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815-10-00 Status

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General Note: The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

General

00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Acquisition by a Not-for-Profit Entity	Added	Accounting Standards Update No. 2010-07	01/28/2010
Credit Risk	Amended	Accounting Standards Update No. 2010-08	02/02/2010
Embedded Credit Derivative	Added	Accounting Standards Update No. 2010-11	03/05/2010
Merger of Not-for-Profit Entities	Added	Accounting Standards Update No. 2010-07	01/28/2010
815-10-15-74	Amended	Accounting Standards Update No. 2010-07	01/28/2010
815-10-50-4K	Amended	Accounting Standards Update No. 2010-11	03/05/2010
815-10-65-5	Added	Accounting Standards Update No. 2010-11	03/05/2010

END OF DOCUMENT -

815-10-05 Overview and Background

General Note: The Overview and Background Section provides overview and background material for the guidance contained in the Subtopic. It does not provide the historical background or due process. It may contain certain material that users generally consider useful to understand the typical situations addressed by the standards. The Section does not summarize the accounting and reporting requirements.

General

05-1 The Derivatives and Hedging Topic includes the following Subtopics:

a. Overall

b. Embedded Derivatives

c. Hedging—General

d. Fair Value Hedges

e. Cash Flow Hedges

f. Net Investment Hedges

g. Contracts in Entity's Own Equity

h. Weather Derivatives.

05-2 The first six Subtopics address the accounting for **derivative instruments**, including certain derivative instruments embedded in other contracts, and hedging activities. The last two Subtopics provide guidance on accounting for contracts that have characteristics of derivative instruments but that are not accounted for as derivative instruments under this Subtopic.

05-3 The guidance in this Subtopic is presented in the following two Subsections:

a. General

b. Certain Contracts on Debt and Equity Securities.

05-4 This Topic requires that an entity recognize derivative instruments, including certain derivative instruments embedded in other contracts, as assets or liabilities in the statement of financial position and measure them at **fair value**. If certain conditions are met, an entity may elect, under this Topic, to designate a derivative instrument in any one of the following ways:

a. A hedge of the exposure to changes in the fair value of a recognized asset or liability, or of an unrecognized **firm commitment**, that are attributable to a particular risk (referred to as a **fair value hedge**)

b. A hedge of the exposure to variability in the cash flows of a recognized asset or liability, or of a **forecasted transaction**, that is attributable to a particular risk (referred to as a **cash flow hedge**)

c. A hedge of the foreign currency exposure of any one of the following:

1. An unrecognized firm commitment (a foreign currency fair value hedge)

2. An available-for-sale security (a foreign currency fair value hedge)

3. A forecasted transaction (a foreign currency cash flow hedge)

4. A net investment in a foreign operation.

05-5 An unrecognized firm commitment can be viewed as an executory contract that represents both a right and an obligation. If a previously unrecognized firm commitment that is designated as a hedged item is accounted for in accordance with this Topic, an asset or a liability is recognized and reported in the statement of financial position related to the recognition of the gain or loss on the firm commitment. Consequently, subsequent references to an asset or a liability in this Topic include a firm commitment.

05-6 This Topic generally provides for matching the timing of gain or loss recognition on the hedging instrument with the recognition of either of the following:

a. The changes in the fair value of the hedged asset or liability that are attributable to the hedged risk

b. The earnings effect of the hedged forecasted transaction.

05-7 This Subtopic defines derivative instrument, addresses the pervasive scope of this Topic, and specifies the primary accounting for derivative instruments within this Topic's scope.

> Synthetic Guaranteed Investment Contracts

05-8 The following is a background discussion of synthetic guaranteed investment contracts, including a comparison with traditional and benefit-response guaranteed investment contracts. Paragraph 815-10-55-63 states that, from the perspective of the issuer of the contract, synthetic guaranteed investment contracts are derivative instruments within the scope of this Subtopic.

05-9 In a traditional guaranteed investment contract, the issuer of the contract takes deposits from a benefit plan or other institutional customer and purchases investments that are held in its general account. (Equity investments may also be acquired, although they are less common than fixed income investments.) The customer is a creditor of the issuing entity and therefore has **credit risk**, although generally the guaranteed investment contract issuers have a high credit-quality rating. The issuer is contractually obligated to repay the principal and specified interest guaranteed to the customer. The plan’s provisions typically permit the participant to withdraw funds from the fund at book value (also referred to as account or contract value) for specified reasons, such as loans, hardship withdrawals, and transfers to other investment options offered by the plan.

05-10 A benefit-responsive guaranteed investment contract contains provisions that mirror the plan’s participant-directed withdrawal or transfer provisions. Therefore, the issuer is at risk that interest rates could increase, reducing the price of the fixed-income investments backing the guaranteed investment contract liability, while those investments may have to be sold at a loss to cover withdrawals.

05-11 A synthetic guaranteed investment contract is a contract that simulates the performance of a traditional guaranteed investment contract through the use of **financial instruments**. As with other types of guaranteed investment contracts, the specific terms and conditions of synthetic guaranteed investment contracts are negotiated on a case-by-case basis. However, those contracts fall into several broad structural categories, as follows:

a. Buy-and-hold. Typically, a buy-and-hold synthetic contract covers a limited class of assets, usually high-quality bonds expected to be held to maturity. There is no stated rate guarantee; instead, the interest rate is reset periodically as specified in the contract, subject to a specified floor—for example, 3 percent or 0 percent. The term of the contract generally is consistent with the maturity of the underlying assets. Although buy-and-hold contracts are structured to permit participant withdrawals and transfers at book value, generally no withdrawals are expected. The arrangements between the benefit plan or other institutional investor and the wrap provider typically contain provisions outlining operating and investing guidelines for the customer. These guidelines are designed to ensure the availability of other sources of liquidity sufficient to satisfy expected levels of net participant-directed withdrawals and transfers, without the need to access the assets wrapped by the synthetic guaranteed investment contract. While participants can make withdrawals or transfers at book value, in most cases, the customer can terminate the contract at the market value of the assets at any time, but it can withdraw at contract value only at maturity or earlier with a specified notification period.

b. Actively managed. With an actively managed synthetic guaranteed investment contract, the assets often are managed by an outside investment manager, but may be managed by the insurer. Generally, the contract is evergreen—that is, there is no specified maturity date—and there is no stated rate guarantee; instead, the interest rate is reset periodically as specified in the contract, subject to a specified floor, frequently zero percent and typically not less than zero percent. Participant-directed withdrawals and transfers are made at book value, with future interest returns adjusted to recognize the difference between the fair value and book value of the remaining assets covered by the synthetic guaranteed investment contract, but typically not below a zero interest rate. Customer-initiated withdrawal provisions are similar to those for buy-and-hold guaranteed investment contract.

c. Fixed-rate, fixed-maturity. This contract is essentially the same as a traditional general account guaranteed investment contract. The synthetic guaranteed investment contract issuer guarantees a fixed rate for a fixed and certain term and assumes the investment risks and rewards of the assets. If the assets earn less than the guaranteed return, the insurance entity absorbs the loss. If the assets earn more than was assumed in pricing, the income recognized by the insurer will be greater than the wrap fee assumed in the pricing. Typically, the insurer also will be the investment manager because of the assumption of investment risk. Note that participant-initiated withdrawals and transfers of fixed-rate, fixed-maturity contracts are permitted at book value but are expected to occur infrequently. Withdrawals initiated by the customer generally are permitted only at the market value of the assets and the guarantee is not activated.

05-12 A key difference between a synthetic guaranteed investment contract and a traditional guaranteed investment contract is that the policyholder (such as a benefit plan or other institutional customer) owns the assets underlying the synthetic guaranteed investment contract. (With a traditional guaranteed investment contract, the policyholder owns only the contract itself that provides the plan with a call on the contract issuer's assets in the event of default.) Those assets may be held in a trust owned by the policyholder and typically consist of government securities, private and public mortgage-backed securities, and other asset-backed securities, and investment grade corporate obligations. To enable the policyholder to realize a specific known value for the assets if it needs to liquidate them, synthetic guaranteed investment contract utilize a wrapper contract that provides market and cash flow risk protection to the policyholder. This wrapper or guarantee may be provided in a variety of structures. In one structure, the issuer provides cash advances to fund the policyholder's cash withdrawal requirements if the invested asset values have decreased.

05-13 Other structures include:

a. A swap agreement whereby the synthetic guaranteed investment contract issuer exchanges a fixed return for the market value of supporting assets, if needed for benefit payments

b. An agreement by the issuer to buy assets at book value if a sale is needed to make benefit payments

c. A payment upon termination of the contract equal to the difference between a hypothetical book value of plan assets and their market value. (Provisions of benefit-responsive traditional guaranteed investment contracts and synthetic guaranteed investment contracts generally prohibit the benefit plan and its sponsor from taking any actions that would encourage participant withdrawals and transfers.)

05-14 Synthetic guaranteed investment contracts can be viewed as the issuer selling a put option to the policyholder. For many synthetic guaranteed investment contracts, the option premium is in the form of a fee charged on the outstanding contract book value. For some forms of synthetic guaranteed investment contracts, the option premium for the put option is not explicitly stated but, instead, is embedded in the determination of the investment return guaranteed to the policyholder.

05-15 In any of the structures, various methods can be used to limit the synthetic guaranteed investment contract issuer's exposure to net payments under the contract. In the current marketplace, most synthetic guaranteed investment contracts pass many of the asset- and cash-flow-related risks to the policyholder. Structures to limit such risk include the following:

a. Reset of the crediting rate or maturity date. Cash flow volatility (for example, timing of benefit payments) as well as asset underperformance can be passed through to the policyholder through adjustments to future contract crediting rates and/or contract maturities. Formulas are typically provided in the contract that adjust renewal crediting rates to recognize the difference between the fair value and book value of remaining assets in the segregated portfolio.

b. Exclusion of impaired securities. Impaired securities may also be excluded directly from book value guarantees.

c. Investment guidelines. Carefully structured investment policy can limit significantly the cash volatility of assets in the segregated portfolio (for example, limit callable securities, mortgage backed securities, and so forth).

d. Buffer funds. Cash and cash equivalents are maintained and are accessed first to fund benefit payments and thus limit the potential for synthetic guaranteed investment contract issuer's assets to be accessed to make benefit payments.

e. Liquidation structure of pension plan. Pro rata or tiered structures dictate the order of accessing various plan assets, including synthetic guaranteed investment contract assets, for benefit payments.

Certain Contracts on Debt and Equity Securities

05-16 The Certain Contracts on Debt and Equity Securities Subsections provide guidance on certain contracts on debt and equity securities.

END OF DOCUMENT -

815-10-10 Objectives

General Note: The Objectives Section provides the high-level objectives that the Subtopic is intended to accomplish or attain. The Section does not summarize or discuss the main principles of accounting and reporting requirements.

General

10-1 Four fundamental decisions serve as cornerstones underlying the guidance in this Topic:

a. **Derivative instruments** represent rights or obligations that meet the definitions of assets or liabilities and should be reported in financial statements.

b. **Fair value** is the most relevant measure for **financial instruments** and the only relevant measure for derivative instruments. Derivative instruments should be measured at fair value, and adjustments to the carrying amount of hedged items should reflect changes in their fair value (that is, gains or losses) that are attributable to the risk being hedged and that arise while the hedge is in effect.

c. Only items that are assets or liabilities should be reported as such in financial statements.

d. Special accounting for items designated as being hedged should be provided only for qualifying items. One aspect of qualification should be an assessment of the expectation of effective offsetting changes in fair values or cash flows during the term of the hedge for the risk being hedged.

END OF DOCUMENT -

815-10-15 Scope and Scope Exceptions

General Note: The Scope and Scope Exceptions Section outlines the items (for example, the entities, transactions, instruments, or events) to which the guidance in the Subtopic does or does not apply. In some cases, the Section may contain definitional or other text to frame the scope.

General Note for Financial Instruments: Some of the items subject to the guidance in this Subtopic are **financial instruments**. For guidance on matters related broadly to all financial instruments, (including the fair value option, accounting for registration payment arrangements, and broad financial instrument disclosure requirements), see Topic 825. See Section 825-10-15 for guidance on the scope of the Financial Instruments Topic.

General

> Entities

15-1 This Subtopic applies to all entities. Some entities, such as not-for-profit entities (NFPs) and defined benefit pension plans, do not report earnings as a separate caption in a statement of financial performance. The application of this Subtopic to those entities is set forth in paragraph 815-10-35-3.

> Instruments

15-2 The scope of this Subtopic relates primarily to whether a contract meets the definition of a **derivative instrument** (see paragraph 815-10-15-83). However, as discussed in this Subsection, some contracts that meet the definition of derivative instrument are not within the scope of this Subtopic, while other contracts that do not meet the definition of derivative instrument are within the scope of this Subtopic. Some of the disclosure requirements in Section 815-10-50 apply to nonderivative instruments that are designated and qualify as hedging instruments pursuant to paragraphs 815-20-25-58 and 815-20-25-66.

15-3 If events occur after the inception or acquisition of a contract that cause the contract to meet the definition of a derivative instrument, then that contract shall be accounted for at that later date as a derivative instrument under this Subtopic unless one of the scope exceptions in this Subsection applies.

15-4 If a contract meets the definition of both a derivative instrument and a **firm commitment** under this Subtopic, then an entity shall account for the contract as a derivative instrument unless one of the scope exceptions in this Subsection applies.

>> Unit of Accounting for Scope Purposes

15-4A This Section addresses the following unit of accounting questions on scope:

a. Viewing a contract as freestanding or embedded. Whether a feature should be viewed as freestanding or embedded in determining the scope application of this Subtopic and Subtopic 815-15 is addressed beginning in paragraph 815-10-15-5.

b. Viewing two or more contracts as a unit in applying the scope of this Subtopic. Whether two or more legally separate transactions should be viewed as a unit in determining the scope application of this Subtopic is addressed beginning in paragraph 815-10-15-8.

15-4B Paragraph 815-10-25-5A explains that Section 815-10-25 addresses the following unit of accounting questions with respect to recognition:

a. Viewing two freestanding derivative instruments as a unit. Whether two or more contracts that are derivative instruments within the scope application of this Subtopic should be viewed as a unit for recognition and other purposes—including for hedge accounting purposes—is addressed beginning in paragraph 815-10-25-6.

b. Viewing combinations of options as separate options or as a single forward contract. Whether combinations of options that individually are within the scope application of this Subtopic or Subtopic 815-15 should be viewed as separate options or as a single forward is addressed beginning in paragraph 815-10-25-7.

>>> Viewing a Contract as Freestanding or Embedded

15-5 The notion of an **embedded derivative**, as discussed in paragraph 815-15-25-1, does not contemplate features that may be sold or traded separately from the contract in which those rights and obligations are embedded. Assuming they meet this Subtopic's definition of a derivative instrument, such features shall be considered attached **freestanding** derivative instruments rather than embedded derivatives by both the writer and the current holder.

15-6 A put or call option that is added or attached to a debt instrument by a third party contemporaneously with or after the issuance of the debt instrument shall be separately accounted for as a derivative instrument under this Subtopic by the investor (that is, by the creditor). An option that is added or attached to an existing debt instrument by another party results in the investor having different counterparties for the option and the debt instrument and, thus, the option shall not be considered an embedded derivative. Paragraph 815-15-25-2 states that notion of an embedded derivative in a hybrid instrument refers to provisions incorporated into a single contract, and not to provisions in separate contracts between different counterparties.

15-7 If a debt instrument includes in its terms at issuance an option feature that is explicitly transferable independent of the debt instrument and thus is potentially exercisable by a party other than either the issuer of the debt instrument (the debtor) or the holder of the debt instrument (the investor), that option shall be considered under this Subtopic as an attached freestanding derivative instrument, rather than an embedded derivative, by both the writer and the holder of the option.

>>> Viewing Two or More Contracts as a Unit in Applying the Scope of This Subtopic

15-8 In some circumstances, an entity could enter into two or more legally separate transactions that, if combined, would generate a result that is economically similar to entering into a single **transaction** that would be accounted for as a derivative instrument under this Subtopic. For guidance on circumstances in which two or more contracts that have been determined to be derivative instruments within the scope of this Subtopic must be viewed as a unit, see the guidance beginning in paragraph 815-10-25-6. For guidance on circumstances in which two or more contracts that have been determined to be options within the scope of this Subtopic must be viewed in combination, see the guidance beginning in paragraph 815-10-25-7.

15-9 If two or more separate transactions may have been entered into in an attempt to circumvent the provisions of this Subtopic, the following indicators shall be considered in the aggregate and, if present, shall cause the transactions to be viewed as a unit and not separately:

a. The transactions were entered into contemporaneously and in contemplation of one another.

b. The transactions were executed with the same counterparty (or structured through an intermediary).

c. The transactions relate to the same risk.

d. There is no apparent economic need nor substantive business purpose for structuring the transactions separately that could not also have been accomplished in a single transaction.

>> Instruments Within Scope

15-10 The guidance in the General Subsections of this Subtopic applies to all derivative instruments, as that term is defined in paragraph 815-10-15-83, unless explicitly excluded by this Subsection (see paragraphs 815-10-15-13 through 15-82). The General Subsections of this Subtopic also identify incremental guidance that applies specifically to **forward commitment dollar rolls**.

>>> Interests in Securitized Financial Assets

15-11 The holder of an interest in securitized financial assets (other than those identified in paragraphs 815-10-15-72 through 15-73) shall determine whether the interest is a freestanding derivative instrument or contains an embedded derivative that under Section 815-15-25 would be required to be separated from the host contract and accounted for separately.

>>> Forward Commitment Dollar Rolls

15-12 A forward commitment dollar roll that does not meet the definition of a derivative instrument is within the scope of the guidance specified for such contracts in this Subtopic (see paragraphs 815-10-25-15, 815-10-30-4, and 815-10-35-4).

>> Instruments Not Within Scope

15-13 Notwithstanding the conditions in paragraphs 815-10-15-83 through 15-139, the following contracts are not subject to the requirements of this Subtopic if specified criteria are met:

a. Regular-way security trades

b. Normal purchases and normal sales

c. Certain insurance contracts

d. Certain financial guarantee contracts

e. Certain contracts that are not traded on an exchange

f. Derivative instruments that impede sales accounting

g. Investments in life insurance

h. Certain investment contracts

i. Certain loan commitments

j. Certain interest-only strips and principal-only strips

k. Certain contracts involving an entity's own equity

l. Leases

m. Residual value guarantees

n. Registration payment arrangements.

15-14 The following are the criteria that must be met for each scope exception.

>>> Regular-Way Security Trades

15-15 **Regular-way security trades** are defined as contracts that provide for delivery of a security within the period of time (after the trade date) generally established by regulations or conventions in the marketplace or exchange in which the transaction is being executed. For example, a contract to purchase or sell a publicly traded equity security in the United States customarily requires settlement within three business days. If a contract for purchase of that type of security requires settlement in three business days, the regular-way security trades scope exception applies, but if the contract requires settlement in five days, the regular-way security trades scope exception does not apply unless the reporting entity is required to account for the contract on a trade-date basis.

15-16 Except as provided in (a) in the following paragraph, a contract for an existing security does not qualify for the regular-way security trades scope exception if either of the following is true:

a. It requires or permits net settlement (as discussed in paragraphs 815-10-15-100 through 15-109).

b. A market mechanism exists to facilitate net settlement of that contract (as discussed in paragraphs 815-10-15-110 through 15-118).

15-17 The scope exception for regular-way security trades applies only to a contract that requires delivery of securities that are **readily convertible to cash** except that the scope exception also shall or may apply in any of the following circumstances:

a. If an entity is required to account for a contract to purchase or sell an existing security on a trade-date basis, rather than a settlement-date basis, and thus recognizes the acquisition (or disposition) of the security at the inception of the contract, then the entity shall apply the regular-way security trades scope exception to that contract.

b. If an entity is required to account for a contract for the purchase or sale of when-issued securities or other securities that do not yet exist on a trade-date basis, rather than a settlement-date basis, and thus recognizes the acquisition or disposition of the securities at the inception of the contract, that entity shall apply the regular-way security trades scope exception to those contracts.

c. Contracts for the purchase or sale of when-issued securities or other securities that do not yet exist are excluded from the requirements of this Subtopic as a regular-way security trade only if all of the following are true:

1. There is no other way to purchase or sell that security.

2. Delivery of that security and settlement will occur within the shortest period possible for that type of security.

3. It is probable at inception and throughout the term of the individual contract that the contract will not settle net and will result in physical delivery of a security when it is issued. (The entity shall document the basis for concluding that it is probable that the contract will not settle net and will result in physical delivery.)

Example 9 (see paragraph 815-10-55-118) illustrates the application of item (c) in this paragraph.

15-18 Note that contracts that require delivery of securities that are not readily convertible to cash (and thus do not permit net settlement) are not subject to the requirements of this Subtopic unless there is a market mechanism outside the contract to facilitate net settlement (as described in paragraph 815-10-15-110).

15-19 A contract for the purchase or sale of when-issued securities or other securities that do not yet exist is eligible to qualify for the regular-way security trades scope exception even though either of the following is true:

a. That contract permits net settlement (as discussed in paragraphs 815-10-15-100 through 15-109).

b. A market mechanism exists to facilitate net settlement of that contract (as discussed in paragraphs 815-10-15-110 through 15-118).

See Example 9 (paragraph 815-10-55-118).

15-20 Net settlement (as described in paragraphs 815-10-15-100 and 815-10-15-110) of contracts in a group of contracts similarly designated as regular-way security trades would call into question the continued application of the scope exception to such contracts.

15-21 This Subtopic does not change whether an entity recognizes regular-way security trades on the trade date or the settlement date.

>>> Normal Purchases and Normal Sales

15-22 Normal purchases and normal sales are contracts that provide for the purchase or sale of something other than a **financial instrument** or derivative instrument that will be delivered in quantities expected to be used or sold by the reporting entity over a reasonable period in the normal course of business.

15-23 The assessment of whether a contract qualifies for the normal purchases and normal sales scope exception (including whether the **underlying** of a price adjustment within the contract is not clearly and closely related to the asset being sold or purchased) shall be performed only at the inception of the contract.

15-24 The normal purchases and normal sales scope exception sometimes will result in different parties to a contract reaching different conclusions about whether the contract is required to be accounted for as a derivative instrument. For example, the contract may be for ordinary sales by one party but not for ordinary purchases by the counterparty.

15-25 Following are discussions of four important elements needed to qualify for the normal purchases and normal sales scope exception:

a. Normal terms (including normal quantity)

b. Clearly and closely related underlying

c. Probable physical settlement

d. Documentation.

15-26 Also discussed is guidance that should be considered in determining whether each of the following specific types of contracts qualifies for the normal purchases and normal sales scope exception:

a. Freestanding option contracts

b. Forward (non-option-based) contracts

c. Forward contracts that contain optionality features

d. Power purchase or sale agreements.

>>>> Normal Terms (Including Normal Quantity)

15-27 To qualify for the scope exception, a contract's terms must be consistent with the terms of an entity's normal purchases or normal sales, that is, the quantity purchased or sold must be reasonable in relation to the entity's business needs. Determining whether or not the terms are consistent requires judgment.

15-28 In making those judgments, an entity should consider all relevant factors, including all of the following:

a. The quantities provided under the contract and the entity's need for the related assets

b. The locations to which delivery of the items will be made

c. The period of time between entering into the contract and delivery

d. The entity's prior practices with regard to such contracts.

15-29 Further, each of the following types of evidence should help in identifying contracts that qualify as normal purchases or normal sales:

a. Past trends

b. Expected future demand

c. Other contracts for delivery of similar items

d. An entity's and industry's customs for acquiring and storing the related commodities

e. An entity's operating locations.

For guidance on normal purchases and normal sales as hedged items, see paragraph 815-20-25-7.

>>>> Clearly and Closely Related Underlying

15-30 Contracts that have a price based on an underlying that is not clearly and closely related to the asset being sold or purchased (such as a price in a contract for the sale of a grain commodity based in part on changes in the Standard and Poor's index) or that are denominated in a foreign currency that meets none of the criteria in paragraph 815-15-15-10(b) shall not be considered normal purchases and normal sales.

15-31 The phrase *not clearly and closely related* in the preceding paragraph with respect to the normal purchases and normal sales scope exception is used to convey a different meaning than in paragraphs 815-15-25-1(a) and 815-15-25-16 through 25-51 with respect to the relationship between an embedded derivative and the host contract in which it is embedded. The guidance in this discussion of normal purchases and normal sales does not affect the use of the phrase *not clearly and closely related* in paragraphs other than the preceding paragraph. For purposes of determining whether a contract qualifies for the normal purchases and normal sales scope exception, the application of the phrase *not clearly and closely related* to the asset being sold or purchased shall involve an analysis of both qualitative and quantitative considerations. The analysis is specific to the contract being considered for the normal purchases and normal sales scope exception and may include identification of the components of the asset being sold or purchased.

15-32 The underlying in a price adjustment incorporated into a contract that otherwise satisfies the requirements for the normal purchases and normal sales scope exception shall be considered to be not clearly and closely related to the asset being sold or purchased in any of the following circumstances:

a. The underlying is extraneous (that is, irrelevant and not pertinent) to both the changes in the cost and the changes in the **fair value** of the asset being sold or purchased, including being extraneous to an ingredient or direct factor in the customary or specific production of that asset.

b. If the underlying is not extraneous as discussed in (a), the magnitude and direction of the impact of the price adjustment are not consistent with the relevancy of the underlying. That is, the magnitude of the price adjustment based on the underlying is significantly disproportionate to the impact of the underlying on the fair value or cost of the asset being purchased or sold (or of an ingredient or direct factor, as appropriate).

c. The underlying is a currency exchange rate involving a foreign currency that meets none of the criteria in paragraph 815-15-15-10(b) for that reporting entity.

15-33 For example, in the case in which the price adjustment focuses on the changes in the fair value of the asset being purchased or sold, if the terms of the price adjustment are expected, at the inception of the contract, to affect the purchase or sales price in a manner comparable to the outcome that would be obtained if, at each delivery date, the parties were to reprice the contract amount under the then-existing conditions for the asset being delivered on that date, the price adjustment's underlying is considered to be clearly and closely related to the asset being sold or purchased and the price adjustment would not be an impediment to the contract qualifying for the normal purchases and normal sales scope exception.

15-34 If the underlying in a price adjustment incorporated into a purchase or sales contract is not an impediment to qualifying for the normal purchases and normal sales scope exception because it is considered to be clearly and closely related to the asset being sold or purchased, the contract must meet the other requirements in this Subsection to qualify for the normal purchases and normal sales scope exception.

>>>> Probable Physical Settlement

15-35 For a contract that meets the net settlement provisions of paragraphs 815-10-15-100 through 15-109 and the market mechanism provisions of paragraphs 815-10-15-110 through 15-118 to qualify for the normal purchases and normal sales scope exception, it must be probable at inception and throughout the term of the individual contract that the contract will not settle net and will result in physical delivery.

15-36 The normal purchases and normal sales scope exception only relates to a contract that results in gross delivery of the commodity under that contract. The normal purchases and normal sales scope exception shall not be applied to a contract that requires cash settlements of gains or losses or otherwise settle gains or losses periodically because those settlements are net settlements. Paragraph 815-20-25-22 explains how an entity may designate such a contract as a hedged item in an **all-in-one hedge** if all related criteria are met.

>>>> Documentation

15-37 For contracts that qualify for the normal purchases and normal sales exception under any provision of paragraphs 815-10-15-22 through 15-51, the entity shall document the designation of the contract as a normal purchase or normal sale, including either of the following:

a. For contracts that qualify for the normal purchases and normal sales exception under paragraph 815-10-15-41 or 815-10-15-42 through 15-44, the entity shall document the basis for concluding that it is probable that the contract will not settle net and will result in physical delivery.

b. For contracts that qualify for the normal purchases and normal sales exception under paragraphs 815-10-15-45 through 15-51, the entity shall document the basis for concluding that the agreement meets the criteria in that paragraph, including the basis for concluding that the agreement is a **capacity contract**.

15-38 The documentation requirements can be applied either to groups of similarly designated contracts or to each individual contract. Failure to comply with the documentation requirements precludes application of the normal purchases and normal sales scope exception to contracts that would otherwise qualify for that scope exception.

15-39 The normal purchases and normal sales scope exception could effectively be interpreted as an election in all cases. However, once an entity documents compliance with the requirements of paragraphs 815-10-15-22 through 15-51, which could be done at the inception of the contract or at a later date, the entity is not permitted at a later date to change its election and treat the contract as a derivative instrument.

>>>> Application to Freestanding Option Contracts

15-40 Option contracts that would require delivery of the related asset at an established price under the contract only if exercised are not eligible to qualify for the normal purchases and normal sales scope exception, except as indicated in paragraphs 815-10-15-45 through 15-51.

>>>> Application to Forward (Non-Option-Based) Contracts

15-41 Forward contracts are eligible to qualify for the normal purchases and normal sales scope exception. However, forward contracts that contain net settlement provisions as described in either paragraphs 815-10-15-100 through 15-109 or 815-10-15-110 through 15-118 are not eligible for the normal purchases and normal sales scope exception unless it is probable at inception and throughout the term of the individual contract that the contract will not settle net and will result in physical delivery. Contracts that are subject to unplanned netting (referred to as a book-out in the electric utility industry) do not qualify for this scope exception except as specified in paragraph 815-10-15-46. Net settlement (as described in paragraphs 815-10-15-100 through 15-109 and 815-10-15-110 through 15-118) of contracts in a group of contracts similarly designated as normal purchases and normal sales would call into question the classification of all such contracts as normal purchases or normal sales. Contracts that require cash settlements of gains or losses or are otherwise settled net on a periodic basis, including individual contracts that are part of a series of sequential contracts intended to accomplish ultimate acquisition or sale of a commodity, do not qualify for the normal purchases and normal sales scope exception.

>>>> Application to Forward Contracts that Contain Optionality Features

15-42 Forward contracts that contain optionality features that do not modify the quantity of the asset to be delivered under the contract are eligible to qualify for the normal purchases and normal sales scope exception. Except for power purchase or sales agreements addressed in paragraphs 815-10-15-45 through 15-51, if an option component permits modification of the quantity of the assets to be delivered, the contract is not eligible for the normal purchases and normal sales scope exception, unless the option component permits the holder only to purchase or sell additional quantities at the market price at the date of delivery. For forward contracts that contain optionality features to qualify for the normal purchases and normal sales scope exception, the criteria discussed in the preceding paragraph must be met.

15-43 If the optionality feature in the forward contract can modify the quantity of the asset to be delivered under the contract and that option feature has expired or has been completely exercised (even if delivery has not yet occurred), there is no longer any uncertainty as to the quantity to be delivered under the forward contract. Accordingly, following such expiration or exercise, the forward contract would be eligible for designation as a normal purchase or normal sale, provided that the other applicable conditions in this Subsection are met. Example 10 (see paragraph 815-10-55-121) illustrates this guidance.

15-44 The inclusion of a purchased option that would, if exercised, require delivery of the related asset at an established price under the contract within a single contract that meets the definition of a derivative instrument disqualifies the entire contract from being eligible to qualify for the normal purchases and normal sales scope exception in this Subsection except as provided in the following paragraph through paragraph 815-10-15-51 with respect to certain power purchase or sales agreements.

>>>> Application to Power Purchase or Sale Agreements

15-45 Notwithstanding the criteria in paragraphs 815-10-15-41 through 15-44, a power purchase or sales agreement (whether a forward contract, option contract, or a combination of both) that is a capacity contract for the purchase or sale of electricity also qualifies for the normal purchases and normal sales scope exception if all of the following applicable criteria are met:

a. For both parties to the contract, both of the following criteria are met:

1. The terms of the contract require physical delivery of electricity. That is, the contract does not permit net settlement, as described in paragraphs 815-10-15-100 through 15-109. For an option contract, physical delivery is required if the option contract is exercised.

2. The power purchase or sales agreement is a capacity contract. Differentiating between a capacity contract and a traditional option contract (that is, a financial option on electricity) is a matter of judgment that depends on the facts and circumstances. For power purchase or sale agreements that contain option features, the characteristics of an option contract that is a capacity contract and a traditional option contract, which are set forth in paragraph 815-10-55-31 shall be considered in that evaluation; however, other characteristics not listed in that paragraph may also be relevant to that evaluation.

b. For the seller of electricity: The electricity that would be deliverable under the contract involves quantities that are expected to be sold by the reporting entity in the normal course of business.

c. For the buyer of electricity, all of the following criteria are met:

1. The electricity that would be deliverable under the contract involves quantities that are expected to be used or sold by the reporting entity in the normal course of business.

2. The buyer of the electricity under the power purchase or sales agreement is an entity that meets both of the following criteria:

i. The entity is engaged in selling electricity to retail or wholesale customers.

ii. The entity is statutorily or otherwise contractually obligated to maintain sufficient capacity to meet electricity needs of its customer base.

3. The contracts are entered into to meet the buyer's obligation to maintain a sufficient capacity, including a reasonable reserve margin established by or based on a regulatory commission, local standards, regional reliability councils, or regional transmission organizations.

15-46 Power purchase or sales agreements that meet only the applicable criteria in paragraph 815-10-15-45 qualify for the normal purchases and normal sales scope exception even if they are subject to being booked out or are scheduled to be booked out.

15-47 Forward contracts for the purchase or sale of electricity that do not meet those applicable criteria as well as other forward contracts are nevertheless eligible to qualify for the normal purchases and normal sales scope exception by meeting the criteria in this Subsection (other than paragraph 815-10-15-45), unless those contracts are subject to unplanned netting (that is, subject to possibly being booked out).

15-48 Because electricity cannot be readily stored in significant quantities and the entity engaged in selling electricity is obligated to maintain sufficient capacity to meet the electricity needs of its customer base, an option contract for the purchase of electricity that meets the criteria in paragraph 815-10-15-45 qualifies for the normal purchases and normal sales scope exception in that paragraph.

15-49 This guidance does not affect the accounting for requirements contracts that would not be required to be accounted for under the guidance in this Subtopic pursuant to paragraphs 815-10-55-5 through 55-7.

15-50 Contracts that qualify for the normal purchases and normal sales scope exception based on this guidance do not require compliance with any additional guidance in paragraphs 815-10-15-22 through 15-44. However, contracts that have a price based on an underlying that is not clearly and closely related to the electricity being sold or purchased or that are denominated in a foreign currency that meets none of the criteria in paragraph 815-15-15-10(b) shall not be considered normal purchases and normal sales.

15-51 This guidance shall not be applied by analogy to the accounting for other types of contracts not meeting the stated criteria.

>>> Certain Insurance Contracts

15-52 A contract is not subject to the requirements of this Subtopic if it entitles the holder to be compensated only if, as a result of an identifiable insurable event (other than a change in price), the holder incurs a liability or there is an adverse change in the value of a specific asset or liability for which the holder is at risk. Only those contracts for which payment of a claim is triggered only by a bona fide insurable exposure (that is, contracts comprising either solely insurance or both an insurance component and a derivative instrument) may qualify for this scope exception. To qualify, the contract must provide for a legitimate transfer of risk, not simply constitute a deposit or form of self-insurance.

15-53 The following types of contracts written by insurance entities or held by the insureds are not subject to the requirements of this Subtopic for the reasons given:

a. Traditional life insurance contracts. The payment of death benefits is the result of an identifiable insurable event (death of the insured) instead of changes in a variable.

b. Traditional property and casualty contracts. The payment of benefits is the result of an identifiable insurable event (for example, theft or fire) instead of changes in a variable.

15-54 In addition, some contracts with insurance or other entities combine derivative instruments with other insurance products or nonderivative contracts, for example, indexed annuity contracts, variable life insurance contracts, and property and casualty contracts that combine traditional coverages with foreign currency options. Contracts that consist of both derivative portions and nonderivative portions are addressed in paragraph 815-15-25-1. However, insurance entities enter into other types of contracts that may be subject to the provisions of this Subtopic.

15-55 A property and casualty contract that provides for the payment of benefits or claims as a result of both an identifiable insurable event and changes in a variable would in its entirety not be subject to the requirements of this Subtopic (and thus not contain an embedded derivative that is required to be separately accounted for as a derivative instrument) provided all of the following conditions are met:

a. Benefits or claims are paid only if an identifiable insurable event occurs (for example, theft or fire).

b. The amount of the payment is limited to the amount of the policyholder’s incurred insured loss.

c. The contract does not involve essentially assured amounts of cash flows (regardless of the timing of those cash flows) based on insurable events highly probable of occurrence because the insured would nearly always receive the benefits (or suffer the detriment) of changes in the variable.

15-56 If there is an actuarially determined minimum amount of expected claim payments that are the result of insurable events that are highly probable of occurring under the contract, that portion of the contract does not qualify for the insurance scope exception if both of the following conditions are met:

a. Those minimum payment cash flows are indexed to or altered by changes in a variable.

b. Those minimum payment amounts are expected to be paid each policy year (or on another predictable basis).

15-57 If an insurance contract has an actuarially determined minimum amount of expected claim payments that are highly probable of occurring, then effectively the amount of those claims is the contract’s minimum **notional amount** in determining the embedded derivative under Section 815-15-25.

>>> Certain Financial Guarantee Contracts

15-58 Financial guarantee contracts are not subject to this Subtopic only if they meet all of the following conditions:

a. They provide for payments to be made solely to reimburse the guaranteed party for failure of the debtor to satisfy its required payment obligations under a nonderivative contract, either:

1. At prespecified payment dates

2. At accelerated payment dates as a result of either the occurrence of an event of default (as defined in the financial obligation covered by the guarantee contract) or notice of acceleration being made to the debtor by the creditor.

b. Payment under the financial guarantee contract is made only if the debtor's obligation to make payments as a result of conditions as described in (a) is past due.

c. The guaranteed party is, as a precondition in the contract (or in the back-to-back arrangement, if applicable) for receiving payment of any claim under the guarantee, exposed to the risk of nonpayment both at inception of the financial guarantee contract and throughout its term either through direct legal ownership of the guaranteed obligation or through a back-to-back arrangement with another party that is required by the back-to-back arrangement to maintain direct ownership of the guaranteed obligation.

In contrast, financial guarantee contracts are subject to this Subtopic if they do not meet all three criteria, for example, if they provide for payments to be made in response to changes in another underlying such as a decrease in a specified debtor's creditworthiness.

>>> Certain Contracts that Are Not Traded on an Exchange

15-59 Contracts that are not exchange-traded are not subject to the requirements of this Subtopic if the underlying on which the settlement is based is any one of the following:

a. A climatic or geological variable or other physical variable. Climatic, geological, and other physical variables include things like the number of inches of rainfall or snow in a particular area and the severity of an earthquake as measured by the Richter scale. (See Example 13 [paragraph 815-10-55-135].)

b. The price or value of a nonfinancial asset of one of the parties to the contract provided that the asset is not readily convertible to cash. This scope exception applies only if both of the following are true:

1. The nonfinancial assets are unique.

2. The nonfinancial asset related to the underlying is owned by the party that would not benefit under the contract from an increase in the price or value of the nonfinancial asset. (If the contract is a call option, the scope exception applies only if that nonfinancial asset is owned by the party that would not benefit under the contract from an increase in the price or value of the nonfinancial asset above the option's strike price.)

c. The price or value of a nonfinancial liability of one of the parties to the contract provided that the liability does not require delivery of an asset that is readily convertible to cash.

d. Specified volumes of sales or service revenues of one of the parties to the contract. (This scope exception applies to contracts with settlements based on the volume of items sold or services rendered, for example, royalty agreements. This scope exception does not apply to contracts based on changes in sales or revenues due to changes in market prices.)

15-60 If a contract has more than one underlying and some, but not all, of them qualify for one of the scope exceptions in the preceding paragraph, the application of this Subtopic to that contract depends on its predominant characteristics. That is, the contract is subject to the requirements of this Subtopic if all of its underlyings, considered in combination, behave in a manner that is highly correlated with the behavior of any of the component variables that do not qualify for a scope exception.

15-61 A contract based on any variable that is not specifically excluded by paragraph 815-10-15-59 is subject to the requirements of this Subtopic if it has the other two characteristics (initial net investment and net settlement) identified in this Subsection.

15-62 Example 14 (see paragraph 815-10-55-142) illustrates the application of paragraph 815-10-15-59(b).

>>> Derivative Instruments That Impede Sale Accounting

15-63 A derivative instrument (whether freestanding or embedded in another contract) whose existence serves as an impediment to recognizing a related contract as a sale by one party or a purchase by the counterparty is not subject to this Subtopic. For example, the existence of a guarantee of the residual value of a leased asset by the lessor may be an impediment to treating a contract as a sales-type lease, in which case the contract would be treated by the lessor as an operating lease. Another example is the existence of a call option enabling a transferor to repurchase transferred assets that is an impediment to sales accounting under Topic 860. Such a call option on transferred financial assets that are not readily available would prevent accounting for that transfer as a sale. The consequence is that to recognize the call option would be to count the same thing twice. The holder of the option already recognizes in its financial statements the assets that it has the option to purchase.

15-64 A derivative instrument held by a transferor that relates to assets transferred in a transaction accounted for as a financing under Topic 860, but which does not itself serve as an impediment to sale accounting, is not subject to the requirements of this Subtopic if recognizing both the derivative instrument and either the transferred asset or the liability arising from the transfer would result in counting the same thing twice in the transferor's balance sheet. However, if recognizing both the derivative instrument and either the transferred asset or the liability arising from the transfer would not result in counting the same thing twice in the transferor's balance sheet, the derivative instrument shall be accounted for in accordance with this Subtopic. For related implementation guidance, see paragraph 815-10-55-41.

15-65 [Paragraph Not Used]

15-66 [Paragraph Not Used]

>>> Investments in Life Insurance

15-67 A policyholder's investment in a life insurance contract that is accounted for under Subtopic 325-30 is not subject to this Subtopic. This scope exclusion does not affect the accounting by the issuer of the life insurance contract.

>>> Certain Investment Contracts

15-68 A contract that is accounted for under either paragraph 960-325-35-1 or 960-325-35-3 is not subject to this Subtopic. This scope exception applies only to the party that accounts for the contract under Topic 960.

>>> Certain Loan Commitments

15-69 For the holder of a commitment to originate a loan (that is, the potential borrower), that commitment is not subject to the requirements of this Subtopic. For issuers of commitments to originate mortgage loans that will be held for investment purposes, as discussed in paragraphs 948-310-25-3 through 25-4, those commitments are not subject to this Subtopic. In addition, for issuers of **loan commitments** to originate other types of loans (that is, other than mortgage loans), those commitments are not subject to the requirements of this Subtopic.

15-70 The preceding paragraph does not affect the accounting for commitments to purchase or sell mortgage loans or other types of loans at a future date. Those types of loan commitments must be evaluated under the definition of a derivative instrument to determine whether this Subtopic applies.

15-71 Notwithstanding the characteristics discussed in paragraph 815-10-15-83, loan commitments that relate to the origination of mortgage loans that will be held for sale, as discussed in paragraph 948-310-25-3, shall be accounted for as derivative instruments by the issuer of the loan commitment (that is, the potential lender).

>>> Certain Interest-Only Strips and Principal-Only Strips

15-72 An interest-only strip or principal-only strip is not subject to the requirements of this Subtopic provided the strip has both of the following characteristics:

a. It represents the right to receive only a specified proportion of the contractual interest cash flows of a specific debt instrument or a specified proportion of the contractual principal cash flows of that debt instrument.

b. It does not incorporate any terms not present in the original debt instrument.

15-73 An allocation of a portion of the interest or principal cash flows of a specific debt instrument as reasonable compensation for stripping the instrument or to provide adequate compensation to a servicer (as defined in Topic 860) would meet the intended narrow nature of the scope exception provided in this paragraph. However, an allocation of a portion of the interest or principal cash flows of a specific debt instrument to provide for a guarantee of payments, for servicing in excess of adequate compensation, or for any other purpose would not meet the intended narrow nature of the scope exception.

>>> Certain Contracts Involving an Entity's Own Equity

15-74 Notwithstanding the conditions of paragraphs 815-10-15-13 through 15-139, the reporting entity shall not consider the following contracts to be derivative instruments for purposes of this Subtopic:

a. Contracts issued or held by that reporting entity that are both:

1. Indexed to its own stock

2. Classified in stockholders' equity in its statement of financial position.

b. Contracts issued by the entity that are subject to Topic 718 or Subtopic 505-50. If any such contract ceases to be subject to Topic 718 or Subtopic

505-50 in accordance with paragraphs 718-10-35-9 through 35–14, the terms of that contract shall then be analyzed to determine whether the contract is subject to this Subtopic. An award that ceases to be subject to Topic 718 or Subtopic 505-50 in accordance with those paragraphs shall be analyzed to determine whether it is subject to this Subtopic.

c. Any of the following contracts:

1. A contract between an acquirer and a seller to enter into a business combination

2. A contract to enter into an **acquisition by a not-for-profit entity**

3. A contract between one or more NFPs to enter into a **merger of not-for-profit entities**.

d. Forward contracts that require settlement by the reporting entity's delivery of cash in exchange for the acquisition of a fixed number of its equity shares (forward purchase contracts for the reporting entity's shares that require physical settlement) that are accounted for under paragraphs 480-10-30-3 through 30-5, 480-10-35-3, and 480-10-45-3.

15-75 The scope exceptions in the preceding paragraph do not apply to either of the following:

a. The counterparty in those contracts. For example, the scope exception in (b) in the preceding paragraph related to stock-based compensation arrangements does not apply to equity instruments (including stock options) received by nonemployees as compensation for goods and services.

b. A contract that an entity either can or must settle by issuing its own equity instruments but that is indexed in part or in full to something other than its own stock. That contract can be a derivative instrument for the issuer under paragraphs 815-10-15-13 through 15-139, in which case it would be accounted for as a liability or an asset in accordance with the requirements of this Subtopic. For example, a forward contract that is indexed to both an entity's own stock and currency exchange rates does not qualify for the exception in (a) in the preceding paragraph with respect to that entity's accounting because the forward contract is indexed in part to something other than that entity's own stock (namely, currency exchange rates).

15-76 Temporary equity is considered stockholders' equity for purposes of the scope exception in paragraph 815-10-15-74(a) even if it is required to be displayed outside of the permanent equity section.

15-77 For guidance on determining whether a freestanding financial instrument or embedded feature is not precluded from qualifying for the first part of the scope exception in paragraph 815-10-15-74(a), see the guidance beginning in paragraph 815-40-15-5.

15-78 Paragraph 815-40-25-39 explains that, for purposes of evaluating under this Subtopic whether an embedded derivative indexed to an entity's own stock would be classified in stockholders' equity if freestanding, the additional considerations necessary for equity classifications beginning in paragraph 815-40-25-7 do not apply if the **hybrid contract** is a conventional convertible debt instrument in which the holder may only realize the value of the conversion option by exercising the option and receiving the entire proceeds in a fixed number of shares or the equivalent amount of cash (at the discretion of the issuer).

>>> Leases

15-79 Leases that are within the scope of Topic 840 are not derivative instruments subject to this Subtopic, although a derivative instrument embedded in a lease may be subject to the requirements of paragraph 815-15-25-1.

>>> Residual Value Guarantees

15-80 Residual value guarantees that are subject to the requirements of Topic 840 are not subject to the requirements of this Subtopic.

15-81 A third-party residual value guarantor shall consider the guidance in this Subtopic for all residual value guarantees that it provides to determine whether they are derivative instruments and whether they qualify for any of the scope exceptions in this Subtopic. The guarantees described in paragraph 840-10-15-20 for which the exceptions of paragraphs 460-10-15-7(b) and 460-10-25-1(a) do not apply are subject to the initial recognition, initial measurement, and disclosure requirements of Topic 460.

>>> Registration Payment Arrangements

15-82 Registration payment arrangements within the scope of Subtopic 825-20 are not subject to the requirements of this Subtopic. The exception in this paragraph applies to both the issuer that accounts for the arrangement pursuant to that Subtopic and the counterparty.

> Definition of Derivative Instrument

15-83 A derivative instrument is a financial instrument or other contract with all of the following characteristics:

a. Underlying, notional amount, **payment provision**. The contract has both of the following terms, which determine the amount of the settlement or settlements, and, in some cases, whether or not a settlement is required:

1. One or more underlyings

2. One or more notional amounts or payment provisions or both.

b. Initial net investment. The contract requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

c. Net settlement. The contract can be settled net by any of the following means:

1. Its terms implicitly or explicitly require or permit net settlement.

2. It can readily be settled net by a means outside the contract.

3. It provides for delivery of an asset that puts the recipient in a position not substantially different from net settlement.

15-84 In this Topic, both of the following are collectively referred to as derivative instruments:

a. A derivative instrument included within the scope of this Subtopic by this Subsection

b. An embedded derivative that has been separated from a host contract as required by paragraph 815-15-25-1.

15-85 The terms *underlying*, *notional amount*, *payment provision*, and *settlement* are intended to include the plural forms in the remainder of this Topic. Including both the singular and plural forms is more accurate but much more awkward and impairs the readability.

15-86 Following is further discussion of each of the three characteristics of a derivative instrument:

a. Underlying, notional amount, payment provision

b. Initial net investment

c. Net settlement.

>> Underlying, Notional Amount, Payment Provision

15-87 Following is further discussion of the features that relate to the settlement amount(s) of a derivative instrument:

a. Underlying

b. Notional amount

c. Payment provision.

>>> Underlying

15-88 An underlying is a variable that, along with either a notional amount or a payment provision, determines the settlement of a derivative instrument. An underlying usually is one or a combination of the following:

a. A security price or security price index

b. A commodity price or commodity price index

c. An interest rate or interest rate index

d. A credit rating or credit index

e. An exchange rate or exchange rate index

f. An insurance index or catastrophe loss index

g. A climatic or geological condition (such as temperature, earthquake severity, or rainfall), another physical variable, or a related index

h. The occurrence or nonoccurrence of a specified event (such as a scheduled payment under a contract).

15-89 However, an underlying may be any variable whose changes are observable or otherwise objectively verifiable. An underlying may be a price or rate of an asset or liability but is not the asset or liability itself.

15-90 Reference to either a notional amount or a payment provision is needed in relation to an underlying to compute the contract's periodic settlements and resulting changes in fair value.

15-91 Example 3 (see paragraph 815-10-55-77) illustrates the determination of an underlying if a commodity contract includes a fixed element and a variable element.

>>> Notional Amount

15-92 A notional amount is a number of currency units, shares, bushels, pounds, or other units specified in the contract. Other names are used, for example, the notional amount is called a **face amount** in some contracts. The settlement of a derivative instrument with a notional amount is determined by interaction of that notional amount with the underlying. The interaction may be simple multiplication, or it may involve a formula with leverage factors or other constants. As defined in the glossary, the **effective notional amount** is the stated notional amount adjusted for any leverage factor. If a requirements contract contains explicit provisions that support the calculation of a determinable amount reflecting the buyer’s needs, then that contract has a notional amount. See paragraphs 815-10-55-5 through 55-7 for related implementation guidance. For implementation guidance on identifying a commodity contract's notional amount, see paragraph 815-10-55-5.

>>> Payment Provision

15-93 As defined in the glossary, a payment provision specifies a fixed or determinable settlement to be made if the underlying behaves in a specified manner. For example, a derivative instrument might require a specified payment if a referenced interest rate increases by 300 basis points.

>> Initial Net Investment

15-94 Many derivative instruments require no initial net investment. Some require an initial net investment as compensation for one or both of the following:

a. Time value (for example, a premium on an option)

b. Terms that are more or less favorable than market conditions (for example, a premium on a forward purchase contract with a price less than the current forward price).

Others require a mutual exchange of currencies or other assets at inception, in which case the net investment is the difference in the fair values of the assets exchanged.

15-95 A derivative instrument does not require an initial net investment in the contract that is equal to the notional amount (or the notional amount plus a premium or minus a discount) or that is determined by applying the notional amount to the underlying. For example:

a. A commodity futures contract generally requires no net investment, while purchasing the same commodity requires an initial net investment equal to its market price. However, both contracts reflect changes in the price of the commodity in the same way (that is, similar gains or losses will be incurred).

b. A swap or forward contract generally does not require an initial net investment unless the terms favor one party over the other.

c. An option generally requires that one party make an initial net investment (a premium) because that party has the rights under the contract and the other party has the obligations.

15-96 If the initial net investment in the contract (after adjustment for the time value of money) is less, by more than a nominal amount, than the initial net investment that would be commensurate with the amount that would be exchanged either to acquire the asset related to the underlying or to incur the obligation related to the underlying, the characteristic in paragraph 815-10-15-83(b) is met. The amount of that asset acquired or liability incurred should be comparable to the effective notional amount of the contract. This does not imply that a slightly off-market contract cannot be a derivative instrument in its entirety. That determination is a matter of facts and circumstances and shall be evaluated on a case-by-case basis. Example 16, Case C (see paragraph 815-10-55-166) illustrates the guidance in this paragraph.

15-97 A contract that requires an initial net investment in the contract that is in excess of the amount determined by applying the effective notional amount to the underlying is not a derivative instrument in its entirety. Example 16, Case A (see paragraph 815-10-55-150) illustrates such a contract.

15-98 The phrase *initial net investment* is stated from the perspective of only one party to the contract, but it determines the application of this Subtopic for both parties. Even though a contract may be a derivative instrument as described in paragraphs 815-10-15-13 through 15-139 for both parties, the scope exceptions in paragraphs 815-10-15-74 through 15-75 apply only to the issuer of the contract and will result in different reporting by the two parties. The normal purchases and sales scope exception (beginning in paragraph 815-10-15-22) also may apply to one of the parties but not the other.

>> Net Settlement

15-99 A contract fits the description in paragraph 815-10-15-83(c) if its settlement provisions meet criteria for any of the following:

a. Net settlement under contract terms

b. Net settlement through a market mechanism

c. Net settlement by delivery of derivative instrument or asset readily convertible to cash.

