB	Revenue								
			(714,444)	36,972,500	-	-	324,444	(36,603,867)	21,367