>>> Net Settlement Under Contract Terms

15-100 In this form of net settlement, neither party is required to deliver an asset that is associated with the underlying and that has a principal amount, stated amount, face value, number of shares, or other denomination that is equal to the notional amount (or the notional amount plus a premium or minus a discount). (For example, most interest rate swaps do not require that either party deliver interest-bearing assets with a principal amount equal to the notional amount of the contract.) Net settlement may be made in cash or by delivery of any other asset (such as the right to receive future payments—see the discussion beginning in paragraph 815-10-15-104), whether or not that asset is readily convertible to cash.

15-101 Further considerations in the application of this form of net settlement are addressed as follows:

a. Net share settlement

b. Net settlement in the event of nonperformance or default

c. Structured settlement as net settlement

d. Net settlement of a debt instrument through exercise of an embedded put option or call option.

>>>> Net Share Settlement

15-102 The net settlement criterion as described in paragraph 815-10-15-83(c) and related paragraphs in this Subsection is met if a contract provides for **net share settlement** at the election of either party. Therefore, if either counterparty could net share settle a contract, then it would be considered to have the net settlement characteristic of a derivative instrument regardless of whether the net shares received were readily convertible to cash as described in paragraph 815-10-15-119 or were restricted for more than 31 days as discussed beginning in paragraph 815-10-15-130. While this conclusion applies to both investors and issuers of contracts, issuers of those net share settled contracts shall consider whether such contracts qualify for the scope exception in paragraph 815-10-15-74(a). See Example 5 (paragraph 815-10-55-90).

>>>> Net Settlement in the Event of Nonperformance or Default

15-103 Penalties for nonperformance may give a contract the characteristic of net settlement. For example:

a. A penalty for nonperformance in a purchase order is a net settlement provision if the amount of the penalty is based on changes in the price of the items that are the subject of the contract.

b. A fixed penalty for nonperformance is not a net settlement provision.

c. A contract that contains a variable penalty for nonperformance based on changes in the price of the items that are the subject of the contract does not contain a net settlement provision as discussed beginning in paragraph 815-10-15-100 if it also contains an incremental penalty of a fixed amount (or fixed amount per unit) that would be expected to be significant enough at all dates during the remaining term of the contract to make the possibility of nonperformance remote. If a contract includes such a provision, it effectively requires performance, that is, requires the party to deliver an asset that is associated with the underlying. The assessment of the fixed incremental penalty shall be performed only at the contract’s inception. The magnitude of the fixed incremental penalty shall be assessed on a standalone basis as a disincentive for nonperformance, not in relation to the overall penalty.

d. An **asymmetrical default provision** does not give a commodity forward contract the characteristic described as net settlement beginning in paragraph 815-10-15-100. For related implementation guidance, see the discussion beginning in paragraph 815-10-55-10.

>>>> Structured Settlement as Net Settlement

15-104 Upon settlement of a contract, in lieu of immediate net cash settlement of the gain or loss under the contract, the holder may receive a financial instrument involving terms that would provide for the gain or loss under the contract to be received or paid over a specified time period. A contract that provides for such a structured payout of the gain (or loss) resulting from that contract meets the characteristic of net settlement in paragraphs 815-10-15-100 through 15-109 if the fair value of the cash flows to be received (or paid) by the holder under the structured payout are approximately equal to the amount that would have been received (or paid) if the contract had provided for an immediate payout related to settlement of the gain (or loss) under the contract. The fact that a contract accomplishes settlement by requiring the party in a loss position under the contract to make cash payments over a specified timeframe to the party in a gain position (in lieu of immediate cash settlement of the gain) does not preclude the contract from meeting the characteristic of net settlement in those paragraphs.

15-105 A contract that requires additional investing or borrowing to obtain the benefits of the contract's gain only over time as a traditional adjustment of the yield on the amount invested or the interest element on the amount borrowed does not meet the characteristic of net settlement.

15-106 Contracts that require one party to the contract to invest funds in or borrow funds from the other party so that the party in a gain position under the contract can obtain the value of that gain over time as a nontraditional adjustment of the yield on the amount invested or the interest element on the amount borrowed may meet the characteristic of net settlement. See related implementation guidance beginning in paragraph 815-10-55-19.

>>>> Net Settlement of a Debt Instrument Through Exercise of an Embedded Put Option or Call Option

15-107 The potential settlement of the debtor's obligation to the creditor that would occur upon exercise of a put option or call option embedded in a debt instrument meets the net settlement criterion as discussed beginning in paragraph 815-10-15-100 because neither party is required to deliver an asset that is associated with the underlying. Specifically:

a. The debtor does not receive an asset when it settles the debt obligation in conjunction with exercise of the put option or call option.

b. The creditor does not receive an asset associated with the underlying.

15-108 The guidance in the preceding paragraph shall be applied under both of the following circumstances:

a. When applying paragraph 815-15-25-1(c) to a put option or call option (including a prepayment option) embedded in a debt instrument

b. When analyzing the net settlement criterion (see guidance beginning in paragraph 815-10-15-100) for a freestanding call option held by the debtor on its own debt instrument and for a freestanding put option issued by the debtor on its own debt instrument.

15-109 The guidance in paragraph 815-10-15-107 shall not be applied under either of the following circumstances:

a. To put or call options that are added to a debt instrument by a third party contemporaneously with or after the issuance of a debt instrument. (In that circumstance, see paragraph 815-10-15-6.)

b. By analogy to an embedded put or call option in a hybrid instrument that does not contain a debt host contract.

>>> Net Settlement Through a Market Mechanism

15-109A Further considerations are addressed as follows:

a. Primary characteristics of market mechanism

b. Indicators of primary characteristics of market mechanism

c. Effects of an assignment clause on market mechanism

d. Ongoing evaluation of market mechanism.

>>>> Primary Characteristics of Market Mechanism

15-110 In this form of net settlement, one of the parties is required to deliver an asset of the type described in paragraph 815-10-15-100, but there is an established market mechanism that facilitates net settlement outside the contract. (For example, an exchange that offers a ready opportunity to sell the contract or to enter into an offsetting contract.) Market mechanisms may have different forms. Many derivative instruments are actively traded and can be closed or settled before the contract's expiration or maturity by net settlement in active markets.

15-111 The term *market mechanism* is to be interpreted broadly and includes any institutional arrangement or other agreement having the requisite characteristics. Regardless of its form, an established market mechanism must have all of the following primary characteristics:

a. It is a means to settle a contract that enables one party to readily liquidate its net position under the contract. A market mechanism is a means to realize the net gain or loss under a particular contract through a net payment. Net settlement may occur in cash or any other asset. A method of settling a contract that results only in a gross exchange or delivery of an asset for cash (or other payment in kind) does not satisfy the requirement that the mechanism facilitate net settlement.

b. It results in one party to the contract becoming fully relieved of its rights and obligations under the contract. A market mechanism enables one party to the contract to surrender all future rights or avoid all future performance obligations under the contract. Contracts that do not permit assignment of the contract from the original issuer to another party do not meet the characteristic of net settlement through a market mechanism. The ability to enter into an offsetting contract, in and of itself, does not constitute a market mechanism because the rights and obligations from the original contract survive. The fact that an entity has offset its rights and obligations under an original contract with a new contract does not by itself indicate that its rights and obligations under the original contract have been relieved. This applies to contracts regardless of whether either of the following conditions exists:

1. The asset associated with the underlying is financial or nonfinancial.

2. The offsetting contract is entered into with the same counterparty as the original contract or a different counterparty (unless an offsetting contract with the same counterparty relieves the entity of its rights and obligations under the original contract, in which case the arrangement does constitute a market mechanism). (Example 6 [see paragraph 815-10-55-91] illustrates this guidance.)

c. Liquidation of the net position does not require significant transaction costs. For purposes of assessing whether a market mechanism exists, an entity shall consider transaction costs to be significant if they are 10 percent or more of the fair value of the contract. Whether assets deliverable under a group of futures contracts exceeds the amount of assets that could rapidly be absorbed by the market without significantly affecting the price is not relevant to this characteristic. The lack of a liquid market for a group of contracts does not affect the determination of whether there is a market mechanism that facilitates net settlement because the test focuses on a singular contract. An exchange offers a ready opportunity to sell each contract, thereby providing relief of the rights and obligations under each contract. The possible reduction in price due to selling a large futures position is not considered to be a transaction cost.

d. Liquidation of the net position under the contract occurs without significant negotiation and due diligence and occurs within a time frame that is customary for settlement of the type of contract. A market mechanism facilitates easy and expedient settlement of the contract. As discussed under the primary characteristic in (a), those qualities of a market mechanism do not preclude net settlement in assets other than cash.

15-112 [Paragraph Not Used]

>>>> Indicators of Primary Characteristics of Market Mechanism

15-113 Entities shall consider the indicators in the following paragraph for each of the primary characteristics in determining whether a method of settling a contract qualifies as an established market mechanism. All of the indicators need not be present for an entity to conclude that a market mechanism exists for a particular contract.

15-114 The following are indicators that the primary characteristic in paragraph 815-10-15-111(a) is met:

a. Access to potential counterparties is available regardless of the seller's size or market position.

b. Risks assumed by a market maker as a result of acquiring a contract can be transferred by a means other than by repackaging the original contract into a different form.

15-115 The following are indicators that the primary characteristic in paragraph 815-10-15-111(b) is met:

a. There are multiple market participants willing and able to enter into a transaction at market prices to assume the seller's rights and obligations under a contract.

b. There is sufficient liquidity in the market for the contract, as indicated by the transaction volume as well as a relatively narrow observable **bid-ask spread**.

15-116 The following are indicators that primary characteristic in paragraph 815-10-15-111(d) is met:

a. Binding prices for the contract are readily obtainable.

b. Transfers of the instrument involve standardized documentation (rather than contracts with entity-specific modifications) and standardized settlement procedures.

c. Individual contract sales do not require significant negotiation and unique structuring.

d. The closing period is not extensive because of the need to permit legal consultation and document review.

>>>> Effects of an Assignment Clause on Market Mechanism

15-117 As noted in the primary characteristic in paragraph 815-10-15-111(b), an assessment of the substance of any assignment clause is required to determine whether that assignment clause precludes a party from being relieved of all rights and obligations under the contract. Although permission to assign a contract shall not be unreasonably withheld by the counterparty in accordance with the terms of a contract, an assignment feature cannot be viewed simply as a formality because it may be invoked at any time to prevent the nonassigning party from being exposed to unacceptable credit or performance risk. Accordingly, the existence of an assignment clause may or may not permit a party from being relieved of its rights and obligations under the contract. If it is remote that the counterparty will withhold permission to assign the contract, the mere existence of the clause shall not preclude the contract from possessing the net settlement characteristic described in paragraph 815-10-15-110 as a market mechanism. Such a determination requires assessing whether a sufficient number of acceptable potential assignees exist in the marketplace such that assignment of the contract would not result in imposing unacceptable **credit risk** or performance risk on the nonassigning party. Consideration shall be given to past counterparty and industry practices regarding whether permission to be relieved of all rights and obligations under similar contracts has previously been withheld. However, if it is reasonably possible or probable that the counterparty will withhold permission to assign the contract, the contract does not possess the net settlement characteristic described in paragraph 815-10-15-110 as a market mechanism.

>>>> Ongoing Evaluation of Market Mechanism

15-118 The evaluation of whether a market mechanism exists shall be performed at inception and on an ongoing basis throughout a contract's life. Example 4, Case A (see paragraph 815-10-55-86) illustrates this guidance.

>>> Net Settlement by Delivery of Derivative Instrument or Asset Readily Convertible to Cash

15-119 In this form of net settlement, one of the parties is required to deliver an asset of the type described in paragraph 815-10-15-100, but that asset is readily convertible to cash or is itself a derivative instrument.

15-120 An example of a contract with this form of net settlement is a forward contract that requires delivery of an exchange-traded equity security. Even though the number of shares to be delivered is the same as the notional amount of the contract and the price of the shares is the underlying, an exchange-traded security is readily convertible to cash. Another example is a swaption—an option to require delivery of a swap contract, which is a derivative instrument.

15-121 Examples of assets that are readily convertible to cash include a security or commodity traded in an active market and a unit of foreign currency that is readily convertible into the functional currency of the reporting entity.

15-122 An asset (whether financial or nonfinancial) shall be considered to be readily convertible to cash only if the net amount of cash that would be received from a sale of the asset in an active market is either equal to or not significantly less than the amount an entity would typically have received under a net settlement provision. The net amount that would be received upon sale need not be equal to the amount typically received under a net settlement provision. Parties generally should be indifferent as to whether they exchange cash or the assets associated with the underlying, although the term *indifferent* is not intended to imply an approximate equivalence between net settlement and proceeds from sale in an active market.

15-123 The form of a financial instrument is important; individual instruments cannot be combined for evaluation purposes to circumvent compliance with the criteria beginning in paragraph 815-10-15-119. Example 8 (see paragraph 815-10-55-111) illustrates this guidance.

15-124 Discussion of additional matters relevant to this form of net settlement is organized as follows:

a. Effect of conversion costs

b. Contracts involving multiple deliveries

c. Asset's suitability as collateral does not equate to asset being readily convertible to cash

d. Determining whether shares of stock are readily convertible to cash

e. Ongoing evaluation of readily convertible to cash.

>>>> Effect of Conversion Costs

15-125 If an entity determines that the estimated costs that would be incurred to immediately convert the asset to cash are not significant, then receipt of that asset puts the entity in a position not substantially different from net settlement. Therefore, an entity shall evaluate, in part, the significance of the estimated costs of converting the asset to cash in determining whether those assets are readily convertible to cash.

15-126 For purposes of assessing significance of such costs, an entity shall consider those estimated conversion costs to be significant only if they are 10 percent or more of the gross sales proceeds (based on the spot price at the inception of the contract) that would be received from the sale of those assets in the closest or most economical active market.

15-127 The assessment of the significance of those conversion costs shall be performed only at inception of the contract.

>>>> Contracts Involving Multiple Deliveries

15-128 For contracts that involve multiple deliveries of the asset, the phrase *in an active market that can rapidly absorb the quantity held by the entity* in the definition of *readily convertible to cash* shall be applied separately to the expected quantity in each delivery.

>>>> Asset's Suitability as Collateral Does Not Equate to Asset Being Readily Convertible to Cash

15-129 The ability to use a security that is not publicly traded or an agricultural or mineral product without an active market as collateral in a borrowing does not, in and of itself, mean that the security or the commodity is readily convertible to cash.

>>>> Determining Whether Shares of Stock Are Readily Convertible to Cash

15-130 A security that is publicly traded but for which the market is not very active is readily convertible to cash if the number of shares or other units of the security to be exchanged is small relative to the daily transaction volume. That same security would not be readily convertible if the number of shares to be exchanged is large relative to the daily transaction volume.

15-131 Shares of stock in a publicly traded entity to be received upon the exercise of a stock purchase warrant do not meet the characteristic of being readily convertible to cash if both of the following conditions exist:

a. The stock purchase warrant is issued by an entity for only its own stock (or stock of its consolidated subsidiaries).

b. The sale or transfer of the issued shares is restricted (other than in connection with being pledged as collateral) for a period of 32 days or more from the date the stock purchase warrant is exercised.

15-132 Restrictions imposed by a stock purchase warrant on the sale or transfer of shares of stock that are received from the exercise of that warrant issued by an entity for other than its own stock (whether those restrictions are for more or less than 32 days) do not affect the determination of whether those shares are readily convertible to cash. The accounting for restricted stock to be received upon exercise of a stock purchase warrant shall not be analogized to any other type of contract.

15-133 Newly outstanding shares of common stock in a publicly traded company to be received upon exercise of a stock purchase warrant cannot be considered readily convertible to cash if, upon issuance of the shares, the sale or transfer of the shares is restricted (other than in connection with being pledged as collateral) for more than 31 days from the date the stock purchase warrant is exercised (not the date the warrant is issued), unless the holder has the power by contract or otherwise to cause the requirement to be met within 31 days of the date the stock purchase warrant is exercised.

15-134 In contrast, if the sale of an actively traded security is restricted for 31 days or less from the date the stock purchase warrants are exercised, that limitation is not considered sufficiently significant to serve as an impediment to considering the shares to be received upon exercise of those stock purchase warrants as readily convertible to cash.

15-135 The guidance that a restriction for more than 31 days prevents the shares from being considered readily convertible to cash applies only to stock purchase warrants issued by an entity for its own shares of stock, in which case the shares being issued upon exercise are newly outstanding (including issuance of treasury shares) and are restricted with respect to their sale or transfer for a specified period of time beginning on the date the stock purchase warrant is exercised.

15-136 However, even if the sale or transfer of the shares is restricted for 31 days or less after the stock purchase warrant is exercised, an entity still must evaluate both of the following criteria:

a. Whether an active market can rapidly absorb the quantity of stock to be received upon exercise of the warrant without significantly affecting the price

b. Whether the other estimated costs to convert the stock to cash are expected to be not significant. (The assessment of the significance of those conversion costs shall be performed only at inception of the contract.)

Thus, the guidance in paragraph 815-10-15-122 shall be applied to those stock purchase warrants with sale or transfer restrictions of 31 days or less on the shares of stock.

15-137 If the shares of an actively traded common stock to be received upon exercise of the stock purchase warrant can be reasonably expected to qualify for sale within 31 days of their receipt, such as may be the case under SEC Rule 144, Selling Restricted and Control Securities, or similar rules of the SEC, any initial sales restriction is not an impediment to considering those shares as *readily convertible to cash*, as that phrase is used in paragraph 815-10-15-119. (However, a restriction on the sale or transfer of shares of stock that are received from an entity other than the issuer of that stock through the exercise of another option or the settlement of a forward contract is not an impediment to considering those shares readily convertible to cash, regardless of whether the restriction is for a period that is more or less than 32 days from the date of exercise or settlement.)

15-138 Paragraph 815-10-15-141 explains that the guidance in the Certain Contracts on Debt and Equity Securities Subsections applies to those warrants that are not derivative instruments subject to this Topic but that involve the acquisition of securities that will be accounted for under Topic 320. However, such warrants are not eligible to be hedging instruments.

>>>> Ongoing Evaluation of Readily Convertible to Cash

15-139 The evaluation of whether items to be delivered under a contract are readily convertible to cash shall be performed at inception and on an ongoing basis throughout a contract’s life (except that, as stated in paragraph 815-10-15-127, the assessment of the significance of those conversion costs shall be performed only at inception of the contract). Example 4, Cases B, C, and D (see paragraphs 815-10-55-87 through 55-89) illustrate this guidance.

Certain Contracts on Debt and Equity Securities

> Overall Guidance

15-140 The guidance in the Certain Contracts on Debt and Equity Securities Subsections applies to all entities, with specific instrument qualifications noted below.

> Instruments

15-141 The guidance in the Certain Contracts on Debt and Equity Securities Subsections applies only to those forward contracts and purchased options having all of the following characteristics:

a. The contract is entered into to purchase securities that will be accounted for under Topic 320.

b. The contract's terms require physical settlement of the contract by delivery of the securities.

c. The contract is not a **derivative instrument** otherwise subject to this Subtopic.

d. The contract, if a purchased option, has no intrinsic value at acquisition.

15-142 The guidance in the Certain Contracts on Debt and Equity Securities Subsections does not apply to contracts involving securities not within the scope of Topic 320.

END OF DOCUMENT -

815-10-20 Glossary

General Note: The Master Glossary contains all terms identified as glossary terms throughout the Codification. Clicking on any term in the Master Glossary will display where the term is used. The Master Glossary may contain identical terms with different definitions, some of which may not be appropriate for a particular Subtopic. For any particular Subtopic, users should only use the glossary terms included in the particular Subtopic Glossary Section (Section 20).

Acquiree

The **business** or businesses that the **acquirer** obtains control of in a **business combination**. This term also includes a nonprofit activity or business that a not-for-profit acquirer obtains control of in an **acquisition by a not-for-profit entity**.

Acquirer

The entity that obtains control of the **acquiree**. However, in a **business combination** in which a **variable interest entity** (VIE) is acquired, the primary beneficiary of that entity always is the acquirer.

Acquisition by a Not-for-Profit Entity

A transaction or other event in which a not-for-profit acquirer obtains control of one or more nonprofit activities or businesses and initially recognizes their assets and liabilities in the acquirer’s financial statements. When applicable guidance in Topic 805 is applied by a not-for-profit entity, the term business combination has the same meaning as this term has for a not-for-profit entity. Likewise, a reference to business combinations in guidance that links to Topic 805 has the same meaning as a reference to acquisitions by not-for-profit entities.

All-in-One Hedge

In an all-in-one hedge, a derivative instrument that will involve gross settlement is designated as the hedging instrument in a cash flow hedge of the variability of the consideration to be paid or received in the forecasted transaction that will occur upon gross settlement of the derivative instrument itself.

Asymmetrical Default Provision

A nonperformance penalty provision that requires the defaulting party to compensate the nondefaulting party for any loss incurred but does not allow the defaulting party to receive the effect of favorable price changes.

Bid-Ask Spread

A bid-ask spread is the difference between the highest price a buyer will pay to acquire an instrument and the lowest price at which any investor will sell an instrument.

Business

An integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs, or other economic benefits directly to investors or other owners, members, or participants. Additional guidance on what a business consists of is presented in paragraphs 805-10-55-4 through 55-9.

Business Combination

A transaction or other event in which an **acquirer** obtains control of one or more businesses. Transactions sometimes referred to as true mergers or mergers of equals also are business combinations. See also **Acquisition by a Not-for-Profit Entity**.

Capacity Contract

An agreement by an owner of capacity to sell the right to that capacity to another party so that it can satisfy its obligations. For example, in the electric industry, capacity (sometimes referred to as installed capacity) is the capability to deliver electric power to the electric transmission system of an operating **control area**.

Cash Flow Hedge

A hedge of the exposure to variability in the cash flows of a recognized asset or liability, or of a forecasted transaction, that is attributable to a particular risk.

Cashless Exercise

See Net Share Settlement.

Control Area

A control area requires entities that serve load within the control area to demonstrate ownership or contractual rights to capacity sufficient to serve that load at time of peak demand and to provide a reserve margin to protect the integrity of the system against potential generating unit outages in the control area. A control area is a portion of the electric grid that schedules, dispatches, and controls generating resources to serve area load (ultimate users of electricity) and coordinates scheduling of the flow of electric power over the transmission system to neighboring control areas.

Credit Derivative

A derivative instrument that has both of the following characteristics:

- a. One or more of its underlyings are related to any of the following:
  1. The credit risk of a specified entity (or a group of entities)
  2. An index based on the credit risk of a group of entities.
- b. It exposes the seller to potential loss from credit-risk-related events specified in the contract.

Examples of credit derivatives include, but are not limited to, credit default swaps, credit spread options, and credit index products.

Credit Risk

For purposes of a hedged item in a fair value hedge, credit risk is the risk of changes in the hedged item's fair value attributable to both of the following:

- a. Changes in the obligor's creditworthiness
- b. Changes in the spread over the benchmark interest rate with respect to the hedged item's credit sector at inception of the hedge.

For purposes of a hedged transaction in a cash flow hedge, credit risk is the risk of changes in the hedged transaction's cash flows attributable to all of the following:

- a. Default
- b. Changes in the obligor's creditworthiness
- c. Changes in the spread over the benchmark interest rate with respect to the related financial asset's or liability's credit sector at inception of the hedge.

Derivative Instrument

Paragraphs 815-10-15-83 through 15-139 define the term *derivative instrument*.

Effective Notional Amount

The effective notional amount is the stated notional amount adjusted for any leverage factor.

Embedded Credit Derivative

An embedded derivative that is also a credit derivative.

Embedded Derivative

Implicit or explicit terms that affect some or all of the cash flows or the value of other exchanges required by a contract in a manner similar to a derivative instrument.

Face Amount

See **Notional Amount**.

Fair Value

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair Value Hedge

A hedge of the exposure to changes in the fair value of a recognized asset or liability, or of an unrecognized firm commitment, that are attributable to a particular risk.

Financial Instrument

Cash, evidence of an ownership interest in an entity, or a contract that both:

a. Imposes on one entity a contractual obligation either:

1. To deliver cash or another financial instrument to a second entity
2. To exchange other financial instruments on potentially unfavorable terms with the second entity.

b. Conveys to that second entity a contractual right either:

1. To receive cash or another financial instrument from the first entity
2. To exchange other financial instruments on potentially favorable terms with the first entity.

The use of the term financial instrument in this definition is recursive (because the term financial instrument is included in it), though it is not circular. The definition requires a chain of contractual obligations that ends with the delivery of cash or an ownership interest in an entity. Any number of obligations to deliver financial instruments can be links in a chain that qualifies a particular contract as a financial instrument.

Contractual rights and contractual obligations encompass both those that are conditioned on the occurrence of a specified event and those that are not. All contractual rights (contractual obligations) that are financial instruments meet the definition of asset (liability) set forth in FASB Concepts Statement No. 6, Elements of Financial Statements, although some may not be recognized as assets (liabilities) in financial statements—that is, they may be off-balance-sheet—because they fail to meet some other criterion for recognition.

For some financial instruments, the right is held by or the obligation is due from (or the obligation is owed to or by) a group of entities rather than a single entity.

Firm Commitment

An agreement with an unrelated party, binding on both parties and usually legally enforceable, with the following characteristics:

a. The agreement specifies all significant terms, including the quantity to be exchanged, the fixed price, and the timing of the transaction. The fixed price may be expressed as a specified amount of an entity's functional currency or of a foreign currency. It may also be expressed as a specified interest rate or specified effective yield. The binding provisions of an agreement are regarded to include those legal rights and obligations codified in the laws to which such an agreement is subject. A price that varies with the market price of the item that is the subject of the firm commitment cannot qualify as a fixed price. For example, a price that is specified in terms of ounces of gold would not be a fixed price if the market price of the item to be purchased or sold under the firm commitment varied with the price of gold.

b. The agreement includes a disincentive for nonperformance that is sufficiently large to make performance probable. In the legal jurisdiction that governs the agreement, the existence of statutory rights to pursue remedies for default equivalent to the damages suffered by the nondefaulting party, in and of itself, represents a sufficiently large disincentive for nonperformance to make performance probable for purposes of applying the definition of a firm commitment.

Forecasted Transaction

A transaction that is expected to occur for which there is no firm commitment. Because no transaction or event has yet occurred and the transaction or event when it occurs will be at the prevailing market price, a forecasted transaction does not give an entity any present rights to future benefits or a present obligation for future sacrifices.

Foreign Exchange Risk

The risk of changes in a hedged item's fair value or functional-currency-equivalent cash flows attributable to changes in the related foreign currency exchange rates.

Forward Commitment Dollar Roll

See **Government National Mortgage Association Rolls**.

Freestanding Contract

A freestanding contract is entered into either:

a. Separate and apart from any of the entity's other financial instruments or equity transactions

b. In conjunction with some other transaction and is legally detachable and separately exercisable.

Government National Mortgage Association Rolls

The term Government National Mortgage Association (GNMA) rolls has been used broadly to refer to a variety of transactions involving mortgage-backed securities, frequently those issued by the GNMA. There are four basic types of transactions:

a. Type 1. Reverse repurchase agreements for which the exact same security is received at the end of the repurchase period (vanilla repo)

b. Type 2. Fixed coupon dollar reverse repurchase agreements (dollar repo)

c. Type 3. Fixed coupon dollar reverse repurchase agreements that are rolled at their maturities, that is, renewed in lieu of taking delivery of an underlying security (GNMA roll)

d. Type 4. Forward commitment dollar rolls (also referred to as to-be-announced GNMA forward contracts or to-be-announced GNMA rolls), for which the underlying security does not yet exist.

Hybrid Instrument

A contract that embodies both an **embedded derivative** and a host contract.

Interest Rate Risk

The risk of changes in a hedged item's fair value or cash flows attributable to changes in the designated benchmark interest rate.

Internal Derivative

A foreign currency derivative instrument that has been entered into with another member of a consolidated group (such as a treasury center).

Legal Entity

Any legal structure used to conduct activities or to hold assets. Some examples of such structures are corporations, partnerships, limited liability companies, grantor trusts, and other trusts.

Loan Commitment

Loan commitments are legally binding commitments to extend credit to a counterparty under certain prespecified terms and conditions. They have fixed expiration dates and may either be fixed-rate or variable-rate. Loan commitments can either be either of the following:

a. Revolving (in which the amount of the overall line of credit is reestablished upon repayment of previously drawn amounts)

b. Nonrevolving (in which the amount of the overall line of credit is not reestablished upon repayment of previously drawn amounts).

Loan commitments can be distributed through syndication arrangements, in which one entity acts as a lead and an agent on behalf of other entities that will each extend credit to a single borrower. Loan commitments generally permit the lender to terminate the arrangement under the terms of covenants negotiated under the agreement. This is not an authoritative or all-encompassing definition.

London Interbank Offered Rate Swap Rate

The fixed rate on a single-currency, constant-notional interest rate swap that has its variable-rate leg referenced to the London Interbank Offered Rate (LIBOR) with no additional spread over LIBOR on that variable-rate leg. That fixed rate is the derived rate that would result in the swap having a zero fair value at inception because the present value of fixed cash flows, based on that rate, equate to the present value of the variable cash flows.

Mandatorily Redeemable Financial Instrument

Any of various financial instruments issued in the form of shares that embody an unconditional obligation requiring the issuer to redeem the instrument by transferring its assets at a specified or determinable date (or dates) or upon an event that is certain to occur.

Merger of Not-for-Profit Entities

A transaction or other event in which the governing bodies of two or more not-for-profit entities cede control of those entities to create a new not-for-profit entity.

Net Share Settlement

The party with a loss delivers to the party with a gain shares with a current fair value equal to the gain.

Not-for-Profit Entity

An entity that possesses the following characteristics, in varying degrees, that distinguish it from a business entity:

a. Contributions of significant amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return

b. Operating purposes other than to provide goods or services at a profit

c. Absence of ownership interests like those of business entities.

Entities that clearly fall outside this definition include the following:

a. All investor-owned entities

b. Entities that provide dividends, lower costs, or other economic benefits directly and proportionately to their owners, members, or participants, such as mutual insurance entities, credit unions, farm and rural electric cooperatives, and employee benefit plans.

Notional Amount

A number of currency units, shares, bushels, pounds, or other units specified in a derivative instrument. Sometimes other names are used. For example, the notional amount is called a face amount in some contracts.

Payment Provision

A payment provision specifies a fixed or determinable settlement to be made if the underlying behaves in a specified manner.

Prepaid Interest Rate Swap

A prepaid interest rate swap contract obligates one party to make periodic payments to another party that are based on a variable interest rate applied to an effective notional amount. It is characterized as an at-the-money interest rate swap for which the fixed leg has been fully prepaid, with the result that the party that receives the variable-leg-based payments has no obligation whatsoever to make any future payments under the swap. Under that characterization, the fair value of the fixed leg and the fair value of the variable leg are equal and offsetting because the at-the-money interest rate swap has an overall fair value of zero.

Readily Convertible to Cash

Assets that are readily convertible to cash have both of the following:

a. Interchangeable (fungible) units

b. Quoted prices available in an active market that can rapidly absorb the quantity held by the entity without significantly affecting the price.

(Based on paragraph 83(a) of FASB Concepts Statement No. 5, *Recognition and Measurement in Financial Statements of Business Enterprises*.)

Regular-Way Security Trades

Regular-way security trades are contracts that provide for delivery of a security within the period of time (after the trade date) generally established by regulations or conventions in the marketplace or exchange in which the transaction is being executed.

Synthetic Instrument Accounting

Synthetic instrument accounting views two or more distinct financial instruments (generally a cash instrument and a derivative instrument) as having synthetically created another single cash instrument. The objective of synthetic instrument accounting is to present those multiple instruments in the financial statements as if they were the single instrument that the entity sought to create. Paragraph 815-10-25-4 states that synthetic instrument accounting is prohibited.

Take-or-Pay Contract

Under a take-or-pay contract, an entity agrees to pay a specified price for a specified quantity of a product whether or not it takes delivery.

Trading

An activity involving securities sold in the near term and held for only a short period of time. The term trading contemplates a holding period generally measured in hours and days rather than months or years. See paragraph 948-310-40-1 for clarification of the term trading for a mortgage banking entity.

Trading Purposes

The determination of what constitutes trading purposes is based on the intent of the issuer or holder and shall be consistent with the definition of trading in paragraph 320-10-25-1(a).

Transaction

An external event involving transfer of something of value (future economic benefit) between two (or more) entities. (See FASB Concepts Statement No. 6, Elements of Financial Statements.)

Underlying

A specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, or other variable (including the occurrence or nonoccurrence of a specified event such as a scheduled payment under a contract). An underlying may be a price or rate of an asset or liability but is not the asset or liability itself. An underlying is a variable that, along with either a notional amount or a payment provision, determines the settlement of a derivative instrument.

Variable Interest Entity

A **legal entity** subject to consolidation according to the provisions of the Variable Interest Entities Subsections of Subtopic 810-10.

END OF DOCUMENT -

815-10-25 Recognition

General Note: The Recognition Section provides guidance on the required criteria, timing, and location (within the financial statements) for recording a particular item in the financial statements. Disclosure is not recognition.

General Note for Fair Value Option: Some of the items subject to the guidance in this Subtopic may qualify for application of the Fair Value Option Subsections of Subtopic 825-10. Those Subsections (see paragraph 825-10-05-5) address circumstances in which entities may choose, at specified election dates, to measure eligible items at fair value (the fair value option). See Section 825-10-15 for guidance on the scope of the Fair Value Option Subsections of the Financial Instruments Topic.

General

25-1 An entity shall recognize all of its **derivative instruments** in its statement of financial position as either assets or liabilities depending on the rights or obligations under the contracts.

25-2 If a contract that did not meet the definition of a derivative instrument at acquisition by the entity meets the definition of a derivative instrument after acquisition by the entity, the contract shall be recognized immediately as either an asset or liability with the offsetting entry recorded in earnings.

25-3 If a contract ceases to be a derivative instrument pursuant to this Subtopic and an asset or liability had been recorded for that contract, the carrying amount of that contract becomes its cost basis and the entity shall apply other generally accepted accounting principles (GAAP) that are applicable to that contract prospectively from the date that the contract ceased to be a derivative instrument. If the derivative instrument had been designated in a cash flow hedging relationship and a gain or loss is recorded in accumulated other comprehensive income, then the guidance in Sections 815-30-35 and 815-30-40 shall be applied accordingly.

25-4 **Synthetic instrument accounting** is prohibited.

25-5 The remainder of this Section addresses the following matters:

a. Unit of accounting for recognition purposes

b. [Subparagraph Not Used]

c. Forward commitment dollar rolls

d. Derivative financial instruments subject to a registration payment arrangement.

> Unit of Accounting for Recognition Purposes

25-5A This Section addresses the following unit of accounting questions with respect to recognition:

a. Viewing two freestanding derivative instruments as a unit. Whether two or more contracts that are derivative instruments within the scope application of this Subtopic should be viewed as a unit for recognition and other purposes—including for hedge accounting purposes—is addressed beginning in paragraph 815-10-25-6.

b. Viewing combinations of options as separate options or as a single forward contract. Whether combinations of options that individually are within the scope application of this Subtopic or Subtopic 815-15 should be viewed as separate options or as a single forward is addressed beginning in paragraph 815-10-25-7.

25-5B Paragraph 815-10-15-4A explains that Section 815-10-15 addresses the following unit of accounting questions on scope:

a. Viewing a contract as freestanding or embedded. Whether a feature should be viewed as freestanding or embedded in determining the scope application of this Subtopic and Subtopic 815-15 is addressed beginning in paragraph 815-10-15-5.

b. Viewing two or more contracts as a unit in applying the scope of this Subtopic. Whether two or more legally separate transactions should be viewed as a unit in determining the scope application of this Subtopic is addressed beginning in paragraph 815-10-15-8.

>> Viewing Two Freestanding Derivative Instruments as a Unit

25-6 This Subtopic generally does not provide for the combination of separate financial instruments to be evaluated as a unit, unless, pursuant to paragraph 815-20-25-45, two or more derivative instruments in combination are jointly designated as a hedging instrument. If separate derivative instruments have all of the following characteristics, judgment shall be applied to determine whether the separate derivative instruments have been entered into in lieu of a structured **transaction** in an effort to circumvent GAAP:

a. They are entered into contemporaneously and in contemplation of one another. (See Example 18 [paragraph 815-10-55-171] for an illustration.)

b. They are entered into with the same counterparty.

c. They relate to the same risk.

d. There is no substantive business purpose for structuring the transactions separately.

If such a determination is made, the derivative instruments shall be viewed as a unit.

>> Viewing Combinations of Options as Separate Options or as a Single Forward Contract

25-7 This guidance addresses a combination of two options—one that is a purchased call (put) option and another that is a written put (call) option—having all of the following characteristics:

a. They have the same strike price, **notional amount**, and exercise date.

b. They have the same **underlying**.

c. Neither is required to be exercised.

25-8 The guidance addresses such options in two contexts:

a. Combinations of two freestanding options or a freestanding and embedded option

b. Combinations of two embedded options.

25-9 Derivative instruments that are transferable are, by their nature, separate and distinct contracts. Accordingly, a separate **freestanding** purchased call (put) option and written put (call) option with all of the characteristics in paragraph 815-10-25-7 convey rights and obligations that are distinct whether involving the same or different counterparties and do not warrant bundling as a single forward contract for accounting purposes under this Subtopic by any party to the contracts. (The separate purchased option and written option can be viewed in combination and jointly designated as the hedging instrument pursuant to paragraph 815-20-25-45.)

>>> Combinations of Two Freestanding Options or a Freestanding and Embedded Option

25-9A A combination of a freestanding purchased call (put) option and a freestanding or embedded (nontransferable) written put (call) option shall be considered for accounting purposes as separate option contracts, rather than a single forward contract, by both parties to the contracts if all of the following conditions are met:

a. The options have the same terms.

b. The options have the same underlying.

c. The options are entered into contemporaneously with the same counterparty at inception.

25-9B Both a combination of a freestanding purchased call (put) option and a freestanding or embedded (nontransferable) written put (call) option and a combination of a freestanding written call (put) option and an embedded (nontransferable) purchased put (call) option shall be considered for accounting purposes as separate option contracts, rather than a single forward contract, by both parties to the contracts if all of the following conditions are met:

a. The options have the same terms.

b. The options have the same underlying.

c. The options are entered into contemporaneously with different counterparties at inception.

>>> Combinations of Two Embedded Options

25-10 A combination of an embedded (nontransferable) purchased call (put) option and an embedded (nontransferable) written put (call) option in a single **hybrid instrument** with all of the characteristics in paragraph 815-10-25-7and that are entered into contemporaneously with the same counterparty shall be considered as a single forward contract for purposes of applying the provisions of this Subtopic. The notion of the same counterparty encompasses contracts entered into directly with a single counterparty and contracts entered into with a single party that are structured through an intermediary. (Note that a share of stock being puttable by the holder and callable by the issuer under the same terms does not render the stock mandatorily redeemable under the provisions of Topic 480.) Topic 480 requires that **mandatorily redeemable financial instruments** be classified as liabilities.

25-11 The embedded options are in substance an embedded forward contract because they meet both of the following conditions:

a. They convey rights (to the holder) and obligations (to the writer) that are equivalent from an economic and risk perspective to an embedded forward contract.

b. They cannot be separated from the hybrid instrument in which they are embedded.

25-12 Even though neither party is required to exercise its purchased option, the result of the overall structure is a hybrid instrument that will likely be redeemed at a point earlier than its stated maturity. That result is expected by both the hybrid instrument’s issuer and investor regardless of whether the embedded feature that triggers the redemption is in the form of two separate options or a single forward contract.

25-13 However, if either party is required to exercise its purchased option before the stated maturity date of the hybrid instrument, the hybrid instrument shall not be viewed for accounting purposes as containing one or more **embedded derivatives**. In substance, the debtor (issuer) and creditor (investor) have agreed to terms that accelerate the stated maturity of the hybrid instrument and the exercise date of the option is essentially the hybrid instrument's actual maturity date. As a result, it is inappropriate to characterize the hybrid instrument as containing either of the following:

a. Two embedded option contracts that are exercisable only on the actual maturity date

b. An embedded forward contract that is a combination of an embedded purchased call (put) and a written put (call) with the same terms.

25-14 [Paragraph Not Used]

> Forward Commitment Dollar Rolls

25-15 Forward commitment dollar rolls that are not otherwise subject to this Subtopic's provisions shall be recognized as either assets or liabilities depending on the rights or obligations under the contracts.

> Derivative Financial Instruments Subject to a Registration Payment Arrangement

25-16 Paragraphs 825-20-25-2 and 825-20-30-2 require that a **financial instrument** subject to a registration payment arrangement be recognized and measured in accordance with other applicable GAAP (for example, this Subtopic) without regard to the contingent obligation to transfer consideration pursuant to the registration payment arrangement. That is, those paragraphs require that an entity recognize and measure a registration payment arrangement as a separate unit of account from the financial instrument(s) subject to that arrangement.

Certain Contracts on Debt and Equity Securities

25-17 Forward contracts and purchased options within the scope of this Subsection (see the Certain Contracts on Debt and Equity Securities Subsection of Section 815–10–15) shall, at inception, be designated as held to maturity, available for sale, or **trading** in a manner consistent with the accounting prescribed by Topic 320 for that category of securities. Such forward and option contracts are not eligible to be hedging instruments.

END OF DOCUMENT -

815-10-30 Initial Measurement

Click here to link to 815-10-S30.

General Note: The Initial Measurement Section provides guidance on the criteria and amounts used to measure a particular item at the date of initial recognition.

General

30-1 All derivative instruments shall be measured initially at **fair value**.

30-2 [Paragraph Not Used]

> Contract that Is a Derivative Instrument After Acquisition

30-3 A contract recognized under paragraph 815-10-25-2 because it meets the definition of a derivative instrument after acquisition by an entity shall be measured initially at its then-current fair value.

> Forward Commitment Dollar Rolls

30-4 A **forward commitment dollar roll** that is not subject otherwise to this Subtopic's provisions shall be measured initially at fair value.

Certain Contracts on Debt and Equity Securities

30-5 Forward contracts and purchased options within the scope of this Subsection designated as held to maturity, available for sale, or **trading** shall be measured initially in a manner consistent with the accounting prescribed by Topic 320 for that category of securities.

END OF DOCUMENT -

815-10-35 Subsequent Measurement

Click here to link to 815-10-S35.

General Note: The Subsequent Measurement Section provides guidance on an entity's subsequent measurement and subsequent recognition of an item. Situations that may result in subsequent changes to carrying amount include impairment, fair value adjustments, depreciation and amortization, and so forth.

General

35-1 All derivative instruments shall be measured subsequently at **fair value**.

35-2 The accounting for changes in the fair value (that is, gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, if so, on the reason for holding it. Subtopic 815-20 discusses the accounting for the gain or loss on a derivative instrument that is designated as a hedging instrument. Except as noted in the following paragraph, the gain or loss on a derivative instrument not designated as a hedging instrument shall be recognized currently in earnings.

35-3 An entity that does not report earnings as a separate caption in a statement of financial performance (for example, a not-for-profit entity [NFP] or a defined benefit pension plan) shall recognize the gain or loss on a nonhedging derivative instrument as a change in net assets in the period of change.

> Forward Commitment Dollar Rolls

35-4 A **forward commitment dollar roll** that is not subject otherwise to this Subtopic's provisions shall be measured subsequently at fair value.

Certain Contracts on Debt and Equity Securities

35-5 Forward contracts and purchased options within the scope of this Subsection shall be measured subsequently according to their initial classification as follows:

a. Held to maturity:

1. Changes in the **fair value** of the forward contract or purchased option shall not be recognized unless a decline in the fair value of the underlying securities is other than temporary, in which case a loss shall be recognized in earnings.

2. Debt securities purchased under a forward contract shall be recorded at the forward contract price at the settlement date.

3. Debt securities purchased by exercising an option shall be recorded at the option strike price plus any remaining carrying amount for the option premium at the exercise date.

4. If an option expires worthless and the same security is purchased in the market, the security shall be recorded at its market price plus any remaining carrying amount for the option premium.

5. If an entity does not take delivery under the forward contract or purchase the same security in the market if the option expires worthless, the entity's intent to hold other debt securities to maturity will be called into question.

b. Available for sale:

1. Changes in the fair value of the forward contract or purchased option shall be recognized as part of the separate component of shareholders' equity under Topic 320 as they occur unless a decline in the fair value of the underlying securities is other than temporary.

2. Securities purchased under a forward contract shall be recorded at their fair values at the settlement date.

3. Securities purchased by exercising an option shall be recorded at the option strike price plus the fair value of the option at the exercise date.

4. If the option expires worthless and the same security is purchased in the market, the security shall be recorded at its market price plus any remaining carrying amount for the option premium.

c. **Trading**:

1. Changes in the fair value of the forward contract or purchased option shall be recognized in earnings as they occur.

2. Securities purchased under a forward contract or by exercising an option shall be recorded at their fair values at the settlement date.

END OF DOCUMENT -

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815-10-40 Derecognition

General Note: The Derecognition Section provides guidance on determining whether and when an entity should remove an item from the financial statements. For example, the entity would derecognize an asset because it no longer has rights to the asset or it would derecognize a liability because it no longer has any obligation.

General

40-1 Extinguishments of **derivative instruments** that are liabilities are addressed by paragraph 405-20-40-1. Transfers of derivative instruments that are financial assets are addressed by Section 860-10-40.

40-2 Transfers of assets that are derivative instruments and subject to the requirements of this Subtopic but that are not financial assets shall be accounted for by analogy to Subtopic 860-10. This guidance is limited to transfers of nonfinancial assets that are derivative instruments that are or will be subject to the requirements of this Subtopic. An example would be a transfer to another entity of a derivative instrument, such as a forward contract to purchase gold that requires physical settlement and is or will be subject to the requirements of this Subtopic.

40-3 If a derivative instrument has the potential to be both a nonfinancial asset and a nonfinancial liability (such as a commodity forward contract that is a nonfinancial derivative instrument), then, as described in paragraph 860-10-40-40, the criteria of both Sections 405-20-40 and 860-10-40 (extinguishments of liabilities) shall be met to qualify for derecognition.

END OF DOCUMENT -

815-10-45 Other Presentation Matters

Click here to link to 815-10-S45.

General Note: The Other Presentation Matters Section provides guidance on other presentation matters not addressed in the Recognition, Initial Measurement, Subsequent Measurement, and Derecognition Sections. Other presentation matters may include items such as current or long-term balance sheet classification, cash flow presentation, earnings per share matters, and so forth. The FASB Codification also contains Presentation Topics, which provide guidance for general presentation and display items. See those Topics for general guidance.

General

> Balance Sheet—Netting

45-1 Subtopic 210-20 establishes the criteria for offsetting amounts in the balance sheet.

45-2 None of the provisions in this Subtopic support netting a hedging derivative's asset (or liability) position against the hedged liability (or asset) position in the balance sheet.

45-3 The following guidance addresses offsetting certain amounts related to derivative instruments. For purposes of this guidance, derivative instruments include those that meet the definition of a **derivative instrument** but are not included in the scope of this Subtopic.

45-4 Unless the conditions in paragraph 210-20-45-1 are met, the **fair value** of derivative instruments in a loss position shall not be offset against the fair value of derivative instruments in a gain position. Similarly, amounts recognized as accrued receivables shall not be offset against amounts recognized as accrued payables unless a right of setoff exists.

45-5 Without regard to the condition in paragraph 210-20-45-1(c), a reporting entity may offset fair value amounts recognized for derivative instruments and fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) arising from derivative instrument(s) recognized at fair value executed with the same counterparty under a master netting arrangement. Solely as it relates to the right to reclaim cash collateral or the obligation to return cash collateral, fair value amounts include amounts that approximate fair value. The preceding sentence shall not be analogized to for any other asset or liability. The fair value recognized for some contracts may include an accrual component for the periodic unconditional receivables and payables that result from the contract; the accrual component included therein may also be offset for contracts executed with the same counterparty under a master netting arrangement. A master netting arrangement exists if the reporting entity has multiple contracts, whether for the same type of derivative instrument or for different types of derivative instruments, with a single counterparty that are subject to a contractual agreement that provides for the net settlement of all contracts through a single payment in a single currency in the event of default on or termination of any one contract.

45-6 A reporting entity shall make an accounting policy decision to offset fair value amounts pursuant to the preceding paragraph. The reporting entity's choice to offset or not must be applied consistently. A reporting entity shall not offset fair value amounts recognized for derivative instruments without offsetting fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral. A reporting entity that makes an accounting policy decision to offset fair value amounts recognized for derivative instruments pursuant to the preceding paragraph but determines that the amount recognized for the right to reclaim cash collateral or the obligation to return cash collateral is not a fair value amount shall continue to offset the derivative instruments.

45-7 A reporting entity that has made an accounting policy decision to offset fair value amounts is not permitted to offset amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral against net derivative instrument positions if those amounts either:

a. Were not fair value amounts

b. Arose from instruments in a master netting arrangement that are not eligible to be offset.

> Income Statement Classification

45-8 Except for the guidance in the following paragraph and paragraph 815-10-45-10, this Subtopic does not provide guidance about the classification in the income statement of a derivative instrument's gains or losses, including the adjustment to fair value for a contract that newly meets the definition of a derivative instrument.

>> Derivative Instruments Held for Trading Purposes

45-9 Gains and losses (realized and unrealized) on all derivative instruments within the scope of this Subtopic shall be shown net when recognized in the income statement, whether or not settled physically, if the derivative instruments are held for **trading purposes**. On an ongoing basis, reclassifications into and out of trading shall be rare.

>> Options Granted to Employees

45-10 Subsequent changes in the fair value of an option that was granted to an employee and is subject to this Subtopic shall be included in the determination of net income. (See paragraphs 815-10-55-49 through 55-55 for discussion of such an option.) Changes in fair value of the option award before vesting shall be characterized as compensation expense in the employer's income statement. Changes in fair value of the option award after vesting may be reflected elsewhere in the employer's income statement.

> Cash Flow Statement Classification

>> Derivative Instrument with a Financing Element

45-11 An instrument accounted for as a derivative instrument under this Subtopic that, at its inception, includes off-market terms, or requires an up-front cash payment, or both often contains a financing element. Identifying a financing element within a derivative instrument is a matter of judgment that depends on facts and circumstances.

45-12 If an other-than-insignificant financing element is present at inception—other than a financing element inherently included in an at-the-market derivative instrument with no prepayments (that is, the forward points in an at-the-money forward contract)—then the borrower shall report all cash inflows and outflows associated with that derivative instrument in a manner consistent with financing activities as described in paragraphs 230-10-45-14 through 45-15.

45-13 An at-the-money plain-vanilla interest rate swap that involves no payments between the parties at inception would not be considered as having a financing element present at inception even though, due to the implicit forward rates derived from the yield curve, the parties to the contract have an expectation that the comparison of the fixed and variable legs will result in payments being made by one party in the earlier periods and being made by the counterparty in the later periods of the swap’s term.

45-14 If a derivative instrument is an at-the-money or out-of-the-money option contract or contains an at-the-money or out-of-the-money option contract, a payment made at inception to the writer of the option for the option’s time value by the counterparty shall not be viewed as evidence that the derivative instrument contains a financing element.

45-15 In contrast, if the contractual terms of a derivative instrument have been structured to ensure that net payments will be made by one party in the earlier periods and subsequently returned by the counterparty in the later periods of the derivative instrument's term, that derivative instrument shall be viewed as containing a financing element even if the derivative instrument has a fair value of zero at inception.

END OF DOCUMENT -

815-10-50 Disclosure

Click here to link to 815-10-S50.

General Note: The Disclosure Section provides guidance regarding the disclosure in the notes to financial statements. In some cases, disclosure may relate to disclosure on the face of the financial statements.

General

50-1 An entity with **derivative instruments**(or nonderivative instruments that are designated and qualify as hedging instruments pursuant to paragraphs 815-20-25-58 and 815-20-25-66) shall disclose information to enable users of the financial statements to understand all of the following:

a. How and why an entity uses derivative instruments (or such nonderivative instruments)

b. How derivative instruments (or such nonderivative instruments) and related hedged items are accounted for under Topic 815

c. How derivative instruments (or such nonderivative instruments) and related hedged items affect all of the following:

1. An entity's financial position

2. An entity's financial performance

3. An entity's cash flows.

50-1A An entity that holds or issues derivative instruments (or nonderivative instruments that are designated and qualify as hedging instruments pursuant to paragraphs 815-20-25-58 and 815-20-25-66) shall disclose all of the following for every annual and interim reporting period for which a statement of financial position and statement of financial performance are presented:

a. Its objectives for holding or issuing those instruments

b. The context needed to understand those objectives

c. Its strategies for achieving those objectives

d. Information that would enable users of its financial statements to understand the volume of its activity in those instruments.

50-1B For item (d) in the preceding paragraph, an entity shall select the format and the specifics of disclosures relating to its volume of such activity that are most relevant and practicable for its individual facts and circumstances. Information about the instruments in items (a) through (c) in the preceding paragraph shall be disclosed in the context of each instrument's primary underlying risk exposure (for example, interest rate, credit, foreign exchange rate, interest rate and foreign exchange rate, or overall price). Further, those instruments shall be distinguished between those used for risk management purposes and those used for other purposes. Derivative instruments (and nonderivative instruments that are designated and qualify as hedging instruments pursuant to paragraphs 815-20-25-58 and 815-20-25-66) used for risk management purposes include those designated as hedging instruments under Subtopic 815-20 as well as those used as economic hedges and for other purposes related to the entity's risk exposures.

50-2 The instruments addressed by items (a) through (c) in the preceding paragraph shall be distinguished between each of the following:

a. Derivative instruments (and nonderivative instruments as noted in items (1)(i) and (1)(iii) of this paragraph) used for risk management purposes, distinguished between each of the following:

1. Derivative instruments (and nonderivative instruments) designated as hedging instruments, distinguished between each of the following:

i. Derivative instruments (and nonderivative instruments) designated as fair value hedging instruments

ii. Derivative instruments designated as cash flow hedging instruments

iii. Derivative instruments (and nonderivative instruments) designated as hedging instruments for hedges of the foreign currency exposure of a net investment in a foreign operation.

2. Derivative instruments used as economic hedges and for other purposes related to the entity's risk exposures.

b. Derivative instruments used for other purposes.

50-3 [Paragraph Not Used]

50-4 For derivative instruments not designated as hedging instruments under Subtopic 815-20, the description shall indicate the purpose of the derivative activity.

> Overall Quantitative Disclosures

50-4A An entity that holds or issues derivative instruments (and nonderivative instruments that are designated and qualify as hedging instruments pursuant to paragraphs 815-20-25-58 and 815-20-25-66) shall disclose all of the following for every annual and interim reporting period for which a statement of financial position and statement of financial performance are presented:

a. The location and fair value amounts of derivative instruments (and such nonderivative instruments) reported in the statement of financial position

b. The location and amount of the gains and losses on derivative instruments (and such nonderivative instruments) and related hedged items reported in any of the following:

1. The statement of financial performance

2. The statement of financial position (for example, gains and losses initially recognized in other comprehensive income).

50-4B The disclosures required by item (a) in the preceding paragraph shall comply with all of the following:

a. The fair value of derivative instruments (and nonderivative instruments that are designated and qualify as hedging instruments pursuant to paragraphs 815-20-25-58 and 815-20-25-66) shall be presented on a gross basis, even when those instruments are subject to master netting arrangements and qualify for net presentation in the statement of financial position in accordance with Topic 210-20.

b. Cash collateral payables and receivables associated with those instruments shall not be added to or netted against the fair value amounts.

c. Fair value amounts shall be presented as separate asset and liability values segregated between each of the following:

1. Those instruments designated and qualifying as hedging instruments under Subtopic 815-20, presented separately by type of contract (for example, interest rate contracts, foreign exchange contracts, equity contracts, commodity contracts, credit contracts, other contracts, and so forth)

2. Those instruments not designated as hedging instruments, presented separately by type of contract.

d. The disclosure shall identify the line item(s) in the statement of financial position in which the fair value amounts for these categories of derivative instruments are included.

Amounts required to be reported for nonderivative instruments that are designated and qualify as hedging instruments pursuant to paragraphs 815-20-25-58 and 815-20-25-66 shall be the carrying value of the nonderivative hedging instrument, which includes the adjustment for the foreign currency transaction gain or loss on that instrument.

50-4C The gains and losses disclosed pursuant to paragraph 815-10-50-4A(b) shall be presented separately for all of the following by type of contract (as discussed in the following paragraph):

a. Derivative instruments designated and qualifying as hedging instruments in fair value hedges and related hedged items designated and qualifying in fair value hedges.

b. The effective portion of gains and losses on derivative instruments (and nonderivative instruments) designated and qualifying in cash flow hedges and net investment hedges that was recognized in other comprehensive income during the current period.

c. The effective portion of gains and losses on derivative instruments (and nonderivative instruments) designated and qualifying in cash flow hedges and net investment hedges recorded in accumulated other comprehensive income during the term of the hedging relationship and reclassified into earnings during the current period.

d. The portion of gains and losses on derivative instruments (and nonderivative instruments) designated and qualifying in cash flow hedges and net investment hedges representing any of the following:

1. The amount of the hedges' ineffectiveness

2. The amount, if any, excluded from the assessment of hedge effectiveness.

e. Derivative instruments not designated or qualifying as hedging instruments under Subtopic 815-20 (see paragraph 815-10-50-4F).

Example 21 (see paragraph 815-10-55-182) illustrates the disclosure of fair value amounts of derivative instruments (and such nonderivative instruments) reported in the statement of financial position.

50-4D Disclosures pursuant to the preceding paragraph shall both:

a. Be presented separately by type of contract, for example:

1. Interest rate contracts

2. Foreign exchange contracts

3. Equity contracts

4. Commodity contracts

5. Credit contracts

6. Other contracts.

b. Identify the line item(s) in the statement of financial performance in which the gains and losses for these categories of derivative instruments (and nonderivative instruments that are designated and qualify as hedging instruments pursuant to paragraphs 815-20-25-58 and 815-20-25-66) are included.

50-4E The quantitative disclosures required by paragraph 815-10-50-4A(a) and 50-4A(b) shall be presented in tabular format except for the information required for hedged items by subparagraph 815-10-50-4C(a). Information about hedged items can be presented in a tabular or nontabular format. Example 20 (see paragraph 815-10-55-181) illustrates a nontabular presentation. Example 21 (see paragraph 815-10-55-182) illustrates the disclosure of fair value amounts of derivative instruments (and such nonderivative instruments) reported in the statement of financial performance. If a proportion of a derivative instrument is designated and qualifying as a hedging instrument and a proportion is not designated and qualifying as a hedging instrument, an entity shall allocate the related amounts to the appropriate categories within the disclosure table.

>> Trading Derivatives

50-4F For derivative instruments that are not designated or qualifying as hedging instruments under Subtopic 815-20, if an entity's policy is to include those derivative instruments in its trading activities (for example, as part of its trading portfolio that includes both derivative instruments and nonderivative or cash instruments), the entity can elect to not separately disclose gains and losses as required by paragraph 815-10-50-4C(e) provided that the entity discloses all of the following:

a. The gains and losses on its trading activities (including both derivative instruments and nonderivative instruments) recognized in the statement of financial performance, separately by major types of items, for example:

1. Fixed income/interest rates

2. Foreign exchange

3. Equity

4. Commodity

5. Credit.

b. The line items in the statement of financial performance in which trading activities gains and losses are included

c. A description of the nature of its trading activities and related risks, and how the entity manages those risks.

If the disclosure option in this paragraph is elected, the entity shall include a footnote in the required tables referencing the use of alternative disclosures for trading activities. Example 21 (see paragraph 815-10-55-182) illustrates a footnote referencing the use of alternative disclosures for trading activities. Example 22 (see paragraph 815-10-55-184) illustrates the disclosure of the information required in items (a) and (b).

>> Application by Not-for-Profit Entities

50-4G For purposes of the disclosure requirements beginning in paragraph 815-10-50-4A, not-for-profit entities within the scope of Topic 954 should present a similarly formatted table. Those entities shall refer to amounts within their performance indicator, instead of in income, and amounts outside their performance indicator, instead of in other comprehensive income. Not-for-profit entities not within the scope of Topic 954 shall disclose the gain or loss recognized in changes in net assets using a similar format. All not-for-profit entities also would indicate which class or classes of net assets (unrestricted, temporarily restricted, or permanently restricted) are affected.

> Credit-Risk-Related Contingent Features

50-4H An entity that holds or issues derivative instruments (or nonderivative instruments that are designated and qualify as hedging instruments pursuant to paragraphs 815-20-25-58 and 815-20-25-66) shall disclose all of the following for every annual and interim reporting period for which a statement of financial position is presented:

a. The existence and nature of credit-risk-related contingent features

b. The circumstances in which credit-risk-related contingent features could be triggered in derivative instruments (or such nonderivative instruments) that are in a net liability position at the end of the reporting period

c. The aggregate fair value amounts of derivative instruments (or such nonderivative instruments) that contain credit-risk-related contingent features that are in a net liability position at the end of the reporting period

d. The aggregate fair value of assets that are already posted as collateral at the end of the reporting period

e. The aggregate fair value of additional assets that would be required to be posted as collateral if the credit-risk-related contingent features were triggered at the end of the reporting period

f. The aggregate fair value of assets needed to settle the instrument immediately if the credit-risk-related contingent features were triggered at the end of the reporting period.

Amounts required to be reported for nonderivative instruments that are designated and qualify as hedging instruments pursuant to paragraphs 815-20-25-58 and 815-20-25-66 shall be the carrying value of the nonderivative hedging instrument, which includes the adjustment for the foreign currency transaction gain or loss on that instrument. Example 23 (see paragraph 815-10-55-185) illustrates a credit-risk-related contingent feature disclosure.

> Information in More than One Footnote

50-4I If information on derivative instruments (or nonderivative instruments that are designated and qualify as hedging instruments pursuant to paragraphs 815-20-25-58 and 815-20-25-66) is disclosed in more than a single footnote, an entity shall cross-reference from the derivative instruments (or nonderivative instruments) footnote to other footnotes in which derivative-instrument-related information is disclosed.

> Credit Derivatives

50-4J For purposes of the following paragraph, the term seller (sometimes referred to as a writer of the contract) refers to the party that assumes credit risk, which could be either:

a. A guarantor in a guarantee type contract

b. Any party that provides the credit protection in an option type contract, a credit default swap, or any other credit derivative contract.

50-4K A seller of **credit derivatives** shall disclose information about its credit derivatives and hybrid instruments (for example, a credit-linked note) that have **embedded credit derivatives**to enable users of financial statements to assess their potential effect on its financial position, financial performance, and cash flows. Specifically, for each statement of financial position presented, the seller of a credit derivative shall disclose all of the following information for each credit derivative, or each group of similar credit derivatives, even if the likelihood of the seller's having to make any payments under the credit derivative is remote:

a. The nature of the credit derivative, including all of the following:

1. The approximate term of the credit derivative

2. The reason(s) for entering into the credit derivative

3. The events or circumstances that would require the seller to perform under the credit derivative

4. The current status (that is, as of the date of the statement of financial position) of the payment/performance risk of the credit derivative, which could be based on either recently issued external credit ratings or current internal groupings used by the seller to manage its risk

5. If the entity uses internal groupings for purposes of item (a)(4), how those groupings are determined and used for managing risk.

b. All of the following information about the maximum potential amount of future payments under the credit derivative:

1. The maximum potential amount of future payments (undiscounted) that the seller could be required to make under the credit derivative, which shall not be reduced by the effect of any amounts that may possibly be recovered under recourse or collateralization provisions in the credit derivative (which are addressed in items (c) through (f))

2. The fact that the terms of the credit derivative provide for no limitation to the maximum potential future payments under the contract, if applicable

3. If the seller is unable to develop an estimate of the maximum potential amount of future payments under the credit derivative, the reasons why it cannot estimate the maximum potential amount.

c. The fair value of the credit derivative as of the date of the statement of financial position

d. The nature of any recourse provisions that would enable the seller to recover from third parties any of the amounts paid under the credit derivative

e. The nature of any assets held either as collateral or by third parties that, upon the occurrence of any specified triggering event or condition under the credit derivative, the seller can obtain and liquidate to recover all or a portion of the amounts paid under the credit derivative

f. If estimable, the approximate extent to which the proceeds from liquidation of assets held either as collateral or by third parties would be expected to cover the maximum potential amount of future payments under the credit derivative. In its estimate of potential recoveries, the seller of credit protection shall consider the effect of any purchased credit protection with identical underlying(s).

However, the disclosures required by this paragraph do not apply to an embedded derivative feature related to the transfer of credit risk that is only in the form of subordination of one financial instrument to another, as described in paragraph 815-15-15-9.

50-4L One way to present the information required by the preceding paragraph for groups of similar credit derivatives would be first to segregate the disclosures by major types of contracts (for example, single-name credit default swaps, traded indexes, other portfolio products, and swaptions) and then, for each major type, provide additional subgroups for major types of referenced (or underlying) asset classes (for example, corporate debt, sovereign debt, and structured finance). With respect to hybrid instruments that have embedded credit derivatives, the seller of the embedded credit derivative shall disclose the information required by the preceding paragraph for the entire hybrid instrument, not just the embedded credit derivatives.

> Qualitative Disclosures

50-5 Qualitative disclosures about an entity's objectives and strategies for using derivative instruments (and nonderivative instruments that are designated and qualify as hedging instruments pursuant to paragraphs 815-20-25-58 and 815-20-25-66) may be more meaningful if such objectives and strategies are described in the context of an entity's overall risk exposures relating to all of the following:

a. Interest rate risk

b. Foreign exchange risk

c. Commodity price risk

d. Credit risk

e. Equity price risk.

Those additional qualitative disclosures, if made, should include a discussion of those exposures even though the entity does not manage some of those exposures by using derivative instruments. An entity is encouraged, but not required, to provide such additional qualitative disclosures about those risks and how they are managed.

> Unconditional Purchase Obligations

50-6 If an unconditional purchase obligation is subject to the requirements of both Topic 440 and this Subtopic, the entity shall comply with both sets of disclosure requirements, including paragraph 440-10-50-4. For example, a power purchase agreement entered into in connection with the financing of a generation facility subject to the disclosure requirements of Topic 440 may also meet the definition of derivative instrument in paragraphs 815-10-15-83 through 15-139 and is accounted for as a derivative instrument at **fair value** in the balance sheet.

> Balance Sheet Offsetting

50-7 A reporting entity's accounting policy to offset or not offset in accordance with paragraph 815-10-45-6 shall be disclosed.

50-8 A reporting entity shall disclose the amounts recognized at the end of each reporting period for the right to reclaim cash collateral or the obligation to return cash collateral as follows:

a. A reporting entity that has made an accounting policy decision to offset fair value amounts shall separately disclose amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral that have been offset against net derivative positions in accordance with paragraph 815-10-45-5.

b. A reporting entity shall separately disclose amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral under master netting arrangements that have not been offset against net derivative instrument positions.

c. A reporting entity that has made an accounting policy decision to not offset fair value amounts shall separately disclose the amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral under master netting arrangements.

> Contingently Convertible Securities

50-8A For guidance on disclosures of information about derivative instrument transactions entered into in connection with the issuance of the contingently convertible securities, see paragraph 505-10-50-10.

Certain Contracts on Debt and Equity Securities

50-9 An entity shall disclose its accounting policy for the premium paid (time value) to acquire an option that is classified as held to maturity or available for sale.

END OF DOCUMENT -

Checkpoint Contents
Accounting, Audit & Corporate Finance Library
Standards and Regulations
FASB Codification
Codification
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815 Derivatives and Hedging
815-10 Overall
815-10-55 Implementation Guidance and Illustrations

815-10-55 Implementation Guidance and Illustrations

Click here to link to 815-10-S55.

General Note: The Implementation Guidance and Illustrations Section contains implementation guidance and illustrations that are an integral part of the Subtopic. The implementation guidance and illustrations do not address all possible variations. Users must consider carefully the actual facts and circumstances in relation to the requirements of the Subtopic.

General

> Implementation Guidance

55-1 This Section provides guidance on the following implementation matters:

a. Determining whether a contract is within the scope of this Subtopic

b. Unit of accounting—a transferable option is considered freestanding, not embedded

c. Definition of derivative instrument

d. Instruments not within scope

e. Scope application to certain contracts

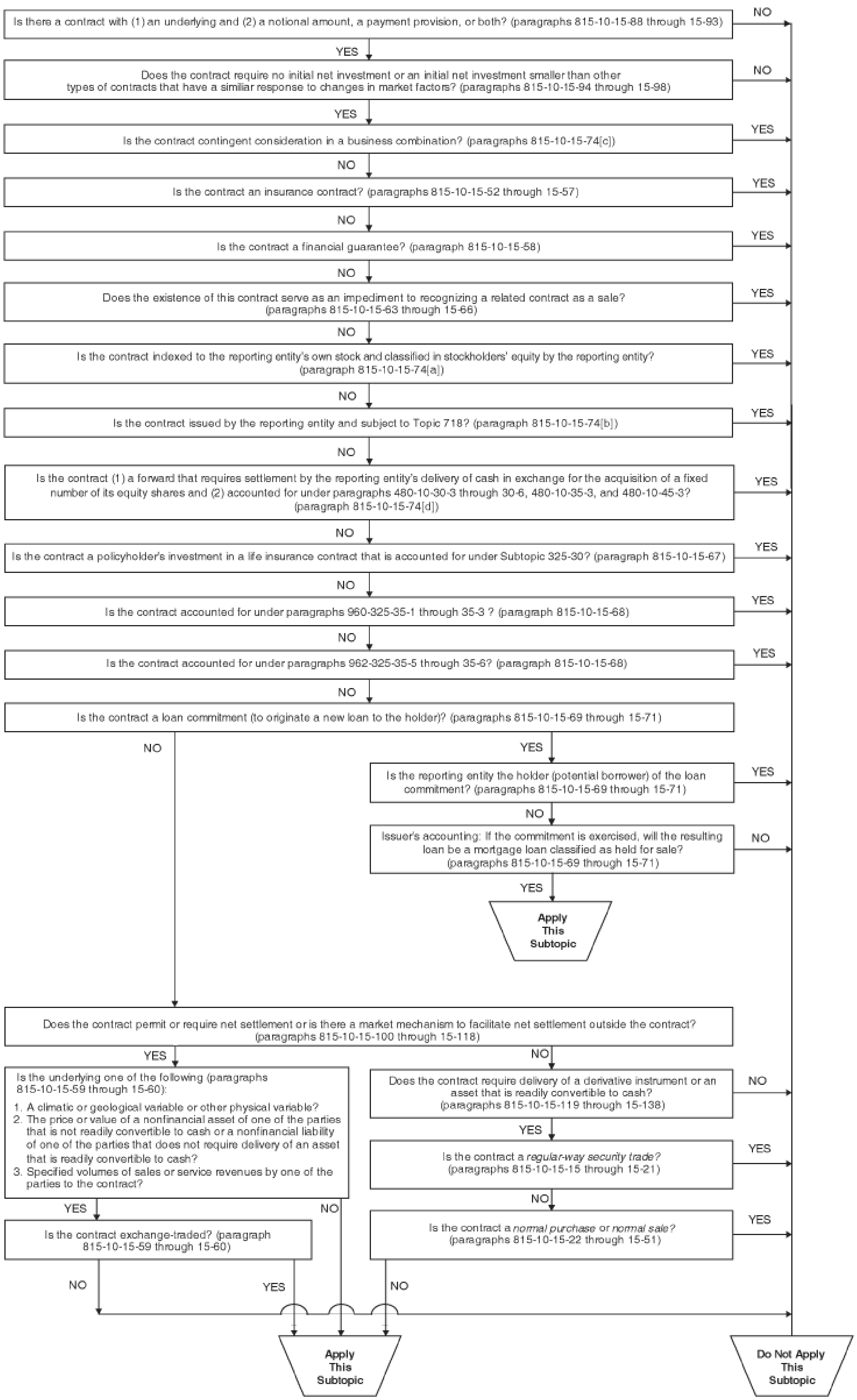
f. Other presentation matters

g. Synthetic guaranteed investment contracts.

h. [Subparagraph Not Used]

>> Determining Whether a Contract Is within the Scope of this Subtopic

55-2 The following diagram depicts the process for determining whether a **freestanding contract** is within the scope of this Subtopic. The diagram is a visual supplement to the written standards Sections. It shall not be interpreted to alter any requirements of this Subtopic nor shall it be considered a substitute for the requirements. The relevant paragraphs are identified in the parenthetical note after the question.


Is there a contract with (1) an underlying and (2) a notional amount, a payment provision, or both? (paragraphs 815-10-15-88 through 15-93)
Does the contract require no initial net investment or an initial net investment smaller than other types of contracts that have a similiar response to changes in market factors? (paragraphs 815-10-15-94 through 15-98)
Is the contract contingent consideration in a business combination? (paragraphs 815-10-15-74[c])
Is the contract an insurance contract? (paragraphs 815-10-15-52 through 15-57)
Is the contract a financial guarantee? (paragraph 815-10-15-58)
Does the existence of this contract serve as an impediment to recognizing a related contract as a sale? (paragraphs 815-10-15-63 through 15-66)
Is the contract indexed to the reporting entity's own stock and classified in stockholders' equity by the reporting entity? (paragraph 815-10-15-74[a])
Is the contract issued by the reporting entity and subject to Topic 718? (paragraph 815-10-15-74[b])
Is the contract (1) a forward that requires settlement by the reporting entity's delivery of cash in exchange for the acquisition of a fixed number of its equity shares and (2) accounted for under paragraphs 480-10-30-3 through 30-6, 480-10-35-3, and 480-10-45-3? (paragraph 815-10-15-74[d])
Is the contract a policyholder's investment in a life insurance contract that is accounted for under Subtopic 325-30? (paragraph 815-10-15-67)
Is the contract accounted for under paragraphs 960-325-35-1 through 35-3 ? (paragraph 815-10-15-68)
Is the contract accounted for under paragraphs 962-325-35-5 through 35-6? (paragraph 815-10-15-68)
Is the contract a loan commitment (to originate a new loan to the holder)? (paragraphs 815-10-15-69 through 15-71)
Is the reporting entity the holder (potential borrower) of the loan commitment? (paragraphs 815-10-15-69 through 15-71)
Issuer's accounting: If the commitment is exercised, will the resulting loan be a mortgage loan classified as held for sale? (paragraphs 815-10-15-69 through 15-71)
Apply This Subtopic
Does the contract permit or require net settlement or is there a market mechanism to facilitate net settlement outside the contract? (paragraphs 815-10-15-100 through 15-118)
Is the underlying one of the following (paragraphs 815-10-15-59 through 15-60):
1. A climatic or geological variable or other physical variable?
2. The price or value of a nonfinancial asset of one of the parties that is not readily convertible to cash or a nonfinancial liability of one of the parties that does not require delivery of an asset that is readily convertible to cash?
3. Specified volumes of sales or service revenues by one of the parties to the contract?
Is the contract exchange-traded? (paragraph 815-10-15-59 through 15-60)
Does the contract require delivery of a derivative instrument or an asset that is readily convertible to cash? (paragraphs 815-10-15-119 through 15-138)
Is the contract a *regular-way security trade?* (paragraphs 815-10-15-15 through 15-21)
Is the contract a *normal purchase* or *normal sale?* (paragraphs 815-10-15-22 through 15-51)
YES
NO
Apply This Subtopic
Do Not Apply This Subtopic

>> Unit of Accounting

>>> A Transferable Option Is Considered Freestanding, Not Embedded

55-3 Certain structured transactions involving the issuance of a bond incorporate transferable options to call or put the bond. As such, those options are potentially exercisable by a party other than the debtor or the investor. For example, certain put bond structures involving three separate parties—the debtor, the investor, and an investment bank—may incorporate options that are ultimately held by the investment bank, giving that party the right to call the bond from the investor. For example, a call option that is transferable either by the debtor to a third party and thus is potentially exercisable by a party other than the debtor or by the original investor based on the legal agreements governing the debt issuance can result in the investor having different counterparties for the option and the original debt instrument. Accordingly, even if incorporated into the terms of the original debt agreement, such an option may not be considered an **embedded derivative** by either the debtor or the investor because it can be separated from the bond and effectively sold to a third party.

>> Definition of Derivative Instrument

55-4 This guidance addresses the following matters:

a. Notional amount—identifying a commodity contract's notional amount

b. Initial net investment—initial exchange under currency swap not an initial net investment

c. Net settlement.

>>> Notional Amount—Identifying a Commodity Contract's Notional Amount

55-5 Many commodity contracts specify a fixed number of units of a commodity to be bought or sold under the pricing terms of the contract (for example, a fixed price). However, some contracts do not specify a fixed number of units. For example, consider the following four contracts that require one party to buy the following indicated quantities:

a. Contract 1: As many units as required to satisfy its actual needs (that is, to be used or consumed) for the commodity during the period of the contract (a requirements contract). The party is not permitted to buy more than its actual needs (for example, the party cannot buy excess units for resale).

b. Contract 2: Only as many units as needed to satisfy its actual needs up to a maximum of 100 units. The party is not permitted to buy more than its actual needs (for example, the party cannot buy excess units for resale).

c. Contract 3: A minimum of 60 units and as many units needed to satisfy its actual needs in excess of 60 units. The party is not permitted to buy more than its actual needs (for example, the party cannot buy excess units for resale).

d. Contract 4: A minimum of 60 units and as many units needed to satisfy its actual needs in excess of 60 units up to a maximum of 100 units. The party is not permitted to buy more than its actual needs (for example, the party cannot buy excess units for resale).

55-6 Generally, the anticipated number of units covered by a requirements contract is equal to the buyer’s needs. When a requirements contract is negotiated between the seller and buyer, both parties typically have the same general understanding of the buyer’s estimated needs. Given the buyer’s often exclusive reliance on the seller to supply all its needs of the commodity, it is imperative from the buyer’s perspective that the supplier be knowledgeable with respect to anticipated volumes. In fact, the pricing provisions within requirements contracts are directly influenced by the estimated volumes.

55-7 This guidance focuses solely on whether the contracts under consideration have a **notional amount** pursuant to the definition in this Subtopic. These types of contracts may not satisfy certain of the other required criteria in this Subtopic for them to meet the definition of a **derivative instrument**. The conclusion that a requirements contract has a notional amount as defined in this Subtopic can be reached only if a reliable means to determine such a quantity exists. Application of this guidance to specific contracts is as follows:

a. Contract 1—requirements contract. The identification of a requirements contract’s notional amount may require the consideration of volumes or formulas contained in attachments or appendixes to the contract or other legally binding side agreements. The determination of a requirements contract’s notional amount must be performed over the life of the contract and could result in the fluctuation of the notional amount if, for instance, the default provisions reference a rolling cumulative average of historical usage. If the notional amount is not determinable, making the quantification of such an amount highly subjective and relatively unreliable (for example, if a contract does not contain settlement and default provisions that explicitly reference quantities or provide a formula based on historical usage), such contracts are considered not to contain a notional amount as that term is used in this Subtopic. One technique to quantify and validate the notional amount in a requirements contract is to base the estimated volumes on the contract's settlement and default provisions. Often the default provisions of requirements contracts will specifically refer to anticipated quantities to utilize in the calculation of penalty amounts in the event of nonperformance. Other default provisions stipulate penalty amounts in the event of nonperformance based on average historical usage quantities of the buyer. If those amounts are determinable, they shall be considered the notional amount of the contract.

b. Contract 2—requirements contract with a specified maximum quantity. Whether the contract has a notional amount depends. The same considerations discussed in (a) with respect to Contract 1 also apply to Contract 2; however, the notional amount cannot exceed 100 units.

c. Contract 3—requirements contract with a specified minimum quantity. The contract has a notional amount. The same considerations discussed in (a) with respect to Contract 1 also apply to Contract 3; however, the notional amount of Contract 3 cannot be less than 60 units. A contract that specifies a minimum number of units always has a notional amount at least equal to the required minimum number of units. Only that portion of the requirements contract with a determinable notional amount would be accounted for as a derivative instrument under this Subtopic.

d. Contract 4—requirements contract with a specified maximum and minimum quantities. The contract has a notional amount. The same considerations discussed in (a) with respect to Contract 1 also apply to Contract 4; however, the notional amount of Contract 4 cannot be less than 60 units or greater than 100 units. A contract that specifies a minimum number of units always has a notional amount at least equal to the required minimum number of units. Only that portion of the requirements contract with a determinable notional amount would be accounted for as a derivative instrument under this Subtopic.

>>> Initial Net Investment—Initial Exchange Under Currency Swap Is Not an Initial Net Investment

55-8 The definition of a derivative instrument includes contracts that require gross exchanges of currencies (for example, currency swaps that require an exchange of different currencies at both inception and maturity). The initial exchange of currencies of equal **fair values** in those arrangements does not constitute an initial net investment in the contract. Instead, it is the exchange of one kind of cash for another kind of cash of equal value. The balance of the agreement, a forward contract that obligates and entitles both parties to exchange specified currencies, on specified dates, at specified prices, is a derivative instrument.

>>> Net Settlement

55-9 This guidance addresses the following matters:

a. Asymmetrical default provision does not constitute net settlement.

b. Determining whether a structured payout constitutes net settlement.

>>>> Asymmetrical Default Provision Does Not Constitute Net Settlement

55-10 Many commodity forward contracts contain default provisions that require the defaulting party (the party that fails to make or take physical delivery of the commodity) to reimburse the nondefaulting party for any loss incurred as illustrated in the following examples:

a. If the buyer under the forward contract (Buyer) defaults (that is, does not take physical delivery of the commodity), the seller under that contract (Seller) will have to find another buyer in the market to take delivery. If the price received by Seller in the market is less than the contract price, Seller incurs a loss equal to the quantity of the commodity that would have been delivered under the forward contract multiplied by the difference between the contract price and the current market price. Buyer must pay Seller a penalty for nonperformance equal to that loss.

b. If Seller defaults (that is, does not deliver the commodity physically), Buyer will have to find another seller in the market. If the price paid by Buyer in the market is more than the contract price, Seller must pay Buyer a penalty for nonperformance equal to the quantity of the commodity that would have been delivered under the forward contract multiplied by the difference between the contract price and the current market price.

55-11 For example, Buyer agreed to purchase 100 units of a commodity from Seller at $1.00 per unit:

a. Assume Buyer defaults on the forward contract by not taking delivery and Seller must sell the 100 units in the market at the prevailing market price of $.75 per unit. To compensate Seller for the loss incurred due to Buyer's default, Buyer must pay Seller a penalty of $25.00—that is, 100 units × ($1.00 – $.75).

b. Similarly, assume that Seller defaults and Buyer must buy the 100 units it needs in the market at the prevailing market price of $1.30 per unit. To compensate Buyer for the loss incurred due to Seller's default, Seller must pay Buyer a penalty of $30.00—that is, 100 units × ($1.30 – $1.00).

55-12 Note that an **asymmetrical default provision** is designed to compensate the nondefaulting party for a loss incurred. The defaulting party cannot demand payment from the nondefaulting party to realize the changes in market price that would be favorable to the defaulting party if the contract were honored.

55-13 Under the forward contract in the example, if Buyer defaults when the market price is $1.10, Seller will be able to sell the units of the commodity into the market at $1.10 and realize a $10.00 greater gain than it would have under the contract. In that circumstance, the defaulting Buyer is not required to pay a penalty for nonperformance to Seller, nor is Seller required to pass the $10.00 extra gain to the defaulting Buyer.

55-14 Similarly, if Seller defaults when the market price is $.80, Buyer will be able to buy the units of the commodity in the market and pay $20.00 less than under the contract. In that circumstance, the defaulting Seller is not required to pay a penalty for nonperformance to Buyer, nor is Buyer required to pass the $20.00 savings on to the defaulting Seller.

55-15 In a forward contract with only an asymmetrical default provision, neither Buyer nor Seller can realize the benefits of changes in the price of the commodity through default on the contract. That is, Buyer cannot realize favorable changes in the intrinsic value of the forward contract except in both of the following circumstances:

a. By taking delivery of the physical commodity

b. In the event of default by Seller (which is an event beyond the control of Buyer).

55-16 Similarly, Seller cannot realize favorable changes in the intrinsic value of the forward contract except in either of the following circumstances:

a. By making delivery of the physical commodity

b. In the event of default by Buyer, which is an event beyond the control of Seller.

55-17 However, a pattern of having the asymmetrical default provision applied in contracts between certain counterparties would indicate the existence of a tacit agreement between those parties that the party in a loss position would always elect the default provision, thereby resulting in the understanding that there would always be net settlement. In that situation, those kinds of commodity contracts would meet the characteristic described as net settlement in paragraph 815-10-15-100.

55-18 In contrast, a contract that permits only one party to elect net settlement of the contract (by default or otherwise), and thus participate in either favorable changes only or both favorable and unfavorable price changes in the **underlying**, meets the derivative characteristic described in paragraph 815-10-15-83(c) and discussed in paragraph 815-10-15-100 for all parties to that contract. Such a default provision allows one party to elect net settlement of the contract under any pricing circumstance and consequently does not require delivery of an asset that is associated with the underlying. That default provision differs from the asymmetrical default provision in the example contract in paragraph 815-10-55-10 because it is not limited to compensating only the nondefaulting party for a loss incurred and is not solely within the control of the defaulting party.

>>>> Determining Whether a Structured Payout Constitutes Net Settlement

55-19 Paragraph 815-10-15-104 explains that, upon settlement of a contract, in lieu of immediate net cash settlement of the gain or loss under the contract, the holder may receive a **financial instrument** involving terms that would provide for the gain or loss under the contract to be received or paid over a specified time period. Such a structured payout of the gain on a contract could also be described as an abnormally high yield on a required investment or borrowing in which the overall return is related to the amount of that contract's gain, in which case the contract would be considered to have met the characteristic of net settlement in paragraph 815-10-15-100.

55-20 Assume, instead, that, upon settlement of a contract, in lieu of immediate net cash settlement of the gain or loss under the contract, the holder is required to invest funds in or borrow funds from the other party so that the party in a gain position under the contract can obtain the value of that gain only over time as a traditional adjustment of the yield on the amount invested or the interest element on the amount borrowed. (A fixed-rate mortgage **loan commitment** is an example of a contract that requires the party in a gain position under the contract to borrow funds at a below-market interest rate at the time of the borrowing to obtain the benefit of that gain.) Paragraph 815-10-15-105 indicates that such a contract does not meet the characteristic of net settlement in paragraph 815-10-15-100.

55-21 In contrast, paragraph 815-10-15-106 explains that a contract that requires one party to the contract to invest funds in or borrow funds from the other party so that the party in a gain position under the contract can obtain the value of that gain over time as a nontraditional adjustment of the yield on the amount invested or the interest element on the amount borrowed may meet the characteristic of net settlement in paragraph 815-10-15-100. For example, if a contract required the party in a gain position under the contract to invest $100 in the other party's debt instrument that paid an abnormally high interest rate of 5,000 percent per day for a term whose length is dependent on the changes in the contract's underlying, an analysis of those terms would lead to the conclusion that the contract's settlement terms were in substance a structured payout of the contract's gain and thus that contract would be considered to have met the characteristic of net settlement in that paragraph.

>> Instruments Not Within Scope

55-22 This guidance addresses the following matters:

a. Normal purchases and normal sales—application to power purchase or sales agreements

b. Dual-trigger financial guarantee contracts

c. Certain insurance contracts—dual-trigger property and casualty insurance contracts

d. Derivative instrument that impedes sale accounting

e. Loan commitment types.

>>> Normal Purchases and Normal Sales—Application to Power Purchase or Sales Agreements

55-23 This guidance addresses the following matters:

a. Contracts that combine a forward contract and a purchased option contract

b. Distinguishing between options that are capacity contracts and financial options on electricity.

>>>> Contracts that Combine a Forward Contract and a Purchased Option Contract

55-24 Paragraph 815-10-15-44 states that the inclusion of a purchased option that would, if exercised, require delivery of the related asset at an established price under the contract within a single contract that meets the definition of a derivative instrument disqualifies the entire contract from being eligible to qualify for the normal purchases and normal sales scope exception in this Subsection except as provided in paragraphs 815-10-15-45 through 15-51 with respect to certain power purchase or sales agreements. Although the guidance that follows discusses such circumstances in the context of utilities and independent power producers, it applies to all entities that enter into contracts that combine a forward contract and a purchased option contract, not just to utilities and independent power producers. Some utilities and independent power producers have fuel supply contracts that require delivery of a contractual minimum quantity of fuel at a fixed price and have an option that permits the holder to take specified additional amounts of fuel at the same fixed price at various times. Essentially, that option to take more fuel is a purchased option that is combined with the forward contract in a single supply contract. Typically, the option to take additional fuel is built into the contract to ensure that the buyer has a supply of fuel to produce the electricity during peak demands; however, the buyer may have the ability to sell to third parties the additional fuel purchased through exercise of the purchased option. Due to the difficulty in estimating peak electricity load and thus the amount of fuel needed to generate the required electricity, those fuel supply contracts are common in the electric utility industry (though similar supply contracts may exist in other industries).

55-25 Those fuel supply contracts are not requirements contracts that are addressed in paragraphs 815-10-55-5 through 55-7. Many of those contracts meet the definition of a derivative instrument because they have a notional amount and an underlying, require no or a smaller initial net investment, and provide for net settlement (for example, through their default provisions or by requiring delivery of an asset that is **readily convertible to cash**). The fuel supply contract cannot qualify for the normal purchases and normal sales exception because of the optionality regarding the quantity of fuel to be delivered under the contract.

55-26 An entity shall not bifurcate the forward contract component and the option component of a fuel supply contract that in its entirety meets the definition of a derivative instrument and then assert that the forward contract component is eligible to qualify for the normal purchases and normal sales exception.

55-27 An entity may wish to enter into two separate contracts—a forward contract and an option—that economically achieve the same results as the single derivative instrument and determine whether the normal purchases and normal sales scope exception (as discussed beginning in paragraph 815-10-15-22) applies to the separate forward contract.

55-28 Similar to the contractual options discussed in Example 10 (see paragraph 815-10-55-121), this guidance addresses option components that would require delivery of the related asset at an established price under the contract.

55-29 If the option component does not provide any benefit to the holder beyond the assurance of a guaranteed supply of the underlying commodity for use in the normal course of business and that option component only permits the holder to purchase additional quantities at the market price at the date of delivery (that is, that option component will always have a fair value of zero), that option component would not require delivery of the related asset at an established price under the contract.

55-30 If an entity's single supply contract included at its inception both a forward contract and an option and, in subsequent renegotiations, that contract is negated and replaced by two separate contracts (a forward contract for a specific quantity that will be purchased and an option for additional quantities whose purchase is conditional upon exercise of the option), the new forward contract would be eligible to qualify for the normal purchases and normal sales exception (as discussed beginning in paragraph 815-10-15-22), whereas the new option would not be eligible for that exception. From its inception the new separate option would be accounted for under this Subtopic.

>>>> Distinguishing Between Options that Are Capacity Contracts and Financial Options on Electricity

55-31 The following table lists characteristics of an option that is a **capacity contract** and a traditional option. The characteristics listed may be relevant to the application of paragraph 815-10-15-45(a)(2). Other characteristics not listed may also be relevant.

	Option Contract That Is a Capacity Contract	Financial Option Contract on Electricity
1	The contract usually specifies the power plant or group of power plants providing the electricity.	No reference is made to the generation origination of the electricity.
2	The strike price (paid upon exercise) includes pricing terms to compensate the plant operator for variable operations and maintenance costs expected during the specified production periods.	The strike price is structured based on the expected forward prices of power.
3	The specified quantity is based on individual needs of parties to the agreement.	The specified quantity reflects standard amounts of electric energy, which facilitate market liquidity (for example, exercise in increments of 10,000 kilowatt-hours).
4	The title transfer point is usually at one or a group of specified physical delivery point(s), as opposed to a major market hub.	The specified index transfer point is a major market hub (liquid trading hub), not seller- or buyer-site specific.
5	The contract usually specifies certain operational performance by the facility (for example, the achievement of a certain heat rate).	No operational performance is specified (not plant specific).
6	The contract sometimes incorporates requirements for interconnection facilities, physical transmission facilities, or reservations for transmission services.	None specified.
7	The contract may specify jointly agreed-to plant outages (for example, for maintenance) and provide for penalties in the event of unexpected outages.	Penalties for outages are not specified (not plant specific).
8	Damage provisions upon default are usually based on a reduction of the capacity payment (which is not market based). If default provisions specify market liquidating damages, they usually contain some form of floor, ceiling, or both. The characteristics of the default provision are usually tied to the expected generation facility.	Damage provisions upon default are based on market liquidating damages.
9	The contract's term is usually long (one year or more).	The contract's term is not longer than 18 to 24 months because financial options on electricity are currently illiquid beyond that period.

>>> Dual-Trigger Financial Guarantee Contracts

55-32 Entity ABC extends credit to consumers through credit cards and personal loans of various sorts. Entity ABC is exposed to credit losses from its managed asset portfolio, including owned and securitized receivables. Entity ABC would like to purchase an insurance policy to protect itself against high levels of consumer default.

55-33 The proposed insurance policy will entitle Entity ABC to collect claims to the extent that its credit losses exceed a specified minimum level but limited to the amount by which the credit losses on a customized pool or index of consumer loans exceed that same specified minimum level. Thus, Entity ABC will collect claims based on the lesser of the following:

a. Entity ABC's actual credit losses

b. The credit losses on a customized pool or index of consumer loans.

55-34 Although the insurer's payment to Entity ABC may be affected by credit losses on a customized pool, the payment nevertheless represents compensation for actual credit losses Entity ABC incurred. Entity ABC purchases this insurance to obtain a lower premium because claims are limited by external charge-off rates and the insurer is not exposed to Entity ABC's underwriting performance.

55-35 This type of control may also exist in property and casualty reinsurance policies. For example, an insurance entity may purchase reinsurance that covers actual hurricane losses in excess of a specified level in their block of business, but the coverage does not apply to losses in excess of a geographically diversified index of hurricane losses.

55-36 Financial guarantee insurance contracts are not subject to this Subtopic only if all of the conditions in paragraph 815-10-15-58 are met. The description of the financial guarantee insurance contract in paragraph 815-10-55-32 is insufficient for determining whether those conditions are met. The following provisions of that contract represent a type of deductible and do not affect the application of the conditions in paragraph 815-10-15-58:

a. The provision that limits any claims to the extent that Entity ABC's actual credit losses exceed a specified minimum level

b. The provision that limits any payments for those claims to the amount by which the credit losses on a customized pool or index of consumer loans exceed that same specified minimum level.

>>> Certain Insurance Contracts—Dual-Trigger Property and Casualty Insurance Contracts

55-37 A common characteristic of dual-trigger policies is that the payment of a claim is triggered by the occurrence of two events (that is, the occurrence of both an insurable event and changes in a separate pre-identified variable). Because the likelihood of both events occurring is less than the likelihood of only one of the events occurring, the dual-trigger policy premiums are lower than traditional policies that insure only one of the risks. The policyholder is often purchasing the policy to provide for coverage against a catastrophe because if both events occur, the combined impact may be disastrous to its business.

55-38 Paragraph 815-10-55-40 addresses seven contracts that illustrate the characteristics of dual-trigger policies offered to different types of policyholders that have different risk management needs. All seven contracts qualify for either the exception in paragraph 815-10-15-53(b) for traditional property and casualty contracts or the exception in paragraph 815-10-15-59(b) for non-exchange-traded contracts involving nonfinancial assets. Therefore, the dual-trigger variable in those contracts is not separated and accounted for separately as a derivative instrument.

55-39 In contrast, paragraph 815-15-55-12 states that, if a contract issued by an insurance entity involves essentially assured amounts of cash flows based on insurable events that are highly probable of occurrence (as discussed in paragraph 815-10-15-55[c]), an embedded derivative related to changes in the separate pre-identified variable for that portion of the contract would be required to be separately accounted for as a derivative instrument.

55-40 Following are descriptions of seven contracts:

a. Contract A—electric utility. A dual-trigger policy pays for a level of actual losses caused by the following two events occurring simultaneously:

1. A power outage resulting from equipment failure or storm-related damage causes more than 500 megawatts of lost power.

2. The spot market price for power exceeds $65 per megawatt hour during the storm or equipment-failure period.

The contract pays the difference between the strike price and the actual market price for the lost power (that is, the cost of replacement power).

b. Contract B—trucking delivery entity. A dual-trigger policy pays extra expenses associated with rerouting trucks over a certain time period if snowfall exceeds a specified level during that time period. The snowfall causes delays and creates the need to reroute trucks to meet delivery demands.

c. Contract C—hospital. A dual-trigger policy pays actual medical malpractice claims above a specified level only if the value of the hospital's equity portfolio falls below a specified level during the same period.

d. Contract D—iron ore mining entity. A dual-trigger policy pays a specified level of workers' compensation claims (not to exceed actual claims) if the claims exceed a specified level at the same time iron ore prices decrease below a specified level.

e. Contract E—golf resort in Florida. A dual-trigger policy pays property damage from hurricanes incurred by a specific golf resort in Florida; however, the losses are covered only if other golf courses in the region incur hurricane-related losses and the claims cannot exceed the average property damages incurred by the other golf resorts in the county.

f. Contract F—cherry orchard in Michigan. A dual-trigger policy pays crop losses incurred due to bad weather during growing season, and the claims are at risk of being reduced based on changes in the inflation rate in Brazil. The cherry producer has no operations in Brazil or any transactions in Brazilian currency. However, a Brazilian cherry producer exports cherries to the United States and is a competitor of the Michigan cherry producer.

g. Contract G—property-casualty reinsurance contract. Reinsurance contracts, which indemnify the holder of the contract (the reinsured) against loss or liability relating to insurance risk, are accounted for under the provisions of Topic 944. Reinsurance contract provisions often adjust the amount at risk or the price of the amount at risk for a number of events or circumstances, such as loss experience or premium volume, while continuing to provide indemnification related to insurance risk. One type of reinsurance contract, an excess contract, provides the reinsured with indemnification against a finite amount of insured losses in excess of a defined level of insured losses retained by the reinsured. Example 11 (see paragraph 815-10-55-132) illustrates a reinsurance contract with a provision that adjusts the retention amount downward based on the performance of a specified equity index.

>>> Derivative Instrument that Impedes Sales Accounting

55-41 The following guidance illustrates application of the scope exception (as discussed beginning in paragraph 815-10-15-63) for a derivative instrument that impedes sales accounting to situations in which the transferor accounts for the transfer as a financing:

a. If a transferor transfers financial assets but retains a call option on those assets, the net settlement criterion (as discussed beginning in paragraph 815-10-15-119) may be satisfied because the assets transferred are readily obtainable; however, the transfer may fail the isolation criterion in paragraph 860-10-40-5(a) because of significant continued involvement by the transferor. In that example, because the transferor is required to continue to recognize the assets transferred, recognition of the call option on those assets would effectively result in recording the assets twice. Therefore, the derivative instrument is not subject to the scope of this Subtopic.

b. In the situation described in (a), the transferor may have sold to the transferee a put option. Exercise of the put option by the transferee would result in the transferor repurchasing certain assets that it has transferred, but which it still records as assets in its balance sheet. Because the transferor is required to recognize the borrowing, recognition of the put option would result in recording the liability twice. Therefore, the derivative instrument is not subject to the scope of this Subtopic.

c. A transferor may transfer fixed-rate financial assets to a transferee and guarantee a variable-rate return. If the transfer is accounted for as a sale and an interest-rate swap is entered into as part of the contractual provisions of the transfer, the transferor records the interest rate swap as one of the financial components. In that case, the interest rate swap should be accounted for separately in accordance with this Subtopic. However, if the transfer is accounted for as a financing, the transferor records on its balance sheet the issuance of variable-rate debt and continues to report the fixed-rate financial assets; no derivative instrument is recognized under this Subtopic.

d. In a securitization **transaction**, a transferor transfers $100 of fixed-rate financial assets and the contractual terms of the beneficial interests incorporate an interest rate swap with a notional principal of $1 million. If the transfer is accounted for as a sale and the interest rate swap is entered into as part of the contractual provisions of the transfer, the transferor identifies and records the interest rate swap as one of the financial components. In that case, the interest rate swap would be accounted for separately in accordance with this Subtopic. However, if the transfer is accounted for as a financing, the transferor records in its balance sheet a $100 variable-rate borrowing and continues to report the $100 of fixed-rate financial assets. In this instance, because the liability is leveraged, requiring computation of interest flows based on a $1 million notional amount, the liability (which does not meet the definition of a derivative instrument in its entirety) is a **hybrid instrument** that contains an embedded derivative—such as an interest rate swap with a notional amount of $999,900. That embedded derivative is not clearly and closely related to the host contract under Section 815-15-25 (see paragraph 815-15-25-1[c]) because it could result in a rate of return on the counterparty's asset that is at least double the initial rate and that is at least twice what otherwise would be the then-current market return for a contract that has the same terms as the host contract and that involves a debtor with credit quality similar to the issuer's credit quality at inception. Therefore, the derivative instrument must be recorded separately under paragraph 815-15-25-1.

55-42 [Paragraph Not Used]

>> Scope Application to Certain Contracts

55-43 This guidance illustrates the application of Section 815-10-15 in the following situations:

a. Contract with payment provision

b. Credit derivatives

c. Equity options issued to employees

d. Equity instruments (including options) issued to nonemployees

e. Repurchase agreements and wash sales

f. Short sales (sales of borrowed securities)

g. Take-or-pay contracts.

>>> Contract with Payment Provision

55-44 If the contract contains a **payment provision** that requires the issuer to pay to the holder a specified dollar amount based on a financial variable, the contract is subject to the requirements of this Subtopic.

>>> Credit Derivatives

55-45 Many different types of contracts are indexed to the creditworthiness of a specified entity or group of entities, but not all of them are derivative instruments. Credit-indexed contracts that have certain characteristics described in paragraph 815-10-15-58 are guarantees and are not subject to the requirements of this Subtopic. Credit-indexed contracts (often referred to as credit derivatives) that do not have the characteristics necessary to qualify for the exception in that paragraph are subject to the requirements of this Subtopic. One example of the latter is a credit-indexed contract that requires a payment due to changes in the creditworthiness of a specified entity even if neither party incurs a loss due to the change (other than a loss caused by the payment under the credit-indexed contract).

>>> Equity Options Issued to Employees

55-46 Some entities issue stock options to their employees in which the underlying shares are stock of an unrelated entity. Consider the following example:

a. Entity A awards an option to an employee.

b. The terms of the option award provide that, if the employee remains employed by Entity A for 3 years, the employee may exercise the option and purchase 1 share of common stock of Entity B, a publicly traded entity, for $10 from Entity A.

c. Entity B is unrelated to Entity A and, therefore, is not a subsidiary or accounted for by the equity method.

55-47 The option award in this example is not within the scope of Topic 718 because the underlying stock is not an equity instrument of the employer-grantor.

55-48 The option award is not subject to Topic 718. Rather, the option award in the above example meets the definition of a derivative instrument in this Subtopic and, therefore, should be accounted for by the employer as a derivative instrument under this Subtopic. After vesting, the option award would continue to be accounted for as a derivative instrument under this Subtopic.

>>> Equity Instruments (Including Options) Issued to Nonemployees

>>>> Issuer's Accounting

55-49 For the issuer, equity instruments (including stock options) that are granted to nonemployees as compensation for goods and services in share-based payment transactions are subject to this Subtopic once performance has occurred (as discussed in Subtopic 505-50) and provided that the scope exception in paragraph 815-10-15-74(a) does not apply. From the perspective of the issuer, equity instruments (including stock options) granted to a nonemployee for goods and services in share-based payment transactions are not included in the scope of this Subtopic if performance has not yet occurred. Any equity instrument granted in a share-based payment transaction subject to Subtopic 505-50 for the reporting entity is not considered to be a derivative instrument subject to this Subtopic by that entity during the period that the equity instrument is subject to Subtopic 505-50.

55-50 Paragraphs 718-10-35-9 through 35-14 contain the concept that equity instruments that are granted in share-based payment transactions may initially be subject to that Subtopic, but after certain events or circumstances, those equity instruments may cease being subject to that Subtopic. The terms of an award that ceases to be subject to Topic 718 in accordance with paragraphs 718-10-35-9 through 35-14 should be analyzed to determine whether the award is subject to this Subtopic.

55-51 Subtopic 505-50 provides guidance for accounting by the issuer for certain share-based compensation arrangements granted to nonemployees for goods and services, including guidance regarding counterparty performance commitments and conditions in share-based payment transactions.

55-52 Pursuant to paragraph 815-40-15-3(c), the guidance in Subtopic 815-40 applies to contracts issued to acquire goods or services from nonemployees when performance has occurred.

55-53 Thus, an equity instrument (including a stock option) granted to a nonemployee for goods and services in a share-based payment transaction would typically cease being subject to Subtopic 505-50 after performance has occurred. At that point, the scope exception in paragraph 815-10-15-74(b) would no longer apply. The issuer would then need to determine whether that equity instrument meets the definition of a derivative instrument and is within the scope of this Subtopic by analyzing the terms of the instrument. The scope exception in paragraph 815-10-15-74(a) may apply.

>>>> Holder's Accounting

55-54 The exception in paragraph 815-10-15-74(b) does not apply to the holder of those derivative instruments.

55-55 Thus, paragraph 815-10-15-75(a) explains that equity instruments (including stock options) received by nonemployees as compensation for goods and services are included in the scope of this Subtopic assuming the contract has all the characteristics of a derivative instrument.

>>> Repurchase Agreements and Wash Sales

55-56 Repurchase agreements and wash sales that are accounted for as sales (as described in paragraphs 860-10-55-55 and 860-10-55-57) and in which the transferor is both obligated and entitled to repurchase the transferred asset at a fixed or determinable price contain two separate features, one of which may be a derivative instrument. The initial exchange of financial assets for cash is a sale-purchase transaction—generally not a transaction that involves a derivative instrument. However, the accompanying forward contract that gives the transferor the right and obligation to repurchase the transferred asset involves an underlying and a notional amount (the price of the security and its denomination), and it does not require an initial net investment in the contract. Consequently, if the forward contract requires delivery of a security that is readily convertible to cash or otherwise meets the net settlement criterion as discussed beginning in paragraph 815-10-15-99, it is subject to the requirements of this Subtopic.

>>> Short Sales (Sales of Borrowed Securities)

55-57 The following discussion applies only to short sales with the characteristics described. Some groups of transactions that are referred to as short sales may have different characteristics. If so, a different analysis would be appropriate, and other derivative instruments may be involved. Short sales (sales of borrowed securities) typically involve all of the following activities:

a. Selling a security (by the short seller to the purchaser)

b. Borrowing a security (by the short seller from the lender)

c. Delivering the borrowed security (by the short seller to the purchaser)

d. Purchasing a security (by the short seller from the market)

e. Delivering the purchased security (by the short seller to the lender).

Those five activities involve three separate contracts.

55-58 A contract that distinguishes a short sale involves activities in (b) and (e) in the preceding paragraph, borrowing a security and replacing it by delivering an identical security. Such a contract has two of the three characteristics of a derivative instrument. The settlement is based on an underlying (the price of the security) and a notional amount (the **face amount** of the security or the number of shares), and the settlement is made by delivery of a security that is readily convertible to cash. However, the other characteristic, no initial net investment or an initial net investment that is smaller by more than a nominal amount than would be required for other types of contracts that would be expected to have a similar response to changes in market factors, is not present. (See paragraphs 815-10-15-94 through 15-96.) The borrowed security is the lender's initial net investment in the contract. Consequently, the contract relating to activities in (b) and in (e) in the preceding paragraph is not a derivative instrument.

55-59 The other two contracts (one for activities in paragraph 815-10-55-57[a] and in paragraph 815-10-55-57[c] and the other for activity in paragraph 815-10-55-57[d]) are routine and do not generally involve derivative instruments. However, if a forward purchase or forward sale is involved, and the contract does not qualify for the exception in paragraphs 815-10-15-15 through 15-17, it is subject to the requirements of this Subtopic.

>>> Take-or-Pay Contracts

55-60 Whether a **take-or-pay contract** is subject to this Subtopic depends on its terms. For example, if the product to be delivered is not readily convertible to cash and there is no net settlement option, the contract fails to meet the net settlement criterion in paragraph 815-10-15-83(c) and is not subject to the requirements of this Subtopic. In certain circumstances, a take-or-pay contract may represent or contain a lease that should be accounted for in accordance with Topic 840. (Paragraph 815-10-15-79 explains that leases subject to that Topic are not subject to this Subtopic.)

55-61 [Paragraph Not Used]

>> Other Presentation Matters

>>> Income Statement Presentation of Realized Gains And Losses

55-62 Determining whether realized gains and losses on physically settled derivative instruments not held for **trading purposes** should be reported in the income statement on a gross or net basis is a matter of judgment that depends on the relevant facts and circumstances. Consideration of the facts and circumstances should be made in the context of the various activities of the entity rather than based solely on the terms of the individual contracts. In evaluating the facts and circumstances for purposes of determining whether an arrangement should be reported on a gross or net basis, all of the following may be considered:

a. The economic substance of the transaction

b. The guidance set forth in Topic 845 relative to nonmonetary exchanges

c. The gross versus net reporting indicators provided in Subtopic 605-45.

>> Synthetic Guaranteed Investment Contracts

55-63 From the perspective of the issuer of the contract, synthetic guaranteed investment contracts are derivative instruments as defined in this Subtopic. Synthetic guaranteed investment contracts contain an underlying, the formula by which interest is calculated, and a notional amount. The interplay between the fair value of a portfolio of segregated assets and a notional amount together determine the amount of the settlement(s), if any, due from the contract issuer, after considering all contract terms. Depending on the specifics of the contract, a synthetic guaranteed investment contract requires either no initial investment or the payment of a risk charge or fee (covering either the entire contract or, more typically, an initial period of the contract). The terms of a synthetic guaranteed investment contract require net settlement because the issuer of the contract makes a payment to the holder equal to the net amount due. For a background discussion of synthetic guaranteed investment contracts, including a comparison with traditional and benefit-responsive guaranteed investment contracts, see paragraph 815-10-05-8. Example 17 (see paragraph 815-10-55-169) illustrates contractual terms of a synthetic guaranteed investment contracts.

55-64 [Paragraph Not Used]

55-65 [Paragraph Not Used]

> Illustrations

>> Example 1: Viewing a Contract as Freestanding or Embedded

55-66 The following Cases illustrate the application of paragraph 815-10-15-6:

a. Attached call option (Case A)

b. Transferable call option (Case B).

>>> Case A: Attached Call Option

55-67 This Case presents a transaction that involves the addition of a call option contemporaneously with or after the issuance of debt.

55-68 Entity X issues 15-year puttable bonds to an Investment Banker for $102. The put option may be exercised at the end of five years. Contemporaneously, the Investment Banker sells the bonds with an attached call option to Investor A for $100. (The call option is a written option from the perspective of Investor A and a purchased option from the perspective of the Investment Banker.) The Investment Banker also sells to Investor B for $3 the call option purchased from Investor A on those bonds. The call option has an exercise date that is the same as the exercise date on the embedded put option. At the end of five years, if interest rates increase, Investor A would presumably put the bonds back to Entity X, the issuer. If interest rates decrease, Investor B would presumably call the bonds from Investor A.

55-69 As required by paragraph 815-10-15-6, the call option that is attached by the Investment Banker is a separate derivative instrument from the perspective of Investor A.

>>> Case B: Transferable Call Option

55-70 This Case presents a group of transactions with a similar overall effect to that in Case A.

55-71 Entity Y issues 15-year puttable bonds to Investor A for $102. The put option may be exercised at the end of five years. Contemporaneously, Entity Y purchases a transferable call option on the bonds from Investor A for $2. Entity Y immediately sells that call option to Investor B for $3. The call option has an exercise date that is the same as the exercise date of the embedded put option. At the end of five years, if rates increase, Investor A would presumably put the bonds back to Entity Y, the issuer. If rates decrease, Investor B would presumably call the bonds from Investor A.

55-72 As required by paragraph 815-10-15-6, the call option is a separate freestanding derivative instrument that must be reported at fair value with changes in value recognized currently in earnings unless designated as a hedging instrument.

>> Example 2: Initial Net Investment—Forward Contract Embedded with Equity Derivative

55-73 This Example illustrates whether a contract meets the criterion in paragraph 815-10-15-83(b) related to initial net investment and therefore meets the definition of a derivative instrument and, if not, whether there is an embedded derivative that warrants separate accounting.

55-74 An entity enters into a forward contract that requires the purchase of 1 share of an unrelated entity's common stock in 1 year for $110 (the market forward price) and at inception of the contract, the entity elects to prepay the contract pursuant to its terms for $105 (the current price of the share of common stock).

55-75 If no prepayment is made at inception, the contract would meet the criterion in paragraph 815-10-15-83(b) because it does not require an initial net investment but, rather, contains an unexercised election to prepay the contract at inception. If the contract gives the entity the option to prepay the contract at a later date during its 1-year term (at $105 or some other specified amount), exercise of that option would be accounted for as a loan that is repayable at $110 at the end of the forward contract’s 1-year term. If, instead, the entity elects to prepay the contract at inception for $105, the contract does not meet the definition of a freestanding derivative instrument. The initial net investment of $105 is equal to the initial price of the 1 share of stock being purchased under the contract and therefore is equal to the investment that would be required for other types of contracts that would be expected to have a similar response to changes in market factors. That is, the initial net investment is equal to the amount that would be exchanged to acquire the asset related to the underlying.

55-76 However, the entity must assess whether that nonderivative instrument contains an embedded derivative that, pursuant to paragraph 815-15-25-1, requires separate accounting as a derivative unless the fair value election is made pursuant to paragraph 815-15-25-4. In this instance, the prepaid contract is a hybrid instrument that is composed of a debt instrument as the host contract (that is, a loan that is repayable at $110 at the end of the forward contract’s 1-year term) and an embedded derivative based on equity prices. The host contract is a debt instrument because the holder has none of the rights of a shareholder, such as the ability to vote the shares and receive distributions to shareholders. (See paragraph 815-15-25-16.) Unless the hybrid instrument is remeasured at fair value with changes in value recorded in earnings as they occur, the embedded derivative must be separated from the host contract because the economic characteristics and risks of a derivative based on equity prices are not clearly and closely related to a debt host contract, and a separate instrument with the same terms as the embedded derivative would be a derivative instrument subject to the requirements of this Subtopic.

>> Example 3: Underlying—Determination of an Underlying if a Commodity Contract Includes Both Fixed and Variable Price Elements

55-77 The following Cases illustrate the determination of an underlying if a commodity contract includes a fixed element and a variable element:

a. A commodity contract between two parties to transact a fixed quantity at a specified future date at a fixed price (such as the commodity’s forward price at the inception of the contract) (Case A)

b. A commodity contract between two parties to transact a fixed quantity at a specified future date at whatever the prevailing market price might be at that future date (Case B)

c. A commodity contract having features of both a fixed-price contract and variable-price contract; specifically, an agreement to purchase a commodity in the future at the prevailing market index price at that future date plus or minus a fixed basis differential set at the inception of the contract (Case C).

55-78 Assume that each of the contracts in Cases A, B, and C has the characteristics of notional amount, underlying, and no initial net investment and that the commodity to be delivered is readily convertible to cash as discussed beginning in paragraph 815-10-15-119.

>>> Case A: Fixed-Price Commodity Contract

55-79 This fixed-price commodity contract is a derivative instrument because it meets all the criteria in paragraph 815-10-15-83, including having an underlying (namely, the price of the commodity), as required by paragraph 815-10-15-83(a)(1). The contract’s fair value will change as the underlying changes because the contract price is not the prevailing market price at the future transaction date. A party to this contract would need to determine if the normal purchases and normal sales exception (see discussion beginning in paragraph 815-10-15-22) applies to the contract.

>>> Case B: Variable-Price Commodity Contract

55-80 This variable-price commodity contract is a derivative instrument because it meets all the criteria in paragraph 815-10-15-83, including having an underlying (namely, the price of the commodity), as required by paragraph 815-10-15-83(a)(1). However, because the contract price is the prevailing market price at the future transaction date, the variable-price commodity contract would not be expected to have a fair value other than zero. A party to this contract would need to determine if the normal purchases and normal sales exception (see discussion beginning in paragraph 815-10-15-22) applies to the contract.

>>> Case C: Mixed-Price Commodity Contract

55-81 In a commodity contract between a buyer and seller of crude oil, the buyer is a refinery that seeks to use the crude oil in the production of unleaded gasoline. The buyer agrees in January to buy 1,000,000 barrels of a specific type of crude oil in July from the seller at the July 1 West Texas Intermediate index price plus $1.00 per barrel. The contract appears to be primarily a variable-price contract, but includes a fixed margin above that price. (If the buyer or the seller no longer wants exposure to fluctuations in the West Texas Intermediate index between January and July, it will separately use the futures market to fix the West Texas Intermediate index portion of the contract.)

55-82 The fixed $1.00 differential is commonly referred to as the basis differential, but it reflects multiple factors, such as timing, quality, and location. If not fixed, the basis differential can be very volatile, because it captures the passage of time (a financing element), changes in relative value of different qualities (or grades) of crude to each other (light versus heavy, sweet versus sour), and changes in the attractiveness of locations from the central pricing hub (Cushing, Oklahoma) relative to each other factor. Supply and demand is a critical factor in influencing the changes in basis due to quality and location; for example, an increase in imports of light crude through the Gulf of Mexico corridor will tend to lower the basis differential for light crude (falling prices due to increased supply) and tend to direct domestic supplies of light crude to northern U.S. locations (because the foreign oil fills southern U.S. demand), lowering the basis differential for contracts calling for delivery at northern points (again due to increased supply in the North). The basis differential therefore is not a simple fixed transport charge, but rather a complex and volatile variable in itself. For this reason, energy traders may specialize solely in **trading** basis and seeking the most attractive differential at all times relative to the West Texas Intermediate index—fixing and unfixing basis by selling contracts back to counterparties or entering into offsetting contracts with third parties.

55-83 The whole mixed-attribute contract is a derivative instrument because the basis differential is a market variable in determining the final transaction price under the contract, and this variable has been fixed in the contract, producing an underlying. (If the differential was a market pricing convention that typically would not be expected to change, the contract would be a derivative instrument with very minor, if any, fluctuations in fair value.) The fact that the base commodity price in the contract is variable will help to mute the fluctuations in fair value of the contract as a whole, but there still will be potential changes in fair value of the overall contract because of the fixed-basis element. A party to this contract would need to determine if the normal purchases and normal sales exception applies to the contract. (Paragraph 815-20-55-47 explains why such a mixed-attribute contract that is a derivative instrument would generally not be sufficiently effective if designated as the sole hedging instrument in a **cash flow hedge** of the anticipated purchase or sale of the commodity.)

>> Example 4: Net Settlement at Inception and Throughout a Contract's Life

55-84 As required by paragraphs 815-10-15-110 through 15-118 and 815-10-15-119 through 15-120, respectively, the evaluation of whether a market mechanism exists and whether items to be delivered under a contract are readily convertible to cash must be performed at inception and on an ongoing basis throughout a contract's life. For example, if a market develops, if an entity effects an initial public offering, or if daily trading volume changes for a sustained period of time, then those events need to be considered in reevaluating whether the contract meets the definition of a derivative instrument. Similarly, if events occur after the inception or acquisition of a contract that would cause a contract that previously met the definition of a derivative instrument to cease meeting the criteria (for example, an entity becomes delisted from a national stock exchange), then that contract cannot continue to be accounted for under this Subtopic. The guidance in paragraphs 815-10-15-125 through 15-127 about assessing the significance of transaction costs is not relevant when determining whether such a contract no longer meets the definition of a derivative instrument.

55-85 The following Cases illustrate the importance of ongoing evaluation:

a. Market mechanism develops after contract inception (Case A).

b. Initial public offering makes shares readily convertible to cash after contract inception (Case B).

c. Increased trading activity makes shares readily convertible to cash after contract inception (Case C).

d. Delisting makes shares not readily convertible to cash after contract inception (Case D).

>>> Case A: Market Mechanism Develops After Contract Inception

55-86 A purchase contract for future delivery of commodity X is entered into and, at the inception of the contract, the market for contracts on commodity X is a relatively thin market, such that brokers do not stand ready to buy and sell the contracts. As time passes, the market for commodity X matures and broker-dealer networks develop. The existence of the broker-dealer market and the ability of the purchaser to be relieved of its rights and obligations under the purchase contract are consistent with the characteristics of a market mechanism as discussed beginning in paragraph 815-10-15-110.

Accordingly, the purchase contract will have the characteristics of net settlement as defined by paragraph 815-10-15-110 as broker-dealer networks develop.

>>> Case B: Initial Public Offering Makes Shares Readily Convertible to Cash After Contract Inception

55-87 A nontransferable forward contract on a nonpublic entity's stock that provides only for gross physical settlement is generally not a derivative instrument because the net settlement criteria are not met. If the entity, at some point in the future, accomplishes an initial public offering of its shares and the original contract is still outstanding, the shares to be delivered would be considered to be readily convertible to cash (assuming that the shares under the contract could be rapidly absorbed in the market without significantly affecting the price).

>>> Case C: Increased Trading Activity Makes Shares Readily Convertible to Cash After Contract Inception

55-88 A nontransferable forward contract on a public entity's stock provides for delivery on a single date of a significant number of shares that, at the inception of the contract, would significantly affect the price of the public entity's stock in the market if sold within a few days. As a result, the contract does not satisfy the readily-convertible-to-cash criterion. However, at some later date, the trading activity of the public entity's stock increases significantly. Upon a subsequent evaluation of whether the shares are readily convertible to cash, the number of shares to be delivered would be minimal in relation to the new average daily trading volume such that the contract would then satisfy the net settlement characteristic.

>>> Case D: Delisting Makes Shares Not Readily Convertible to Cash After Contract Inception

55-89 A nontransferable forward contract on a public entity's stock meets the net settlement criteria (as discussed beginning in paragraph 815-10-15-119) in that, at inception of the contract, the shares are expected to be readily convertible to cash when delivered under the contract. Assume that there is no other way that the contract meets the net settlement criteria. The public entity subsequently becomes delisted from the stock exchange, thus causing the shares to be delivered under the contract to no longer be readily convertible to cash.

>> Example 5: Net Settlement Under Contract Terms—Net Share Settlement

55-90 This Example illustrates the concept of **net share settlement**. Entity A has a warrant to buy 100 shares of the common stock of Entity X at $10 a share. Entity X is a privately held entity. The warrant provides Entity X with the choice of settling the contract physically (gross 100 shares) or on a net share basis. The stock price increases to $20 a share. Instead of Entity A paying $1,000 cash and taking full physical delivery of the 100 shares, the contract is net share settled and Entity A receives 50 shares of stock without having to pay any cash for them. (Net share settlement is sometimes described as a **cashless exercise**.) The 50 shares are computed as the warrant’s $1,000 fair value upon exercise divided by the $20 stock price per share at that date.

>> Example 6: Net Settlement Through a Market Mechanism—Ability to Offset Contracts

55-91 The following Cases illustrate whether an ability to offset constitutes a market mechanism as discussed under paragraph 815-10-15-111(b):

a. Market mechanism relieves rights and obligations (Case A).

b. Mechanism to offset does not relieve rights and obligations (Case B).

c. Mechanism to offset relieves rights and obligations (Case C).

55-92 For Cases A and B, assume that the contract would not qualify for the normal purchases and sales exception (as discussed beginning in paragraph 815-10-15-22). Assume also for Cases A and B that the asset associated with the underlying is not readily convertible to cash (as discussed beginning in paragraph 815-10-15-119).

>>> Case A: Market Mechanism Relieves Rights and Obligations

55-93 Assume a broker-dealer stands ready to buy and sell a non-exchange-traded commodity forward contract that would relieve either party to the contract of its obligation to make (or right to accept) delivery of the commodity and its right to receive (or obligation to make) payment under the contract by arranging for a broker-dealer to make or accept delivery and paying the broker-dealer a commission plus any difference between the contract price and the current market price of the commodity.

55-94 The arrangement is considered a market mechanism under paragraph 815-10-15-110.

55-95 In contrast, an agreement whereby the broker-dealer will merely make (or accept) delivery on behalf of an entity does not relieve the entity of its rights and obligations under the contract and is thereby is not a market mechanism.

>>> Case B: Mechanism to Offset Does Not Relieve Rights and Obligations

55-96 Entity A contracts to sell a commodity such as iron ore to Entity B at a fixed price, and Entity B offsets its purchase contract by entering into a separate contract to sell the same commodity to Entity C at a different fixed price, instructing Entity A to deliver directly to Entity C. If Entity A fails to deliver to Entity C, Entity C will legally look to Entity B for remedy, not Entity A. Even absent failure to perform, Entity B will still pay Entity A, and Entity C will pay Entity B, even though Entity A may deliver directly to Entity C. Assume the contracts in this series have an underlying and a notional amount and, therefore, they will at any given point in time have a positive or negative fair value.

55-97 The arrangement is not a market mechanism because Entity B is not relieved of its rights and obligations from the original contract. The original contract survives and is not actually sold. The offsetting contract carries a new set of legal rights and obligations; however, those rights and obligations generally offset, rather than relieve, the original contract's set of legal rights and obligations.

>>> Case C: Mechanism to Offset Relieves Rights and Obligations

55-98 A mercantile exchange that trades futures contracts offers a ready opportunity to enter into an offsetting contract that can precisely cancel the rights and obligations of another futures contract (because the counterparty legally is the futures exchange itself), and thus the mercantile exchange does constitute a market mechanism.

>> Example 7: Net Settlement—Readily Convertible to Cash—Effect of Daily Transaction Volumes

55-99 The following Cases illustrate consideration of the relevance of daily transaction volumes to the characteristic of net settlement in deciding whether, from the investor's perspective, the convertible bond contains an embedded derivative that must be accounted for separately:

a. Single bond with multiple conversion options (Case A)

b. Multiple bonds each having single conversion option (Case B).

55-100 The Cases illustrate that the form of the financial instrument is important; paragraph 815-10-15-123 explains that individual instruments cannot be combined for evaluation purposes to circumvent compliance with the criteria beginning in paragraph 815-10-15-119. Further, paragraph 815-10-15-111(c) explains that contracts shall be evaluated on an individual basis, not on an aggregate-holdings basis.

>>> Case A: Single Bond with Multiple Conversion Options

55-101 Investor A holds a convertible bond classified as an available-for-sale security under Topic 320. The bond has all of the following additional characteristics:

a. It is not exchange-traded and can be converted into common stock of the debtor, which is traded on an exchange.

b. It has a face amount of $100 million and is convertible into 10 million shares of common stock.

c. It may be converted in full or in increments of $1,000 immediately or at any time during the next 2 years.

d. If it were converted in a $1,000 increment, Investor A would receive 100 shares of common stock.

55-102 Assume further that the market condition for the debtor's stock is such that up to 500,000 shares of its stock can be sold rapidly without the share price being significantly affected.

55-103 The embedded conversion option meets the criteria in paragraph 815-10-15-83(a) through (b) but does not meet the criteria in paragraphs 815-10-15-100 and 815-10-15-110, in part because the option is not traded and it cannot be separated and transferred to another party.

55-104 It is clear that the embedded equity conversion feature is not clearly and closely related to the debt host instrument.

55-105 The bond may be converted in $1,000 increments and those increments, by themselves, may be sold rapidly without significantly affecting price, in which case the criteria discussed beginning in paragraph 815-10-15-119 would be met. However, if the holder simultaneously converted the entire bond, or a significant portion of the bond, the shares received could not be readily converted to cash without incurring a significant block discount.

55-106 From Investor A's perspective, the conversion option should be accounted for as a compound embedded derivative in its entirety, separately from the debt host, because the conversion feature allows the holder to convert the convertible bond in 100,000 increments and the shares converted in each increment are readily convertible to cash under the criteria discussed beginning in paragraph 815-10-15-119. Investor A need not determine whether the entire bond, if converted, could be sold without affecting the price.

55-107 Because the $100 million bond is convertible in increments of $1,000, the convertible bond is essentially embedded with 100,000 equity conversion options, each with a notional amount of 100 shares. Each of the equity conversion options individually has the characteristic of net settlement discussed beginning in paragraph 815-10-15-119 because the 100 shares to be delivered are readily convertible to cash. Because the equity conversion options are not clearly and closely related to the host debt instrument, they must be separately accounted for. However, because an entity cannot identify more than 1 embedded derivative that warrants separate accounting, the 100,000 equity conversion options must be bifurcated as a single compound derivative. (Paragraphs 815-15-25-7 through 25-10 say an entity is not permitted to account separately for more than one derivative feature embedded in a single hybrid instrument.)

55-108 There is a substantive difference between a $100 million convertible debt instrument that can be converted into equity shares only at one time in its entirety and a similar instrument that can be converted in increments of $1,000 of tendered debt; the analysis of the latter should not presume equality with the former.

>>> Case B: Multiple Bonds Each Having Single Conversion Option

55-109 Investor B has 100,000 individual $1,000 bonds that each convert into 100 shares of common stock. Assume those bonds are individual instruments but they were issued concurrently to Investor B.

55-110 From Investor B's perspective, the individual bonds each contain an embedded derivative that must be separately accounted for. Each individual bond is convertible into 100 shares, and the market would absorb 100 shares without significantly affecting the price of the stock.

>> Example 8: Net Settlement—Effect of Multiple Deliveries

55-111 This Example illustrates the effect of multiple deliveries on the consideration of net settlement described in Section 815-10-15. An entity has a five-year supply contract that obligates it to deliver at a specified price each month a specified quantity of a commodity that has interchangeable (fungible) units and for which quoted prices are available in an active market. However, the quoted prices that are available are for either a spot sale or a forward sale of the commodity with a maturity of 12 months or less. In other words, the forward market for the commodity beyond the next 12 months does not currently exist and is not expected to develop. There are brokers who are willing to take over the rights and obligations relating to the next 12 months of the supply contract, but not for periods beyond the next 12 months. With respect to the active spot market for the commodity, it can rapidly absorb the quantity specified in the supply contract for each individual month but not the total quantity for the entire five-year period in a single transaction (or in multiple transactions over the course of a day or so).

55-112 The supply contract does not contain a net settlement provision as described in paragraphs 815-10-15-100 through 15-109.

55-113 The 5-year commodity supply contract does not meet the net settlement characteristic in paragraph 815-10-15-110 at its inception because there is no market mechanism to net settle the entire 5-year contract—the forward market exists only for the next 12 months while the contract period is for the next 5 years. Accordingly, there is no market mechanism for the entity to settle the entire contract on a net basis. However, if the contract contained contractually separable increments that individually met the net settlement criteria, those contractually separable increments may be embedded derivatives. In this instance, the brokers in the market will not assume the rights and obligations of the entire contract. Note that the market mechanism in the net settlement characteristic in paragraph 815-10-15-110 relates to whether a party to the contract can be relieved of its rights and obligations under the entire contract, not merely whether an independent broker in the market stands ready to assume the selected rights and obligations.

55-114 The definition of a derivative instrument in this Subtopic must be applied based on the actual terms of the contract, including its maturity date and the total quantity of the underlying. This Subtopic does not permit bifurcation of a 5-year contract into 5 annual contracts, 60 monthly contracts, or 1,826 daily contracts in an attempt to assert that only a portion of the contract meets the definition of a derivative instrument. To do so would be to disregard one of the critical terms of the contract, that is, the term to the maturity date of the contract.

55-115 Based on the guidance in paragraph 815-10-15-3, the five-year commodity supply contract in the example, would, at the beginning of the fifth year, be reevaluated to determine whether the contract meets the net settlement characteristic in paragraph 815-10-15-110 and would likely meet the characteristic because a forward market for the contract would then exist for the remaining term of the contract.

55-116 The five-year commodity supply contract meets the net settlement characteristic as discussed beginning in paragraph 815-10-15-119. The criterion discussed beginning in that paragraph is met because an active spot market for the commodity exists today and is expected to be in existence in the future for each delivery date (for example, for quantities to be delivered each day or each month for the next five years) under the multiple delivery supply contract. The spot market can rapidly absorb the quantities specified for each monthly delivery without significantly affecting the price. The fact that the spot market may not be able to absorb within a few days the quantity specified in the entire five-year contract is irrelevant because the performance of the contract is spread out over a five-year period and, therefore, is not expected to occur within a few days.

55-117 This Example does not address whether or not the contract would qualify for the normal purchases and normal sales scope exception as discussed beginning in paragraph 815-10-15-22.

>> Example 9: Regular-Way Security Trades—Shortest-Period Criterion

55-118 This Example illustrates the application of paragraph 815-10-15-17(c). Assume a variety of forward contracts exists for a when-issued security, such as a to-be-announced security, that provides a choice of settlement dates for each of the next three months (such as November, December, or January). An entity enters into a forward contract to purchase the to-be-announced security, which will otherwise meet the qualifications of paragraphs 815-10-15-13 through 15-20, that requires delivery in the second-nearest month (such as December), not the nearest month (such as November). The entity may not apply the **regular-way security trade** exception to the forward purchase contract that requires delivery of the to-be-announced security in the second-nearest month (such as December).

55-119 In this Example, the to-be-announced security (identified by issuer, contractual maturity of the underlying loans, and the net coupon, such as 30-year Government National Mortgage Association [GNMA] securities bearing interest of 7 percent) is available under multiple settlement periods (that is, the standardized settlement date in November, December, or January). The regular-way security trade exception may be applied only to forward contracts for that to-be-announced security that require delivery in November, the shortest period permitted for that type of to-be-announced security. The December and January settlement to-be-announced forward contracts must be accounted for as derivative instruments under this Subtopic.

55-120 If the forward contracts in this Example meet the hedge accounting criteria, they may be designated in cash flow hedges of the anticipated purchase of the securities, as discussed in paragraph 815-20-25-22.

>> Example 10: Normal Purchases and Normal Sales—Application to Forward Contracts that Contain Optionality Features

55-121 In some circumstances, an option may be combined with a forward contract. In some instances, the optionality feature in the forward contract can modify the quantity of the asset to be delivered under the contract. In other cases, the optionality feature in the forward contract can modify only the price to be paid or the timing of the delivery.

55-122 This Example presents three Cases of forward contracts with optionality features:

a. Optionality feature involving price floor (cash-settled put option) written by purchaser and price cap (cash-settled call option) written by seller (Case A)

b. Optionality feature involving cash-settled put option written by purchaser (Case B)

c. Optionality feature involving physically settled put option written by purchaser (Case C).

55-123 In Cases A, B, and C, the optionality feature must be analyzed to determine whether it could modify the quantity of the asset to be delivered under the contract. In doing so, the conclusion as to whether the contract is eligible for the normal purchases and normal sales scope exception applies in the same way to both counterparties—the purchaser and the writer of the option (within the forward contract).

55-124 The contracts addressed in this Example do not have a price based on an underlying that is not clearly and closely related to the asset being purchased, nor do they require cash settlement of gains or losses as stipulated in paragraph 815-10-15-22.

55-125 Paragraph 815-10-15-43 explains that, if the optionality feature in the forward contract can modify the quantity of the asset to be delivered under the contract, but that option feature has expired or has been completely exercised (even if delivery has not yet occurred), there is no longer any uncertainty as to the quantity to be delivered under the forward contract. That paragraph explains that, following such expiration or exercise, the forward contract would be eligible for designation as a normal purchase or normal sale, provided that the other conditions in paragraph 815-10-15-22 are met.

>>> Case A: Optionality Feature Involving Price Floor (Cash-Settled Put Option) Written by Purchaser and Price Cap (Cash-Settled Call Option) Written by Seller

55-126 Entity A enters into a forward contract to purchase on a specified date a specified quantity of a raw material that is readily convertible to cash. The purchase price is the current market price on the date of purchase, not to exceed a specified maximum price (a cap) nor to be less than a specified minimum price (a floor).

55-127 In this Case, the optionality feature cannot modify the quantity to be delivered; thus, the contract is eligible to qualify for the normal purchases and normal sales scope exception.

>>> Case B: Optionality Feature Involving Cash-Settled Put Option Written by Purchaser

55-128 Entity B enters into a forward contract to purchase on a specified date a specified quantity of a raw material that is readily convertible to cash. The contract's purchase price is a fixed amount per unit that is below the current forward price; however, if the market price on the date of purchase has fallen below a specified level, Entity B's purchase price would be adjusted to a higher fixed amount significantly in excess of the current forward price at the inception of the contract. (The contract entered into by Entity B is a compound derivative consisting of a forward contract to purchase raw material at the original fixed price and a written option that obligates Entity B to purchase the raw material for the higher adjusted price if the market price of the raw material falls below the specified level. In exchange for the written option, Entity B received a premium representing the difference between the purchase price in the contract and the forward market price of the raw material at the inception of the contract.)

55-129 The forward purchase contract in this Case is eligible to qualify for the normal purchases and normal sales scope exception because the optionality feature in the contract cannot modify the quantity to be delivered.

>>> Case C: Optionality Feature Involving Physically Settled Put Option Written by Purchaser

55-130 Entity C enters into a forward contract to purchase on a specified date a specified quantity of a raw material that is readily convertible to cash. The contract's purchase price is a fixed amount per unit that is below the current forward price. However, if the market price on the date of purchase has fallen below a specified level that is below the contract's fixed purchase price, Entity C would be required to purchase a specified additional quantity of the raw material at the contract's fixed purchase price (which is above the current market price on the date of purchase). (The contract entered into by Entity C is a compound derivative consisting of a forward contract to purchase raw material at the original fixed price and a written option that obligates Entity C to purchase additional quantities of the raw material at an above-market price if the market price of the raw material falls below the specified level.)

55-131 The contract in this Case is not eligible to qualify for the normal purchases and normal sales scope exception because the optionality feature in the contract can modify the quantity of the asset to be delivered under the contract.

>> Example 11: Certain Insurance Contracts—Dual-Trigger Property-Casualty Reinsurance Contract

55-132 This Example illustrates a reinsurance contract with a provision that adjusts the retention amount downward based on the performance of a specified equity index as discussed in paragraph 815-10-55-40(g). Reinsurer enters into a reinsurance contract with Reinsured to indemnify Reinsured for certain insured losses in excess of a defined retention. The intent of the coverage is to protect Reinsured from significant or catastrophic property-casualty losses. The coverage would include a retention amount that would be adjusted downward according to a scale tied to the Dow Jones Industrial Average. If a catastrophic loss occurs, Reinsured would likely have to liquidate some of its investment holdings (bonds or equities) to pay its losses, which exposes Reinsured to significant investment risk in a down market. The adjustment feature provides protection against investment risk by allowing Reinsured to recover more losses in a declining investment market. Reinsured has no ability to receive appreciation in the Dow Jones Industrial Average.

a. Parties: Reinsurer and Reinsured

b. Coverage: Property losses

c. Period: January 1, X1, through December 31, X1

d. Retention: $20 million per occurrence, adjusted downward in the same percentage as period-to-date (from January 1, X1, to measurement date) decreases in the Dow Jones Industrial Average, not to exceed 50%

e. Limit: $15 million per occurrence, $15 million per annum

f. Premium: $1.4 million per annum.

55-133 Both of the following scenarios assume that the Dow Jones Industrial Average on January 1, X1, was 10,000.

	Scenario 1		Scenario 2	
	7/1/X1	9/1/X1	7/1/X1	9/1/X1
Property-casualty losses	$ 25,000,000	$ 25,000,000	$ 15,000,000	$ 15,000,000
Dow Jones Industrial Average	10,000	8,000	10,000	7,000
Retention	20,000,000	16,000,000	20,000,000	14,000,000
Recovery under contract	5,000,000	9,000,000	-	1,000,000

55-133A As discussed in paragraph 815-10-55-38, the contract qualifies for the exception in paragraph 815-10-15-53(b) for traditional property and casualty contracts and, so, the dual-trigger variable in the contract is not separated and accounted for separately as a derivative instrument.

>> Example 12: Certain Insurance Contracts—Essentially Assured Amounts

55-134 This Example illustrates the guidance in paragraph 815-10-15-55(c) for a contract involving essentially assured amounts. Insured Entity has received at least $2 million in claim payments from its insurance entity (or at least $2 million in claim payments were made by the insurance entity on the insured entity's behalf) for each of the previous 5 years related to specific types of insured events that occur each year. That minimum level of coverage would not qualify for the insurance contract scope exclusion.

>> Example 13: Certain Contracts that Are Not Traded on an Exchange—Distinguishing Between Physical and Financial Variables

55-135 The following Cases illustrate the difference between physical and financial variables for purposes of applying the scope exception in paragraph 815-10-15-59(a):

a. Contract containing both a physical variable and a financial variable (Case A)

b. Contract containing only a physical variable (Case B)

c. Contract containing only a financial variable (Case C).

>>> Case A: Contract Containing Both a Physical Variable and a Financial Variable

55-136 A contract's payment provision specifies that the issuer will pay to the holder $10,000,000 if aggregate property damage from all hurricanes in the state of Florida exceeds $50,000,000 during the year 2001.

55-137 In this Case, the payment under the contract occurs if aggregate property damage from all hurricanes in the state of Florida exceeds $50,000,000 during the year 2001. The contract contains 2 underlyings—a physical variable (that is, the occurrence of at least 1 hurricane) and a financial variable (that is, aggregate property damage exceeding a specified or determinable dollar limit of $50,000,000). Because of the presence of the financial variable as an underlying, the derivative instrument does not qualify for the scope exclusion in paragraph 815-10-15-59(a).

>>> Case B: Contract Containing Only a Physical Variable

55-138 A contract specifies that the issuer pays the holder $10,000,000 in the event that a hurricane occurs in Florida in 2001.

55-139 If a contract contains a payment provision that requires the issuer to pay to the holder a specified dollar amount that is linked solely to a climatic or other physical variable (for example, wind velocity or flood-water level), paragraph 815-10-15-59(a) provides that the contract is not subject to the requirements of this Subtopic.

55-140 In this Case, the payment provision is triggered if a hurricane occurs in Florida in 2001. The underlying is a physical variable (that is, occurrence of a hurricane). Therefore, the contract qualifies for the scope exclusion in paragraph 815-10-15-59(a).

>>> Case C: Contract Containing Only a Financial Variable

55-141 A contract would be a traditional insurance contract that is excluded from the scope of this Subtopic under the exception discussed beginning in paragraph 815-10-15-52if the contract requires a payment only if the holder incurs a decline in revenue or an increase in expense as a result of an event (for example, a hurricane) and the amount of the payoff is solely compensation for the amount of the holder's loss.

>> Example 14: Certain Contracts that Are Not Traded on an Exchange—Nonfinancial Asset of One of the Parties to a Contract

55-142 This Example addresses the application of the scope exception in paragraph 815-10-15-59(b). Entity A enters into a non-exchange-traded forward contract to buy from Entity B 100 interchangeable (fungible) units of a nonfinancial asset that are not readily convertible to cash. The contract permits net settlement through its default provisions. Entity A already owns more than 100 units of that nonfinancial asset, but Entity B does not own any units of that nonfinancial asset.

55-143 The scope exception in paragraph 815-10-15-59(b) does not apply to the accounting for the contract for both of the following reasons:

a. The contract's settlement is based on an underlying associated with a nonfinancial asset that is not unique (because it is based on the price or value of an interchangeable, nonfinancial unit).

b. The entity that owns the nonfinancial asset related to the underlying (that is, Entity A) is the buyer of the units and thus would benefit from the forward contract if the price or value increases.

Consequently, neither Entity A nor Entity B qualifies for the scope exception in paragraph 815-10-15-59(b).

>> Example 15: Contracts Involving an Entity's Own Equity—Derivative Instrument Indexed to Both the Issuer's Equity Price and a Foreign Currency Exchange Rate

55-144 This Example illustrates the application of paragraph 815-10-15-74(a). Assume that Entity A, whose functional currency is the U.S. dollar (USD), and the Counterparty enter into a one-year forward contract that is indexed to Entity A's common share price translated into euros (EUR) at spot rates and that will be settled in net shares of Entity A. If the value of Entity A's common stock in EUR appreciates, then Entity A will receive from the Counterparty a number of shares of Entity A stock equal to the appreciation. If the value of Entity A's stock in EUR depreciates, then Entity A will pay Counterparty a number of shares of Entity A stock equal to the depreciation. Thus, the forward contract is indexed both to Entity A's common stock and the USD/EUR currency exchange rates.

55-145 Assume further that Entity A's common stock price at inception is USD 100 per share, and the forward exchange rate of USD to EUR is 1:1.2. The strike price of the forward contract is then set at EUR 120. One year later, the share price of Entity A rises to USD 150, and the spot exchange rate of USD to EUR is 1:1. Then, the share price of Entity A translated is EUR 150. At settlement, Entity A will receive from the Counterparty 20 shares of its own common stock according to the following calculation:

(EUR 150 – EUR 120) × 100 shares = EUR 3,000

EUR 3,000 ÷ EUR 150 per share = 20 shares

55-146 A forward contract that is indexed to both an entity's own stock and currency exchange rates should be accounted for as a derivative instrument in its entirety by both parties to the contract if the contract in its entirety meets the definition of a derivative instrument in paragraphs 815-10-15-83 through 15-139.

55-147 Paragraph 815-20-25-71(a)(2) prohibits separating a derivative instrument into components based on different risks. Consequently, it would be inappropriate to bifurcate the forward contract described in this Example according to its differing exposures to changes in Entity A's stock price and changes in the USD/EUR exchange rate and then attempt to apply paragraph 815-10-15-74(a) only to the exposure to changes in Entity A's stock price. That paragraph must be applied to an entire contract.

>> Example 16: Prepaid Interest Rate Swap

55-148 The following Cases illustrate the accounting for a **prepaid interest rate swap**:

a. Prepaid interest rate swap (Case A)

b. Prepaid interest rate swap that must be bifurcated (Case B)

c. Prepaid interest rate swap variation (Case C).

55-149 Cases A, B, and C assume both parties to the contract have the same AA credit rating. If the party that is obligated to make the variable payments has a different credit rating (such as BBB), the effect of that different creditworthiness should be reflected in the discount rate used to determine the present value of the amounts payable by that party under the contract.

>>> Case A: Prepaid Interest Rate Swap

55-149A Case A illustrates the application of paragraph 815-10-15-97.

55-150 Entity A pays $1,228,179 to enter into a prepaid interest rate swap contract that requires the counterparty to make quarterly payments based on a $10,000,000 **effective notional amount** and a variable interest rate equal to 3-month U.S. dollar- (USD-) denominated **London Interbank Offered Rate (LIBOR)**. The prepaid interest rate swap contract is characterized as an at-the-money 2-year interest rate swap with a $10,000,000 notional amount, a fixed interest rate of 6.65 percent, and a variable interest rate of the 3-month USD LIBOR (that is, the same terms as the swap in Example 6 [see paragraph 815-30-55-24], which has a zero fair value at inception), for which the fixed leg has been fully prepaid. The amount of $1,228,179 is the present value of the 8 quarterly fixed payments of $166,250—that is, $10,000,000 x LIBOR swap rate of 6.65 percent / 4). The present value is based on the implied spot rate for each of the 8 payment dates under the assumed initial yield curve in that Example.

55-151 The prepaid interest rate swap contract could also be characterized as a 2-year, structured note (contract) with a principal amount of $1,228,179 and loan payments based on a formula equal to 8.142 times 3-month USD LIBOR. (Note that 8.142 = 10,000,000 / 1,228,179.) The terms of the structured note specify no repayment of the principal amount either over the two-year term of the structured note or at the end of its term. The 8.142 leverage factor causes the **effective notional amount** of the structured note also to be $10,000,000.

55-152 The prepaid interest rate swap contract meets the characteristic of a derivative instrument in paragraph 815-10-15-83(a) because it has an underlying and an effective notional amount. It also meets the characteristic of a derivative instrument in paragraph 815-10-15-83(c) because neither party is required to deliver an asset that is associated with the underlying and that has a principal amount, stated amount, face value, number of shares, or other denomination that is equal to the notional amount (see paragraph 815-10-15-100). At issue is whether the prepaid interest rate swap contract meets the characteristic of a derivative instrument described in paragraph 815-10-15-83(b) related to the initial net investment in a contract.

55-153 The prepaid interest rate swap contract does not meet the definition of a derivative instrument because it does not satisfy the characteristic of a derivative instrument described in paragraph 815-10-15-83(b) related to the initial net investment in the contract. Specifically, the prepaid interest rate swap contract is excluded from the definition of a derivative instrument by the clarifying guidance on initial net investment beginning in paragraph 815-10-15-94. The prepaid interest rate swap contract in this Case requires an initial net investment that is determined by applying the effective notional amount of $10,000,000 to the underlying (3-month USD LIBOR) for each of the 8 payment dates specified by the terms of the contract. The initial net investment of $1,228,179 required to enter into the contract is the present value of the 8 quarterly fixed-leg swap payments of $166,250—that is, $10,000,000 × 6.65 percent / 4. Because the LIBOR swap rate reflects the applicable portions of the forward three-month USD LIBOR rate curve for the settlement dates that relate to the specific payments under the swap, the initial net investment is considered to have been determined by applying the effective notional amount to the underlying and then adjusted for the time value of money.

55-154 That is, as stated in paragraph 815-10-15-97, a contract that requires an initial net investment in the contract that is in excess of the amount determined by applying the effective notional amount to the underlying is also not a derivative instrument in its entirety.

55-155 See related analysis in Case B.

>>> Case B: Prepaid Interest Rate Swap that Must Be Bifurcated

55-156 Entity B pays $1,782,245 to enter into a prepaid interest rate swap contract that requires the counterparty to make quarterly payments based on a $10,000,000 effective notional amount and a variable interest rate equal to the sum of 3-month USD LIBOR and 300 basis points. The prepaid interest rate swap contract is characterized as an at-the-money 2-year interest rate swap with a $10,000,000 notional amount, a fixed interest rate of 9.65 percent, and a variable interest rate of 3-month USD LIBOR plus 300 basis points, for which the fixed leg has been fully prepaid. The amount of $1,782,245 is the present value of the 8 quarterly fixed payments of $241,250—that is, $10,000,000 x the fixed rate of 9.65 percent / 4. The present value is based on the implied spot rate for each of the 8 payment dates under the assumed initial yield curve in Example 6 (see paragraph 815-30-55-24).

55-157 In this Case, the underlying is 3-month USD LIBOR (even though the variable rate is 3-month USD LIBOR plus 300 basis points) and the amount determined by applying the effective notional amount to the underlying (and then adjusted for the time value of money) is $1,228,179, the same as in Case A. The initial net investment for the prepaid interest rate swap in this Case is $1,782,245, an amount that is in excess of $1,228,179—the amount referred to in paragraph 815-10-15-95 as being determined by applying the effective notional amount to the underlying. Consequently, the prepaid interest rate swap in this Case is not a derivative instrument in its entirety.

55-158 Because the prepaid interest rate swap contract is not a derivative instrument in its entirety, it should be evaluated to determine whether the contract contains an embedded derivative that, pursuant to paragraph 815-15-25-1, requires separate accounting as a derivative instrument.

55-159 The prepaid interest rate swap contracts in Cases A and B are hybrid instruments that are composed of a debt instrument (the host contract) and an embedded derivative based on three-month USD LIBOR.

55-160 The embedded derivative contains a provision that could result in the investor (that is, the entity receiving the variable payments) not recovering substantially all of its initial recorded investment in the hybrid instrument under its contractual terms. That is, LIBOR may possibly decrease to such a level that the investor may not recover its initial net investment.

55-161 Therefore, the embedded interest rate swap is not considered clearly and closely related to the host contract under paragraph 815-15-25-26(a) with respect to the accounting by both parties to the contract.

55-162 That paragraph states that if an embedded interest rate derivative contains a provision that permits any possibility whatsoever that the investor's (or creditor's) undiscounted net cash inflows over the life of the instrument would not enable the investor to recover substantially all of its initial recorded investment in the hybrid instrument under its contractual terms, the embedded derivative and the debt host contract are not clearly and closely related.

55-163 Therefore, unless the contracts described in Cases A and B are remeasured at fair value with changes in value recorded in earnings as they occur, both prepaid interest rate swap contracts should be bifurcated by both parties to the contract into a debt host contract whose initial carrying amount is equal to the fair value of the prepaid interest rate swap contracts ($1,228,179 and $1,782,245, respectively) and an interest rate swap whose fair value is zero at inception of the hybrid instrument, consistent with the guidance in paragraph 815-15-30-4.

55-164 The bifurcated interest rate swap contains no financing element that would require special cash flow reporting under paragraphs 815-10-45-11 through 45-15.

55-165 The reporting of the cash flows for the related debt host contract would be subject to the provisions of Topic 230.

>>> Case C: Prepaid Interest Rate Swap Variation

55-166 Entity C pays $1,043,490 to enter into a contract that requires the counterparty to make quarterly payments based on a $10,000,000 effective notional amount and a variable interest rate equal to the 3-month USD LIBOR minus 100 basis points. In the event that 3-month USD LIBOR is less than 100 basis points, Entity C is obligated to make payments to the counterparty. The prepaid interest rate swap contract is characterized as an at-the-money 2-year interest rate swap with a $10,000,000 notional amount, a fixed interest rate of 5.65 percent, and a variable interest rate of 3-month USD LIBOR minus 100 basis points, for which the fixed leg has been fully prepaid. The amount of $1,043,490 is the present value of the 8 quarterly fixed payments of $141,250—that is, $10,000,000 x the fixed rate of 5.65 percent / 4. The present value is based on the implied spot rate for each of the 8 payment dates under the assumed initial yield curve in Example 6 (see paragraph 815-30-55-24).

55-167 In this Case, the underlying is 3-month USD LIBOR (even though the variable rate is 3-month USD LIBOR minus 100 basis points) and the amount determined by applying the effective notional amount to the underlying (and then adjusted for the time value of money) is $1,228,179, the same as in Case A. The initial net investment for the contract in this Case is $1,043,490, an amount that is less than $1,228,179. (The contract is considered not to be fully prepaid because Entity C has not prepaid all obligations imposed on it by the contract; Entity C is obligated to make future payments under certain conditions, as noted in the preceding paragraph.) The difference of $184,689 (about 15 percent) is more than a nominal amount if compared to $1,228,179. Consequently, the contract in this Case is a derivative instrument in its entirety.

55-168 The amounts in this Case are not intended to provide quantitative guidance for distinguishing between being less by more than a nominal amount and being less by only a nominal amount. The initial net investment for a contract could be less than the amount determined by applying the effective notional amount to the underlying by a percentage lower than 15 percent and still be considered to be *less, by more than a nominal amount* under paragraph 815-10-15-96.

>> Example 17: Synthetic Guaranteed Investment Contract

55-169 Paragraph 815-10-55-63 explains that, from the perspective of the issuer of the contract, synthetic guaranteed investment contracts are derivative instruments as defined in this Subtopic. For a background discussion of synthetic guaranteed investment contracts, including a comparison with traditional and benefit-responsive guaranteed investment contracts, see paragraph 815-10-05-8. This Example illustrates the contractual terms of a synthetic guaranteed investment contract.

55-170 On January 1, 2000, ABC issues a synthetic guaranteed investment contract to the XYZ Pension Fund. XYZ has a fixed return plan option that provides participants with a guaranteed 6 percent return for a 3-year period. The plan's invested assets consist of one public, $50 million par value, 6.50 percent, AA-rated, fixed-rate, noncallable, semiannual payment bond that matures at par on December 31, 2002. (A simplistic assumption that is unrealistic because the plan would diversify its exposure by owning various bonds.) XYZ acquired the bond at par on January 1, 2000. ABC is charging XYZ 12 basis points per year on the $50 million plan balance, or $60,000 per year. Assume that the market yield applicable to this bond immediately increased to 8 percent and caused the following events to occur:

a. The bond price decreased to $48,342,000.

b. All plan participants requested that their funds be transferred to another plan fund.

c. XYZ exercised its put option to transfer the bond to ABC in exchange for a $50 million cash payment.

d. ABC honored its synthetic guaranteed investment contract obligation and acquired the bond for $50 million.

e. XYZ used the $50 million proceeds to make the transfer of participant funds to the newly selected fund.

>> Example 18: Recognition—Viewing Separate Transactions as a Unit

55-171 The following Cases illustrate when separate transactions should be viewed as a unit:

a. Swaps that should be viewed as a unit (Case A)

b. Swaps that should not be viewed as a unit (Case B).

55-172 In Cases A and B, an entity that is the issuer of fixed-rate debt enters into an interest rate swap (Swap 1) and designates it as a hedge of the fair value exposure of the debt to **interest rate risk**. The **fair value hedge** of the fixed-rate debt involving Swap 1 meets the required criteria in Section 815-20-25 to qualify for hedge accounting. The entity simultaneously enters into a second interest rate swap (Swap 2) with the same counterparty with the exact mirror terms as Swap 1 and does not designate Swap 2 as part of that hedging relationship.

>>> Case A: Swaps that Should Be Viewed as a Unit

55-173 If Swap 2 was entered into in contemplation of Swap 1 and the overall transaction was executed for the sole purpose of obtaining fair value accounting treatment for the debt, it should be concluded that the purpose of the transaction was not to enter into a bona fide hedging relationship involving Swap 1. In that instance, the two swaps should be viewed as a unit and the entity would not be permitted to adjust the carrying value of the debt to reflect changes in fair value attributable to interest rate risk.

>>> Case B: Swaps that Should Not Be Viewed as a Unit

55-174 If Swap 2 was not entered into in contemplation of Swap 1 or there is a substantive business purpose for structuring the transactions separately, and if both Swap 1 and Swap 2 were entered into in arm's-length transactions (that is, at market rates), then the swaps should not be viewed as a unit. For example, some entities have a policy that requires a centralized dealer subsidiary to enter into third-party derivative contracts on behalf of other subsidiaries within the entity to hedge the subsidiaries' interest rate risk exposures. The dealer subsidiary also enters into **internal derivative** contracts with those subsidiaries to operationally track those hedges within the entity. (As discussed beginning in paragraph 815-20-25-61, internal derivatives do not qualify in consolidated financial statements as hedging instruments for risks other than **foreign exchange risk**.)

>> Example 19: Recognition—Viewing Separate Transactions as a Unit for Purposes of Evaluating Net Settlement

55-175 The following Cases illustrate the guidance in paragraphs 815-10-15-8 through 15-9 on whether separate transactions should be viewed as a unit for purposes of evaluating the characteristic of net settlement:

a. Two forward contracts viewed as a unit (Case A)

b. Borrowing and lending transactions viewed as a unit (Case B).

55-176 In Cases A and B, the transactions were entered into with the same counterparty, were executed simultaneously, and relate to the same risk.

>>> Case A: Two Forward Contracts Viewed as a Unit

55-177 Entity A enters into a forward contract to purchase 1,500,000 units of a particular commodity in 3 months for $10 per unit. Simultaneously, Entity A enters into a forward contract to sell 1,400,000 units of the same commodity in 3 months for $10 per unit. The purchase and sale contracts are with the same counterparty. There is no market mechanism to facilitate net settlement of the contracts, and both contracts require physical delivery of the commodity at the same location in exchange for the forward price. On a gross basis, neither contract is readily convertible to cash because the market cannot rapidly absorb the specified quantities without significantly affecting the price. However, on a net basis, Entity A has a forward purchase contract for 100,000 units of the commodity, a quantity that can be rapidly absorbed by the market and thus is readily convertible to cash.

55-178 In this Case, it appears that there is no clear business purpose for structuring the transactions separately. Therefore, the facts point to the conclusion that the purchase and sale were done as a structured transaction with one counterparty to circumvent the definition of a derivative instrument under this Subtopic. However, if the facts indicated that both contracts required physical delivery of the commodity at different locations that are significantly distant from one another and each counterparty is expected to deliver the gross amount of the commodity to the other, those facts may reflect a valid substantive business purpose for the transaction.

>>> Case B: Borrowing and Lending Transactions Viewed as a Unit

55-179 Entity C loans $100 to Entity B. The loan has a 5-year bullet maturity and an 8 percent fixed interest rate, payable semiannually. Entity B simultaneously loans $100 to Entity C. The loan has a five-year bullet maturity and a variable interest of LIBOR, payable semiannually and reset semiannually. Entity B and Entity C enter into a netting arrangement that permits each party to offset its rights and obligations under the agreements. The netting arrangement meets the criteria for offsetting in Subtopic 210-20. The net effect of offsetting the contracts for both Entity B and Entity C is the economic equivalent of an interest rate swap arrangement, that is, one party receives a fixed interest rate from, and pays a variable interest rate to, the other.

55-180 In this Case, based on the facts presented, there is no clear business purpose for the separate transactions, and they should be accounted for as an interest rate swap under this Subtopic. However, in other instances, a clear substantive business purpose for entering into two separate loan transactions may exist (for example, as a means to overcome foreign currency expatriation restrictions).

>> Example 20: Disclosure of Qualitative Information by Underlying Risk

55-181 This Example illustrates the disclosure of objectives and strategies for using derivative instruments by underlying risk, including volume of activity (see paragraph 815-10-50-1(d)), and also includes a nontabular presentation of the quantitative information about the hedged items in fair value hedges (see paragraph 815-10-50-4C(a)):

The Entity is exposed to certain risks relating to its ongoing business operations. The primary risks managed by using derivative instruments are commodity price risk and interest rate risk. Forward contracts on various commodities are entered into to manage the price risk associated with forecasted purchases of materials used in the Entity's manufacturing process. Interest rate swaps are entered into to manage interest rate risk associated with the Entity's fixed-rate borrowings.

FASB ASC 815-10 requires that an entity recognize all derivative instruments as either assets or liabilities at fair value in the statement of financial position. In accordance with that Subtopic, the Entity designates commodity forward contracts as cash flow hedges of forecasted purchases of commodities and interest rate swaps as fair value hedges of fixed-rate borrowings.

Cash flow hedges

For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative instrument representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

As of December 31, 20XX, the Entity had the following outstanding commodity forward contracts that were entered into to hedge forecasted purchases:

Commodity	Number of Bushels (000s)
Wheat	XX,XXX
Corn	XX,XXX
Oats	XXX

Fair value hedges

For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings. The Entity includes the gain or loss on the hedged items (that is, fixed-rate borrowings) in the same line item—interest expense—as the offsetting loss or gain on the related interest rate swaps as follows:

Income Statement Classification	Gain/(Loss) on Swaps	Gain/(Loss) on Borrowings
Interest expense	$(XXX)	$XXX

As of December 31, 20XX, the total notional amount of the Entity's receive-fixed/pay-variable interest rate swaps was $XXX million.

>> Example 21: Tabular Disclosures of Derivative Instruments

55-182 This Example illustrates the disclosure in tabular format of fair value amounts of derivative instruments and gains and losses on derivative instruments as required by paragraphs 815-10-50-4A through 815-10-50-4D:

Fair Values of Derivative Instruments

In millions of dollars	Asset Derivatives				Liability Derivatives			
As of December 31	2010		2009		2010		2009	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments under FASB ASC 815-20								
Interest rate contracts	Other assets	$XX,XXX	Other assets	$XX,XXX	Other liabilities	$XX,XXX	Other liabilities	$XX,XXX
Foreign exchange contracts	Other assets	XX,XXX	Other assets	XX,XXX	Other liabilities	XX,XXX	Other liabilities	XX,XXX
Equity contracts	Other assets	XX,XXX	Other assets	XX,XXX	Other liabilities	XX,XXX	Other liabilities	XX,XXX
Commodity contracts	Other assets	XX,XXX	Other assets	XX,XXX	Other liabilities	XX,XXX	Other liabilities	XX,XXX
Credit contracts	Other assets	XX,XXX	Other assets	XX,XXX	Other liabilities	XX,XXX	Other liabilities	XX,XXX
Other contracts	Other assets	XX,XXX	Other assets	XX,XXX	Other liabilities	XX,XXX	Other liabilities	XX,XXX
Total derivatives designated as hedging instruments under Subtopic 815-20		$XX,XXX		$XX,XXX		$XX,XXX		$XX,XXX
Derivatives not designated as hedging instruments under Subtopic 815-20 [(a)]								
Interest rate contracts	Other assets	$XX,XXX	Other assets	$XX,XXX	Other liabilities	$XX,XXX	Other liabilities	$XX,XXX
Foreign exchange contracts	Other assets	XX,XXX	Other assets	XX,XXX	Other liabilities	XX,XXX	Other liabilities	XX,XXX
Equity contracts	Other assets	XX,XXX	Other assets	XX,XXX	Other liabilities	XX,XXX	Other liabilities	XX,XXX
Commodity contracts	Other assets	XX,XXX	Other assets	XX,XXX	Other liabilities	XX,XXX	Other liabilities	XX,XXX
Credit contracts	Other assets	XX,XXX	Other assets	XX,XXX	Other liabilities	XX,XXX	Other liabilities	XX,XXX
Other contracts	Other assets	XX,XXX	Other assets	XX,XXX	Other liabilities	XX,XXX	Other liabilities	XX,XXX
Total derivatives not designated as hedging instruments under Subtopic 815-20		$XX,XXX		$XX,XXX		$XX,XXX		$XX,XXX
Total derivatives		$XX,XXX		$XX,XXX		$XX,XXX		$XX,XXX

(a) See footnote XX for additional information on the ABC Entity's purpose for entering into derivative instruments **not** designated as hedging instruments and its overall risk management strategies.

The Effect of Derivative Instruments on the Statement of Financial Performance
for the Years Ended December 31, 2010, and 2009

Derivatives in Subtopic 815-20 Fair Value Hedging Relationships	Location of Gain or (Loss) Recognized in Income on Derivative [(a)]	Amount of Gain or (Loss) Recognized in Income on Derivative	
		2010	2009
Interest rate contracts	Interest income/(expense)	$XX,XXX	$XX,XXX
Foreign exchange contracts	Foreign currency gain/(loss)	XX,XXX	XX,XXX
Equity contracts	Other income/(expense)	XX,XXX	XX,XXX
Commodity contracts	Other income/(expense)	XX,XXX	XX,XXX
Credit derivatives	Other income/(expense)	XX,XXX	XX,XXX
Other contracts	Other income/(expense)	XX,XXX	XX,XXX
Total		$XX,XXX	$XX,XXX

Derivatives in Subtopic 815-20 Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in Other Comprehensive Income on Derivative (Effective Portion)		Location of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income into Income (Effective Portion) [(a)]	Amount of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income into Income (Effective Portion)		Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) [(a)]	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) [(d)]	
	2010	2009		2010	2009		2010	2009
Interest rate contracts	$XX,XXX	$XX,XXX	Interest income/(expense)	$XX,XXX	$XX,XXX	Other income/(expense)	$XX,XXX	$XX,XXX
Foreign exchange contracts	XX,XXX	XX,XXX	Sales/Revenue	XX,XXX	XX,XXX	Other income/(expense)	XX,XXX	XX,XXX
Equity contracts	XX,XXX	XX,XXX	Other income/(expense)	XX,XXX	XX,XXX	Other income/(expense)	XX,XXX	XX,XXX
Commodity contracts	XX,XXX	XX,XXX	Cost of sales	XX,XXX	XX,XXX	Other income/(expense)	XX,XXX	XX,XXX
Credit derivatives	XX,XXX	XX,XXX	Other income/(expense)	XX,XXX	XX,XXX	Other income/(expense)	XX,XXX	XX,XXX
Other contracts	XX,XXX	XX,XXX	Other income/(expense)	XX,XXX	XX,XXX	Other income/(expense)	XX,XXX	XX,XXX
Total	$XX,XXX	$XX,XXX		$XX,XXX	$XX,XXX		$XX,XXX	$XX,XXX

Derivatives in Subtopic 815-20 Net Investment Hedging Relationships	Amount of Gain or (Loss) Recognized in Other Comprehensive Income on Derivative (Effective Portion)		Location of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income into Income (Effective Portion) [(a)]	Amount of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income into Income (Effective Portion)		Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) [(a)]	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) [(d)]	
	2010	2009		2010	2009		2010	2009
Foreign exchange contracts	$XX,XXX	$XX,XXX	Gain or (loss) on sale of subsidiary	$XX,XXX	$XX,XXX	Other income/(expense)	$XX,XXX	$XX,XXX

Derivatives Not Designated as Hedging Instruments under Subtopic 815-20 [(b),(c)]	Location of Gain or (Loss) Recognized in Income on Derivative [(a)]	Amount of Gain or (Loss) Recognized in Income on Derivative	
		2010	2009
Interest rate contracts	Other income/(expense)	$XX,XXX	$XX,XXX
Foreign exchange contracts	Other income/(expense)	XX,XXX	XX,XXX
Equity contracts	Other income/(expense)	XX,XXX	XX,XXX
Commodity contracts	Other income/(expense)	XX,XXX	XX,XXX
Credit derivatives	Other income/(expense)	XX,XXX	XX,XXX
Other contracts	Other income/(expense)	XX,XXX	XX,XXX
Total		$XX,XXX	$XX,XXX

(a) If gains and losses associated with a type of contract (for example, interest rate contracts) are displayed in multiple line items in the income statement, the entity is required to disclose the amount included in each line item.

(b) See footnote XX for additional information on the ABC Entity's purpose for entering into derivative instruments not designated as hedging instruments and its overall risk management strategies.

(c) For alternative disclosures about "trading derivatives," see separate table for trading activities in footnotes to the financial statements.

(d) The amount of gain or (loss) recognized in income represents $XXX related to the ineffective portion of the hedging relationships and $XXX related to the amount excluded from the assessment of hedge effectiveness.

55-183 The illustrative disclosure tables in the preceding paragraph provide quantitative information about derivative instruments. However, in many instances, the use of derivative instruments in an entity's risk management strategies represents only a portion of the instruments used for that purpose. As permitted in paragraph 815-10-50-4F, an entity can elect to disclose information about certain derivatives included in an entity's trading activities in separate disclosures outside the required tabular format. That paragraph states that, if that disclosure option is elected, the entity shall include a footnote in the required tables referencing the use of alternative disclosures for trading activities.

>> Example 22: Tabular Disclosures of Trading Derivatives

55-184 This Example illustrates one approach for presenting the quantitative information required under paragraph 815-10-50-4F when an entity elects the alternative disclosure for gains and losses on derivative instruments included in its trading activities. The Example does not address all possible ways of complying with the alternative disclosure requirements under that paragraph. Many entities already include the required information about their trading activities in other disclosures within the financial statements. Paragraph 815-10-50-4I states that, if information on derivative instruments (or nonderivative instruments that are designated and qualify as hedging instruments pursuant to paragraphs 815-20-25-58 and 815-20-25-66) is disclosed in more than a single footnote, an entity shall cross-reference from the derivative instruments (or nonderivative instruments) footnote to other footnotes in which derivative-instrument-related information is disclosed.

The Effect of Trading Activities on the Statement of Financial Performance for the Years Ended December 31, 2010, and 2009

Type of Instrument	Trading Revenue 2010	Trading Revenue 2009
Fixed income/Interest rate	$XX,XXX	$XX,XXX
Foreign exchange	XX,XXX	XX,XXX
Equity	XX,XXX	XX,XXX
Commodity	XX,XXX	XX,XXX
Credit	XX,XXX	XX,XXX
Other	XX,XXX	XX,XXX
Total	$XX,XXX	$XX,XXX

Line Item in Statement of Financial Performance	Trading Revenue 2010	Trading Revenue 2009
Principal/Proprietary transactions	$XX,XXX	$XX,XXX
Asset management income	XX,XXX	XX,XXX
Other income	XX,XXX	XX,XXX
Total	$XX,XXX	$XX,XXX

The revenue related to each category includes realized and unrealized gains and losses on both derivative instruments and nonderivative instruments.

>> Example 23: Disclosure of Contingent Features in Derivative Instruments

55-185 This Example illustrates the disclosure of credit-risk-related contingent features in derivative instruments as required by paragraph 815-10-50-4H.

Contingent Features

Certain of the Entity's derivative instruments contain provisions that require the Entity's debt to maintain an investment grade credit rating from each of the major credit rating agencies. If the Entity's debt were to fall below investment grade, it would be in violation of these provisions, and the counterparties to the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a liability position on December 31, 2009, is $XX million for which the Entity has posted collateral of $X million in the normal course of business. If the credit-risk-related contingent features underlying these agreements were triggered on December 31, 2009, the Entity would be required to post an additional $XX million of collateral to its counterparties.

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815-10-60 Relationships

General Note: The Relationships Section contains links to guidance that may be helpful to, but not required by, a user of the Subtopic. This Section may not be all-inclusive. The relationship items are organized according to the Topic structure in the Codification.

General

> Statement of Cash Flows

60-1 For circumstances in which cash receipts and payments include more than one class of cash flows, see paragraphs 230-10-45-22 through 45-23.

> Compensation—Stock Compensation

60-2 For circumstances in which an instrument ceases to be subject to the requirements of Topic 718 and may become subject to the scope of this Subtopic, see paragraphs 718-10-35-9 through 35–14.

> Fair Value Measurements and Disclosures

60-3 For an illustration of situations in which the price in a **transaction** involving a **derivative instrument** might (and might not) represent the **fair value** of the derivative instrument, see Example 5 (paragraph 820-10-55-46).

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815-10-65 Transition and Open Effective Date Information

815-10-65 Transition and Open Effective Date Information

General Note: The Transition Section contains a description of the required transition provisions and a list of the related paragraphs that have been modified. This section will retain the transition content during the transition period. After the transition period, the transition content will be removed yet will be available in archived versions of the Section.

General

65-1 Paragraph superseded on 04/13/2010 after the end of the transition period stated in FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133*.

65-2 Paragraph superseded on 03/23/2010 after the end of the transition period stated in FASB Staff Position No. FAS 133-1 and FIN 45-4, *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161*.

65-3 Paragraph superseded on 07/01/2010 after the end of the transition period stated in EITF Issue No. 07-5, "Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock."

65-4 Paragraph superseded on 07/01/2010 after the end of the transition period stated in EITF Issue No. 08-8, "Accounting for an Instrument (or an Embedded Feature) with a Settlement Amount That Is Based on the Stock of an Entity's Consolidated Subsidiary."

65-5 Paragraph superseded on 03/15/2011 after the end of the transition period stated in Accounting Standards Update No. 2010-11, *Derivatives and Hedging (Topic 815): Scope Exception Related to Embedded Credit Derivatives*.

END OF DOCUMENT -

815-10-75 XBRL Elements

Click here to link to 815-10-S75.

General Note: This section contains a list of XBRL elements that reference paragraphs in this Subtopic. For additional details regarding changes to the development version of the US GAAP Financial Reporting Taxonomy, refer to the FASB taxonomy review and comment system on the FASB web site.

XBRL Links to Codification

Accounting Standards Update 2010-11 [Member]

Element Name: *AccountingStandardsUpdate201011Member*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 65 Transition > General, 65-5

Additional Collateral, Aggregate Fair Value

Element Name: *AdditionalCollateralAggregateFairValue*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4H (e)

Amount of Ineffectiveness on Net Investment Hedges

Element Name: *AmountOfIneffectivenessOnNetInvestmentHedges*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (d) (1)

Asset Management Income [Member]

Element Name: *AssetManagementIncomeMember*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4F (a) (1)

Assets Needed for Immediate Settlement, Aggregate Fair Value

Element Name: *AssetsNeededForImmediateSettlementAggregateFairValue*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4H (f)

Available-for-sale Securities, Purchased Options, Price Policy

Element Name: *AvailableForSaleSecuritiesPurchasedOptionsPricePolicy*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > Certain Contracts on Debt and Equity Securities, 50-9

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > 50 Disclosure > General, 50-3

Average Term of Credit Risk Derivatives (Revision Date: 2011-11-21)

Element Name: *AverageTermOfCreditRiskDerivatives1*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4K (a) (1)

Balance Sheet Location [Domain]

Element Name: *BalanceSheetLocationDomain*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (a)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B (d)

Cash Flow Hedge Derivative Instrument Assets at Fair Value

Element Name: *CashFlowHedgeDerivativeInstrumentAssetsAtFairValue*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B (c) (1)

Cash Flow Hedge Derivative Instrument Liabilities at Fair Value

Element Name: *CashFlowHedgeDerivativeInstrumentLiabilitiesAtFairValue*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B (c) (1)

Cash Flow Hedge Gain (Loss) Reclassified to Cost of Sales, Net

Element Name: *CashFlowHedgeGainLossReclassifiedToCostOfSalesNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (c)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 50 Disclosure > General, 50-2 (c)

Cash Flow Hedge Gain (Loss) Reclassified to Earnings, Net

Element Name: *CashFlowHedgeGainLossReclassifiedToEarningsNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (c)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 50 Disclosure > General, 50-2 (c)

Cash Flow Hedge Gain (Loss) Reclassified to Interest Expense, Net

Element Name: *CashFlowHedgeGainLossReclassifiedToInterestExpenseNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (c)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 50 Disclosure > General, 50-2 (c)

Cash Flow Hedge Gain (Loss) Reclassified to Investment Income, Net

Element Name: *CashFlowHedgeGainLossReclassifiedToInvestmentIncomeNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (c)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 50 Disclosure > General, 50-2 (c)

Cash Flow Hedge Gain (Loss) Reclassified to Other Expense, Net

Element Name: *CashFlowHedgeGainLossReclassifiedToOtherExpenseNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (c)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 50 Disclosure > General, 50-2 (c)

Cash Flow Hedge Gain (Loss) Reclassified to Other Income, Net

Element Name: *CashFlowHedgeGainLossReclassifiedToOtherIncomeNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (c)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 50 Disclosure > General, 50-2 (c)

Cash Flow Hedge Gain (Loss) Reclassified to Revenue, Net

Element Name: *CashFlowHedgeGainLossReclassifiedToRevenueNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (c)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 50 Disclosure > General, 50-2 (c)

Cash Flow Hedge Gain Reclassified to Cost of Sales

Element Name: *CashFlowHedgeGainReclassifiedToCostOfSales*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (c)

Cash Flow Hedge Gain Reclassified to Earnings

Element Name: *CashFlowHedgeGainReclassifiedToEarnings*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (c)

Cash Flow Hedge Gain Reclassified to Interest Expense

Element Name: *CashFlowHedgeGainReclassifiedToInterestExpense*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (c)

Cash Flow Hedge Gain Reclassified to Investment Income

Element Name: *CashFlowHedgeGainReclassifiedToInvestmentIncome*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (c)

Cash Flow Hedge Gain Reclassified to Other Expense

Element Name: *CashFlowHedgeGainReclassifiedToOtherExpense*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (c)

Cash Flow Hedge Gain Reclassified to Other Income

Element Name: *CashFlowHedgeGainReclassifiedToOtherIncome*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (c)

Cash Flow Hedge Gain Reclassified to Revenue

Element Name: *CashFlowHedgeGainReclassifiedToRevenue*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (c)

Cash Flow Hedge Loss Reclassified to Cost of Sales

Element Name: *CashFlowHedgeLossReclassifiedToCostOfSales*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (c)

Cash Flow Hedge Loss Reclassified to Earnings

Element Name: *CashFlowHedgeLossReclassifiedToEarnings*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (c)

Cash Flow Hedge Loss Reclassified to Interest Expense

Element Name: *CashFlowHedgeLossReclassifiedToInterestExpense*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (c)

Cash Flow Hedge Loss Reclassified to Investment Income

Element Name: *CashFlowHedgeLossReclassifiedToInvestmentIncome*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (c)

Cash Flow Hedge Loss Reclassified to Other Expense

Element Name: *CashFlowHedgeLossReclassifiedToOtherExpense*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (c)

Cash Flow Hedge Loss Reclassified to Other Income

Element Name: *CashFlowHedgeLossReclassifiedToOtherIncome*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (c)

Cash Flow Hedge Loss Reclassified to Revenue

Element Name: *CashFlowHedgeLossReclassifiedToRevenue*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (c)

Cash Flow Hedges Derivative Instruments at Fair Value, Net

Element Name: *CashFlowHedgesDerivativeInstrumentsAtFairValueNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 45 Other Presentation > General, 45-5

Cash Flow Hedging [Member]

Element Name: *CashFlowHedgingMember*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2 (a) (1) (ii)

Collateral Already Posted, Aggregate Fair Value

Element Name: *CollateralAlreadyPostedAggregateFairValue*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4H (d)

Commodity [Member]

Element Name: *CommodityMember*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4F (a) (4)

Credit Derivative, Collateral Held Directly or by Third Parties (Revision Date: 2012-02-16)

Element Name: *CreditDerivativeCollateralHeldDirectlyOrByThirdParties*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4K (e)

Credit Derivative, Current Fair Value

Element Name: *CreditDerivativeCurrentFairValue*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4K (c)

Credit Derivative, Internal Grouping Parameter

Element Name: *CreditDerivativeInternalGroupingParameter*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4K (a)

Credit Derivative, Liquidation Proceeds, Monetary Amount (Revision Date: 2012-02-27)

Element Name: *CreditDerivativeLiquidationProceedsMonetaryAmount*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4K (f)

Credit Derivative, Liquidation Proceeds, Percentage

Element Name: *CreditDerivativeLiquidationProceedsPercentage*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4K (f)

Credit Derivative, Maximum Exposure Inestimable

Element Name: *CreditDerivativeMaximumExposureInestimable*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4K (b)

This XBRL element references the following glossary term(s):

- Master Glossary > Credit Derivative

Credit Derivative, Maximum Exposure, Undiscounted

Element Name: *CreditDerivativeMaximumExposureUndiscounted*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4K (b)

This XBRL element references the following glossary term(s):

- Master Glossary > Credit Derivative

Credit Derivative, Origin and Purpose

Element Name: *CreditDerivativeOriginAndPurpose*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4K (a)

Credit Derivative, Purchased Credit Protection (Revision Date: 2012-02-16)

Element Name: *CreditDerivativePurchasedCreditProtection*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4K (f)

Credit Derivative, Recourse Provisions (Revision Date: 2012-02-16)

Element Name: *CreditDerivativeRecourseProvisions*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4K (d)

Credit Derivative, Term

Element Name: *CreditDerivativeTerm*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4K (a)

Credit Derivative, Triggering Event

Element Name: *CreditDerivativeTriggeringEvent*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4K (a)

Credit Derivative, Unlimited Exposure

Element Name: *CreditDerivativeUnlimitedExposure*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4K (b)

This XBRL element references the following glossary term(s):

- Master Glossary > Credit Derivative

Credit Derivatives Contract Type [Axis] (Revision Date: 2011-12-20)

Element Name: *CreditDerivativesByContractTypeAxis*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4K (a)

Credit Derivatives Contract Type [Domain]

Element Name: *CreditDerivativesContractTypeDomain*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4K (a)

Credit Rating [Axis] (Revision Date: 2011-12-20)

Element Name: *PaymentAndPerformanceRiskCreditRatingAxis*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4K (a)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 460 Guarantees > 10 Overall > 50 Disclosure > General, 50-4 (a)

Credit Rating [Domain]

Element Name: *CreditRatingDomain*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4K (a)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 460 Guarantees > 10 Overall > 50 Disclosure > General, 50-4 (a)

Credit Risk Contract [Member]

Element Name: *CreditRiskContractMember*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4D (a) (5)

Credit [Member]

Element Name: *CreditMember*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4F (a) (5)

Cumulative-Effect Adjustment, Application of Fair Value Option, Gross Gains

Element Name: *CumulativeEffectAdjustmentApplicationOfFairValueOptionGrossGains*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 65 Transition > General, 65-5 (f)

Cumulative-Effect Adjustment, Application of Fair Value Option, Gross Losses

Element Name: *CumulativeEffectAdjustmentApplicationOfFairValueOptionGrossLosses*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 65 Transition > General, 65-5 (f)

Cumulative-Effect Adjustment, Application of Fair Value Option, Unrealized Gains, Recognized

Element Name: *CumulativeEffectAdjustmentApplicationOfFairValueOptionUnrealizedGainsRecognized*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 65 Transition > General, 65-5 (b)

Cumulative-Effect Adjustment, Application of Fair Value Option, Unrealized Gains, Unrecognized

Element Name: *CumulativeEffectAdjustmentApplicationOfFairValueOptionUnrealizedGainsUnrecognized*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 65 Transition > General, 65-5 (b)

Cumulative-Effect Adjustment, Application of Fair Value Option, Unrealized Losses, Recognized

Element Name: *CumulativeEffectAdjustmentApplicationOfFairValueOptionUnrealizedLossesRecognized*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 65 Transition > General, 65-5 (b)

Cumulative-Effect Adjustment, Application of Fair Value Option, Unrealized Losses, Unrecognized

Element Name: *CumulativeEffectAdjustmentApplicationOfFairValueOptionUnrealizedLossesUnrecognized*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 65 Transition > General, 65-5 (b)

Cumulative-Effect Adjustment, Bifurcation of Hybrids, Gross Gains

Element Name: *CumulativeEffectAdjustmentBifurcationOfHybridsGrossGains*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 65 Transition > General, 65-5 (f)

Cumulative-Effect Adjustment, Bifurcation of Hybrids, Gross Losses

Element Name: *CumulativeEffectAdjustmentBifurcationOfHybridsGrossLosses*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 65 Transition > General, 65-5 (f)

Cumulative-Effect Adjustment, Gross Gains

Element Name: *CumulativeEffectAdjustmentGrossGains*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 65 Transition > General, 65-5 (f)

Cumulative-Effect Adjustment, Gross Losses

Element Name: *CumulativeEffectAdjustmentGrossLosses*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 65 Transition > General, 65-5 (f)

Debt Security [Axis]

Element Name: *DebtSecurityAxis*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > Certain Contracts on Debt and Equity Securities, 50-9

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 310 Receivables > 10 Overall > 50 Disclosure > General, 50-5
- 320 Investments—Debt and Equity Securities > 10 Overall > 50 Disclosure > General, 50-5
- 320 Investments—Debt and Equity Securities > 10 Overall > 50 Disclosure > General, 50-6
- 320 Investments—Debt and Equity Securities > 10 Overall > 50 Disclosure > General, 50-7
- 320 Investments—Debt and Equity Securities > 10 Overall > 50 Disclosure > General, 50-10
- 942 Financial Services—Depository and Lending > 320 Investments—Debt and Equity Securities > 50 Disclosure > General, 50-2
- 942 Financial Services—Depository and Lending > 320 Investments—Debt and Equity Securities > 50 Disclosure > General, 50-3

Derivative Asset, Fair Value, Amount Not Offset Against Collateral

Element Name: *DerivativeFairValueOfDerivativeAssetAmountNotOffsetAgainstCollateral*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-8 (c)

Derivative Asset, Fair Value, Amount Offset Against Collateral

Element Name: *DerivativeFairValueOfDerivativeAssetAmountOffsetAgainstCollateral*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-8 (a)

Derivative Asset, Fair Value, Gross Asset

Element Name: *DerivativeFairValueOfDerivativeAsset*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B (a), (c)

Derivative Asset, Fair Value, Gross Liability

Element Name: *DerivativeAssetFairValueGrossLiability*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B (a), (c)

Derivative Asset, Notional Amount

Element Name: *DerivativeAssetNotionalAmount*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Derivative Asset, Number of Instruments Held

Element Name: *DerivativeAssetNumberOfInstrumentsHeld*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

Derivative Assets

Element Name: *DerivativeAssets*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 45 Other Presentation > General, 45-5
- 815 Derivatives and Hedging > 10 Overall > 45 Other Presentation > General, 45-6

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 825 Financial Instruments > 10 Overall > 50 Disclosure > General, 50-10 (a)
- 825 Financial Instruments > 10 Overall > 50 Disclosure > General, 50-15

Derivative Assets (Liabilities), at Fair Value, Net

Element Name: *DerivativeAssetsLiabilitiesAtFairValueNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 45 Other Presentation > General, 45-5

Derivative Assets, Current

Element Name: *DerivativeAssetsCurrent*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 45 Other Presentation > General, 45-5
- 815 Derivatives and Hedging > 10 Overall > 45 Other Presentation > General, 45-6

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 825 Financial Instruments > 10 Overall > 50 Disclosure > General, 50-10 (a)
- 825 Financial Instruments > 10 Overall > 50 Disclosure > General, 50-15

This XBRL element references the following glossary term(s):

- Master Glossary > Current Assets

Derivative Assets, Noncurrent

Element Name: *DerivativeAssetsNoncurrent*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 45 Other Presentation > General, 45-5
- 815 Derivatives and Hedging > 10 Overall > 45 Other Presentation > General, 45-6

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 825 Financial Instruments > 10 Overall > 50 Disclosure > General, 50-10 (a)
- 825 Financial Instruments > 10 Overall > 50 Disclosure > General, 50-15

Derivative Contract Type [Domain]

Element Name: *DerivativeContractTypeDomain*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4D

Derivative Financial Instruments, Assets [Member]

Element Name: *DerivativeFinancialInstrumentsAssetsMember*

This XBRL element references the following glossary term(s):

- Master Glossary > Derivative Instrument

Derivative Financial Instruments, Liabilities [Member]

Element Name: *DerivativeFinancialInstrumentsLiabilitiesMember*

This XBRL element references the following glossary term(s):

- Master Glossary > Derivative Instrument

Derivative Financial Instruments, Liabilities, Fair Value Disclosure

Element Name: *DerivativeFinancialInstrumentsLiabilitiesFairValueDisclosure*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 15 Scope > General, 15-83

Derivative Instrument Risk [Axis]

Element Name: *DerivativeInstrumentRiskAxis*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B (c) (1)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4D

Derivative Instruments Not Designated as Hedging Instruments, Asset, at Fair Value

Element Name: *DerivativeInstrumentsNotDesignatedAsHedgingInstrumentsAssetAtFairValue*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B (c) (2)

Derivative Instruments Not Designated as Hedging Instruments, Gain

Element Name: *DerivativeInstrumentsNotDesignatedAsHedgingInstrumentsGain*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (e)

Derivative Instruments Not Designated as Hedging Instruments, Gain (Loss), Net

Element Name: *DerivativeInstrumentsNotDesignatedAsHedgingInstrumentsGainLossNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (e)

Derivative Instruments Not Designated as Hedging Instruments, Liability, at Fair Value

Element Name: *DerivativeInstrumentsNotDesignatedAsHedgingInstrumentsLiabilityAtFairValue*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B (c) (2)

Derivative Instruments Not Designated as Hedging Instruments, Line Item on Income Statement for Gain (loss)

Element Name: *DerivativeInstrumentsNotDesignatedAsHedgingInstrumentsLineItemOnIncomeStatementForGainLoss*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (e)

Derivative Instruments Not Designated as Hedging Instruments, Loss

Element Name: *DerivativeInstrumentsNotDesignatedAsHedgingInstrumentsLoss*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (e)

Derivative Instruments Not Designated as Hedging Instruments, Purpose

Element Name: *DerivativeInstrumentsNotDesignatedAsHedgingInstrumentsPurpose*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

Derivative Instruments Not Designated as Hedging Instruments, Risk

Element Name: *DerivativeInstrumentsNotDesignatedAsHedgingInstrumentsRisk*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-5
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

Derivative Instruments Not Designated as Hedging Instruments, Type

Element Name: *DerivativeInstrumentsNotDesignatedAsHedgingInstrumentsType*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

Derivative Instruments and Hedges, Liabilities, Noncurrent (Revision Date: 2011-12-01)

Element Name: *DerivativeInstrumentsAndHedgesLiabilitiesNoncurrent*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 45 Other Presentation > General, 45-5
- 815 Derivatives and Hedging > 10 Overall > 45 Other Presentation > General, 45-6

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 825 Financial Instruments > 10 Overall > 50 Disclosure > General, 50-10 (a)
- 825 Financial Instruments > 10 Overall > 50 Disclosure > General, 50-15

Derivative Instruments and Hedging Activities Disclosure [Text Block]

Element Name: *DerivativeInstrumentsAndHedgingActivitiesDisclosureTextBlock*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-3
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-5
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4D
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4E
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4H
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4J
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4K

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n))
- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 45 Other Presentation > General, 45-1
- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 50 Disclosure > General, 50-2

Derivative Instruments in Hedges, Net Investment in Foreign Operations, Assets, Fair Value

Element Name: *NetInvestmentHedgeDerivativeAssetsAtFairValue*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B (c) (1)

Derivative Instruments in Hedges, Net Investment in Foreign Operations, Assets, Fair Value, Net

Element Name: *NetInvestmentHedgeDerivativesAtFairValueNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 45 Other Presentation > General, 45-5

Derivative Instruments in Hedges, Net Investment in Foreign Operations, Liabilities, Fair Value

Element Name: *NetInvestmentHedgeDerivativeLiabilitiesAtFairValue*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B (c) (1)

Derivative Instruments, Gain (Loss) Reclassified from Accumulated OCI into Income, Effective Portion, Net

Element Name: *DerivativeInstrumentsGainLossReclassifiedFromAccumulatedOCIIntoIncomeEffectivePortionNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (c)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4D (b)

Derivative Instruments, Gain (Loss) Recognized in Income, Ineffective Portion and Amount Excluded from Effectiveness Testing, Net

Element Name: *DerivativeInstrumentsGainLossRecognizedInIncomeIneffectivePortionAndAmountExcludedFromEffectivenessTestingNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (d)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1 (a) (1), (2)

Derivative Instruments, Gain (Loss) Recognized in Income, Net

Element Name: *DerivativeInstrumentsGainLossRecognizedInIncomeNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (a), (c), (d), (e)

Derivative Instruments, Gain (Loss) Recognized in Other Comprehensive Income (Loss), Effective Portion, Net

Element Name: *DerivativeInstrumentsGainLossRecognizedInOtherComprehensiveIncomeEffectivePortionNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (b)

Derivative Instruments, Gain (Loss) by Hedging Relationship, by Income Statement Location, by Derivative Instrument Risk [Table]

Element Name: *DerivativeInstrumentsGainLossByHedgingRelationshipByIncomeStatementLocationByDerivativeInstrumentRiskTable*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4D
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4E
- 815 Derivatives and Hedging > 10 Overall > 55 Implementation > General, 55-182

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1

Derivative Instruments, Gain Reclassified from Accumulated OCI into Income, Effective Portion

Element Name: *DerivativeInstrumentsGainReclassifiedFromAccumulatedOCIIntoIncomeEffectivePortion*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (c)

Derivative Instruments, Gain Recognized in Income

Element Name: *DerivativeInstrumentsGainRecognizedInIncome*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (a), (c), (d), (e)

Derivative Instruments, Gain Recognized in Income, Ineffective Portion and Amount Excluded from Effectiveness Testing

Element Name: *DerivativeInstrumentsGainRecognizedInIncomeIneffectivePortionAndAmountExcludedFromEffectivenessTesting*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (d)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1 (a)

Derivative Instruments, Gain Recognized in Other Comprehensive Income (Loss), Effective Portion (Revision Date: 2011-08-17)

Element Name: *DerivativeInstrumentsGainRecognizedInOtherComprehensiveIncomeEffectivePortion*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (b)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 220 Comprehensive Income > 10 Overall > 45 Other Presentation > General, 45-10A (d)

Derivative Instruments, Loss Reclassified from Accumulated OCI into Income, Effective Portion

Element Name: *DerivativeInstrumentsLossReclassifiedFromAccumulatedOCIIntoIncomeEffectivePortion*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (c)

Derivative Instruments, Loss Recognized in Income

Element Name: *DerivativeInstrumentsLossRecognizedInIncome*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (a), (c), (d), (e)

Derivative Instruments, Loss Recognized in Income, Ineffective Portion and Amount Excluded from Effectiveness Testing

Element Name: *DerivativeInstrumentsLossRecognizedInIncomeIneffectivePortionAndAmountExcludedFromEffectivenessTesting*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (d)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1

Derivative Instruments, Loss Recognized in Other Comprehensive Income (Loss), Effective Portion (Revision Date: 2011-08-17)

Element Name: *DerivativeInstrumentsLossRecognizedInOtherComprehensiveIncomeEffectivePortion*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (b)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 220 Comprehensive Income > 10 Overall > 45 Other Presentation > General, 45-10A (d)

Derivative Liabilities

Element Name: *DerivativeLiabilities*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 45 Other Presentation > General, 45-5
- 815 Derivatives and Hedging > 10 Overall > 45 Other Presentation > General, 45-6

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 825 Financial Instruments > 10 Overall > 50 Disclosure > General, 50-10 (a)
- 825 Financial Instruments > 10 Overall > 50 Disclosure > General, 50-15

Derivative Liabilities, Current

Element Name: *DerivativeLiabilitiesCurrent*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 45 Other Presentation > General, 45-5
- 815 Derivatives and Hedging > 10 Overall > 45 Other Presentation > General, 45-6

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 825 Financial Instruments > 10 Overall > 50 Disclosure > General, 50-10 (a)
- 825 Financial Instruments > 10 Overall > 50 Disclosure > General, 50-15

This XBRL element references the following glossary term(s):

- Master Glossary > Current Liabilities

Derivative Liabilities, Noncurrent

Element Name: *DerivativeLiabilitiesNoncurrent*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 45 Other Presentation > General, 45-5
- 815 Derivatives and Hedging > 10 Overall > 45 Other Presentation > General, 45-6

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 825 Financial Instruments > 10 Overall > 50 Disclosure > General, 50-10 (a)
- 825 Financial Instruments > 10 Overall > 50 Disclosure > General, 50-15

Derivative Liability, Fair Value, Amount Not Offset Against Collateral

Element Name: *DerivativeFairValueOfDerivativeLiabilityAmountNotOffsetAgainstCollateral*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-8 (c)

Derivative Liability, Fair Value, Amount Offset Against Collateral

Element Name: *DerivativeFairValueOfDerivativeLiabilityAmountOffsetAgainstCollateral*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-8 (a)

Derivative Liability, Fair Value, Gross Asset

Element Name: *DerivativeLiabilityFairValueGrossAsset*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B (a), (c)

Derivative Liability, Fair Value, Gross Liability

Element Name: *DerivativeFairValueOfDerivativeLiability*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B (a), (c)

Derivative Liability, Notional Amount

Element Name: *DerivativeLiabilityNotionalAmount*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Derivative Liability, Number of Instruments Held

Element Name: *DerivativeLiabilityNumberOfInstrumentsHeld*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

Derivative [Member]

Element Name: *DerivativeMember*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 15 Scope > General, 15-83

Derivative [Table]

Element Name: *DerivativeTable*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-5
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-8
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (2))
- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1

Derivative, Collateral, Obligation to Return Cash

Element Name: *DerivativeCollateralObligationToReturnCash*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-8 (b)

Derivative, Collateral, Right to Reclaim Cash

Element Name: *DerivativeCollateralRightToReclaimCash*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-8 (b)

Derivative, Credit Risk Related Contingent Features, Existence and Nature

Element Name: *DerivativeCreditRiskRelatedContingentFeaturesExistenceAndNature*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4H (a)

Derivative, Credit Risk Related Contingent Features, Triggering Circumstances

Element Name: *DerivativeCreditRiskRelatedContingentFeaturesTriggeringCircumstances*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4H (b)

Derivative, Description of Hedged Item

Element Name: *DerivativeDescriptionOfHedgedItem*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1

Derivative, Description of Objective

Element Name: *DerivativeDescriptionOfObjective*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

Derivative, Fair Value, Amount Offset Against Collateral, Net

Element Name: *DerivativeFairValueAmountOffsetAgainstCollateralNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-8 (a)

Derivative, Fair Value, Gross Amount Not Offset Against Collateral, Net

Element Name: *DerivativeFairValueGrossAmountNotOffsetAgainstCollateralNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-8 (c)

Derivative, Fair Value, Net

Element Name: *DerivativeFairValueOfDerivativeNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 45 Other Presentation > General, 45-5
- 815 Derivatives and Hedging > 10 Overall > 45 Other Presentation > General, 45-6

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 825 Financial Instruments > 10 Overall > 50 Disclosure > General, 50-10 (a)
- 825 Financial Instruments > 10 Overall > 50 Disclosure > General, 50-15

Derivative, Gain (Loss) on Derivative, Net

Element Name: *DerivativeGainLossOnDerivativeNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b)

Derivative, Gain on Derivative

Element Name: *DerivativeGainOnDerivative*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b)

Derivative, Hedge Designation

Element Name: *DerivativeHedgeDesignation*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2

Derivative, Loss on Derivative

Element Name: *DerivativeLossOnDerivative*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b)

Derivative, Net Hedge Ineffectiveness Gain (Loss)

Element Name: *DerivativeNetHedgeIneffectivenessGainLoss*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (d) (1)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1 (a) (1)

Derivative, Net Liability Position, Aggregate Fair Value

Element Name: *DerivativeNetLiabilityPositionAggregateFairValue*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4H (c)

Derivative, Nonmonetary Notional Amount

Element Name: *DerivativeNonmonetaryNotionalAmount*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Derivative, Notional Amount

Element Name: *DerivativeNotionalAmount*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Derivative, Number of Instruments Held

Element Name: *DerivativeNumberOfInstrumentsHeld*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

Derivative, Type of Instrument

Element Name: *DerivativeTypeOfInstrument*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (2))

Derivative, Underlying Risk

Element Name: *DerivativeUnderlyingRisk*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-5
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

Derivative, by Nature [Axis]

Element Name: *DerivativeByNatureAxis*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-5
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-8
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (2))

Derivatives, Basis and Use of Derivatives

Element Name: *DerivativesBasisAndUseOfDerivatives*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-5
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > 50 Disclosure > General, 50-3
- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n))

Derivatives, Embedded Derivatives [Policy Text Block]

Element Name: *DerivativesEmbeddedDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > 50 Disclosure > General, 50-3

This XBRL element references the following glossary term(s):

- Master Glossary > Embedded Derivative

Derivatives, Methods of Accounting, Derivative Types

Element Name: *DerivativesMethodsOfAccountingDerivativeTypes*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (2))

Derivatives, Methods of Accounting, Hedging Derivatives [Policy Text Block]

Element Name: *DerivativesMethodsOfAccountingHedgingDerivatives*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n))
- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 50 Disclosure > General, 50-1

Derivatives, Offsetting Fair Value Amounts, Policy [Policy Text Block]

Element Name: *DerivativesOffsettingFairValueAmountsPolicy*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-7

Derivatives, Policy [Policy Text Block]

Element Name: *DerivativesPolicyTextBlock*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-7
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > 50 Disclosure > General, 50-3
- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n))

Derivatives, Use of Derivatives (Revision Date: 2011-09-09)

Element Name: *DerivativesBasisAndUseOfDerivativesUseOfDerivatives*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-5
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > 50 Disclosure > General, 50-3
- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (3))

Description of Accounting Method Used for Credit Risk Derivatives

Element Name: *DescriptionOfAccountingMethodUsedForCreditRiskDerivatives*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (1), (3), (7))
- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1 (a)

Description of Accounting Method Used for Foreign Currency Derivatives

Element Name: *DescriptionOfAccountingMethodUsedForForeignCurrencyDerivatives*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (1), (3), (7))

Description of Accounting Method Used for Interest Rate Derivatives

Element Name: *DescriptionOfAccountingMethodUsedForInterestRateDerivatives*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (1), (3), (7))
- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1 (a)

Description of Accounting Method Used for Price Risk Derivatives

Element Name: *DescriptionOfAccountingMethodUsedForPriceRiskDerivatives*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (1), (3), (7))
- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1

Description of Accounting Method for Foreign Currency Derivative Instruments Not Designated as Hedging Instruments

Element Name: *DescriptionOfAccountingMethodForForeignCurrencyDerivativeInstrumentsNotDesignatedAsHedgingInstruments*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (1), (3), (7))

Description of Accounting Method for Interest Rate Derivative Instruments Not Designated as Hedging Instruments

Element Name: *DescriptionOfAccountingMethodForInterestRateDerivativeInstrumentsNotDesignatedAsHedgingInstruments*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (1), (3), (7))

Description of Accounting Method for Price Risk Derivative Instruments Not Designated as Hedging Instruments

Element Name: *DescriptionOfAccountingMethodForPriceRiskDerivativeInstrumentsNotDesignatedAsHedgingInstruments*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (1), (3), (7))

Description of Amounts Offsetting Gain (Loss) on Foreign Currency Derivative Instruments Not Designated as Hedging Instruments

Element Name: *DescriptionOfAmountsOffsettingGainLossOnForeignCurrencyDerivativeInstrumentsNotDesignatedAsHedgingInstruments*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (e)

Description of Amounts Offsetting Gain (Loss) on Foreign Currency Derivatives

Element Name: *DescriptionOfAmountsOffsettingGainLossOnForeignCurrencyDerivatives*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b)

Description of Amounts Offsetting Gain (Loss) on Price Risk Derivative Instruments Not Designated as Hedging Instruments

Element Name: *DescriptionOfAmountsOffsettingGainLossOnPriceRiskDerivativeInstrumentsNotDesignatedAsHedgingInstruments*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (e)

Description of Cash Flow Hedge Accounting Method

Element Name: *DescriptionOfCashFlowHedgeAccountingMethod*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (1), (3), (7))

Description of Cash Flow Hedge Activity

Element Name: *DescriptionOfCashFlowHedgeActivity*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-5
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 50 Disclosure > General, 50-1

Description of Cash Flow Hedge Risk Management Policy

Element Name: *DescriptionOfCashFlowHedgeRiskManagementPolicy*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-5
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

Description of Components of Gain (Loss) Excluded from Assessment of Cash Flow Hedge Effectiveness

Element Name: *DescriptionOfComponentsOfGainLossExcludedFromAssessmentOfCashFlowHedgeEffectiveness*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (d)

Description of Components of Gain (Loss) Excluded from Assessment of Credit Risk Hedge Effectiveness

Element Name: *DescriptionOfComponentsOfGainLossExcludedFromAssessmentOfCreditRiskHedgeEffectiveness*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (d) (2)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1 (a) (2)

Description of Components of Gain (Loss) Excluded from Assessment of Foreign Currency Cash Flow Hedge Effectiveness

Element Name: *DescriptionOfComponentsOfGainLossExcludedFromAssessmentOfForeignCurrencyCashFlowHedgeEffectiveness*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (d) (2)

Description of Components of Gain (Loss) Excluded from Assessment of Interest Rate Cash Flow Hedge Effectiveness

Element Name: *DescriptionOfComponentsOfGainLossExcludedFromAssessmentOfInterestRateCashFlowHedgeEffectiveness*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (d) (2)

Description of Components of Gain (Loss) Excluded from Assessment of Interest Rate Fair Value Hedge Effectiveness

Element Name: *DescriptionOfComponentsOfGainLossExcludedFromAssessmentOfInterestRateFairValueHedgeEffectiveness*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (d) (2)

Description of Components of Gain (Loss) Excluded from Assessment of Net Investment Hedge Ineffectiveness

Element Name: *DescriptionOfComponentsOfGainLossExcludedFromAssessmentOfNetInvestmentHedgeIneffectiveness*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (d) (2)

Description of Components of Gain (Loss) Excluded from Assessment of Price Risk Cash Flow Hedge Effectiveness

Element Name: *DescriptionOfComponentsOfGainLossExcludedFromAssessmentOfPriceRiskCashFlowHedgeEffectiveness*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (d) (2)

Description of Credit Risk Derivative Activities

Element Name: *DescriptionOfCreditRiskDerivativeActivities*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-5 (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4K

Description of Credit Risk Exposure

Element Name: *DescriptionOfCreditRiskExposure*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-5 (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

Description of Derivative Activity Volume

Element Name: *DescriptionOfDerivativeActivityVolume*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

Description of Derivative Instruments by Risk Exposure

Element Name: *DescriptionOfDerivativeInstrumentsByRiskExposure*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-5
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

Description of Derivative Risk Management Policy

Element Name: *DescriptionOfDerivativeRiskManagementPolicy*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-5
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

Description of Embedded Derivative

Element Name: *DescriptionOfEmbeddedDerivative*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 15 Embedded Derivatives > 25 Recognition > General, 25-1

This XBRL element references the following glossary term(s):

- Master Glossary > Embedded Derivative

Description of Fair Value Hedge Accounting Method

Element Name: *DescriptionOfFairValueHedgeAccountingMethod*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (1), (3), (7))

Description of Fair Value Hedge Activity

Element Name: *DescriptionOfFairValueHedgeActivity*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1

Description of Fair Value Hedge Risk Management Policy

Element Name: *DescriptionOfFairValueHedgeRiskManagementPolicy*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

Description of Foreign Currency Cash Flow Hedge Accounting Method

Element Name: *DescriptionOfForeignCurrencyCashFlowHedgeAccountingMethod*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (1), (3), (7))

Description of Foreign Currency Cash Flow Hedge Activities

Element Name: *DescriptionOfForeignCurrencyCashFlowHedgeActivities*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-5
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A

Description of Foreign Currency Derivative Activities

Element Name: *DescriptionOfForeignCurrencyDerivativeActivities*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-5
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

Description of Foreign Currency Derivative Instruments Not Designated as Hedging Instruments Activities

Element Name: *DescriptionOfForeignCurrencyDerivativeInstrumentsNotDesignatedAsHedgingInstrumentsActivities*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-3
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-5

Description of Foreign Currency Exposure

Element Name: *DescriptionOfForeignCurrencyExposure*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-5
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

Description of Foreign Currency Fair Value Hedge Accounting Method

Element Name: *DescriptionOfForeignCurrencyFairValueHedgeAccountingMethod*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4D (a) (2), (b)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (1), (3), (7))
- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1 (a) (3)

Description of Foreign Currency Fair Value Hedge Activities

Element Name: *DescriptionOfForeignCurrencyFairValueHedgeActivities*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-5
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

Description of Interest Rate Cash Flow Hedge Accounting Method

Element Name: *DescriptionOfInterestRateCashFlowHedgeAccountingMethod*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (1), (3), (7))

Description of Interest Rate Cash Flow Hedge Activities

Element Name: *DescriptionOfInterestRateCashFlowHedgeActivities*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-5
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

Description of Interest Rate Derivative Activities

Element Name: *DescriptionOfInterestRateDerivativeActivities*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-5
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

Description of Interest Rate Derivative Instruments Not Designated as Hedging Instruments Activities

Element Name: *DescriptionOfInterestRateDerivativeInstrumentsNotDesignatedAsHedgingInstrumentsActivities*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-5

Description of Interest Rate Fair Value Hedge Accounting Method

Element Name: *DescriptionOfInterestRateFairValueHedgeAccountingMethod*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (1), (3), (7))

Description of Interest Rate Fair Value Hedge Activities

Element Name: *DescriptionOfInterestRateFairValueHedgeActivities*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-5
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

Description of Interest Rate Risk Exposure

Element Name: *DescriptionOfInterestRateRiskExposure*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-5
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

Description of Location of Foreign Currency Cash Flow Hedge Derivatives on Balance Sheet

Element Name: *DescriptionOfLocationOfForeignCurrencyCashFlowHedgeDerivativesOnBalanceSheet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (a)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B (c) (1), (d)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (7))

Description of Location of Foreign Currency Derivative Instruments Not Designated as Hedging Instruments on Balance Sheet

Element Name: *DescriptionOfLocationOfForeignCurrencyDerivativeInstrumentsNotDesignatedAsHedgingInstrumentsOnBalanceSheet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (a)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B (d)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (7))

Description of Location of Foreign Currency Derivatives on Balance Sheet

Element Name: *DescriptionOfLocationOfForeignCurrencyDerivativesOnBalanceSheet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (a)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B (c), (d)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (7))

Description of Location of Foreign Currency Fair Value Hedge Derivative on Balance Sheet

Element Name: *DescriptionOfLocationOfForeignCurrencyFairValueHedgeDerivativeOnBalanceSheet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (a)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B (c) (1), (d)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (7))

Description of Location of Gain (Loss) on Foreign Currency Cash Flow Hedge Derivatives in Financial Statements

Element Name: *DescriptionOfLocationOfGainLossOnForeignCurrencyCashFlowHedgeDerivativesInFinancialStatements*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4D (a) (2), (b)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (7))

Description of Location of Gain (Loss) on Foreign Currency Derivative Instruments Not Designated as Hedging Instruments in Financial Statements

Element Name:
DescriptionOfLocationOfGainLossOnForeignCurrencyDerivativeInstrumentsNotDesignatedAsHedgingInstrumentsInFinancialStatements

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b) (1)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (e)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (7))

Description of Location of Gain (Loss) on Foreign Currency Derivative in Financial Statements

Element Name: *DescriptionOfLocationOfGainLossOnForeignCurrencyDerivativeInFinancialStatements*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b) (1)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4D (a) (2), (b)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (7))

Description of Location of Gain (Loss) on Foreign Currency Fair Value Hedge Derivative in Financial Statements

Element Name: *DescriptionOfLocationOfGainLossOnForeignCurrencyFairValueHedgeDerivativeInFinancialStatements*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b) (1)

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4D (a) (2), (b)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (7))

Description of Location of Gain (Loss) on Interest Rate Cash Flow Hedge Derivative in Financial Statements

Element Name: *DescriptionOfLocationOfGainLossOnInterestRateCashFlowHedgeDerivativeInFinancialStatements*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4D (a) (1), (b)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (7))

Description of Location of Gain (Loss) on Interest Rate Derivative Instruments Not Designated as Hedging Instruments in Financial Statements

Element Name: *DescriptionOfLocationOfGainLossOnInterestRateDerivativeInstrumentsNotDesignatedAsHedgingInstrumentsInFinancialStatements*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (e)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (7))

Description of Location of Gain (Loss) on Interest Rate Derivative on Income Statement

Element Name: *DescriptionOfLocationOfGainLossOnInterestRateDerivativeOnIncomeStatement*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4D (a) (1), (b)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (7))

Description of Location of Gain (Loss) on Interest Rate Fair Value Hedge Derivative in Financial Statements

Element Name: *DescriptionOfLocationOfGainLossOnInterestRateFairValueHedgeDerivativeInFinancialStatements*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b) (1)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4D (a) (1), (b)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (7))

Description of Location of Gain (Loss) on Net Investment Hedges in Financial Statements

Element Name: *DescriptionOfLocationOfGainLossOnNetInvestmentHedgesInFinancialStatements*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (7))

Description of Location of Gain (Loss) on Price Risk Cash Flow Hedge Derivatives in Financial Statements

Element Name: *DescriptionOfLocationOfGainLossOnPriceRiskCashFlowHedgeDerivativesInFinancialStatements*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (7))

Description of Location of Gain (Loss) on Price Risk Derivative on Income Statement

Element Name: *DescriptionOfLocationOfGainLossOnPriceRiskDerivativeOnIncomeStatement*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4D (a) (6), (b)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (7))

Description of Location of Interest Rate Cash Flow Hedge Derivative on Balance Sheet

Element Name: *DescriptionOfLocationOfInterestRateCashFlowHedgeDerivativeOnBalanceSheet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (a)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B (d)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (7))

Description of Location of Interest Rate Derivative Instruments Not Designated as Hedging Instruments on Balance Sheet

Element Name: *DescriptionOfLocationOfInterestRateDerivativeInstrumentsNotDesignatedAsHedgingInstrumentsOnBalanceSheet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (a)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (7))

Description of Location of Interest Rate Derivatives on Balance Sheet

Element Name: *DescriptionOfLocationOfInterestRateDerivativesOnBalanceSheet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (a)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B (c), (d)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (7))

Description of Location of Interest Rate Fair Value Hedge Derivative on Balance Sheet

Element Name: *DescriptionOfLocationOfInterestRateFairValueHedgeDerivativeOnBalanceSheet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (a)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B (c) (1), (d)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (7))

Description of Location of Price Risk Cash Flow Hedge Derivatives on Balance Sheet

Element Name: *DescriptionOfLocationOfPriceRiskCashFlowHedgeDerivativesOnBalanceSheet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (a)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B (c) (1), (d)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (7))

Description of Location of Price Risk Derivatives on Balance Sheet

Element Name: *DescriptionOfLocationOfPriceRiskDerivativesOnBalanceSheet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (a), (b) (2)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B (c), (d)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (7))

Description of Net Investment Hedge Accounting Method

Element Name: *DescriptionOfNetInvestmentHedgeAccountingMethod*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (1), (3), (7))

Description of Net Investment Hedge Activity

Element Name: *DescriptionOfNetInvestmentHedgeActivity*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-5
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (b), (c), (d)

Description of Net Investment Hedge Effect on Earnings and Comprehensive Income

Element Name: *DescriptionOfNetInvestmentHedgeEffectOnEarningsAndComprehensiveIncome*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b)

Description of Net Investment Hedge Risk Management Policy

Element Name: *DescriptionOfNetInvestmentHedgeRiskManagementPolicy*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-5
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

Description of Net Investments Hedged

Element Name: *DescriptionOfNetInvestmentsHedged*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A

Description of Price Risk Cash Flow Hedge Accounting Method

Element Name: *DescriptionOfPriceRiskCashFlowHedgeAccountingMethod*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (1), (3), (7))

Description of Price Risk Cash Flow Hedge Activities

Element Name: *DescriptionOfPriceRiskCashFlowHedgeActivities*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-5
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

Description of Price Risk Derivative Activities

Element Name: *DescriptionOfPriceRiskDerivativeActivities*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-5
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

Description of Price Risk Derivative Instruments Not Designated as Hedging Instruments Activities

Element Name: *DescriptionOfPriceRiskDerivativeInstrumentsNotDesignatedAsHedgingInstrumentsActivities*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-3
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-5

Description of Price Risk Exposure

Element Name: *DescriptionOfPriceRiskExposure*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-5
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

Description of Price Risk Fair Value Hedge Accounting Method

Element Name: *DescriptionOfPriceRiskFairValueHedgeAccountingMethod*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (1), (3), (7))

Description of Price Risk Fair Value Hedge Activities

Element Name: *DescriptionOfPriceRiskFairValueHedgeActivities*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-5
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

Description of Trading Activities and Management of Related Risks

Element Name: *DescriptionOfTradingActivitiesAndManagementOfRelatedRisks*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4F (c)

Description of Types of Cash Flow Hedging Instruments Used

Element Name: *DescriptionOfTypesOfCashFlowHedgingInstrumentsUsed*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (2))

Description of Types of Fair Value Hedging Instruments Used

Element Name: *DescriptionOfTypesOfFairValueHedgingInstrumentsUsed*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (2))

Description of Types of Foreign Currency Cash Flow Hedging Instruments Used

Element Name: *DescriptionOfTypesOfForeignCurrencyCashFlowHedgingInstrumentsUsed*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (2))

Description of Types of Foreign Currency Derivatives Not Designated as Hedging Instruments Held

Element Name: *DescriptionOfTypesOfForeignCurrencyDerivativesNotDesignatedAsHedgingInstrumentsHeld*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (2))

Description of Types of Foreign Currency Fair Value Hedging Instruments Used

Element Name: *DescriptionOfTypesOfForeignCurrencyFairValueHedgingInstrumentsUsed*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (2))

Description of Types of Interest Rate Cash Flow Hedging Instruments Used

Element Name: *DescriptionOfTypesOfInterestRateCashFlowHedgingInstrumentsUsed*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (2))

Description of Types of Interest Rate Derivatives Not Designated as Hedging Instruments Held

Element Name: *DescriptionOfTypesOfInterestRateDerivativesNotDesignatedAsHedgingInstrumentsHeld*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (2))

Description of Types of Interest Rate Fair Value Hedging Instruments Used

Element Name: *DescriptionOfTypesOfInterestRateFairValueHedgingInstrumentsUsed*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (2))

Description of Types of Net Investment Hedging Instruments Used

Element Name: *DescriptionOfTypesOfNetInvestmentHedgingInstrumentsUsed*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (2))

Description of Types of Price Risk Cash Flow Hedging Instruments Used

Element Name: *DescriptionOfTypesOfPriceRiskCashFlowHedgingInstrumentsUsed*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (2))

Description of Types of Price Risk Derivatives Not Designated as Hedging Instruments

Element Name: *DescriptionOfTypesOfPriceRiskDerivativesNotDesignatedAsHedgingInstruments*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (2))

Description of Types of Price Risk Fair Value Hedging Instruments Used

Element Name: *DescriptionOfTypesOfPriceRiskFairValueHedgingInstrumentsUsed*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (2))

Designated as Hedging Instrument [Member]

Element Name: *DesignatedAsHedgingInstrumentMember*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2

Disclosure of Credit Derivatives [Table Text Block]

Element Name: *DisclosureOfCreditDerivativesTextBlock*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4J
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4K
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4L

This XBRL element references the following glossary term(s):

- Master Glossary > Credit Derivative

Discussion of Credit Risk Derivative Risk Management Policy

Element Name: *DiscussionOfCreditRiskDerivativeRiskManagementPolicy*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

Discussion of Effect of Cash Flow Hedges on Results of Operations

Element Name: *DiscussionOfEffectOfCashFlowHedgesOnResultsOfOperations*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b) (1)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (b), (c), (d)

Discussion of Effect of Fair Value Hedges on Results of Operations

Element Name: *DiscussionOfEffectOfFairValueHedgesOnResultsOfOperations*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-2

Discussion of Foreign Currency Derivative Risk Management Policy

Element Name: *DiscussionOfForeignCurrencyDerivativeRiskManagementPolicy*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

Discussion of Hybrid Instruments and Embedded Derivatives [Text Block]

Element Name: *DiscussionOfHybridInstrumentsAndEmbeddedDerivativesTextBlock*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (1), (7))
- 815 Derivatives and Hedging > 15 Embedded Derivatives > 25 Recognition > General, 25-1
- 815 Derivatives and Hedging > 15 Embedded Derivatives > 45 Other Presentation > General, 45-1
- 815 Derivatives and Hedging > 15 Embedded Derivatives > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 15 Embedded Derivatives > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 15 Embedded Derivatives > 50 Disclosure > General, 50-3
- 825 Financial Instruments > 10 Overall > 50 Disclosure > General, 50-10
- 825 Financial Instruments > 10 Overall > 50 Disclosure > General, 50-15
- 825 Financial Instruments > 10 Overall > 50 Disclosure > Fair Value Option, 50-28
- 825 Financial Instruments > 10 Overall > 50 Disclosure > Fair Value Option, 50-30 (a)

This XBRL element references the following glossary term(s):

- Master Glossary > Embedded Derivative
- Master Glossary > Hybrid Instrument

Discussion of Interest Rate Derivative Risk Management Policy

Element Name: *DiscussionOfInterestRateDerivativeRiskManagementPolicy*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

Discussion of Objectives for Using Credit Risk Derivative Instruments

Element Name: *DiscussionOfObjectivesForUsingCreditRiskDerivativeInstruments*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-5
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

Discussion of Objectives for Using Foreign Currency Derivative Instruments

Element Name: *DiscussionOfObjectivesForUsingForeignCurrencyDerivativeInstruments*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-5
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A

Discussion of Objectives for Using Interest Rate Derivative Instruments

Element Name: *DiscussionOfObjectivesForUsingInterestRateDerivativeInstruments*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-5
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

Discussion of Objectives for Using Price Risk Derivative Instruments

Element Name: *DiscussionOfObjectivesForUsingPriceRiskDerivativeInstruments*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-5
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

Discussion of Price Risk Derivative Risk Management Policy

Element Name: *DiscussionOfPriceRiskDerivativeRiskManagementPolicy*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

Embedded Derivative, Accounting Method

Element Name: *EmbeddedDerivativeAccountingMethod*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (1), (7))

Embedded Derivative, Description of Location of Gain (Loss) in Financial Statements

Element Name: *EmbeddedDerivativeDescriptionOfLocationOfGainLossInFinancialStatements*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (7))

Embedded Derivative, Fair Value of Embedded Derivative Asset

Element Name: *EmbeddedDerivativeFairValueOfEmbeddedDerivativeAsset*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B (c)

Embedded Derivative, Fair Value of Embedded Derivative Liability

Element Name: *EmbeddedDerivativeFairValueOfEmbeddedDerivativeLiability*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B (c)

Embedded Derivative, Fair Value of Embedded Derivative, Net

Element Name: *EmbeddedDerivativeFairValueOfEmbeddedDerivativeNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 45 Other Presentation > General, 45-5

Embedded Derivative, Gain (Loss) on Embedded Derivative, Net

Element Name: *EmbeddedDerivativeGainLossOnEmbeddedDerivativeNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C

Embedded Derivative, Gain on Embedded Derivative

Element Name: *EmbeddedDerivativeGainOnEmbeddedDerivative*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C

Embedded Derivative, Line Item on Balance Sheet

Element Name: *EmbeddedDerivativeLineItemOnBalanceSheet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (a)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 15 Embedded Derivatives > 45 Other Presentation > General, 45-1

Embedded Derivative, Loss on Embedded Derivative

Element Name: *EmbeddedDerivativeLossOnEmbeddedDerivative*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C

Energy Marketing Contract Liabilities, Noncurrent (Revision Date: 2011-12-01)

Element Name: *EnergyMarketingContractLiabilitiesNoncurrent*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 45 Other Presentation > General, 45-5
- 815 Derivatives and Hedging > 10 Overall > 45 Other Presentation > General, 45-6

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 825 Financial Instruments > 10 Overall > 50 Disclosure > General, 50-10 (a)
- 825 Financial Instruments > 10 Overall > 50 Disclosure > General, 50-15

Equity [Member]

Element Name: *EquityMember*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4F (a) (3)

External Credit Rating, Investment Grade [Member]

Element Name: *ExternalCreditRatingInvestmentGradeMember*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4K (a)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 460 Guarantees > 10 Overall > 50 Disclosure > General, 50-4 (a)

External Credit Rating, Non Investment Grade [Member]

Element Name: *ExternalCreditRatingNonInvestmentGradeMember*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4K (a)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 460 Guarantees > 10 Overall > 50 Disclosure > General, 50-4 (a)

Fair Value Disclosure, Off-balance Sheet Risks, Description

Element Name: *FairValueDisclosureOffBalanceSheetRisksDescription*

This XBRL element references the following glossary term(s):

- Master Glossary > Financial Instrument

Fair Value Disclosure, Off-balance Sheet Risks, Methodology

Element Name: *FairValueDisclosureOffBalanceSheetRisksMethodology*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 270 Interim Reporting > 10 Overall > 60 Relationships > General, 60-1
- 825 Financial Instruments > 10 Overall > 50 Disclosure > General, 50-10 (b)

This XBRL element references the following glossary term(s):

- Master Glossary > Financial Instrument

Fair Value Disclosure, Off-balance Sheet Risks, Significant Assumptions

Element Name: *FairValueDisclosureOffBalanceSheetRisksSignificantAssumptions*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 820 Fair Value Measurement > 10 Overall > 50 Disclosure > General, 50-1
- 825 Financial Instruments > 10 Overall > 50 Disclosure > General, 50-10 (b)

This XBRL element references the following glossary term(s):

- Master Glossary > Financial Instrument

Fair Value Hedge Assets

Element Name: *FairValueHedgeAssetsAtFairValue*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B (c) (1)

Fair Value Hedge Liabilities

Element Name: *FairValueHedgeLiabilitiesAtFairValue*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B (c) (1)

Fair Value Hedges, Net

Element Name: *FairValueHedgesAtFairValueNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 45 Other Presentation > General, 45-5

Fair Value Hedging [Member]

Element Name: *FairValueHedgingMember*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2 (a) (1) (i)

Fair Value, Concentration of Risk, Derivative Instruments, Assets

Element Name: *FairValueConcentrationOfRiskDerivativeFinancialInstrumentsAssets*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 15 Scope > General, 15-83

Fair Value, Concentration of Risk, Derivative Instruments, Liabilities

Element Name: *FairValueConcentrationOfRiskDerivativeFinancialInstrumentsLiabilities*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 15 Scope > General, 15-83

Fair Values Derivatives, Balance Sheet Location, by Derivative Contract Type [Table]

Element Name: *FairValuesDerivativesBalanceSheetLocationByDerivativeContractTypeByHedgingDesignationTable*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (a)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B
- 815 Derivatives and Hedging > 10 Overall > 55 Implementation > General, 55-182

Fixed Income Interest Rate [Member]

Element Name: *FixedIncomeInterestRateMember*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4F (a) (1)

Foreign Currency Cash Flow Hedge Asset at Fair Value

Element Name: *ForeignCurrencyCashFlowHedgeAssetAtFairValue*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B (c) (1)

Foreign Currency Cash Flow Hedge Derivative at Fair Value, Net

Element Name: *ForeignCurrencyCashFlowHedgeDerivativeAtFairValueNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B (a), (b), (c) (1)

Foreign Currency Cash Flow Hedge Gain (Loss) Reclassified to Earnings, Net

Element Name: *ForeignCurrencyCashFlowHedgeGainLossReclassifiedToEarningsNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (c)

Foreign Currency Cash Flow Hedge Liability at Fair Value

Element Name: *ForeignCurrencyCashFlowHedgeLiabilityAtFairValue*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B (c) (1)

Foreign Currency Derivative Assets at Fair Value

Element Name: *ForeignCurrencyDerivativeAssetsAtFairValue*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B (c) (1)

Foreign Currency Derivative Instruments Not Designated as Hedging Instruments at Fair Value, Net

Element Name: *ForeignCurrencyDerivativeInstrumentsNotDesignatedAsHedgingInstrumentsAtFairValueNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 45 Other Presentation > General, 45-5

Foreign Currency Derivative Instruments Not Designated as Hedging Instruments, Asset at Fair Value

Element Name: *ForeignCurrencyDerivativeInstrumentsNotDesignatedAsHedgingInstrumentsAssetAtFairValue*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B (c) (2)

Foreign Currency Derivative Instruments Not Designated as Hedging Instruments, Liability at Fair Value

Element Name: *ForeignCurrencyDerivativeInstrumentsNotDesignatedAsHedgingInstrumentsLiabilityAtFairValue*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B (c) (2)

Foreign Currency Derivative Liabilities at Fair Value

Element Name: *ForeignCurrencyDerivativeLiabilitiesAtFairValue*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B (c)

Foreign Currency Derivatives at Fair Value, Net

Element Name: *ForeignCurrencyDerivativesAtFairValueNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 45 Other Presentation > General, 45-5

Foreign Currency Fair Value Hedge Asset at Fair Value

Element Name: *ForeignCurrencyFairValueHedgeAssetAtFairValue*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B (c) (1)

Foreign Currency Fair Value Hedge Derivative at Fair Value, Net

Element Name: *ForeignCurrencyFairValueHedgeDerivativeAtFairValueNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 45 Other Presentation > General, 45-5

Foreign Currency Fair Value Hedge Liability at Fair Value

Element Name: *ForeignCurrencyFairValueHedgeLiabilityAtFairValue*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B (c) (1)

Foreign Currency Gain (Loss) [Member]

Element Name: *ForeignCurrencyGainLossMember*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4D (a) (2), (b)

Foreign Exchange [Member]

Element Name: *ForeignExchangeMember*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4F (a) (2)

Gain (Loss) from Components Excluded from Assessment of Cash Flow Hedge Effectiveness, Net

Element Name: *GainLossFromComponentsExcludedFromAssessmentOfCashFlowHedgeEffectivenessNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (d) (2)

Gain (Loss) from Price Risk Management Activity

Element Name: *GainLossFromPriceRiskManagementActivity*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b)

Gain (Loss) on Cash Flow Hedge Ineffectiveness, Net

Element Name: *GainLossOnCashFlowHedgeIneffectivenessNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (d) (1)

Gain (Loss) on Cash Flow Hedges, Caption

Element Name: *GainLossOnCashFlowHedgesCaption*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b) (1)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (7))

Gain (Loss) on Components Excluded from Assessment of Credit Risk Hedge Effectiveness

Element Name: *GainLossOnComponentsExcludedFromAssessmentOfCreditRiskHedgeEffectiveness*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (d) (2)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1 (a) (2)

Gain (Loss) on Components Excluded from Assessment of Foreign Currency Cash Flow Hedge Effectiveness

Element Name: *GainLossOnComponentsExcludedFromAssessmentOfForeignCurrencyCashFlowHedgeEffectiveness*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (d) (2)

Gain (Loss) on Components Excluded from Assessment of Interest Rate Cash Flow Hedge Effectiveness

Element Name: *GainLossOnComponentsExcludedFromAssessmentOfInterestRateCashFlowHedgeEffectiveness*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (d) (2)

Gain (Loss) on Components Excluded from Assessment of Price Risk Cash Flow Hedge Effectiveness

Element Name: *GainLossOnComponentsExcludedFromAssessmentOfPriceRiskCashFlowHedgeEffectiveness*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (d) (2)

Gain (Loss) on Components Excluded from Assessment of Price Risk Hedge Effectiveness

Element Name: *GainLossOnComponentsExcludedFromAssessmentOfPriceRiskHedgeEffectiveness*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (d) (2)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1 (a) (2)

Gain (Loss) on Credit Risk Derivatives, Net

Element Name: *GainLossOnCreditRiskDerivativesNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b)

Gain (Loss) on Credit Risk Hedge Ineffectiveness

Element Name: *GainLossOnCreditRiskHedgeIneffectiveness*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (d) (1)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1 (a) (1)

Gain (Loss) on Derivative Instruments Held for Trading Purposes, Net

Element Name: *GainLossOnDerivativeInstrumentsHeldForTradingPurposesNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 45 Other Presentation > General, 45-9
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4F

Gain (Loss) on Derivative Instruments, Net, Pretax

Element Name: *GainLossOnDerivativeInstrumentsNetPretax*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b)

Gain (Loss) on Derivative Used in Net Investment Hedge, Net of Tax

Element Name: *TranslationAdjustmentForNetInvestmentHedgeIncreaseDecreaseNetOfTax*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (b)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 830 Foreign Currency Matters > 30 Translation of Financial Statements > 45 Other Presentation > General, 45-20 (b)

Gain (Loss) on Fair Value Hedges Recognized in Earnings

Element Name: *GainLossOnFairValueHedgesRecognizedInEarnings*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (a)

Gain (Loss) on Fair Value Hedges, Caption

Element Name: *GainLossOnFairValueHedgesCaption*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b) (1)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (7))

Gain (Loss) on Foreign Currency Cash Flow Hedge Ineffectiveness

Element Name: *GainLossOnForeignCurrencyCashFlowHedgeIneffectiveness*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (d) (1)

Gain (Loss) on Foreign Currency Derivative Instruments Not Designated as Hedging Instruments

Element Name: *GainLossOnForeignCurrencyDerivativeInstrumentsNotDesignatedAsHedgingInstruments*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (e)

Gain (Loss) on Foreign Currency Derivatives Recorded in Earnings, Net

Element Name: *GainLossOnForeignCurrencyDerivativesRecordedInEarningsNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4D (a) (2)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1

Gain (Loss) on Foreign Currency Fair Value Hedge Derivatives

Element Name: *GainLossOnForeignCurrencyFairValueHedgeDerivatives*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (a)

Gain (Loss) on Hedging Activity (Revision Date: 2011-11-20)

Element Name: *GainLossOnOilAndGasHedgingActivity*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b)

Gain (Loss) on Interest Rate Cash Flow Hedge Ineffectiveness

Element Name: *GainLossOnInterestRateCashFlowHedgeIneffectiveness*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (d) (1)

Gain (Loss) on Interest Rate Derivative Instruments Not Designated as Hedging Instruments

Element Name: *GainLossOnInterestRateDerivativeInstrumentsNotDesignatedAsHedgingInstruments*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (e)

Gain (Loss) on Price Risk Cash Flow Hedge Ineffectiveness

Element Name: *GainLossOnPriceRiskCashFlowHedgeIneffectiveness*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (d) (1)

Gain (Loss) on Price Risk Derivative Instruments Not Designated as Hedging Instruments

Element Name: *GainLossOnPriceRiskDerivativeInstrumentsNotDesignatedAsHedgingInstruments*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (e)

Gain (Loss) on Price Risk Derivatives, Net

Element Name: *GainLossOnPriceRiskDerivativesNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1

Gain (Loss) on Price Risk Hedge Ineffectiveness

Element Name: *GainLossOnPriceRiskHedgeIneffectiveness*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (d) (1)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1 (a) (1)

Gain from Components Excluded from Assessment of Cash Flow Hedge Effectiveness

Element Name: *GainFromComponentsExcludedFromAssessmentOfCashFlowHedgeEffectiveness*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (d) (2)

Gain on Cash Flow Hedge Ineffectiveness

Element Name: *GainOnCashFlowHedgeIneffectiveness*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (d) (1)

Gain on Derivative Instruments, Pretax

Element Name: *GainOnDerivativeInstrumentsPretax*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b)

General Discussion of Derivative Instruments and Hedging Activities

Element Name: *GeneralDiscussionOfDerivativeInstrumentsAndHedgingActivities*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-5
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 45 Other Presentation > General, 45-1
- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 50 Disclosure > General, 50-1

Hedge Designations Used for Credit Risk Derivatives

Element Name: *HedgeDesignationsUsedForCreditRiskDerivatives*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2

Hedge Designations Used for Foreign Currency Derivatives

Element Name: *HedgeDesignationsUsedForForeignCurrencyDerivatives*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 20 Hedging—General > 25 Recognition > General, 25-28

Hedge Designations Used for Interest Rate Derivatives

Element Name: *HedgeDesignationsUsedForInterestRateDerivatives*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2

Hedge Designations Used for Price Risk Derivatives

Element Name: *HedgeDesignationsUsedForPriceRiskDerivatives*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2

Hedging Designation [Axis]

Element Name: *HedgingDesignationAxis*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2

Hedging Designation [Domain]

Element Name: *HedgingDesignationDomain*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2

Hedging Liabilities, Noncurrent (Revision Date: 2011-12-01)

Element Name: *HedgingLiabilitiesNoncurrent*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 45 Other Presentation > General, 45-5
- 815 Derivatives and Hedging > 10 Overall > 45 Other Presentation > General, 45-6

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 825 Financial Instruments > 10 Overall > 50 Disclosure > General, 50-10 (a)
- 825 Financial Instruments > 10 Overall > 50 Disclosure > General, 50-15

Hedging Relationship [Axis] (Revision Date: 2011-12-20)

Element Name: *DerivativeInstrumentsGainLossByHedgingRelationshipAxis*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C

Hedging Relationship [Domain]

Element Name: *HedgingRelationshipDomain*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2

Hedging Strategy by Guarantee Type

Element Name: *HedgingStrategyByGuaranteeType*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

Held-to-maturity Securities [Table Text Block]

Element Name: *HeldToMaturitySecuritiesTextBlock*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > Certain Contracts on Debt and Equity Securities, 50-9

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 310 Receivables > 10 Overall > 50 Disclosure > General, 50-5
- 320 Investments—Debt and Equity Securities > 10 Overall > 50 Disclosure > General, 50-5
- 320 Investments—Debt and Equity Securities > 10 Overall > 50 Disclosure > General, 50-6
- 320 Investments—Debt and Equity Securities > 10 Overall > 50 Disclosure > General, 50-7
- 320 Investments—Debt and Equity Securities > 10 Overall > 50 Disclosure > General, 50-10
- 942 Financial Services—Depository and Lending > 320 Investments—Debt and Equity Securities > 50 Disclosure > General, 50-2

- 942 Financial Services—Depository and Lending > 320 Investments—Debt and Equity Securities > 50 Disclosure > General, 50-3

Held-to-maturity Securities, Purchased Options, Price Policy

Element Name: *HeldToMaturitySecuritiesPurchasedOptionsPricePolicy*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > Certain Contracts on Debt and Equity Securities, 50-9

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > 50 Disclosure > General, 50-3

Increase (Decrease) in Fair Value of Derivative Instruments, Not Designated as Hedging Instruments

Element Name: *IncreaseDecreaseInFairValueOfUnhedgedDerivativeInstruments*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (e)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 20 Hedging—General > 35 Subsequent Measurement > General, 35-1 (a)

Increase (Decrease) in Fair Value of Hedged Item in Interest Rate Fair Value Hedge (Revision Date: 2011-12-01)

Element Name: *IncreaseDecreaseInFairValueOfHedgedItemInInterestRateFairValueHedge1*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (a)

Increase (Decrease) in Fair Value of Hedged Item in Price Risk Fair Value Hedge (Revision Date: 2011-12-01)

Element Name: *IncreaseDecreaseInFairValueOfHedgedItemInPriceRiskFairValueHedge1*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (a)

Increase (Decrease) in Fair Value of Interest Rate Fair Value Hedging Instruments (Revision Date: 2011-12-01)

Element Name: *IncreaseDecreaseInFairValueOfInterestRateFairValueHedgingInstruments1*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (a)

Increase (Decrease) in Fair Value of Price Risk Fair Value Hedging Instruments (Revision Date: 2011-12-01)

Element Name: *IncreaseDecreaseInFairValueOfPriceRiskFairValueHedgingInstruments1*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (a)

Interest Expense [Member]

Element Name: *InterestExpenseMember*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4D (b)

Interest Rate Cash Flow Hedge Asset at Fair Value

Element Name: *InterestRateCashFlowHedgeAssetAtFairValue*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B (c) (1)

Interest Rate Cash Flow Hedge Derivative at Fair Value, Net

Element Name: *InterestRateCashFlowHedgeDerivativeAtFairValueNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 45 Other Presentation > General, 45-5

Interest Rate Cash Flow Hedge Gain (Loss) Reclassified to Earnings, Net

Element Name: *InterestRateCashFlowHedgeGainLossReclassifiedToEarningsNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (c)

Interest Rate Cash Flow Hedge Liability at Fair Value

Element Name: *InterestRateCashFlowHedgeLiabilityAtFairValue*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B (c) (1)

Interest Rate Derivative Instruments Not Designated as Hedging Instruments at Fair Value, Net

Element Name: *InterestRateDerivativeInstrumentsNotDesignatedAsHedgingInstrumentsAtFairValueNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 45 Other Presentation > General, 45-5

Interest Rate Derivative Instruments Not Designated as Hedging Instruments, Asset at Fair Value

Element Name: *InterestRateDerivativeInstrumentsNotDesignatedAsHedgingInstrumentsAssetAtFairValue*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B (c) (2)

Interest Rate Derivative Instruments Not Designated as Hedging Instruments, Liability at Fair Value

Element Name: *InterestRateDerivativeInstrumentsNotDesignatedAsHedgingInstrumentsLiabilityAtFairValue*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B (c) (2)

Interest Rate Fair Value Hedge Asset at Fair Value

Element Name: *InterestRateFairValueHedgeAssetAtFairValue*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B (c) (1)

Interest Rate Fair Value Hedge Derivative at Fair Value, Net

Element Name: *InterestRateFairValueHedgeDerivativeAtFairValueNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 45 Other Presentation > General, 45-5

Interest Rate Fair Value Hedge Liability at Fair Value

Element Name: *InterestRateFairValueHedgeLiabilityAtFairValue*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B (c) (1)

Internal Credit Rating [Member]

Element Name: *InternalCreditRatingMember*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4K (a)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 460 Guarantees > 10 Overall > 50 Disclosure > General, 50-4 (a)

Investment Income [Member]

Element Name: *InvestmentIncomeMember*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4D (b)

Investment Owned, Underlying Face Amount, at Market Value

Element Name: *InvestmentOwnedUnderlyingFaceAmountAtMarketValue*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 10 Objectives > General, 10-1 (a)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 20 Hedging—General > 10 Objectives > General, 10-1

This XBRL element references the following glossary term(s):

- Master Glossary > Underlying

Line Item for Credit Risk Derivatives on Balance Sheet

Element Name: *LineItemForCreditRiskDerivativesOnBalanceSheet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (a)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B (d)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (7))

Line Item for Gain (Loss) on Credit Risk Derivative on Income Statement

Element Name: *LineItemForGainLossOnCreditRiskDerivativeOnIncomeStatement*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b) (1)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4D (a) (5), (b)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (7))

Line Item for Gain (Loss) on Price Risk Derivative Instruments Not Designated as Hedging Instruments in Financial Statements

Element Name: *LineItemForGainLossOnPriceRiskDerivativeInstrumentsNotDesignatedAsHedgingInstrumentsInFinancialStatements*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (e)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (7))

Line Item for Gain (Loss) on Price Risk Fair Value Hedge Derivative in Financial Statements

Element Name: *LineItemForGainLossOnPriceRiskFairValueHedgeDerivativeInFinancialStatements*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b) (1)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4D (a) (6), (b)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (7))

Line Item for Price Risk Derivative Instruments Not Designated as Hedging Instruments on Balance Sheet

Element Name: *LineItemForPriceRiskDerivativeInstrumentsNotDesignatedAsHedgingInstrumentsOnBalanceSheet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (a)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B (d)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (7))

Line Item for Price Risk Fair Value Hedge Derivative on Balance Sheet

Element Name: *LineItemForPriceRiskFairValueHedgeDerivativeOnBalanceSheet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (a)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B (c) (1), (d)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (7))

Long-Duration Contracts, Hedging Strategies

Element Name: *LongDurationContractsHedgingStrategies*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

Loss from Components Excluded from Assessment of Cash Flow Hedge Effectiveness

Element Name: *LossFromComponentsExcludedFromAssessmentOfCashFlowHedgeEffectiveness*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (d) (2)

Loss on Cash Flow Hedge Ineffectiveness

Element Name: *LossOnCashFlowHedgeIneffectiveness*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (d) (1)

Loss on Derivative Instruments, Pretax

Element Name: *LossOnDerivativeInstrumentsPretax*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b)

Mandatorily Redeemable Preferred Stock [Member]

Element Name: *MandatorilyRedeemablePreferredStockMember*

This XBRL element references the following glossary term(s):

- Master Glossary > Mandatorily Redeemable Financial Instrument

Maximum Potential Future Exposure on Credit Risk Derivatives

Element Name: *MaximumPotentialFutureExposureOnCreditRiskDerivatives*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4K (b)

Maximum Term of Credit Risk Derivatives (Revision Date: 2011-11-21)

Element Name: *MaximumTermOfCreditRiskDerivatives1*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4K (a) (1)

Net Investment Hedging [Member]

Element Name: *NetInvestmentHedgingMember*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2 (a) (1) (iii)

Netting [Member] (Revision Date: 2011-08-10)

Element Name: *NettingAndCollateralMember*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 45 Other Presentation > General, 45-5

Nonmonetary Notional Amount of Price Risk Cash Flow Hedge Derivatives

Element Name: *NonmonetaryNotionalAmountOfPriceRiskCashFlowHedgeDerivatives*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Nonmonetary Notional Amount of Price Risk Derivative Instruments Not Designated as Hedging Instruments

Element Name: *NonmonetaryNotionalAmountOfPriceRiskDerivativeInstrumentsNotDesignatedAsHedgingInstruments*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Nonmonetary Notional Amount of Price Risk Derivatives

Element Name: *NonmonetaryNotionalAmountOfPriceRiskDerivatives*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Nonmonetary Notional Amount of Price Risk Fair Value Hedge Derivatives

Element Name: *NonmonetaryNotionalAmountOfPriceRiskFairValueHedgeDerivatives*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Not Designated as Hedging Instrument [Member]

Element Name: *NondesignatedMember*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2

Notional Amount of Cash Flow Hedge Instruments

Element Name: *NotionalAmountOfCashFlowHedgeInstruments*

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Credit Risk Derivatives

Element Name: *NotionalAmountOfCreditRiskDerivatives*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Derivative Instruments Designated as Net Investment Hedges

Element Name: *NotionalAmountOfDerivativeInstrumentsDesignatedAsNetInvestmentHedges*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Fair Value Hedge Instruments

Element Name: *NotionalAmountOfFairValueHedgeInstruments*

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Foreign Currency Cash Flow Hedge Derivatives

Element Name: *NotionalAmountOfForeignCurrencyCashFlowHedgeDerivatives*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Foreign Currency Derivative Instruments Not Designated as Hedging Instruments

Element Name: *NotionalAmountOfForeignCurrencyDerivativeInstrumentsNotDesignatedAsHedgingInstruments*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Foreign Currency Derivative Purchase Contracts

Element Name: *NotionalAmountOfForeignCurrencyDerivativePurchaseContracts*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Foreign Currency Derivative Sale Contracts

Element Name: *NotionalAmountOfForeignCurrencyDerivativeSaleContracts*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Foreign Currency Derivatives

Element Name: *NotionalAmountOfForeignCurrencyDerivatives*

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Foreign Currency Fair Value Hedge Derivatives

Element Name: *NotionalAmountOfForeignCurrencyFairValueHedgeDerivatives*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Interest Rate Cash Flow Hedge Derivatives

Element Name: *NotionalAmountOfInterestRateCashFlowHedgeDerivatives*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Interest Rate Derivative Instruments Not Designated as Hedging Instruments

Element Name: *NotionalAmountOfInterestRateDerivativeInstrumentsNotDesignatedAsHedgingInstruments*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Interest Rate Derivatives

Element Name: *NotionalAmountOfInterestRateDerivatives*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Interest Rate Fair Value Hedge Derivatives

Element Name: *NotionalAmountOfInterestRateFairValueHedgeDerivatives*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Net Investment Hedging Instruments

Element Name: *NotionalAmountOfNetInvestmentHedgingInstruments*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Nonderivative Instruments Designated as Net Investment Hedges

Element Name: *NotionalAmountOfNonderivativeInstrumentsDesignatedAsNetInvestmentHedges*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Other Derivatives Not Designated as Hedging Instruments

Element Name: *NotionalAmountOfOtherDerivativesNotDesignatedAsHedgingInstruments*

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Price Risk Cash Flow Hedge Derivatives

Element Name: *NotionalAmountOfPriceRiskCashFlowHedgeDerivatives*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Price Risk Derivative Instruments Not Designated as Hedging Instruments

Element Name: *NotionalAmountOfPriceRiskDerivativeInstrumentsNotDesignatedAsHedgingInstruments*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Price Risk Derivatives

Element Name: *NotionalAmountOfPriceRiskDerivatives*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Price Risk Fair Value Hedge Derivatives

Element Name: *NotionalAmountOfPriceRiskFairValueHedgeDerivatives*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Number of Credit Risk Derivatives Held

Element Name: *NumberOfCreditRiskDerivativesHeld*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

Number of Foreign Currency Derivatives Held

Element Name: *NumberOfForeignCurrencyDerivativesHeld*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

Number of Interest Rate Derivatives Held

Element Name: *NumberOfInterestRateDerivativesHeld*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

Number of Price Risk Derivatives Held

Element Name: *NumberOfPriceRiskDerivativesHeld*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

Objectives for Using Cash Flow Hedging Instruments

Element Name: *ObjectivesForUsingCashFlowHedgingInstruments*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-5
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A

Objectives for Using Derivative Instruments

Element Name: *ObjectivesForUsingDerivativeInstruments*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-5
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

Objectives for Using Fair Value Hedging Instruments

Element Name: *ObjectivesForUsingFairValueHedgingInstruments*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-5
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

Objectives for Using Net Investment Hedging Instruments

Element Name: *ObjectivesForUsingNetInvestmentHedgingInstruments*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-5
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

Operating Expense [Member]

Element Name: *OperatingExpenseMember*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4D (b)

Option Indexed to Issuer's Equity [Table]

Element Name: *OptionIndexedToIssuersEquityTable*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 480 Distinguishing Liabilities from Equity > 10 Overall > 55 Implementation > General, 55-63
- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-3
- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-4
- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-5

This XBRL element references the following glossary term(s):

- Master Glossary > Freestanding Contract

Option Indexed to Issuer's Equity, Description [Text Block]

Element Name: *OptionIndexedToIssuersEquityDescriptionTextBlock*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 480 Distinguishing Liabilities from Equity > 10 Overall > 55 Implementation > General, 55-63
- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-3
- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-4
- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-5

This XBRL element references the following glossary term(s):

- Master Glossary > Freestanding Contract

Option Indexed to Issuer's Equity, Settlement Alternatives

Element Name: *OptionIndexedToIssuersEquitySettlementAlternatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-5 (b), (c)

This XBRL element references the following glossary term(s):

- Master Glossary > Net Cash Settlement
- Master Glossary > Net Share Settlement
- Master Glossary > Physical Settlement

Option Indexed to Issuer's Equity, Type [Domain]

Element Name: *OptionIndexedToIssuersEquityTypeDomain*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 55 Implementation > General, 55-7

This XBRL element references the following glossary term(s):

- Master Glossary > Freestanding Contract

Other Assets [Member]

Element Name: *OtherAssetsMember*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (a)
- 815 Derivatives and Hedging > 10 Overall > 55 Implementation > General, 55-182

Other Comprehensive Income (Loss) [Member]

Element Name: *OtherComprehensiveIncomeMember*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4D (b)

Other Comprehensive Income (Loss), Reclassification Adjustment on Derivatives Included in Net Income, Net of Tax (Revision Date: 2011-08-17)

Element Name: *OtherComprehensiveIncomeLossReclassificationAdjustmentOnDerivativesIncludedInNetIncomeNetOfTax*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (c)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 220 Comprehensive Income > 10 Overall > 45 Other Presentation > General, 45-11
- 220 Comprehensive Income > 10 Overall > 45 Other Presentation > General, 45-15

This XBRL element references the following glossary term(s):

- Master Glossary > Reclassification Adjustments

Other Comprehensive Income (Loss), Unrealized Gain (Loss) on Derivatives Arising During Period, Net of Tax (Revision Date: 2011-08-17)

Element Name: *OtherComprehensiveIncomeUnrealizedGainLossOnDerivativesArisingDuringPeriodNetOfTax*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (b)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 220 Comprehensive Income > 10 Overall > 45 Other Presentation > General, 45-11
- 220 Comprehensive Income > 10 Overall > 45 Other Presentation > General, 45-10A (d)
- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 45 Other Presentation > General, 45-1

Other Current Assets [Member] (Revision Date: 2011-12-01)

Element Name: *OtherCurrentAssetsMember*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (a)
- 815 Derivatives and Hedging > 10 Overall > 55 Implementation > General, 55-182

Other Expense [Member]

Element Name: *OtherExpenseMember*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4D (b)

Other Footnotes Disclosing Derivative-Related Information, Cross-Reference

Element Name: *OtherFootnotesDisclosingDerivativeRelatedInformationCrossReference*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4I

Other Income [Member]

Element Name: *OtherIncomeMember*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4F (a)

Other Liabilities [Member]

Element Name: *OtherLiabilitiesMember*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (a)
- 815 Derivatives and Hedging > 10 Overall > 55 Implementation > General, 55-182

Other Trading [Member]

Element Name: *OtherTradingMember*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4F (a)

Price Risk Cash Flow Hedge Asset, at Fair Value

Element Name: *PriceRiskCashFlowHedgeAssetAtFairValue*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B (c) (1)

Price Risk Cash Flow Hedge Derivative, at Fair Value, Net

Element Name: *PriceRiskCashFlowHedgeDerivativeAtFairValueNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 45 Other Presentation > General, 45-5

Price Risk Cash Flow Hedge Liability, at Fair Value

Element Name: *PriceRiskCashFlowHedgeLiabilityAtFairValue*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B (c) (1)

Price Risk Derivative Instruments Not Designated as Hedging Instruments Asset, at Fair Value

Element Name: *PriceRiskDerivativeInstrumentsNotDesignatedAsHedgingInstrumentsAssetAtFairValue*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B (c) (2)

Price Risk Derivative Instruments Not Designated as Hedging Instruments Liability, at Fair Value

Element Name: *PriceRiskDerivativeInstrumentsNotDesignatedAsHedgingInstrumentsLiabilityAtFairValue*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B (c) (2)

Price Risk Derivative Instruments Not Designated as Hedging Instruments, at Fair Value, Net

Element Name: *PriceRiskDerivativeInstrumentsNotDesignatedAsHedgingInstrumentsAtFairValueNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 45 Other Presentation > General, 45-5

Price Risk Fair Value Hedge Asset, at Fair Value

Element Name: *PriceRiskFairValueHedgeAssetAtFairValue*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B (c) (1)

Price Risk Fair Value Hedge Derivative, at Fair Value, Net

Element Name: *PriceRiskFairValueHedgeDerivativeAtFairValueNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 45 Other Presentation > General, 45-5

Price Risk Fair Value Hedge Liability, at Fair Value

Element Name: *PriceRiskFairValueHedgeLiabilityAtFairValue*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B (c) (1)

Principal or Proprietary Transactions [Member]

Element Name: *PrincipalOrProprietaryTransactionsMember*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4F (a)

Purpose of Foreign Currency Derivative Instruments Not Designated as Hedging Instruments

Element Name: *PurposeOfForeignCurrencyDerivativeInstrumentsNotDesignatedAsHedgingInstruments*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

Purpose of Interest Rate Derivative Instruments Not Designated as Hedging Instruments

Element Name: *PurposeOfInterestRateDerivativeInstrumentsNotDesignatedAsHedgingInstruments*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

Purpose of Price Risk Derivative Instruments Not Designated as Hedging Instruments

Element Name: *PurposeOfPriceRiskDerivativeInstrumentsNotDesignatedAsHedgingInstruments*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

Sale of Subsidiary Gain (Loss) [Member]

Element Name: *SaleOfSubsidiaryGainLossMember*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4D (b)

Sales [Member]

Element Name: *SalesMember*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4D (b)

Schedule of Cash Flow Hedges Included in Accumulated Other Comprehensive Income (Loss) [Table Text Block]

Element Name: *ScheduleOfCashFlowHedgesIncludedInAccumulatedOtherComprehensiveIncomeLossTableTextBlock*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (c)

Schedule of Cash Flow Hedging Instruments, Statements of Financial Performance and Financial Position, Location [Table Text Block]

Element Name: *ScheduleOfCashFlowHedgingInstrumentsStatementsOfFinancialPerformanceAndFinancialPositionLocationTableTextBlock*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (b)

Schedule of Credit Derivatives [Table]

Element Name: *ScheduleOfCreditDerivativesTable*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4J
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4K
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4L

This XBRL element references the following glossary term(s):

- Master Glossary > Credit Derivative

Schedule of Derivative Instruments Included in Trading Activities [Table Text Block]

Element Name: *ScheduleOfDerivativeInstrumentsIncludedInTradingActivitiesTextBlock*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4F (a), (b)
- 815 Derivatives and Hedging > 10 Overall > 55 Implementation > General, 55-184

Schedule of Derivative Instruments [Table Text Block]

Element Name: *ScheduleOfDerivativeInstrumentsTextBlock*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-5
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-8
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (2))
- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1

Schedule of Derivative Instruments in Statement of Financial Position, Fair Value [Table Text Block]

Element Name: *ScheduleOfDerivativeInstrumentsInStatementOfFinancialPositionFairValueTextBlock*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B

Schedule of Derivative Instruments, Effect on Other Comprehensive Income (Loss) [Table Text Block]

Element Name: *ScheduleOfDerivativeInstrumentsEffectOnOtherComprehensiveIncomeLossTableTextBlock*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (b)

Schedule of Derivative Instruments, Gain (Loss) in Statement of Financial Performance [Table Text Block]

Element Name: *ScheduleOfDerivativeInstrumentsGainLossInStatementOfFinancialPerformanceTextBlock*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C

Schedule of Derivatives Instruments Statements of Financial Performance and Financial Position, Location [Table Text Block]

Element Name: *ScheduleOfDerivativesInstrumentsStatementsOfFinancialPerformanceAndFinancialPositionLocationTableTextBlock*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A

Schedule of Fair Value Hedging Instruments, Statements of Financial Performance and Financial Position, Location [Table Text Block]

Element Name: *ScheduleOfFairValueHedgingInstrumentsStatementsOfFinancialPerformanceAndFinancialPositionLocationTableTextBlock*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (a)

Schedule of Foreign Exchange Contracts, Statement of Financial Position [Table Text Block]

Element Name: *ScheduleOfForeignExchangeContractsStatementOfFinancialPositionTableTextBlock*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B (c) (1)

Schedule of Held-to-maturity Securities [Table]

Element Name: *ScheduleOfHeldToMaturitySecuritiesTable*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > Certain Contracts on Debt and Equity Securities, 50-9

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 310 Receivables > 10 Overall > 50 Disclosure > General, 50-5
- 320 Investments—Debt and Equity Securities > 10 Overall > 50 Disclosure > General, 50-5
- 320 Investments—Debt and Equity Securities > 10 Overall > 50 Disclosure > General, 50-6
- 320 Investments—Debt and Equity Securities > 10 Overall > 50 Disclosure > General, 50-7
- 320 Investments—Debt and Equity Securities > 10 Overall > 50 Disclosure > General, 50-10
- 942 Financial Services—Depository and Lending > 320 Investments—Debt and Equity Securities > 50 Disclosure > General, 50-2
- 942 Financial Services—Depository and Lending > 320 Investments—Debt and Equity Securities > 50 Disclosure > General, 50-3

Schedule of Interest Rate Derivatives [Table Text Block]

Element Name: *ScheduleOfInterestRateDerivativesTableTextBlock*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C

Schedule of Net Investment Hedges in Accumulated Other Comprehensive Income (Loss) [Table Text Block]

Element Name: *ScheduleOfNetInvestmentHedgesInAccumulatedOtherComprehensiveIncomeLossTableTextBlock*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (c)

Schedule of Net Investment Hedges, Statements of Financial Performance and Financial Position, Location [Table Text Block]

Element Name: *ScheduleOfNetInvestmentHedgesStatementsOfFinancialPerformanceAndFinancialPositionLocationTableTextBlock*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (b)

Schedule of Notional Amounts of Outstanding Derivative Positions [Table Text Block]

Element Name: *ScheduleOfNotionalAmountsOfOutstandingDerivativePositionsTableTextBlock*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)

Schedule of Options Indexed to Issuer's Equity [Table Text Block]

Element Name: *ScheduleOfOptionsIndexedToIssuersEquityTextBlock*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 480 Distinguishing Liabilities from Equity > 10 Overall > 55 Implementation > General, 55-63
- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-3
- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-4

- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-5

This XBRL element references the following glossary term(s):

- Master Glossary > Freestanding Contract

Schedule of Other Derivatives Not Designated as Hedging Instruments, Statements of Financial Performance and Financial Position, Location [Table Text Block]

Element Name: *ScheduleOfOtherDerivativesNotDesignatedAsHedgingInstrumentsStatementsOfFinancialPerformanceAndFinancialPositionLocationTableTextBlock*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (e)

Schedule of Price Risk Derivatives [Table Text Block]

Element Name: *ScheduleOfPriceRiskDerivativesTableTextBlock*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C

Trading Activities, Gain and Losses, by Type, by Income Statement Location [Table]

Element Name: *TradingActivitiesGainLossByTypeTable*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4F (a), (b)
- 815 Derivatives and Hedging > 10 Overall > 55 Implementation > General, 55-184

Trading Activity [Axis] (Revision Date: 2011-12-20)

Element Name: *TradingActivityByTypeAxis*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4F (a)

Trading Activity, Gain

Element Name: *TradingActivityGain*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4F (a)

Trading Activity, Gains and Losses, Net

Element Name: *TradingActivityGainsAndLossesNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4F (a)

Trading Activity, Loss

Element Name: *TradingActivityLoss*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4F (a)

Trading Activity, by Type [Domain]

Element Name: *TradingActivityByTypeDomain*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4F (a)

Trading Revenue [Member] (Revision Date: 2012-03-29)

Element Name: *TradingRevenueMember*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4D (b)

Types of Credit Risk Derivatives Used

Element Name: *TypesOfCreditRiskDerivativesUsed*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4K
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4L

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (2))

Types of Foreign Currency Derivatives Used

Element Name: *TypesOfForeignCurrencyDerivativesUsed*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (2))

Types of Items Hedged by Credit Risk Derivatives

Element Name: *TypesOfItemsHedgedByCreditRiskDerivatives*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4K
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4L

Types of Items Hedged by Foreign Currency Derivatives

Element Name: *TypesOfItemsHedgedByForeignCurrencyDerivatives*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

Types of Items Hedged by Interest Rate Derivatives

Element Name: *TypesOfItemsHedgedByInterestRateDerivatives*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

Types of Items Hedged by Price Risk Derivatives

Element Name: *TypesOfItemsHedgedByPriceRiskDerivatives*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

Types of Price Risk Derivatives Used

Element Name: *TypesOfPriceRiskDerivativesUsed*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (2))

Underlying Asset Class [Domain]

Element Name: *UnderlyingAssetClassDomain*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4K (a)

Underlying, Other [Member]

Element Name: *UnderlyingOtherMember*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4J
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4K
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4L

This XBRL element references the following glossary term(s):

- Master Glossary > Credit Derivative

Unrealized Gain (Loss) on Cash Flow Hedging Instruments

Element Name: *UnrealizedGainLossOnCashFlowHedgingInstruments*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (d) (1)

Unrealized Gain (Loss) on Foreign Currency Derivatives, Net, before Tax

Element Name: *UnrealizedGainLossOnForeignCurrencyDerivativesNetBeforeTax*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (b)

Unrealized Gain (Loss) on Interest Rate Cash Flow Hedges, Pretax, Accumulated Other Comprehensive Income (Loss)

Element Name: *UnrealizedGainLossOnInterestRateCashFlowHedgesPretaxAccumulatedOtherComprehensiveIncomeLoss*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (b)

Unrealized Gain (Loss) on Price Risk Cash Flow Derivatives, before Tax

Element Name: *UnrealizedGainLossOnPriceRiskCashFlowDerivativesBeforeTax*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (b)

Unrealized Gain (Loss) on Price Risk Fair Value Hedging Instruments

Element Name: *UnrealizedGainLossOnPriceRiskFairValueHedgingInstruments*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (a)

Unrealized Gain on Foreign Currency Derivatives, before Tax

Element Name: *UnrealizedGainOnForeignCurrencyDerivativesBeforeTax*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (b)

Unrealized Gain on Price Risk Cash Flow Derivatives, before Tax

Element Name: *UnrealizedGainOnPriceRiskCashFlowDerivativesBeforeTax*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (b)

Unrealized Loss on Foreign Currency Derivatives, before Tax

Element Name: *UnrealizedLossOnForeignCurrencyDerivativesBeforeTax*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (b)

Unrealized Loss on Price Risk Cash Flow Derivatives, before Tax

Element Name: *UnrealizedLossOnPriceRiskCashFlowDerivativesBeforeTax*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (b)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 45 Other Presentation > General, 45-1

Variable Income Interest Rate [Member]

Element Name: *VariableIncomeInterestRateMember*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4F (a) (1)

END OF DOCUMENT -

815-15-00 Status

General Note: The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

General

00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Credit Risk	Amended	Accounting Standards Update No. 2010-08	02/02/2010
Embedded Credit Derivative	Added	Accounting Standards Update No. 2010-11	03/05/2010
815-15-15-8	Superseded	Accounting Standards Update No. 2010-11	03/05/2010
815-15-15-9	Amended	Accounting Standards Update No. 2010-11	03/05/2010
815-15-25-16	Amended	Accounting Standards Update No. 2010-11	03/05/2010
815-15-25-18	Amended	Accounting Standards Update No. 2010-11	03/05/2010
815-15-25-26	Amended	Accounting Standards Update No. 2010-08	02/02/2010
815-15-25-40 through 25-42	Amended	Accounting Standards Update No. 2010-08	02/02/2010
815-15-25-51A	Added	Accounting Standards Update No. 2010-11	03/05/2010
815-15-55-13	Amended	Accounting Standards Update No. 2010-08	02/02/2010
815-15-55-165	Amended	Accounting Standards Update No. 2010-11	03/05/2010
815-15-55-166	Amended	Accounting Standards Update No. 2010-11	03/05/2010
815-15-55-169	Amended	Accounting Standards Update No. 2010-11	03/05/2010
815-15-55-212	Amended	Accounting Standards Update No. 2010-08	02/02/2010
815-15-55-224 through 55-226	Amended	Accounting Standards Update No. 2010-11	03/05/2010
815-15-55-226A through 55-226D	Added	Accounting Standards Update No. 2010-11	03/05/2010
815-15-65-1	Added	Accounting Standards Update No. 2010-08	02/02/2010

END OF DOCUMENT -

815-15-05 Overview and Background

General Note: The Overview and Background Section provides overview and background material for the guidance contained in the Subtopic. It does not provide the historical background or due process. It may contain certain material that users generally consider useful to understand the typical situations addressed by the standards. The Section does not summarize the accounting and reporting requirements.

General

05-1 Contracts that do not in their entirety meet the definition of a **derivative instrument** (see paragraphs 815-10-15-83 through 15-139), such as bonds, insurance policies, and leases, may contain **embedded derivatives**. The effect of embedding a derivative instrument in another type of contract (the host contract) is that some or all of the cash flows or other exchanges that otherwise would be required by the host contract, whether unconditional or contingent on the occurrence of a specified event, will be modified based on one or more **underlyings**.

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815-15-15 Scope and Scope Exceptions

815-15-15 Scope and Scope Exceptions

General Note: The Scope and Scope Exceptions Section outlines the items (for example, the entities, transactions, instruments, or events) to which the guidance in the Subtopic does or does not apply. In some cases, the Section may contain definitional or other text to frame the scope.

General Note for Financial Instruments: Some of the items subject to the guidance in this Subtopic are **financial instruments**. For guidance on matters related broadly to all financial instruments, (including the fair value option, accounting for registration payment arrangements, and broad financial instrument disclosure requirements), see Topic 825. See Section 825-10-15 for guidance on the scope of the Financial Instruments Topic.

General

> Entities

15-1 The guidance in this Subtopic applies to all entities.

> Instruments

15-2 The guidance in this Subtopic applies only to contracts that do not meet the definition of a **derivative instrument** in their entirety.

15-3 The guidance in this Subtopic does not apply to any of the following items, as discussed further in this Section:

a. Normal purchases and normal sales contracts

b. Unsettled foreign currency transactions

c. Plain-vanilla servicing rights

d. Features involving certain aspects of credit risk

e. Features involving certain currencies.

>> Normal Purchases and Normal Sales

15-4 A contract that meets the definition of a derivative instrument in its entirety but qualifies for the normal purchases and normal sales scope exception as discussed beginning in paragraph 815-10-15-22 shall not also be assessed under paragraph 815-15-25-1.

>> Certain Foreign Currency Transactions

15-5 Unsettled foreign currency transactions, including **financial instruments**, shall not be considered to contain embedded foreign currency derivatives under this Subtopic if the transactions meet all of the following criteria:

a. They are monetary items.

b. They have their principal payments, interest payments, or both denominated in a foreign currency.

c. They are subject to the requirement in Subtopic 830-20 to recognize any foreign currency transaction gain or loss in earnings.

15-6 The same proscription applies to available-for-sale or **trading** securities that have cash flows denominated in a foreign currency.

>> Plain-Vanilla Servicing Rights

15-7 Plain-vanilla servicing rights, which involve an obligation to perform servicing and the right to receive fees for performing that servicing, do not contain an **embedded derivative** that would be separated from those servicing rights and accounted for as a derivative instrument.

15-8 [Paragraph superseded by Accounting Standards Update No. 2010-11]

>> Features Involving Certain Aspects of Credit Risk

15-9 The transfer of **credit risk** that is only in the form of subordination of one financial instrument to another (such as the subordination of one beneficial interest to another tranche of a securitization, thereby redistributing credit risk) is an embedded derivative feature that shall not be subject to the application of paragraph 815-10-15-11 and Section 815-15-25. Only the **embedded credit derivative** feature created by subordination between the financial instruments is not subject to the application of paragraph 815-10-15-11 and Section 815-15-25. However, other embedded credit derivative features (for example, those related to credit default swaps on a referenced credit) would be subject to the application of paragraph 815-10-15-11 and Section 815-15-25 even if their effects are allocated to interests in tranches of securitized financial instruments in accordance with those subordination provisions. Consequently, the following circumstances (among others) would not qualify for the scope exception and are subject to the application of paragraph 815-10-15-11 and Section 815-15-25 for potential bifurcation:

a. An embedded derivative feature relating to another type of risk (including another type of credit risk) is present in the securitized financial instruments.

b. The holder of an interest in a tranche of that securitized financial instrument is exposed to the possibility (however remote) of being required to make potential future payments (not merely receive reduced cash inflows) because the possibility of those future payments is not created by subordination. (Note, however, that the securitized financial instrument may involve other tranches that are not exposed to potential future payments and, thus, those other tranches might qualify for the scope exception.)

c. The holder owns an interest in a single-tranche securitization vehicle; therefore, the subordination of one tranche to another is not relevant.

>> Features Involving Certain Currencies

15-10 An embedded foreign currency derivative shall not be separated from the host contract and considered a derivative instrument under paragraph 815-15-25-1 if all of the following criteria are met:

a. The host contract is not a financial instrument.

b. The host contract requires payment(s) denominated in any of the following currencies:

1. The functional currency of any substantial party to that contract

2. The currency in which the price of the related good or service that is acquired or delivered is routinely denominated in international commerce (for example, the U.S. dollar for crude oil transactions)

3. The local currency of any substantial party to the contract

4. The currency used by a substantial party to the contract as if it were the functional currency because the primary economic environment in which the party operates is highly inflationary (as discussed in paragraph 830-10-45-11).

c. Other aspects of the embedded foreign currency derivative are clearly and closely related to the host contract.

The evaluation of whether a contract qualifies for the scope exception in this paragraph shall be performed only at inception of the contract.

15-11 The decision about the currency of the primary economic environment in which a counterparty to a contract operates can be based on available information and reasonable assumptions about the counterparty; representations from the counterparty are not required.

>>> Substantial Party to the Contract

15-12 When determining who is a substantial party to the contract for purposes of applying paragraph 815-15-15-10(b)(1), the entity shall do both of the following:

a. Consider all facts and circumstances pertaining to that contract (including whether the contracting party possesses the requisite knowledge, resources, and technology to fulfill the contract without relying on related parties)

b. Look through the legal form to evaluate the substance of the underlying relationships.

15-13 Example 1 (see paragraph 815-15-55-83) illustrates the application of this guidance.

>>> Routinely Denominated in International Commerce

15-14 The application of the phrase *routinely denominated in international commerce* in paragraph 815-15-15-10(b)(2) shall be based on how similar transactions for a certain product or service are routinely structured around the world, not just in one local area. If similar transactions for a certain product or service are routinely denominated in international commerce in various different currencies, the scope exception in that paragraph shall not apply to any of those similar transactions.

>>> Foreign Currency Caps and Floors Within a Nonfinancial Contract

15-15 The guidance in paragraph 815-15-15-10 relating to embedded foreign currency derivatives within nonfinancial contracts relates to all embedded foreign currency caps or floors within such contracts. That guidance does not relate to all embedded foreign currency options within such contracts (such as an embedded foreign currency option that merely introduces a cap or floor on the functional currency equivalent price under a purchase contract). The embedded foreign currency cap or floor (or combination thereof) within a nonfinancial contract shall be considered clearly and closely related to the host nonfinancial contract, and thus not be accounted for separately as a derivative instrument, only if all of the following criteria are met:

a. The nonfinancial contract requires payment(s) denominated in any of the currencies permitted by paragraphs 815-15-15-10(b).

b. The embedded cap or floor (or combination thereof) does not contain leverage features.

c. The embedded cap or floor (or combination thereof) does not represent a written or net written option.

15-16 When an embedded cap or floor (or combination thereof) represents a purchased or net purchased option to one party to the contract, it represents a written or net written option to the counterparty to that contract. In that circumstance, that counterparty does not qualify for the paragraph 815-15-15-10 exclusion because the criterion in (c) in the preceding paragraph would not be met (due to the embedded foreign currency cap or floor [or combination thereof] representing a written or net written option).

15-17 If the embedded derivative represented a zero-cost collar (as described beginning in paragraph 815-20-25-88), both parties to the contract would meet the criterion in paragraph 815-15-15-15(c) and be eligible to qualify for the exclusion in paragraph 815-15-15-10.

15-18 If a financial or nonfinancial contract contained an option that allowed the payer to remit funds in an equivalent amount of a currency other than the functional currency of a substantial party to the contract at the payment date, that option shall not be separated from the host contract because the option merely allows the payer to make an equivalent payment in a choice of currencies (based on current spot prices).

15-19 The guidance in paragraphs 815-15-15-15 through 15-18 is not meant to address every possible type of foreign currency option that may be embedded in a nonfinancial contract, and an analogy to that guidance may not be appropriate for such foreign currency options.

>>> Certain Insurance Contracts

15-20 Although the scope exception in paragraph 815-15-15-10 does not apply to financial instruments, that paragraph applies if a normal insurance contract involves payment in the functional currency of either of the two parties to the contract.

15-21 Paragraph 815-15-15-10 applies also to a normal insurance contract if it involves payment in the local currency of the country in which the loss is incurred, irrespective of the functional currencies of the parties to the transaction.

END OF DOCUMENT -

815-15-20 Glossary

General Note: The Master Glossary contains all terms identified as glossary terms throughout the Codification. Clicking on any term in the Master Glossary will display where the term is used. The Master Glossary may contain identical terms with different definitions, some of which may not be appropriate for a particular Subtopic. For any particular Subtopic, users should only use the glossary terms included in the particular Subtopic Glossary Section (Section 20).

All-in-One Hedge

In an all-in-one hedge, a derivative instrument that will involve gross settlement is designated as the hedging instrument in a cash flow hedge of the variability of the consideration to be paid or received in the forecasted transaction that will occur upon gross settlement of the derivative instrument itself.

Annuitization

Annuitization refers to the policyholder receiving periodic payments under various payment options, including their remaining life or for a term-certain period.

Credit Derivative

A derivative instrument that has both of the following characteristics:

a. One or more of its underlyings are related to any of the following:

1. The credit risk of a specified entity (or a group of entities)

2. An index based on the credit risk of a group of entities.

b. It exposes the seller to potential loss from credit-risk-related events specified in the contract.

Examples of credit derivatives include, but are not limited to, credit default swaps, credit spread options, and credit index products.

Credit Risk

For purposes of a hedged item in a fair value hedge, credit risk is the risk of changes in the hedged item's fair value attributable to both of the following:

a. Changes in the obligor’s creditworthiness

b. Changes in the spread over the benchmark interest rate with respect to the hedged item’s credit sector at inception of the hedge.

For purposes of a hedged transaction in a cash flow hedge, credit risk is the risk of changes in the hedged transaction's cash flows attributable to all of the following:

a. Default

b. Changes in the obligor’s creditworthiness

c. Changes in the spread over the benchmark interest rate with respect to the related financial asset’s or liability’s credit sector at inception of the hedge.

Derivative Instrument

Paragraphs 815-10-15-83 through 15-139 define the term *derivative instrument*.

Embedded Credit Derivative

An embedded derivative that is also a credit derivative.

Embedded Derivative

Implicit or explicit terms that affect some or all of the cash flows or the value of other exchanges required by a contract in a manner similar to a derivative instrument.

Equity-Indexed Annuity

A deferred fixed annuity contract with a guaranteed minimum interest rate plus a contingent return based on some internal or external equity index, such as the Standard and Poor's S&P 500 Index.

Equity Kicker

See **Expected Residual Profit**.

Expected Residual Profit

The amount of profit, whether called interest or another name, such as equity kicker, above a reasonable amount of interest and fees expected to be earned by a lender.

Face Amount

See **Notional Amount**.

Fair Value

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair Value Hedge

A hedge of the exposure to changes in the fair value of a recognized asset or liability, or of an unrecognized firm commitment, that are attributable to a particular risk.

Financial Instrument

Cash, evidence of an ownership interest in an entity, or a contract that both:

a. Imposes on one entity a contractual obligation either:
   1. To deliver cash or another financial instrument to a second entity
   2. To exchange other financial instruments on potentially unfavorable terms with the second entity.

b. Conveys to that second entity a contractual right either:
   1. To receive cash or another financial instrument from the first entity
   2. To exchange other financial instruments on potentially favorable terms with the first entity.

The use of the term financial instrument in this definition is recursive (because the term financial instrument is included in it), though it is not circular. The definition requires a chain of contractual obligations that ends with the delivery of cash or an ownership interest in an entity. Any number of obligations to deliver financial instruments can be links in a chain that qualifies a particular contract as a financial instrument.

Contractual rights and contractual obligations encompass both those that are conditioned on the occurrence of a specified event and those that are not. All contractual rights (contractual obligations) that are financial instruments meet the definition of asset (liability) set forth in FASB Concepts Statement No. 6, Elements of Financial Statements, although some may not be recognized as assets (liabilities) in financial statements—that is, they may be off-balance-sheet—because they fail to meet some other criterion for recognition.

For some financial instruments, the right is held by or the obligation is due from (or the obligation is owed to or by) a group of entities rather than a single entity.

Foreign Exchange Risk

The risk of changes in a hedged item's fair value or functional-currency-equivalent cash flows attributable to changes in the related foreign currency exchange rates.

Hybrid Instrument

A contract that embodies both an **embedded derivative** and a host contract.

Interest Rate Risk

The risk of changes in a hedged item's fair value or cash flows attributable to changes in the designated benchmark interest rate.

Market Value Annuity

A contract that provides for a return of principal plus a fixed rate of return if held to maturity, or alternatively, a market-adjusted value if the surrender option is exercised by the contract holder before maturity. The market-adjusted value is typically based on current interest crediting rates being offered for new market value annuity purchases.

New Basis Event

See **Remeasurement Event**.

Notional Amount

A number of currency units, shares, bushels, pounds, or other units specified in a derivative instrument. Sometimes other names are used. For example, the notional amount is called a face amount in some contracts.

Periodic Ratchet Design

A type of **equity-indexed annuity**. See paragraph 815-15-55-63(a).

Point-to-Point Design

A type of **equity-indexed annuity**. See paragraph 815-15-55-63(b).

Prepayable

Able to be settled by either party before its scheduled maturity.

Readily Convertible to Cash

Assets that are readily convertible to cash have both of the following:

a. Interchangeable (fungible) units

b. Quoted prices available in an active market that can rapidly absorb the quantity held by the entity without significantly affecting the price.

(Based on paragraph 83(a) of FASB Concepts Statement No. 5, *Recognition and Measurement in Financial Statements of Business Enterprises*.)

Remeasurement Event

A remeasurement (new basis) event is an event identified in other authoritative accounting literature, other than the recognition of an other-than-temporary impairment, that requires a financial instrument to be remeasured to its fair value at the time of the event but does not require that financial instrument to be reported at fair value continually with the change in fair value recognized in earnings. Examples of remeasurement events are business combinations and significant modifications of debt as discussed in paragraph 470-50-40-6.

Trading

An activity involving securities sold in the near term and held for only a short period of time. The term trading contemplates a holding period generally measured in hours and days rather than months or years. See paragraph 948-310-40-1 for clarification of the term trading for a mortgage banking entity.

Transaction

An external event involving transfer of something of value (future economic benefit) between two (or more) entities. (See FASB Concepts Statement No. 6, Elements of Financial Statements.)

Underlying

A specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, or other variable (including the occurrence or nonoccurrence of a specified event such as a scheduled payment under a contract). An underlying may be a price or rate of an asset or liability but is not the asset or liability itself. An underlying is a variable that, along with either a notional amount or a payment provision, determines the settlement of a derivative instrument.

END OF DOCUMENT -

815-15-25 Recognition

General Note: The Recognition Section provides guidance on the required criteria, timing, and location (within the financial statements) for recording a particular item in the financial statements. Disclosure is not recognition.

General Note for Fair Value Option: Some of the items subject to the guidance in this Subtopic may qualify for application of the Fair Value Option Subsections of Subtopic 825-10. Those Subsections (see paragraph 825-10-05-5) address circumstances in which entities may choose, at specified election dates, to measure eligible items at fair value (the fair value option). See Section 825-10-15 for guidance on the scope of the Fair Value Option Subsections of the Financial Instruments Topic.

General

25-1 An **embedded derivative** shall be separated from the host contract and accounted for as a **derivative instrument** pursuant to Subtopic 815-10 if and only if all of the following criteria are met:

a. The economic characteristics and risks of the embedded derivative are not clearly and closely related to the economic characteristics and risks of the host contract.

b. The **hybrid instrument** is not remeasured at **fair value** under otherwise applicable generally accepted accounting principles (GAAP) with changes in fair value reported in earnings as they occur.

c. A separate instrument with the same terms as the embedded derivative would, pursuant to Section 815-10-15, be a derivative instrument subject to the requirements of this Subtopic. (The initial net investment for the hybrid instrument shall not be considered to be the initial net investment for the embedded derivative.)

25-2 The notion of an embedded derivative in a hybrid instrument refers to provisions incorporated into a single contract, and not to provisions in separate contracts between different counterparties. Paragraph 815-10-15-6 states that an option that is added or attached to an existing debt instrument by another party results in the investor having different counterparties for the option and the debt instrument and, thus, the option shall not be considered an embedded derivative.

25-3 The remainder of the guidance in this Section is organized as follows:

a. Fair value election for hybrid financial instruments

b. Compound embedded derivative

c. Interests in securitized financial assets—holder's accounting

d. Applying the separate instrument criterion

e. Applying the clearly and closely related criterion

f. Entity unable to reliably identify and measure embedded derivative

g. Host contract after separation.

> Fair Value Election for Hybrid Financial Instruments

25-4 An entity that initially recognizes a hybrid financial instrument that under paragraph 815-15-25-1 would be required to be separated into a host contract and a derivative instrument may irrevocably elect to initially and subsequently measure that hybrid financial instrument in its entirety at fair value (with changes in fair value recognized in earnings). A financial instrument shall be evaluated to determine that it has an embedded derivative requiring bifurcation before the instrument can become a candidate for the fair value election.

25-5 The fair value election shall be supported by concurrent documentation or a preexisting documented policy for automatic election. That recognized hybrid financial instrument could be an asset or a liability and it could be acquired or issued by the entity. The fair value election is also available when a previously recognized **financial instrument** is subject to a **remeasurement event** (**new basis event**) and the separate recognition of an embedded derivative. The fair value election may be made instrument by instrument. For purposes of this paragraph, a remeasurement event (new basis event) is an event identified in generally accepted accounting principles, other than the recognition of an other-than-temporary impairment, that requires a financial instrument to be remeasured to its fair value at the time of the event but does not require that instrument to be reported at fair value on a continuous basis with the change in fair value recognized in earnings. Examples of remeasurement events are business combinations and significant modifications of debt as defined in Subtopic 470-50.

25-6 The fair value election shall not be applied to the hybrid instruments described in paragraph 825-10-50-8.

> Compound Embedded Derivative

25-7 If a hybrid instrument contains more than one embedded derivative feature that would individually warrant separate accounting as a derivative instrument under paragraph 815-15-25-1, those embedded derivative features shall be bundled together as a single, compound embedded derivative that shall then be bifurcated and accounted for separately from the host contract under this Subtopic unless a fair value election is made pursuant to paragraph 815-15-25-4.

25-8 An entity shall not separate a compound embedded derivative into components representing different risks (for example, based on the risks discussed in paragraphs 815-20-25-12[f] and 815-20-25-15[i]) and then account for those components separately.

25-9 If a compound embedded derivative comprises multiple embedded derivative features that all involve the same risk exposure (for example, the risk of changes in market interest rates, the creditworthiness of the obligor, or foreign currency exchange rates), but those embedded derivative features differ from one another by including or excluding optionality or by including a different optionality exposure, an entity shall not separate that compound embedded derivative into components that would be accounted for separately.

25-10 If some of the embedded derivative features in a hybrid instrument are clearly and closely related to the economic characteristics and risks of the host contract, those embedded derivative features shall not be included in the compound embedded derivative that is bifurcated from the host contract and separately accounted for.

> Interests in Securitized Financial Assets—Holder's Accounting

25-11 Paragraph 815-10-15-11 explains that the holder of an interest in securitized financial assets (other than those identified in paragraphs 815-10-15-72 through 15-73) shall determine whether the interest is a freestanding derivative instrument or contains an embedded derivative that under this Section would be required to be separated from the host contract and accounted for separately.

25-12 That determination shall be based on an analysis of the contractual terms of the interest in securitized financial assets, which requires understanding the nature and amount of assets, liabilities, and other financial instruments that compose the entire securitization **transaction**.

25-13 A holder of an interest in securitized financial assets shall obtain sufficient information about the payoff structure and the payment priority of the interest to determine whether an embedded derivative exists.

> Applying the Separate Instrument Criterion

25-14 The criterion in paragraph 815-15-25-1(c) is not met if the separate instrument with the same terms as the embedded derivative would be classified as a liability (or an asset in some circumstances) under the provisions of Topic 480 but would be classified in stockholders' equity absent the provisions in that Topic. For purposes of analyzing the application of paragraph 815-10-15-74(a) to an embedded derivative as though it were a separate instrument, paragraphs 480-10-25-4 through 25-14 shall be disregarded. Those embedded features are analyzed by applying other applicable guidance.

25-15 Paragraph 815-40-25-39 states that, for purposes of evaluating under paragraph 815-15-25-1 whether an embedded derivative indexed to an entity's own stock would be classified in stockholders' equity if freestanding, the additional considerations necessary for equity classification beginning in paragraph 815-40-25-7 do not apply if the hybrid contract is a conventional convertible debt instrument (see paragraph 815-40-25-41) in which the holder may only realize the value of the conversion option by exercising the option and receiving the entire proceeds in a fixed number of shares or the equivalent amount of cash (at the discretion of the issuer). However, paragraph 815-40-25-40 states that those additional considerations do apply when an issuer is evaluating whether any embedded derivative other than those discussed in paragraph 815-40-25-39 is an equity instrument and thereby excluded from the scope of this Subtopic.

> Applying the Clearly-and-Closely Related Criterion

25-16 If the host contract encompasses a residual interest in an entity, then its economic characteristics and risks shall be considered that of an equity instrument and an embedded derivative would need to possess principally equity characteristics (related to the same entity) to be considered clearly and closely related to the host contract. However, most commonly, a financial instrument host contract will not embody a claim to the residual interest in an entity and, thus, the economic characteristics and risks of the host contract shall be considered that of a debt instrument.

25-17 Because the changes in fair value of an equity interest and interest rates on a debt instrument are not clearly and closely related, the terms of convertible preferred stock (other than the conversion option) shall be analyzed to determine whether the preferred stock (and thus the potential host contract) is more akin to an equity instrument or a debt instrument. A typical cumulative fixed-rate preferred stock that has a mandatory redemption feature is more akin to debt, whereas cumulative participating perpetual preferred stock is more akin to an equity instrument.

25-18 The following guidance is relevant in deciding whether the economic characteristics and risks of the embedded derivative are clearly and closely related to the economic characteristics and risks of the host contract. The guidance is organized as follows:

a. Purchase contracts—price cap and price floor

b. Host contracts with equity characteristics

c. Host contracts that are leases

d. Host contracts with debt characteristics

e. Hybrid instruments that are beneficial interests in securitized financial assets.

>> Purchase Contracts—Price Cap and Price Floor

25-19 The economic characteristics and risks of a floor and cap on the price of an asset embedded in a contract to purchase that asset are clearly and closely related to the purchase contract, because the options are indexed to the purchase price of the asset that is the subject of the purchase contract. See Example 6 (paragraph 815-15-55-114) for an illustration of such options.

>> Host Contracts with Equity Characteristics

25-20 A put option that enables the holder to require the issuer of an equity instrument to reacquire that equity instrument for cash or other assets is not clearly and closely related to that equity instrument. Thus, such a put option embedded in a publicly traded equity instrument to which it relates shall be separated from the host contract by the holder of the equity instrument if the criteria in paragraph 815-15-25-1(b) through (c) are also met. That put option also shall be separated from the host contract by the issuer of the equity instrument except in those circumstances in which the put option is not considered to be a derivative instrument pursuant to paragraph 815-10-15-74(a) because it is classified in stockholders' equity. A purchased call option that enables the issuer of an equity instrument (such as common stock) to reacquire that equity instrument would not be considered to be a derivative instrument by the issuer of the equity instrument pursuant to that paragraph. Thus, if the call option were embedded in the related equity instrument, it would not be separated from the host contract by the issuer. However, for the holder of the related equity instrument, the embedded written call option would not be considered to be clearly and closely related to the equity instrument, if the criteria in paragraph 815-15-25-1(b) through (c) were met, and shall be separated from the host contract.

>> Host Contracts that Are Leases

>>> Inflation-Indexed Rentals

25-21 Rentals for the use of leased assets and adjustments for inflation on similar property are considered to be clearly and closely related. Thus, unless a significant leverage factor is involved, the inflation-related derivative instrument embedded in an inflation-indexed lease would not be separated from the host contract.

>>> Contingent Rentals Based an a Variable Interest Rate

25-22 The obligation to make future payments for the use of leased assets and the adjustment of those payments to reflect changes in a variable-interest-rate index are considered to be clearly and closely related. Thus, leases that include contingent rentals based on changes in the prime rate would not have the contingent-rental-related embedded derivative separated from the host contract.

>> Host Contracts with Debt Characteristics

25-23 This guidance is organized as follows:

a. Characteristics of a debt host contract

b. Interest-rate-related underlyings

c. Call options and put options on debt instruments

d. Term-extending options

e. Credit-sensitive payments

f. Commodity-indexed interest or principal payments

g. Equity-indexed interest payments

h. Inflation-indexed principal payments

i. Convertible debt.

>>> Characteristics of a Debt Host Contract

25-24 The characteristics of a debt host contract generally shall be based on the stated or implied substantive terms of the hybrid instrument. Those terms may include a fixed-rate, variable-rate, zero-coupon, discount or premium, or some combination thereof.

25-25 In the absence of stated or implied terms, an entity may make its own determination of whether to account for the debt host as a fixed-rate, variable-rate, or zero-coupon bond. That determination requires the application of judgment, which is appropriate because the circumstances surrounding each hybrid instrument containing an embedded derivative may be different. That is, in the absence of stated or implied terms, it is appropriate to consider the features of the hybrid instrument, the issuer, and the market in which the instrument is issued, as well as other factors, to determine the characteristics of the debt host contract. However, an entity shall not express the characteristics of the debt host contract in a manner that would result in identifying an embedded derivative that is not already clearly present in a hybrid instrument. For example, it would be inappropriate to do either of the following:

a. Identify a variable-rate debt host contract and an interest rate swap component that has a comparable variable-rate leg in an embedded compound derivative, in lieu of identifying a fixed-rate debt host contract

b. Identify a fixed-rate debt host contract and a fixed-to-variable interest rate swap component in an embedded compound derivative in lieu of identifying a variable-rate debt host contract.

>>> Interest-Rate-Related Underlyings

25-26 For purposes of applying the provisions of paragraph 815-15-25-1, an embedded derivative in which the only **underlying** is an interest rate or interest rate index (such as an interest rate cap or an interest rate collar) that alters net interest payments that otherwise would be paid or received on an interest-bearing host contract that is considered a debt instrument is considered to be clearly and closely related to the host contract unless either of the following conditions exists:

a. The hybrid instrument can contractually be settled in such a way that the investor (the holder or the creditor) would not recover substantially all of its initial recorded investment (that is, the embedded derivative contains a provision that permits any possibility whatsoever that the investor's [the holder's or the creditor's] undiscounted net cash inflows over the life of the instrument would not recover substantially all of its initial recorded investment in the hybrid instrument under its contractual terms).

b. The embedded derivative meets both of the following conditions:

1. There is a possible future interest rate scenario (even though it may be remote) under which the embedded derivative would at least double the investor's initial rate of return on the host contract (that is, the embedded derivative contains a provision that could under any possibility whatsoever at least double the investor's initial rate of return on the host contract).

2. For any of the possible interest rate scenarios under which the investor's initial rate of return on the host contract would be doubled (as discussed in (b)(1)), the embedded derivative would at the same time result in a rate of return that is at least twice what otherwise would be the then-current market return (under the relevant future interest rate scenario) for a contract that has the same terms as the host contract and that involves a debtor with a credit quality similar to the issuer's credit quality at inception.

25-27 Even though the conditions in (a) and (b) in the preceding paragraph focus on the investor's rate of return and the investor's recovery of its investment, the existence of either of those conditions would result in the embedded derivative not being considered clearly and closely related to the host contract by both parties to the hybrid instrument. Because the existence of those conditions is assessed at the date that the hybrid instrument is acquired (or incurred) by the reporting entity, the acquirer of a hybrid instrument in the secondary market could potentially reach a different conclusion than could the issuer of the hybrid instrument due to applying the conditions in the preceding paragraph at different points in time.

25-28 An embedded derivative that alters net interest payments based on changes in a stock price index (or another non-interest-rate index) is not addressed in paragraph 815-15-25-26.

25-29 The condition in paragraph 815-15-25-26(a) applies only to those situations in which the investor (creditor) could be forced by the terms of a hybrid instrument to accept settlement at an amount that causes the investor not to recover substantially all of its initial recorded investment. That condition does not apply to a situation in which the terms of a hybrid instrument permit, but do not require, the investor to settle the hybrid instrument in a manner that causes it not to recover substantially all of its initial recorded investment, provided that the issuer does not have the contractual right to demand a settlement that causes the investor not to recover substantially all of its initial net investment.

25-30 Paragraphs 815-10-15-72 through 15-73 address the scope application of this Subtopic to interest-only strips and principal-only strips.

25-31 The remainder of this guidance on interest-rate-related underlyings is organized as follows:

a. Interest rate floors, caps, and collars

b. Exception for certain securitized interest in **prepayable** financial assets

c. Exception for call options exercisable only by the debtor.

>>>> Interest Rate Floors, Caps, and Collars

25-32 Floors or caps (or collars, which are combinations of caps and floors) on interest rates and the interest rate on a debt instrument are considered to be clearly and closely related unless the conditions in either paragraph 815-15-25-26(a) or 815-15-25-26(b) are met, in which circumstance the floors or the caps are not considered to be clearly and closely related.

>>>> Exception for Certain Securitized Interests in Prepayable Financial Assets

25-33 A securitized interest in prepayable financial assets would not be subject to the conditions in paragraph 815-15-25-26(b) if it meets both of the following criteria:

a. The right to accelerate the settlement of the securitized interest cannot be controlled by the investor.

b. The securitized interest itself does not contain an embedded derivative (including an interest-rate-related derivative instrument) for which bifurcation would be required other than an embedded derivative that results solely from the embedded call options in the underlying financial assets.

25-34 This exception from paragraph 815-15-25-26(b) is limited to securitized interests that contain only an embedded derivative that is tied to the prepayment risk of the underlying prepayable financial assets and that meet the criteria in the preceding paragraph. If a securitized interest contains any other terms that affect some or all of the cash flows or the value of other exchanges required by the contract in a manner similar to a derivative instrument and those terms create an embedded derivative that requires bifurcation (ignoring the effects of the embedded call options in the underlying financial assets), that securitized interest would be subject to the requirements of paragraph 815-15-25-26(b) (for example, an inverse floater).

25-35 Whether the securitized interest itself contains an embedded derivative (including an interest-rate-related derivative instrument) for which bifurcation would be required, other than an embedded derivative that results solely from the embedded call options in the underlying financial assets, shall be determined in accordance with paragraphs 815-15-25-11 through 25-13. This assessment is expected to be simple for basic securitized interests but could be more difficult for complex securitized interests (for example, in securitizations involving the resecuritization of tranches from previous transactions, the analysis might require an understanding of each securitization making up the resecuritization transaction).

25-36 A securitized interest in prepayable financial assets that does not meet both of the criteria in paragraph 815-15-25-33 is subject to the conditions in paragraph 815-15-25-26(b). When assessing the conditions in paragraph 815-15-25-26(b) for those instruments, an entity shall consider the effect of prepayment risk. Example 11 (see paragraph 815-15-55-137) illustrates the application of this guidance to specific securitized interests in prepayable financial assets.

>>>> Exception for Call Options Exercisable Only by the Debtor

25-37 The conditions in paragraph 815-15-25-26(b) do not apply to an embedded call option in a hybrid instrument containing a debt host contract if the right to accelerate the settlement of the debt can be exercised only by the debtor (the issuer or the borrower). This guidance does not affect the application of the condition in paragraph 815-15-25-26(a) or the application of paragraphs 815-15-25-40 through 25-43. In addition, this guidance does not apply to other embedded derivative features that may be present in the same hybrid instrument.

25-38 The conditions in paragraph 815-15-25-26(b) apply only to situations that meet the two conditions specified in paragraph 815-15-25-26(b)(1) through (b)(2) and for which the investor has the unilateral ability to obtain the right to receive the high rate of return specified in those paragraphs. If the embedded derivative is an option rather than a forward contract, it is important to analyze whether the investor is the holder of that option. For an embedded call option, the issuer or borrower (and not the investor) is the holder, and thus only the issuer (borrower) can exercise the option. Consequently, the investor does not have the unilateral ability to obtain the right to receive the high rate of return, which is contingent on the issuer's exercise of the embedded call option.

25-39 Paragraph 815-15-55-25 provides implementation guidance on the application of this guidance to specific debt instruments.

>>> Call Options and Put Options on Debt Instruments

25-40 Provided the call (put) options also are considered to be clearly and closely related to the debt host contract under paragraph 815-15-25-26, call (put) options that can accelerate the repayment of principal on a debt instrument are considered to be clearly and closely related to a debt instrument that requires principal repayments unless both of the following conditions exist:

a. The debt involves a substantial premium or discount (which is common with zero-coupon bonds).

b. The call (put) option is only contingently exercisable.

25-41 For contingently exercisable call (put) options to be considered clearly and closely related, they can be indexed only to interest rates or **credit risk**, not some extraneous event or factor. In contrast, call (put) options that do not accelerate the repayment of principal on a debt instrument but instead require a cash settlement that is equal to the price of the option at the date of exercise would not be considered to be clearly and closely related to the debt instrument in which it is embedded.

25-42 The following four-step decision sequence shall be followed in determining whether call (put) options that can accelerate the settlement of debt instruments shall be considered to be clearly and closely related to the debt host contract:

Step 1: Is the amount paid upon settlement (also referred to as the payoff) adjusted based on changes in an index (rather than simply being the repayment of principal at par, together with any unpaid accrued interest)? If yes, continue to Step 2. If no, continue to Step 3.

Step 2: Is the payoff indexed to an underlying other than interest rates or credit risk? If yes, then that embedded feature is not clearly and closely related to the debt host contract and further analysis under Steps 3 and 4 is not required. If no, then that embedded feature shall be analyzed further under Steps 3 and 4 as well as under the provisions of paragraphs 815-15-25-1 and 815-15-25-26.

Step 3: Does the debt involve a substantial premium or discount? If yes, continue to Step 4. If no, in accordance with paragraphs 815-15-25-40 through 25-41, further analysis of the contract under paragraph 815-15-25-26 is required to determine whether the call (put) option is clearly and closely related to the debt host contract if paragraph 815-15-25-26 is applicable.

Step 4: Does a contingently exercisable call (put) option accelerate the repayment of the contractual principal amount? If yes, the call (put) option is not clearly and closely related to the debt instrument. If not contingently exercisable, in accordance with paragraphs 815-15-25-40 through 25-41, further analysis of the contract under paragraph 815-15-25-26 is required to determine whether the call (put) option is clearly and closely related to the debt host contract.

25-43 The preceding paragraph is distinct from paragraph 815-15-25-37, which addresses whether the conditions in paragraph 815-15-25-26(b) involving rate of return apply to certain call options exercisable only by the debtor. Paragraph 815-15-55-13 illustrates the application of the guidance in the preceding paragraph to nine illustrative debt instruments.

>>> Term-Extending Options

25-44 An embedded derivative that either (a) unilaterally enables one party to extend significantly the remaining term to maturity or (b) automatically extends significantly the remaining term triggered by specific events or conditions is not clearly and closely related to the interest rate on a debt instrument unless the interest rate is concurrently reset to the approximate current market rate for the extended term and the debt instrument initially involved no significant discount. Thus, if there is no reset of interest rates, the embedded derivative is not clearly and closely related to the host contract. That is, a term-extending option cannot be used to circumvent the restriction in paragraph 815-15-25-26 regarding the investor's not recovering substantially all of its initial recorded investment.

25-45 The preceding paragraph does not provide guidance for determining whether term-extending options in nondebt host contracts are clearly and closely related to the host contract, as discussed in paragraph 815-15-25-1(a). A term-extending option in a nondebt host contract can have a significantly different effect than a term-extending option in a debt host contract. Nondebt contracts (as well as debt contracts) that contain embedded term-extension features shall be evaluated under paragraph 815-15-25-1 to determine whether the term-extension feature is a derivative instrument that shall be accounted for separately.

>>> Credit-Sensitive Payments

25-46 The creditworthiness of the debtor and the interest rate on a debt instrument shall be considered to be clearly and closely related. Thus, for debt instruments that have the interest rate reset in the event of any of the following conditions, the related embedded derivative shall not be separated from the host contract:

a. Default (such as violation of a credit-risk-related covenant)

b. A change in the debtor's published credit rating

c. A change in the debtor's creditworthiness indicated by a change in its spread over U.S. Treasury bonds.

25-47 If an instrument incorporates a credit risk exposure that is different from the risk exposure arising from the creditworthiness of the obligor under that instrument, such that the value of the instrument is affected by an event of default or a change in creditworthiness of a third party (that is, an entity that is not the obligor), then the economic characteristics and risks of the **embedded credit derivative** are not clearly and closely related to the economic characteristics and risks of the host contract, even though the obligor may own securities issued by that third party. This guidance shall be applied to all other arrangements that incorporate credit risk exposures that are unrelated or only partially related to the creditworthiness of the issuer of that instrument. This guidance does not affect the accounting for a nonrecourse debt arrangement (that is, a debt arrangement in which, in the event that the debtor does not make the payments due under the loan, the creditor has recourse solely to the specified property pledged as collateral).

>>> Commodity-Indexed Interest or Principal Payments

25-48 The changes in fair value of a commodity (or other asset) and the interest yield on a debt instrument are not clearly and closely related. Thus, a commodity-related derivative instrument embedded in a commodity-indexed debt instrument shall be separated from the noncommodity host contract and accounted for as a derivative instrument.

>>> Equity-Indexed Interest Payments

25-49 The changes in fair value of an equity interest and the interest yield on a debt instrument are not clearly and closely related. Thus, an equity-related derivative instrument embedded in an equity-indexed debt instrument (whether based on the price of a specific common stock or on an index that is based on a basket of equity instruments) shall be separated from the host contract and accounted for as a derivative instrument.

>>> Inflation-Indexed Interest Payments

25-50 The interest rate and the rate of inflation in the economic environment for the currency in which a debt instrument is denominated shall be considered to be clearly and closely related. Thus, nonleveraged inflation-indexed contracts (debt instruments, capitalized lease obligations, pension obligations, and so forth) shall not have the inflation-related embedded derivative separated from the host contract.

>>> Convertible Debt

25-51 The changes in fair value of an equity interest and the interest rates on a debt instrument are not clearly and closely related. Thus, for a debt security that is convertible into a specified number of shares of the debtor's common stock or another entity's common stock, the embedded derivative (that is, the conversion option) shall be separated from the debt host contract and accounted for as a derivative instrument provided that the conversion option would, as a freestanding instrument, be a derivative instrument subject to the requirements of this Subtopic. (For example, if the common stock was not **readily convertible to cash**, a conversion option that requires purchase of the common stock would not be accounted for as a derivative instrument.) That accounting applies only to the holder (investor) if the debt is convertible to the debtor's common stock because, under paragraph 815-10-15-74(a), a separate option with the same terms would not be a derivative instrument for the issuer.

>> Hybrid Instruments That Are Beneficial Interests in Securitized Financial Assets

25-51A An embedded derivative feature that exposes the holder of a beneficial interest in a tranche of a securitized financial instrument to the possibility (however remote) of being required to make potential future payments (not merely receive reduced cash inflows) shall be considered to be not clearly and closely related to the economic characteristics and risks of the host contract and, thus, meet the criterion in paragraph 815-15-25-1(a).

> Entity Unable to Reliably Identify and Measure Embedded Derivative

25-52 An entity that enters into sophisticated investment and funding strategies such as structured notes or other contracts with embedded derivatives should be able to obtain the information necessary to reliably identify and measure the separate components. It should be unusual that an entity would conclude that it cannot reliably separate an embedded derivative from its host contract.

25-53 If an entity cannot reliably identify and measure the embedded derivative that paragraph 815-15-25-1 requires be separated from the host contract, paragraphs 815-15-30-1(b) and 815-15-35-2 require that the entire contract be measured at fair value with gain or loss recognized in earnings, but that contract may not be designated as a hedging instrument pursuant to Subtopic 815-20.

> Host Contract After Separation

25-54 If an embedded derivative is separated from its host contract, the host contract shall be accounted for based on GAAP applicable to instruments of that type that do not contain embedded derivatives.

END OF DOCUMENT -

815-15-30 Initial Measurement

General Note: The Initial Measurement Section provides guidance on the criteria and amounts used to measure a particular item at the date of initial recognition.

General

> Hybrid Instruments that Are Not Separated

30-1 An entity shall measure both of the following initially at **fair value**:

a. A hybrid financial instrument that under paragraph 815-15-25-1 would be required to be separated into a host contract and a **derivative instrument** that an entity irrevocably elects to initially and subsequently measure in its entirety at fair value (with changes in fair value recognized in earnings)

b. An entire **hybrid instrument** if an entity cannot reliably identify and measure the **embedded derivative** that paragraph 815-15-25-1 requires be separated from the host contract.

> Hybrid Instruments that Are Separated

30-2 The allocation method that records the embedded derivative at fair value and determines the initial carrying value assigned to the host contract as the difference between the basis of the hybrid instrument and the fair value of the embedded derivative shall be used to determine the carrying values of the host contract component and the embedded derivative component of a hybrid instrument if separate accounting for the embedded derivative is required by this Subtopic. (Note that Section 815-15-25 allows for a fair value election for hybrid financial instruments that otherwise would require bifurcation.)

30-3 The objective is to estimate the fair value of the derivative features separately from the fair value of the nonderivative portions of the contract. Estimates of fair value shall reflect all relevant features of each component and their effect on a current exchange between willing parties. For example, an embedded purchased option that expires if the contract in which it is embedded is prepaid would have a different value than an option whose term is a specified period that is not subject to truncation.

>> Separating a Non-Option Embedded Derivative

>>> Hybrid Instrument Acquired at Its Inception

30-4 In separating a non-option embedded derivative from the host contract under paragraph 815-15-25-1, the terms of that non-option embedded derivative shall be determined in a manner that results in its fair value generally being equal to zero at the inception of the hybrid instrument. Because a loan and an embedded derivative can be bundled in a structured note that could have almost an infinite variety of stated terms, it is inappropriate to necessarily attribute significance to every one of the note's stated terms in determining the terms of the non-option embedded derivative. If a non-option embedded derivative has stated terms that are off-market at inception, that amount shall be quantified and allocated to the host contract because it effectively represents a borrowing. (This paragraph does not address the bifurcation of the embedded derivative by a holder who has acquired the hybrid instrument from a third party after the inception of that hybrid instrument.) The non-option embedded derivative shall contain a **notional amount** and an **underlying** consistent with the terms of the hybrid instrument. Artificial terms shall not be created to introduce leverage, asymmetry, or some other risk exposure not already present in the hybrid instrument. Generally, the appropriate terms for the non-option embedded derivative will be readily apparent. Often, simply adjusting the referenced forward price (pursuant to documented legal terms) to be at the market for the purpose of separately accounting for the embedded derivative will result in that non-option embedded derivative having a fair value of zero at inception of the hybrid instrument.

>>> Hybrid Instrument Acquired After Its Inception

30-5 In separating a non-option embedded derivative from the host contract under paragraph 815-15-25-1 if the holder has acquired the hybrid instrument in a secondary market after the inception of the hybrid instrument, the terms of the embedded derivative shall be determined by the holder so as to result in the derivative instrument having a fair value generally equal to zero at the date the holder enters into (that is, acquires) the hybrid instrument. The initial accounting by the holder of the hybrid instrument shall not be affected by whether it purchased the hybrid instrument at inception or after inception in a secondary market.

>> Separating an Option-Based Embedded Derivative

30-6 The terms of an option-based embedded derivative shall not be adjusted to result in the embedded derivative being at the money at the inception of the hybrid instrument. In separating an option-based embedded derivative from the host contract under paragraph 815-15-25-1, the strike price of the embedded derivative shall be based on the stated terms documented in the hybrid instrument. As a result, the option-based embedded derivative at inception may have a strike price that does not equal the market price of the asset associated with the underlying. The guidance in this paragraph addresses both of the following:

a. The bifurcation of the option-based embedded derivative by a holder who has acquired the hybrid instrument from a third party either at inception or after inception of that hybrid instrument

b. The bifurcation of the option-based embedded derivative by the issuer when separate accounting for that embedded derivative is required.

END OF DOCUMENT -

815-15-35 Subsequent Measurement

General Note: The Subsequent Measurement Section provides guidance on an entity's subsequent measurement and subsequent recognition of an item. Situations that may result in subsequent changes to carrying amount include impairment, fair value adjustments, depreciation and amortization, and so forth.

General

> Hybrid Instruments that Are Not Separated

>> Fair Value Election

35-1 If an entity irrevocably elected to initially and subsequently measure a hybrid financial instrument in its entirety at **fair value**, changes in fair value for that hybrid financial instrument shall be recognized in earnings. Paragraph 815-20-25-71(a)(3) states that the entire contract shall not be designated as a hedging instrument pursuant to Subtopic 815-20.

>> Inability to Reliably Identify and Measure Embedded Derivative

35-2 If an entity cannot reliably identify and measure the **embedded derivative** that paragraph 815-15-25-1 requires be separated from the host contract, the entire contract shall be measured subsequently at fair value with gain or loss recognized in earnings. Paragraph 815-20-25-71(a)(4) states that the entire contract shall not be designated as a hedging instrument pursuant to Subtopic 815-20.

> Hybrid Instruments that Are Separated

35-2A Paragraph 815-15-25-1 requires that an embedded derivative be separated from the host contract and accounted for as a derivative instrument pursuant to Subtopic 815-10 if and only if all of the criteria in paragraph 815-15-25-1 are met.

>> Limitation on Sum of Component Fair Values

35-3 If the host contract component of a **hybrid instrument** is reported at fair value with changes in fair value recognized in earnings or other comprehensive income, then the sum of the fair values of the host contract component and the embedded derivative shall not exceed the overall fair value of the hybrid instrument.

> Embedded Conversion Option that No Longer Meets Bifurcation Criteria

35-4 If an embedded conversion option in a convertible debt instrument no longer meets the bifurcation criteria in this Subtopic, an issuer shall account for the previously bifurcated conversion option by reclassifying the carrying amount of the liability for the conversion option (that is, its fair value on the date of reclassification) to shareholders' equity. Any debt discount recognized when the conversion option was bifurcated from the convertible debt instrument shall continue to be amortized.

END OF DOCUMENT -

815-15-40 Derecognition

General Note: The Derecognition Section provides guidance on determining whether and when an entity should remove an item from the financial statements. For example, the entity would derecognize an asset because it no longer has rights to the asset or it would derecognize a liability because it no longer has any obligation.

General

> Embedded Conversion Option that No Longer Meets Bifurcation Criteria

>> Option Is Exercised

40-1 If a holder exercises a conversion option for which the carrying amount has previously been reclassified to shareholders' equity pursuant to paragraph 815-15-35-4, the issuer shall recognize any unamortized discount remaining at the date of conversion immediately as interest expense.

40-2 [Paragraph Not Used]

40-3 [Paragraph Not Used]

>> Option Is Extinguished Before Stated Maturity

40-4 If a convertible debt instrument with a conversion option for which the carrying amount has previously been reclassified to shareholders' equity pursuant to the guidance in paragraph 815-15-35-4 is extinguished for cash (or other assets) before its stated maturity date, the entity shall do both of the following:

a. The portion of the reacquisition price equal to the **fair value** of the conversion option at the date of the extinguishment shall be allocated to equity.

b. The remaining reacquisition price shall be allocated to the extinguishment of the debt to determine the amount of gain or loss.

END OF DOCUMENT -

815-15-45 Other Presentation Matters

General Note: The Other Presentation Matters Section provides guidance on other presentation matters not addressed in the Recognition, Initial Measurement, Subsequent Measurement, and Derecognition Sections. Other presentation matters may include items such as current or long-term balance sheet classification, cash flow presentation, earnings per share matters, and so forth. The FASB Codification also contains Presentation Topics, which provide guidance for general presentation and display items. See those Topics for general guidance.

General

45-1 In each statement of financial position presented, an entity shall report hybrid financial instruments measured at **fair value** under the election and under the practicability exception in paragraph 815-15-30-1 in a manner that separates those reported fair values from the carrying amounts of assets and liabilities subsequently measured using another measurement attribute on the face of the statement of financial position. To accomplish that separate reporting, an entity may do either of the following:

a. Display separate line items for the fair value and non-fair-value carrying amounts

b. Present the aggregate of the fair value and non-fair-value amounts and parenthetically disclose the amount of fair value included in the aggregate amount.

END OF DOCUMENT -

815-15-50 Disclosure

General Note: The Disclosure Section provides guidance regarding the disclosure in the notes to financial statements. In some cases, disclosure may relate to disclosure on the face of the financial statements.

General

> Hybrid Instruments that Are Not Separated

50-1 For those hybrid financial instruments measured at **fair value** under the election and under the practicability exception in paragraph 815-15-30-1, an entity shall also disclose the information specified in paragraphs 825-10-50-28 through 50-32.

50-2 An entity shall provide information that will allow users to understand the effect of changes in the fair value of hybrid financial instruments measured at fair value under the election and under the practicability exception in paragraph 815-15-30-1 on earnings (or other performance indicators for entities that do not report earnings).

> Embedded Conversion Option that Is No Longer Bifurcated

50-3 An issuer shall disclose both of the following for the period in which an embedded conversion option previously accounted for as a **derivative instrument** under this Subtopic no longer meets the separation criteria under this Subtopic:

a. A description of the principal changes causing the embedded conversion option to no longer require bifurcation under this Subtopic

b. The amount of the liability for the conversion option reclassified to stockholders' equity.

END OF DOCUMENT -

815-15-55 Implementation Guidance and Illustrations

General Note: The Implementation Guidance and Illustrations Section contains implementation guidance and illustrations that are an integral part of the Subtopic. The implementation guidance and illustrations do not address all possible variations. Users must consider carefully the actual facts and circumstances in relation to the requirements of the Subtopic.

General

> Implementation Guidance

>> Scope—Features Involving Certain Currencies—Certain Insurance Contracts

55-1 Insurance contracts that provide coverage for various types of property and casualty exposure are commonly executed between U.S.-based insurance entities and multinational corporations that have operations in foreign countries. The contracts may be structured to provide for payment of claims in the functional currency of the insurer or in the functional currency of the entity experiencing the loss and will typically specify the exchange rate to be utilized in calculating loss payments.

55-2 Consider a contract that provides for the payment of losses in U.S. dollars (that is, the functional currency of the insurer). Losses are reported to the insurance entity in the functional currency of the entity experiencing the loss, but losses are paid by the insurer in U.S. dollars. From the perspective of the insurer, the contract terms may provide that the rate of exchange to be used to convert the losses from the functional currency of the foreign entity to the U.S. dollar for purposes of claim payments be one of the following:

a. The rate of exchange as of the settlement date (payment date) of the claim

b. The rate of exchange as of the loss occurrence date

c. The rate of exchange at inception of the contract.

The contract described in this guidance does not qualify as traditional insurance under paragraph 815-10-15-53(b) because it contains a foreign currency element.

55-3 Because the insurance entity does not record a claim liability in accordance with Subtopic 944-40 until losses are incurred, no foreign-currency-denominated liability exists (that would otherwise be subject to Subtopic 830-20, as contemplated by paragraph 815-15-15-10) during the period between the inception of the insurance contract and the loss occurrence date.

55-4 Insurance contracts are **financial instruments** that are not covered by the scope exception in the paragraph 815-15-15-10 that applies to nonfinancial contracts; however, that paragraph applies to this situation in which a normal insurance contract involves payment in the functional currency of either of the two parties to the contract. The insurance contracts described in this guidance are similar to operating leases, which are covered by the exception in paragraph 815-15-15-10, because neither contract gives rise to a recognized asset or liability that would be measured under Subtopic 830-20 until an amount becomes receivable or payable under the contract. Therefore, as discussed in paragraph 815-15-15-20, the exception in paragraph 815-15-15-10 also applies to insurance contracts that involve payment of losses in the functional currency of either of the two parties to the contract.

>> Applying the Bifurcation Criteria

55-5 The following guidance addresses application of one or more of the bifurcation criteria in paragraph 815-15-25-1.

>>> Applying the Separate Instrument Criterion

55-6 The following guidance addresses application of the separate instrument criterion in paragraph 815-15-25-1(c).

>>>> Contingent Rentals Based on Related Sales

55-7 Lease contracts that include contingent rentals based on certain sales of the lessee would not have the contingent-rental-related **embedded derivative** separated from the host contract because, under paragraph 815-10-15-59(d), a non-exchange-traded contract whose **underlying** is specified volumes of sales by one of the parties to the contract would not be subject to the requirements of Subtopic 815-10.

>>>> Participating Mortgage

55-8 Under an example participating mortgage, the investor receives a below-market interest rate and is entitled to participate in the appreciation in the market value of the project that is financed by the mortgage upon sale of the project, at a deemed sale date, or at the maturity or refinancing of the loan. The mortgagor must continue to own the project over the term of the mortgage.

55-9 This instrument has a provision that entitles the investor to participate in the appreciation of the referenced real estate (the project). However, a separate contract with the same terms would be excluded by the exception in paragraph 815-10-15-59(b) because settlement is based on the value of a nonfinancial asset of one of the parties that is not **readily convertible to cash**. (This Subtopic does not modify the guidance in Subtopic 470-30.)

>>>> Equity Kicker Feature

55-10 Paragraph 310-10-05-9 explains that loans granted to acquire operating properties sometimes grant the lender a right to participate in **expected residual profit** from the sale or refinancing of the property. An **equity kicker** (or expected residual profit) would typically not be separated from the host contract and accounted for as an embedded derivative because paragraph 815-15-25-1(c) exempts a hybrid contract from bifurcation if a separate instrument with the same terms as the embedded equity kicker is not a **derivative instrument** subject to the requirements of this Subtopic. Under paragraph 815-10-15-59(b), an embedded equity kicker would typically not be subject to the requirements of this Subtopic because the separate instrument with the same terms is not exchange traded and is indexed to nonfinancial assets that are not readily convertible to cash. Similarly, if an equity kicker is based on a share in net earnings or operating cash flows, it would also typically qualify for the scope exception in paragraph 815-10-15-59(d). If the embedded derivative does not need to be accounted for separately under this Subtopic, the Acquisition, Development, and Construction Arrangements Subsections of Subtopic 310-10 shall be applied.

55-11 A loan with an equity kicker of more than 50 percent of net earnings that is considered to be an investment in real estate under the Acquisition, Development, and Construction Arrangements Subsections of Subtopic 310-10 would not be analyzed under this Subtopic as a host loan contract and an embedded equity kicker derivative.

>>>> Certain Insurance Contracts: Dual-Trigger Insurance Contracts

55-12 Paragraphs 815-10-55-37 through 55-39 provide guidance on dual-trigger insurance contracts and whether such a contract, in its entirety, is a derivative instrument subject to the requirements of Subtopic 815-10. If a contract issued by an insurance entity involves essentially assured amounts of cash flows based on insurable events that are highly probable of occurrence (as discussed in paragraph 815-10-15-55[c]), an embedded derivative related to changes in the separate pre-identified variable for that portion of the contract would be required to be separately accounted for as a derivative instrument.

>>> Applying the Clearly and Closely Related Criterion—Call Options and Put Options in Debt Instruments

55-13 The following table demonstrates the application of the four-step decision sequence in paragraph 815-15-25-42 for determining whether call options and put options that can accelerate the settlement of debt instruments should be considered to be clearly and closely related to the debt host contract under the criterion in paragraph 815-15-25-1(a).

Instrument	Indexed Payoff? (Steps 1 and 2)	Substantial Discount or Premium? (Step 3)	Contingently Exercisable? (Step 4)	Embedded Option Clearly and Closely Related?
1. Debt that is issued at a substantial discount is callable at any time during its 10-year term. If the debt is called, the investor receives the par value of the debt plus any unpaid and accrued interest.	No.	Yes.	No.	The embedded call option is clearly and closely related to the debt host contract because the payoff is not indexed, and the call option is not contingently exercisable.
2. Debt that is issued at par is callable at any time during its term. If the debt is called, the investor receives the greater of the par value of the debt or the market value of 100,000 shares of XYZ common stock (an unrelated entity).	Yes, based on an equity price.	N/A. Analysis not required.	N/A. Analysis not required.	The embedded call option is not clearly and closely related to the debt host contract because the payoff is indexed to an equity price.
3. Debt that is issued at par is puttable if the Standard and Poor's S&P 500 Index increases by at least 20 percent. If the debt is put, the investor receives the par amount of the debt adjusted for the percentage increase in the S&P 500.	Yes, based on an equity index (S&P 500).	N/A. Analysis not required.	N/A. Analysis not required.	The embedded put option is not clearly and closely related to the debt host contract because the payoff is indexed to an equity price.
4. Debt that is issued at a substantial discount is puttable at par if London Interbank Offered Rate (LIBOR) either increases or decreases by 150 basis points.	No.	Yes.	Yes, contingent on a movement of LIBOR of at least 150 basis points.	The put option is not clearly and closely related to the debt host contract because the debt was issued at a substantial discount and the put option is contingently exercisable.
5. Debt that is issued at a substantial discount is puttable at par in the event of a change in control.	No.	Yes.	Yes, contingent on a change in control.	The put option is not clearly and closely related to the debt host contract because the debt was issued at a substantial discount and the put option is contingently exercisable.
6. Zero coupon debt is issued at a substantial discount and is callable in the event of a change in control. If the debt is called, the issuer pays the accreted value (calculated per amortization table based on the effective interest rate method).	No.	Yes.	Yes, contingent on a change in control, but since the debt is callable at accreted value, the call option does not accelerate the repayment of principal.	The call option is clearly and closely related to the debt host contract. Although the debt was issued at a substantial discount and the call option is contingently exercisable, the call option does not accelerate the repayment of principal because the debt is callable at the accreted value.
7. Debt that is issued at par is puttable at par in the event that the issuer has an initial public offering.	No.	No.	N/A. Analysis not required.	The embedded put option is clearly and closely related to the debt host contract because the debt was issued at par (not at a substantial discount) and is puttable at par. Paragraph 815-15-25-26 does not apply.
8. Debt that is issued at par is puttable if the price of the common stock of Entity XYZ (an entity unrelated to the issuer or investor) changes by 20 percent. If the debt is put, the investor will be repaid based on the value of Entity XYZ's common stock.	Yes, based on an equity price (price of Entity XYZ's common stock).	N/A. Analysis not required.	N/A. Analysis not required.	The embedded put option is not clearly and closely related to the debt host contract because the payoff is indexed to an equity price.
9. Debt is issued at a slight discount and is puttable if interest rates move 200 basis points. If the debt is put, the investor will be repaid based on the S&P 500.	Yes, based on an equity index (S&P 500).	N/A. Analysis not required.	N/A. Analysis not required.	The embedded put option is not clearly and closely related to the debt host contract because the payoff is based on an equity index.

>>> Otherwise Applying the Bifurcation Criteria

55-14 The following guidance addresses application of the bifurcation criteria in paragraph 815-15-25-1 to various transactions and is organized as follows:

a. Volumetric production payments

b. Interest-rate-related underlyings—call options that are exercisable only by the debtor

c. Remarketable put bonds

d. Variable annuity products in general

e. Payment alternatives for variable annuity contracts

f. **Equity-indexed annuity** contracts

g. Equity-indexed life insurance contracts.

>>>> Volumetric Production Payments

55-15 The embedded derivative provisions of this Subtopic apply to the accounting by all parties for a volumetric production payment (see paragraph 932-360-55-2) for which the quantity of the commodity that will be delivered is reliably determinable.

55-16 A volumetric production payment is not itself a standalone derivative instrument because, like the contract in paragraphs 815-10-55-74 through 55-76, it does not have the characteristic of a derivative instrument discussed in paragraph 815-10-15-83(b)—that is, a smaller or no initial net investment.

55-17 Although it is not derivative instrument, a volumetric production payment shall be analyzed under paragraph 815-15-25-1. That analysis would typically indicate that such a volumetric production payment effectively is a **hybrid instrument** composed of a host debt instrument embedded with a commodity forward contract.

55-18 The criterion in paragraph 815-15-25-1(b) is met because a volumetric production payment is not remeasured at **fair value** under otherwise applicable generally accepted accounting principles (GAAP) with changes in fair value reported currently in earnings.

55-19 The embedded commodity forward contract meets the criterion in paragraph 815-15-25-1(a) because commodity prices are not clearly and closely related to interest rates on the debt host contract.

55-20 Accordingly, if a separate instrument with the same terms as the commodity forward contract would be a derivative instrument subject to the requirements of this Subtopic, the embedded commodity forward contract would meet the criterion in paragraph 815-15-25-1(c) and shall be accounted for separately. (Note that Section 815-15-25 allows for a fair value election for hybrid financial instruments that otherwise would require bifurcation. However, Section 815-15-25 does not apply to hybrid instruments that are not financial instruments, such as nonfinancial instruments that require volumetric production payments.)

55-21 However, the embedded commodity forward contract may nevertheless be eligible to qualify for the normal purchases and normal sales exception as discussed beginning in paragraph 815-10-15-22 and, if so, would not be subject to the accounting requirements of Subtopic 815-10 for the party to whom it is a normal purchase or a normal sale. If it were a normal sale for an oil- or gas-producing entity, the entire related volumetric production payment would be accounted for under Topic 932.

55-22 If the embedded commodity forward contract does not qualify for the normal purchases and normal sales exception, it may qualify for designation as the hedging instrument in an **all-in-one hedge**, as discussed in paragraph 815-20-25-22.

55-23 If the quantity of the commodity that will be delivered under a volumetric production payment arrangement is not reliably determinable, the embedded commodity forward contracts in such volumetric production payment arrangements are considered not to contain a **notional amount** as that term is used in Subtopic 815-10. Such a circumstance can occur when the oil or gas volumetric production payments relate to the production of a single well (or relatively unproven properties) and the volume under the contract is relatively large, and thereby involve significant reserve risk with respect to the receipt of the entire quantity specified in the contract.

55-24 If the embedded commodity forward contract is not subject to the requirements of Subtopic 815-10, the entire related volumetric production payment would be accounted for under Topic 932.

>>>> Interest-Rate-Related Underlyings—Call Options that Are Exercisable Only by the Debtor

55-25 Application of the guidance in paragraphs 815-15-25-37 through 25-39 to specific debt instruments is provided in the following table.

Instrument	Paragraph 815-15-25-26(b) Applicable to the Embedded Call Option?	Comments
1. An unsecured commercial loan that includes a prepayment option that permits the loan to be prepaid by the borrower at a fixed amount at any time at a specified premium over the initial principal amount of the loan.	No.	The commercial loan is prepayable only at the option of the borrower.
2. A fixed-rate debt instrument issued at a discount that is callable at par value at any time during its 10-year term.	No.	The fixed-rate debt instrument is callable at par value only by the issuer.
3. A fixed-rate 10-year bond that contains a call option that permits the issuer to prepay the bond at any time after issuance by paying the investor an amount equal to all the future contractual cash flows discounted at the then-current Treasury rate plus 45 basis points. The spread over the Treasury rate for the borrower at the issuance of the bond was 300 basis points.	No.	The fixed-rate 10-year bond is callable only at the option of the issuer.
4. A 5-year debt instrument issued at par that has a quarterly coupon equal to 15 percent minus 3 times 3-month LIBOR and that includes a call provision that allows the issuer to call the debt at any time at a specified premium over par.	No.	The instrument is callable only by the issuer, so the embedded call option feature will not be subject to the conditions in paragraph 815-15-25-26(b). However, the conditions in that paragraph are still applicable to the levered index feature of the debt.
5. A fixed rate debt instrument is issued at par and is callable at any time during its 10-year term. If the debt is called, the investor receives the greater of the par value of the debt or the market value of 100,000 shares of XYZ common stock (an unrelated entity).	No.	The instrument is callable only by the issuer, so the embedded call option feature will not be subject to the conditions in paragraph 815-15-25-26(b). However, the embedded call option is not considered clearly and closely related to the debt host contract because the payoff is based on an equity price.
6. A mortgage-backed security is issued, whereby cash flows associated with principal payments (including full or partial prepayments and related penalties) received on the related mortgage loans are passed through to the mortgage-backed security investors.	Not applicable (see comments).	Although the related mortgage loans are prepayable, and thus each contain a separate embedded call option, the mortgage-backed security itself does not contain an embedded call option. While the mortgage-backed security investor is subject to prepayment risk, the mortgage-backed security issuer has the obligation (not the option) to pass through cash flows from the related mortgage loans to the mortgage-backed security investors. Therefore, mortgage-backed securities are not within the scope of this guidance. Paragraphs 815-15-25-33 through 25-36 address the application of paragraph 815-15-25-26(b) to securitized interests in prepayable financial assets.

>>>> Remarketable Put Bonds

55-26 The following guidance discusses remarketable put bond structures involving three parties—a debtor, an investor (creditor), and an investment bank—and the required accounting by the debtor and the investor for each of the features discussed.

>>>>> Characteristics of a Standard Put Bond

55-27 A standard put bond has all of the following characteristics:

a. A debtor issues a contract comprising a bond and a written put option.

b. The option allows the investor to put the bond back to the debtor at a specific date in exchange for the bond's par value.

c. In exchange for giving the investor the right to redeem the bond at par before maturity, the debtor pays a lower effective interest rate than would be demanded for a nonputtable bond.

55-28 In addition, the rate on the bond may reset at the put date (resettable put bonds), and the bond may also involve a call option (callable, resettable put bonds).

>>>>> Characteristics of a Remarketable Put Bond

55-29 A remarketable put bond is a puttable bond that generally has the following additional features:

a. An investment bank obtains a call option—a right to buy the bond from the investor on the put date for the par amount.

b. The investment bank usually is either the underwriter of the bond issuance or an affiliate of the underwriter.

c. The bond will automatically be put back to the debtor if the investment bank does not exercise its call option to purchase the bond.

d. The strike prices and the exercise dates of the investor's written call option and purchased put option are the same.

e. The exercise dates are before the stated maturity of the bond.

f. The bond has an interest-rate-reset feature under which, if the bond is not put, the bond's contractual interest rate for the remaining term to maturity will reset at the put date based on the sum of the following:

1. The yield, at the issuance date of the puttable bond, of U.S. Treasury bonds of the same remaining maturity as the bond

2. The debtor's credit spread as of the put date.

g. The proceeds from issuance exceed the par amount of the bond, net of issuance costs.

55-30 It is assumed for purposes of this discussion that the interest-rate-reset feature does not trigger the condition in paragraph 815-15-25-26(a). The premium over par compensates the debtor for the interest-rate-reset feature. The premium generally is less than 10 percent of the par amount.

55-31 Economically, one of two scenarios will occur:

a. If market interest rates increase, both of the following will occur:

1. The fair value of the bond (absent the effect of the put option) will decrease.

2. The put option is in the money; therefore, the investors will put the bonds to the debtor.

b. If market interest rates decrease, both of the following will occur:

1. The fair value of the bond (absent the effect of the call option) will increase.

2. The call option is in the money; therefore, the investment bank will call the bonds from investors and resell the repriced bonds in the market at a premium.

>>>>> Alternative Remarketable Put Bond Structures

55-32 The following guidance describes six remarketable put bond structures and three additional features that may accompany certain structures.

>>>>>> Structure 1

55-33 Structure 1 has all of the following features:

a. A debtor issues a resettable, puttable bond to an investment bank.

b. The investment bank sells to an investor that resettable, puttable bond with an attached call option.

c. The attached call option is a written option from the perspective of the investor and a purchased option from the perspective of the investment bank.

55-34 That is, the investor buys a resettable, puttable bond and simultaneously writes a call option giving the investment bank the right to call the bond and take advantage of the interest-rate-reset feature.

55-35 Structure 1 is analyzed as follows:

a. Investment bank's held call option. The debtor should not account for the call option purchased by the investment bank from the investor. The debtor is not a party to the call option. The investor's accounting for Structure 1 is addressed in Example 1, Case A (see paragraph 815-10-55-67), which requires that an option that is added to a debt instrument by a third party contemporaneously with or after the issuance of the debt instrument be separately accounted for as a derivative instrument by the investor. That is, it shall be reported at fair value with changes in value recognized currently in earnings. The investment bank shall also account for a freestanding purchased call option.

b. Investor's written call option. The carrying value of the investor’s attached freestanding written call option to the investment bank should be its fair value in accordance with paragraphs 815-10-30-1 and 815-10-35-1. The remaining proceeds would be allocated to the carrying amount of the puttable bond.

c. Investor's held put option. Neither the debtor nor the investor is required to account separately for the embedded put option written by the debtor to the investor. Under paragraphs 815-15-25-40 through 25-43, the put option is considered clearly and closely related to the economic characteristics of the bond because it simply accelerates the repayment of principal, involves no substantial premium or discount, and is not contingent.

>>>>>> Structure 2

55-36 Structure 2 has all of the following features:

a. A debtor issues a resettable, puttable bond to an investor.

b. Contemporaneously, the investor writes a freestanding call option that permits the debtor to call the bond on the put date.

c. The debtor immediately sells the purchased call option to an investment bank.

55-37 Structure 2 is analyzed as follows:

a. Investment bank's held call option. The debtor should not account separately for the call option that is purchased from the investor after it is transferred to the investment bank. The debtor is no longer a party to the call option. The investor’s accounting for Structure 2 is addressed in Example 1, Case B (see paragraph 815-10-55-70), which indicates that the investor’s written call option is a separate freestanding derivative instrument that shall be reported at fair value with changes in value recognized currently in earnings. The investment bank shall also account for a freestanding purchased call option.

b. Investor's written call option. The carrying value of the investor’s freestanding written call option to the investment bank should be its fair value in accordance with paragraphs 815-10-30-1 and 815-10-35-1. The remaining proceeds would be allocated to the carrying amount of the puttable bond.

c. Investor's held put option. Neither the debtor nor the investor is required to account separately for the embedded put option written by the debtor to the investor. Under paragraphs 815-15-25-40 through 25-43, the put option is considered clearly and closely related to the economic characteristics of the bond because it simply accelerates the repayment of principal, involves no substantial premium or discount, and is not contingent.

>>>>>> Structure 3

55-38 Structure 3 has all of the following features:

a. A debtor issues a resettable bond to an investor.

b. The bond is puttable by the investor and callable by the debtor.

c. The terms of the agreement stipulate that if the debtor does not exercise its purchased call option, the investor’s purchased put option is automatically exercised.

d. Contemporaneously, the debtor writes a separate, freestanding call option to an investment bank giving the investment bank the right to require the debtor to call the bond from the investor and deliver the bond to the investment bank.

e. To deliver the bond to the investment bank, the debtor must obtain the bond from the investor pursuant to either its purchased call option or its written put option.

f. The debtor has a resulting obligation to make the investment bank whole if it fails to deliver the bond, and the investment bank has no right to pursue the investor if the investor fails to deliver the bond to the debtor.

55-39 Structure 3 is analyzed as follows:

a. Investment bank's held call option. The debtor shall account separately for the freestanding call option written to the investment bank, and the investment bank shall account for a freestanding purchased call option, in accordance with the guidance for a derivative instrument in Subtopic 815-10. The investor is not a party to that freestanding written call option and therefore should not account for that option. In addition to the freestanding call option held by the investment bank, Structure 3 also involves an embedded call option written by the investor to the debtor. That embedded call option is not required to be accounted for separately by either the debtor or the investor. Under paragraphs 815-15-25-40 through 25-43, that embedded call option is considered clearly and closely related to the economic characteristics of the bond. Consistent with the guidance in paragraph 815-20-25-43(c)(7), the debtor may not designate its freestanding call option written to the investment bank as a hedge of its embedded call option purchased from the investor. Because the terms of the contractual agreement require the debtor to settle its obligation to the investor on the embedded options' exercise date, that exercise date is essentially the bond's actual maturity date. Thus, in this structure, there is no embedded option in the bond that would qualify as the hedged item in a **fair value hedge** in which the hedging instrument is the debtor's freestanding written call option to the investment bank. However, the debtor may designate its freestanding written call option as a hedge of another asset or liability provided that all applicable requirements, including those in paragraph 815-20-25-94, are met.

b. Investor's held put option. Neither the debtor nor the investor is required to account separately for the embedded put option written by the debtor to the investor. Under paragraphs 815-15-25-40 through 25-43, the put option is considered clearly and closely related to the economic characteristics of the bond because it simply accelerates the repayment of principal, involves no substantial premium or discount, and is not contingent.

>>>>>> Structure 4 (Trust-Based Format)

55-40 Structure 4 has all of the following features:

a. A debtor issues resettable, puttable bonds to a trust.

b. The trust issues beneficial interests that mature on the put date.

c. The trust also writes a call option to an investment bank giving the investment bank the right to call the bonds on the put date.

55-41 If market interest rates fall, the investment bank will call the bonds and the trust will pay the call option proceeds (the par amount) to investors to settle the maturing beneficial interests.

55-42 If market interest rates increase, the trust will put the bonds back to the debtor and will pay the put option proceeds (the par amount) to investors to settle the maturing beneficial interests.

55-43 Structure 4 is analyzed as follows:

a. Investment bank's held call option. Neither the debtor nor the investor should account for the call option purchased by the investment bank from the trust because neither is a party to that call option. (However, if either the debtor or the investor is required to consolidate the trust, that consolidation will require recognition of the call option written by the trust to the investment bank.) The investment bank shall account for a freestanding purchased call option.

b. Investor's held put option. Neither the debtor nor the investor should account separately for the embedded put option written by the debtor to the trust. From the debtor's perspective, the put option is considered clearly and closely related to the economic characteristics of the bond under paragraphs 815-15-25-40 through 25-43 because it simply accelerates the repayment of principal, involves no substantial premium or discount, and is not contingent. The investor is not a party to the embedded put option; rather, the investor simply purchased beneficial interests that mature on the put date.

>>>>>> Structure 5 (Remarketing Format)

55-44 Structure 5 has all of the following characteristics:

a. A debtor issues to an investor a bond that is both puttable (by the investor) and callable (by the holder of the option).

b. As part of the **transaction**, the investment bank acquires the exclusive right to purchase the bond from the investor in the future and to remarket the repriced bond.

c. The investment bank's right to purchase the bond from the investor is set forth in the note or the indenture itself and in a separate document (a remarketing agreement) that is not part of the indenture, and is also described in the prospectus supplement.

d. The explicit inclusion in the indenture of the investment bank's right to purchase the bond is designed to obligate initial and future investors to deliver the bond in response to the investment bank's exercise of its right.

e. When the bond is issued, the trustee, in conformity with the transaction documents, shall view the investment bank as the only party with a right to call the bond from the investor at the call-put date. Thus, the trustee does not require any involvement by the debtor when enforcing the investment bank's right to purchase the bond from the investor.

f. The debtor's only remaining obligation is to pay interest at the reset rate if the bond remains outstanding.

55-45 Structure 5 is analyzed as follows:

a. Investment bank's held call option. The debtor should not account separately for the call option held by the investment bank. For accounting purposes, the transaction should be viewed as a purchase of a transferable, freestanding call option by the debtor from the investor and a concurrent transfer by the debtor of that option to the investment bank. Upon that transfer, the debtor is no longer a party to the call option and has surrendered its right to prepay the debt. The investment bank acquired the debtor's right to call the bond and relieved the debtor of the obligation to pay the investor the par amount of the bond upon exercise of the call option. The call option is a contract between the investment bank and the investor that permits the investment bank to purchase the bonds from the investor at par. From the investor's perspective, that contract is a freestanding written call option that shall be accounted for in accordance with paragraphs 815-10-25-1, 815-10-30-1, and 815-10-35-1 through 35-2. That is consistent with the guidance in paragraph 815-10-15-7—an option on a bond incorporated into the terms of the bond at inception that, by the terms of the agreement, is exercisable by a party other than either the debtor or the investor should be considered an attached freestanding derivative instrument. The investment bank shall also account for a freestanding purchased call option.

b. Investor's written call option. The carrying value of the investor's freestanding written call option to the investment bank should be its fair value in accordance with paragraphs 815-10-30-1 and 815-10-35-1. In the remarketing format, the transfer of the purchased call option is concurrent with the issuance of the bond. The remaining proceeds would be allocated to the carrying amount of the puttable bond. The debtor recognizes no gain or loss upon the transfer of the option to the investment bank.

c. Investor's held put option. Neither the debtor nor the investor should account separately for the embedded put option written by the debtor to the investor. Under paragraphs 815-15-25-40 through 25-43, the put option is considered clearly and closely related to the economic characteristics of the bond because it simply accelerates the repayment of principal, involves no substantial premium or discount, and is not contingent.

>>>>>> Structure 6 (Assignment Format)

55-46 Structure 6 has all of the following features:

a. A debtor issues to an investor a bond that is both puttable (by the investor) and callable (by the holder of the option).

b. The indenture and the note itself create an assignable right to purchase the bond from the investor and remarket the repriced bond.

c. A legal assignment of that right by the debtor to an investment bank, in exchange for a payment to the debtor, is executed as part of the underwriting process as an amendment to the note. The assignment typically occurs at the time the bond is issued.

d. Upon receipt of the notice of assignment (which typically occurs upon issuance of the bonds), the indenture trustee must view the assignee (that is, the investment bank) as the call option holder and does not require any involvement of the debtor when enforcing the assignee's right to call the bond from the investor.

e. The debtor's only remaining obligation is to pay interest at the reset rate.

55-47 Structure 6 is analyzed as follows:

a. Investment bank's held call option. The debtor is not required to account separately for the call option after its transfer to the investment bank. The debtor purchased a transferable freestanding call option from the investor and transferred that option to the investment bank. Therefore, after the transfer, the debtor is no longer a party to the call option and has surrendered its right to prepay the debt. The investment bank acquired the debtor's right to call the bond and relieved the debtor of the obligation to pay the investor the par amount of the bond upon exercise of the call option. Ultimately, the call option is a contract between the investment bank and the investor that permits the investment bank to purchase the bond from the investor at par. From the investor's perspective, that contract is a freestanding written call option that shall be accounted for in accordance with the guidance for a derivative instrument in Subtopic 815-10. That is consistent with the guidance in paragraph 815-10-15-7 that an option on a bond incorporated into the terms of the bond at inception that is explicitly transferable should be considered an attached, freestanding derivative instrument. The investment bank shall also account for a freestanding purchased call option.

b. Investor's written call option. The carrying value of the investor's freestanding written call option to the investment bank should be its fair value in accordance with paragraphs 815-10-30-1 and 815-10-35-1 with the remaining proceeds allocated to the carrying amount of the puttable bond. In the assignment format, the transfer of the purchased call option by the debtor to the investment bank may not be concurrent with the issuance of the bond. The debtor recognizes no gain or loss upon the transfer of the call option. In transactions involving a delay between the issuance of the bond and the transfer of the assignable call option to the investment bank, the allocation of the initial proceeds to the carrying value of the option would be equal to the fair value of the option. The remaining proceeds would be allocated to the carrying amount of the puttable bond. During any period of time between the initial issuance of the bond and the transfer of the call option to the investment bank, the call option shall be measured at fair value with changes in value recognized in earnings as required by paragraph 815-20-35-1. As a result of the requirement to measure the call option at fair value during the time period before it is assigned to the investment bank, the debtor would not recognize a gain or loss upon the assignment because the proceeds paid by the investment bank would be the option's current fair value on the date of the assignment, which would be the option's carrying amount at that point in time. Any change in the fair value of the option during the time period before it is assigned to the investment bank would be attributable to the passage of time and changes in market conditions.

c. Investor's held put option. Neither the debtor nor the investor should account separately for the embedded put option written by the debtor to the investor. Under paragraphs 815-15-25-40 through 25-43, the put option is considered clearly and closely related to the economic characteristics of the bond because it simply accelerates the repayment of principal, involves no substantial premium or discount, and is not contingent.

>>>>>> Possible Additional Feature 1 to Structure 5 or 6

55-48 A separate agreement may exist that allows the debtor to avoid the remarketing of the bond. That agreement permits the debtor, as of the reset date, to purchase either of the following:

a. The repriced bond from the investment bank at its then fair value

b. The unexercised call option held by the investment bank at its then fair value, which in turn would permit the debtor to purchase the bond at par from the investor.

55-49 The additional feature is a separate contract between the debtor and the investment bank. Specifically, it is a freestanding call option purchased by the debtor from the investment bank that permits the debtor to purchase either the repriced bond or the unexercised call option from the investment bank at its then fair value. The guidance for a derivative instrument in Subtopic 815-10 requires that all freestanding derivatives be measured at fair value with changes in value recognized in earnings. However, because the exercise price of the debtor's call option is the then fair value of the repriced bonds or the unexercised call option at the date of exercise, the option itself has a zero fair value. As a result, the asset or liability related to the derivative that would be recognized by the debtor as a result of applying the requirements of that Subtopic has a value of zero.

>>>>>> Possible Additional Feature 2 to Structure 5 or 6

55-50 A separate agreement may exist under which the debtor writes an option to the investment bank that permits the investment bank to put its call option to the debtor at fair value if a specified contingency occurs (for example, a failed remarketing). That feature provides loss protection to the investment bank.

55-51 The additional feature is a separate contract between the debtor and the investment bank. Specifically, it is a freestanding put option written by the debtor to the investment bank. Accordingly, the feature should be accounted for as a freestanding derivative measured at fair value with changes in value recognized in earnings in accordance with the guidance for a derivative instrument in Subtopic 815-10. However, because the exercise price of the debtor's put option is the then fair value of the unexercised call option at the exercise date, the option itself has a zero fair value. As a result, the asset or liability related to the derivative that would be recognized by the debtor as a result of applying the requirements of that Subtopic has a value of zero.

>>>>>> Possible Additional Feature 3 to Structure 5 or 6

55-52 Some arrangements provide recourse to the investment bank against the debtor for the fair value of the call option if the investor fails to deliver the bonds to the investment bank upon exercise of its call option. That feature provides loss protection to the investment bank.

55-53 The additional feature is a separate contract between the debtor and the investment bank. Although it is structured as a recourse agreement, the substance of the feature is similar to additional feature 2 in that it is a put option written by the debtor to the investment bank. Accordingly, the feature should be accounted for as a freestanding written put option measured at fair value with changes in value recognized in earnings in accordance with the guidance for a derivative instrument in Subtopic 815-10. However, because the exercise price of the debtor's put option is the then fair value of the unexercised call option at the date of exercise, the option itself has a zero fair value. As a result, the asset or liability related to the derivative that would be recognized by the debtor as a result of applying the requirements of that Subtopic has a value of zero.

>>>> Variable Annuity Products in General

55-54 Variable annuity products are investment contracts as discussed in Subtopic 944-20. Similar to variable life insurance products, policyholders direct their investment account asset mix among a variety of mutual funds composed of equities, bonds, or both, and assume the risks and rewards of investment performance. The funds are generally maintained in separate accounts by the insurance entity. Contract terms provide that if the policyholder dies, the greater of the account market value or a minimum death benefit guarantee will be paid. The minimum death benefit guarantee is generally limited to a return of premium plus a minimum return (such as 3 or 4 percent); this life insurance feature represents the fundamental difference from the life insurance contracts that include significant (rather than minimal) levels of life insurance. The investment account may have various payment alternatives at the end of the accumulation period. One alternative is the right to purchase a life annuity at a fixed price determined at the initiation of the contract.

55-55 Variable annuity product structures as discussed in Topic 944 are generally not subject to the scope of this Subtopic (except for payment options at the end of the accumulation period), as follows:

a. Death benefit component. Paragraph 815-10-15-53(a) excludes a death benefit from the scope of Subtopic 815-10 because the payment of the death benefit is the result of an identifiable insurable event instead of changes in an underlying. The death benefit in this example is limited to the floor guarantee of the investment account, calculated as the premiums paid into the investment account plus a guaranteed rate of return, less the account market value. Topic 944 remains the applicable guidance for the insurance-related liability accounting.

b. Investment component. The policyholder directs certain premium investments in the investment account that includes equities, bonds, or both, which are held in separate accounts that are distinct from the insurer's general account assets. This component is not considered a derivative instrument because of the unique attributes of traditional variable annuity contracts issued by insurance entities. Furthermore, any embedded derivatives within those investments shall not be separated from the host contract by the insurer because the separate account assets are already marked to fair value under Topic 944. In contrast, if the product were an equity-index-based interest annuity (rather than a traditional variable annuity), the investment component would contain an embedded derivative (the equity index-based derivative instrument) that meets all the requirements of paragraph 815-15-25-1 for separate accounting.

c. Investment account surrender right at market value. Because this right is exercised only at the fund market value (without the insurer's floor guarantee) and relates to a traditional variable annuity contract issued by an insurance entity, this right is not within the scope of Subtopic 815-10.

d. Payment alternatives at the end of the accumulation period. Payment alternatives are options subject to the requirements of Subtopic 815-10 if interest rates or other underlying variables affect the value.

55-56 The guidance in (b) and (c) in the preceding paragraph is an exception for traditional variable annuity contracts issued by insurance entities. In determining the accounting for other seemingly similar structures, it would be inappropriate to analogize to that guidance due to the unique attributes of traditional variable annuity contracts.

>>>> Payment Alternatives for Variable Annuity Contracts

55-57 There are various types of annuity payment options offered by insurance entities to policyholders. This guidance addresses four common payment alternatives. The first three are payment alternatives offered during the accumulation phase of the contract, while the fourth involves guaranteed minimum periodic annuity payments in the contract's payout phase.

55-58 During the accumulation phase of a deferred annuity contract, a guarantee of a minimum interest rate to be used in computing periodic annuity payments if and when a policyholder elects to annuitize does not require separate accounting under paragraph 815-15-25-1 because the criterion in paragraph 815-15-25-1(c) is not met. The embedded option does not meet the definition of a derivative instrument because it does not meet the net settlement criteria as discussed beginning in paragraph 815-10-15-99. Settlement of the option can be achieved only by an investment of the account balance in a payout annuity contract in lieu of electing an immediate payment of the account value. If an additional provision existed whereby the policyholder could withdraw all or a portion of its account balance during the payout phase, an embedded derivative would still not exist because the economic benefit of the guaranteed minimum interest rate would be obtainable only if an entity were to maintain the annuity contract through its specified maturity date.

55-59 A provision that guarantees a minimum account value that is available to annuitize if and when a policyholder elects to annuitize fails to meet the definition of a derivative instrument during the accumulation phase because it cannot be net settled. The benefit of the minimum account value is realized by the policyholder by annuitizing and receiving the economic benefit over the payout term, similar to the analysis of the guarantee of a minimum interest rate. However, if the policyholder is able to withdraw all or a portion of the guaranteed account balance during the payout (**annuitization**) period, or the payout (annuitization) period is set to an unrealistically short period such as one year, this is equivalent to net settlement, and the guarantee (or the portion of the guarantee that is withdrawable, if applicable) is an embedded derivative only during the accumulation period.

55-60 During the accumulation phase of a deferred variable annuity contract, a provision that guarantees a minimum level of periodic annuity payments during the payout phase if and when a policyholder elects to annuitize into a variable-payout annuity does not require separate accounting as an embedded derivative under paragraph 815-15-25-1. An embedded derivative does not exist during the accumulation phase of a deferred variable annuity contract because the policyholder cannot net settle the contract. The only way the policyholder can obtain the benefit of the floor payment guarantee is over the life of the variable-payout annuity. This guidance assumes that the contract is annuitized at its contract value without any floor account value guarantee specified in the preceding paragraph.

55-61 During the payout phase of a variable-payout annuity, the contract may include a provision that guarantees a minimum level of periodic payments. (This type of provision may be found in contracts referred to as standalone immediate-payout annuities or in the payout phase of an existing annuity.) The accounting treatment for a contractual provision for guaranteed minimum periodic payments is dependent upon the payout option in the variable-payout annuity contract. For the period-certain variable-payout annuity, the guaranteed minimum periodic payments are, during the payout phase, an embedded derivative that is required to be separated under paragraph 815-15-25-1. This conclusion is based on the assessment that the guaranteed payment floor is not clearly and closely related to the host contract—a traditional variable-payout annuity contract. This is consistent with Section 944-20-25. However, a solely life-contingent variable-payout annuity contract with such features that meets the definition of an insurance contract under paragraph 944-20-15-18 through 15-19 would not be subject to the requirements of Subtopic 815-10 provided there are no withdrawal features. For a period-certain-plus-life-contingent variable-payout annuity contract, the embedded derivative related only to the period-certain guaranteed minimum periodic payments would be required to be separated under paragraph 815-15-25-1, whereas the embedded derivative related to the life-contingent guaranteed minimum periodic payments would not be separated under that paragraph. Separate accounting for the embedded derivative related only to the period-certain guaranteed minimum periodic payments would be required even if the period-certain-plus-life-contingent annuity, in its entirety, meets the definition of an insurance contract under paragraph 944-20-15-18 through 15-19 and has no withdrawal features.

>>>> Equity-Indexed Annuity Contracts

55-62 This Subtopic defines an **equity-indexed annuity** as a deferred fixed annuity contract with a guaranteed minimum interest rate plus a contingent return based on some internal or external equity index, such as the Standard & Poor's S&P 500 Index. The guaranteed contract value is generally designed to meet certain regulatory requirements such that the contract holder receives no less than 90 percent of the initial deposit, compounded annually at 3 percent, which establishes a floor value for the contract. Equity-indexed annuities typically have minimal mortality risk and are therefore classified as investment contracts under Topic 944. Equity-indexed annuities often do not have specified maturity dates; therefore, the contracts remain in the deferral (accumulation) phase until the customer either surrenders the contract or elects annuitization. Customers typically can surrender the contract at any point in time, at which time they receive their account value, as specified in the contract, less any applicable surrender charges. The account value is defined in the policy as generally the greater of the policyholder’s initial investment plus the equity-indexed return or a guaranteed floor amount (calculated as the policyholder’s initial investment plus a specified annual percentage return).

55-63 There are two basic designs for equity-indexed annuities:

a. The **periodic ratchet design**, where in the annual version, the customer receives the greater of the appreciation in the equity index during a series of one-year periods (ending on each policy anniversary date) or the guaranteed minimum fixed rate of return over that period

b. The **point-to-point design**, where the customer receives the greater of the appreciation in the equity index during a specified period (for example, five or seven years, starting on the policy issue date) or the guaranteed minimum fixed rate of return over that period.

55-64 For many products of either design, the contract has any of the following characteristics:

a. The contract holder receives only a portion of the appreciation in the S&P 500 Index (or other index, as applicable) during the specified period (a participation rate).

b. The contract has an upper limit on the amount of appreciation that will be credited during any period (a cap rate).

55-65 For the annual ratchet design, the prospective participation and cap rates for each one-year period are often at the discretion of the issuer, and may be reset on future policy anniversary dates, subject to contractual guarantees. Flexibility on the part of the issuer to establish new cap and participation rates, coupled with uncertainty around the customer’s account value (which establishes the notional amount of the option) and strike price (which is determined by the level of the index on subsequent anniversary dates) make several of the terms of the forward-starting options unknown at the annuity contract’s inception. However, those flexible terms can be viewed as a bundle of options.

55-66 Therefore, holders of equity-indexed annuities that are preparing financial statements shall separate the equity-indexed return portion of the contract, apply this Subtopic, including the guidance in the following paragraph through paragraph 815-15-55-72.

55-67 From an insurer’s perspective, the option component of an equity-indexed annuity that specifies a point-to-point design meets the definition of a derivative instrument and requires separate accounting under paragraph 815-15-25-1 unless a fair value election is made pursuant to paragraph 815-15-25-4. (Note that Section 815-15-25 allows for a fair value election for hybrid financial instruments that otherwise would require bifurcation. However, Section 815-15-25 does not apply to hybrid financial instruments that are described in paragraph 825-10-50-8, which include insurance contracts as discussed in Subtopic 944-20, other than financial guarantees and investment contracts.)

55-68 This guidance also applies to the policyholder because the policyholder does not qualify for a scope exclusion.

55-69 For the periodic ratchet design product, the insurer has committed to issue a series of options on the index over the duration of the contract. All of those forward-starting options meet the definition of a derivative instrument and require separate accounting under paragraph 815-15-25-1 from the perspective of the insurer unless a fair value election is made pursuant to paragraph 815-15-25-4. Paragraph 815-15-25-7 requires that the embedded feature with multiple components be separately accounted for as one compound embedded derivative.

55-70 In valuing those options, there are three main components to be considered:

a. Future S&P 500 Index (or other index, as applicable) values will need to be estimated to determine both the future notional amounts at each ratchet date and the future strike prices of the future forward starting options.

b. Future annual cap and participation rates, which are often at the discretion of the contract issuer, subject to contractually specified minimums and maximums, will need to be estimated.

c. Noneconomic factors related to policyholder-driven developments such as policy surrenders or mortality.

55-71 Given the three components, the forward starting options should be valued using the expected future terms (that is, index values and cap and participation rates), but in no event should the value be less than the minimum amounts contractually agreed on in the contract. Expected terms represent management's estimates of cap and participation rates, rather than contractually guaranteed amounts. The estimated value reflects the notion that the contract provides for a level of equity-indexed return that can be estimated even when considering the issuer's options to adjust the policyholder's participation and cap rates. In subsequent periods when the terms of the forward-starting options become known, the actual terms should be substituted for the expected terms for purposes of valuation.

55-72 This guidance also applies to the policyholder (provided it prepares GAAP-based financial statements) because the contracts do not qualify for a scope exception.

>>>> Equity-Indexed Life Insurance Contracts

55-73 Equity-indexed life insurance contracts combine term life insurance coverage with an investment feature, similar to universal life contracts. Death benefit amounts are based on the amount selected by the policyholder plus the account value. Charges for the cost of insurance and administrative costs are assessed periodically against the account. The policyholder's account value, maintained in the insurance entity's general account (not a separate account), is based on the cumulative deposits credited with positive returns based on the S&P 500 Index or some other equity index. An essential component of the contract is that the cash surrender value is also linked to the index. Accordingly, the policy's cash surrender value is also linked to an equity index. The death benefit amount may also be dependent on the cumulative return on the index.

55-74 Equity-indexed life insurance contracts are accounted for as universal life insurance contracts under Topic 944. For those contracts, the customer's account value (the investment component of a universal life contract) is credited with a return indexed to an equity index (for example, the S&P 500) rather than an interest rate established by the insurer, as is done with typical universal life contracts. The existence of the death benefit provision does not exclude the entire equity-indexed life insurance contract from being subject to Subtopic 815-10 for either the issuer or the policyholder because the policyholder can obtain an equity-linked return by exercising the surrender option before death.

55-75 The investment component of the equity-indexed life insurance contract would contain an embedded derivative (the equity index-based derivative) that meets all of the requirements of paragraph 815-15-25-1 for separate accounting. (Note that Section 815-15-25 allows for a fair value election for hybrid financial instruments that otherwise would require bifurcation. However, Section 815-15-25 does not apply to hybrid instruments that are described in paragraph 825-10-50-8, which include insurance contracts as discussed in Subtopic 944-20, other than financial guarantees and investment contracts.)

55-76 In contrast, if the contract contained an equity-indexed death benefit component that was over and above the cash surrender value that is payable to the policyholder upon surrender of the policy, that death benefit component would not meet the criterion in paragraph 815-15-25-1(c) for separate accounting. As a separate instrument, that death benefit component would not be a derivative instrument subject to the requirements of Subtopic 815-10 due to the paragraph 815-10-15-53 exclusion for benefits payable only upon death, as illustrated in paragraphs 815-15-55-55 through 55-56.

>> Certain Convertible Debt Instruments

55-76A The following steps specify how an issuer shall apply the guidance on accounting for embedded derivatives in this Subtopic to a convertible debt instrument within the scope of the Cash Conversion Subsections of Subtopic 470-20.

a. Step 1. Identify embedded features other than the embedded conversion option that must be evaluated under Subtopic 815-15.

b. Step 2. Apply the guidance in Subtopic 815-15 to determine whether any of the embedded features identified in Step 1 must be separately accounted for as derivative instruments. Paragraph 470-20-15-4 states that the guidance for a convertible debt instrument within the scope of the Cash Conversion Subsections of Subtopic 470-20 does not affect an issuer's determination of whether an embedded feature shall be separately accounted for as a derivative instrument.

c. Step 3. Apply the guidance in paragraph 470-20-25-1 to separate the liability component (including any embedded features other than the conversion option) from the equity component.

d. Step 4. If one or more embedded features are required to be separately accounted for as a derivative instrument based on the analysis performed in Step 2, that embedded derivative shall be separated from the liability component in accordance with the guidance in this Subtopic. Separation of an embedded derivative from the liability component would not affect the accounting for the equity component.

55-77 [Paragraph Not Used]

55-78 [Paragraph Not Used]

55-79 [Paragraph Not Used]

55-80 [Paragraph Not Used]

55-81 [Paragraph Not Used]

>> Common Stock with Embedded Purchased Put Option

55-82 From the investor's perspective, the purchase of common stock with an embedded purchased put option that requires physical settlement is a hybrid instrument that shall be evaluated to determine whether it has an embedded derivative that shall be accounted for separately. The embedded purchased put option shall be separated from the equity host because the common stock and the embedded put option are not clearly and closely related (see paragraph 815-15-25-20). For guidance related to an issuer's accounting, see paragraph 815-10-15-76.

> Illustrations

>> Example 1: Features Involving Certain Currencies—Substantial Party to the Contract

55-83 The following Cases illustrate the application of paragraph 815-15-15-10(b)(1):

a. Guarantor not a substantial party to a two-party lease (Case A)

b. Requisite knowledge, resources, and technology (Case B)

c. Highly inflationary environment (Case C).

>>> Case A: Guarantor Is Not a Substantial Party to a Two-Party Lease

55-84 A U.S. parent entity for which the U.S. dollar is the functional currency has a French subsidiary with a Euro functional currency. The subsidiary enters into a lease with a Canadian entity for which the Canadian dollar is the functional currency that requires lease payments denominated in U.S. dollars. The parent entity guarantees the lease.

55-85 The exception in paragraph 815-15-15-10(b)(1) does not apply to the contract. The substantial parties to a lease contract are the lessor and the lessee; a third-party guarantor is not a substantial party to a two-party lease, even if it is a related party (such as a parent entity). Thus, the functional currency of a guarantor is not relevant to the application of that paragraph.

55-86 The requirement in paragraph 815-15-15-10(b)(1) that the payments be denominated in the functional currency of at least one substantial party to the transaction ensures that the foreign currency is integral to the arrangement and thus considered to be clearly and closely related to the terms of the lease.

>>> Case B: Requisite Knowledge, Resources, and Technology

55-87 A U.S.-based construction entity (the Parent) pursues business in a foreign country on a major construction contract. The Parent has an operating subsidiary (the Subsidiary) in that foreign country. The Subsidiary's functional currency is determined to be the local currency (because of business activities unrelated to the construction contract), which is also the functional currency of the customer under the contract. The Parent's functional currency is the U.S. dollar.

55-88 Primarily for tax and political reasons, the Parent causes its Subsidiary to enter into a contract with the customer (that is, the contract is legally between the Subsidiary and the customer). The contract requires payments by the customer in U.S. dollars. The payments are in U.S. dollars to facilitate the compensation of the Parent for its significant involvement in and management of the contract entered into by the Subsidiary.

55-89 The Subsidiary, by itself, does not possess the requisite financial, human, and other resources, technology, and knowledge to execute the construction contract on its own. The Parent provides the majority of the resources required under the contract, including direct involvement in negotiating the terms of the contract, managing and executing the contract throughout its duration, and maintaining all contract supporting functions, such as legal, tax, insurance, and risk management. Because it is controlled by the Parent, the Subsidiary does not have a choice of subcontractor for these resources and services and will always integrate the Parent into all phases of the contract. Without the Parent, the Subsidiary and the customer would probably never have entered into the construction contract because the Subsidiary could not perform under this contract without the help of the Parent.

55-90 In this Case, the Parent is a substantial party to the construction contract entered into by the Subsidiary for the purposes of applying paragraph 815-15-15-10(b)(1) because the Parent will be providing the majority of resources required under the contract on behalf of the Subsidiary, which is the legal party to the contract.

>>> Case C: Highly Inflationary Environment

55-91 The following Cases illustrate the application of the scope exception in paragraph 815-15-15-10:

a. The contractual payments are denominated in a currency that, while not the functional currency, is used as if it were the functional currency due to a highly inflationary economy (Case C1).

b. The economy of the primary economic environment ceases to be highly inflationary after the inception of the contract (Case C2).

55-92 Cases C1 and C2 share the following assumptions. A U.S. parent entity for which the U.S. dollar (USD) is both the functional currency and the reporting currency has a Venezuelan subsidiary. The subsidiary's sales, expenses, and financing are primarily denominated in the Mexican peso (MXN), and therefore the subsidiary considers MXN to be its functional currency as required by Topic 830. However, assume that the economy in Mexico is highly inflationary, and therefore that Topic requires that the parent entity's reporting currency (that is, USD) be used as if it were the subsidiary's functional currency. The subsidiary enters into a lease with a Canadian entity for property in Venezuela that requires the subsidiary to make lease payments in USD. Further, assume that the Canadian entity's functional currency is the Canadian dollar (CAD). The Venezuelan subsidiary's local currency is VEB (the Venezuelan bolivar).

>>>> Case C1: Highly Inflationary Economy Exists

55-93 The exception in paragraph 815-15-15-10 applies to contract because the subsidiary uses USD as if it were the functional currency. The conclusion is not affected by the fact that USD is not the currency of the primary economic environment in which either the Venezuelan subsidiary or the Canadian lessor operates (that is, USD is not the functional currency of either party to the lease). The forward contract to deliver USD embedded in the lease contract should not be bifurcated from the lease host. The exception in paragraph 815-15-15-10 would apply to the lease contract in this Example if the payments under that contract were denominated in any of the following four currencies: USD, MXN, VEB, or CAD. The exception applies to both of the substantial parties to the contract, the lessor and the lessee.

>>>> Case C2: Highly Inflationary Economy Ceases to Exist

55-94 Assume that, during the term of the property lease, the Mexican economy ceases to be highly inflationary. Therefore, the Venezuelan subsidiary's financial statements cease to be remeasured as if USD were the functional currency and, instead, those financial statements are remeasured using the subsidiary's functional currency, MXN.

55-95 When the lease was entered into, the subsidiary used USD as if it were the functional currency; therefore, the foreign currency embedded derivative would have qualified for the exception in paragraph 815-15-15-10 for both the lessor and the lessee. The fact that the subsidiary subsequently ceased using USD as if it were the functional currency and, instead, now uses MXN (which was outside the control of management of the entity because it is contingent upon a change in the Mexican economy) does not affect the application of the exception because the subsidiary qualified for the exception at the inception of the contract. However, if the subsidiary would enter into an extension of the lease or a new lease that required payments in USD, the exception would not apply because at the time the new or extended lease was entered into, the subsidiary no longer used USD as if it were the functional currency.

>> Example 2: Features Involving Certain Currencies—Routinely Denominated in International Commerce

55-96 This Example illustrates the application of the phrase *routinely denominated in international commerce* in paragraph 815-15-15-10(b)(2).

55-97 A real estate lease negotiated privately between entities involved in international commerce in certain South American economies would routinely require U.S. dollar (USD) payments. Real estate leases negotiated privately between entities involved in international commerce in European economies would routinely not require USD payments. The lessee is a Canadian entity that uses the Canadian dollar (CAD) as its functional currency. The lessor is a Venezuelan entity whose functional currency is the Mexican peso (MXN). The lease payments are denominated in USD.

55-98 Because real estate leases around the world are not routinely denominated in USD, the leasing transaction would not qualify for the exception in paragraph 815-15-15-10(b)(2).

>> Example 3: Clearly and Closely Related Criterion—Leveraging Through Notional Amount

55-99 This Example illustrates the application of the clearly and closely related criterion in paragraph 815-15-25-1(a). Two entities enter into a long-term service contract whereby Entity A agrees to provide a service to Entity B at market rates over a three-year period. Entity B forecasts it will pay DKK (the Danish kroner) 1,000 to Entity A at the end of the 3-year period for all services rendered under the contract. Entity A's functional currency is DKK and Entity B's is the U.S. dollar (USD). In addition to providing the terms under which the service will be provided, the contract includes a foreign currency exchange provision. The provision requires that over the term of the contract, Entity B will pay or receive an amount equal to the fluctuation in the DKK/USD exchange rate applied to a notional amount of DKK 100,000 (that is, if USD appreciates against DKK, Entity B will pay the appreciation, and if USD depreciates against DKK, Entity B will receive the depreciation). The host contract is not a derivative instrument and will not be recorded in the financial statements at market value.

55-100 The foreign currency derivative embedded in the long-term service contract should be separated from the host long-term service contract and considered a derivative instrument under paragraph 815-15-25-1. (Note that Section 815-15-25 does not apply to hybrid instruments that are not financial instruments, such as contracts that require the delivery of services.) Because the contract is leveraged by requiring the computation of the payment based on a DKK 100,000 notional amount, the contract is a hybrid instrument that contains an embedded derivative—a foreign currency swap with a notional amount of DKK 99,000. That embedded derivative is not clearly and closely related to the host contract and under paragraph 815-15-25-1 shall be recorded separately from the DKK 1,000 contract. Either party to the contract can designate the bifurcated foreign currency derivative instrument as a hedging instrument pursuant to Subtopic 815-20 if applicable qualifying criteria are met.

>> Example 4: Clearly and Closely Related Criterion—Credit-Sensitive Payments, Embedded Credit Derivatives

55-101 The following Cases illustrate the application of paragraph 815-15-25-46:

a. Credit-linked note (Case A)

b. Reinsurer's receivable arising from a modified coinsurance arrangement (Case B).

55-102 In both of these Cases, the embedded derivative generally will require bifurcation. However, the criteria in paragraph 815-15-25-1(b) through (c) shall be considered before concluding that the embedded derivative should be bifurcated and accounted for separately. The nature of the embedded derivative and the host contract in both Cases should be determined based on the facts and circumstances of the individual contract.

>>> Case A: Credit-Linked Note

55-103 Entity A issues to an investor a fixed-rate, 10-year, $10 million credit-linked note that provides for periodic interest payments and the repayment of principal at maturity. However, upon default of a specified reference security (an Entity X subordinated debt obligation) the redemption value of the note may be zero or there may be some claim to the recovery value of the reference security (depending on the terms of the specific arrangement). Generally, the term *reference security* refers to the security whose credit rating or default determines the cash flows under a credit derivative. Usually, the terms of credit-linked notes explicitly reference Committee on Uniform Security Identification Procedures (CUSIP) numbers of securities in the marketplace. In an event of default of the specified reference security, there is no recourse to the general credit of the obligor (Entity A). In exchange for accepting the default risk of the reference security, the note entitles the investor to an enhanced yield. The transaction results in the investor selling credit protection and Entity A buying credit protection.

55-104 The credit-linked note includes an **embedded credit derivative**. The **credit risk** exposure of the reference security (Entity X) and the risk exposure arising from the creditworthiness of the obligor (Entity A) are not clearly and closely related. Thus, the economic characteristics and risks of the embedded derivative are not clearly and closely related to the economic characteristics and risks of the debt host contract and, accordingly, the criterion in paragraph 815-15-25-1(a) is met.

55-105 Paragraph 815-15-25-6 explains that the fair value election for hybrid financial instruments that otherwise would require bifurcation does not apply to hybrid financial instruments that are described in paragraph 825-10-50-8, which include insurance contracts as discussed in Section 944-20-15, other than financial guarantees and investment contracts.

55-106 Consideration should be given to whether the embedded derivative could possibly not be subject to this Topic as a financial guarantee under paragraph 815-10-15-58 and, in that circumstance, the embedded derivative would not warrant bifurcation.

>>> Case B: Reinsurer's Receivable Arising from a Modified Coinsurance Arrangement

55-107 Reinsurance Entity B enters into a modified coinsurance arrangement (also referred to as a modco arrangement), which is a reinsurance arrangement in which funds are withheld by the ceding insurer, thereby creating an obligation for the ceding entity to pay the reinsurer at a later date. Concurrently, the reinsurer (Entity B) recognizes a funds-withheld receivable from the ceding insurer as well as a liability representing reserves for the insurance coverage assumed under the modco arrangement. (The amount of Entity B’s receivable is the ceding entity's statutory reserve, whereas the amount of Entity B’s liability is the reserve under GAAP.) The terms of the ceding entity's payable (and Entity B’s funds-withheld receivable) provide for the future payment of a principal amount plus a return (that may be negative) that is based on a specified proportion of the ceding entity's return on either its general account assets or a specified block of those assets (such as a specific portfolio of its investment securities). That portfolio is typically composed primarily of fixed-rate debt securities.

55-108 With respect to the modified coinsurance arrangement, the ceding entity's funds-withheld payable and Entity B’s funds-withheld receivable include an embedded derivative that is not clearly and closely related to the host contract. The yield on the payable and receivable in the host contract in this Case is based on a specified proportion of the ceding entity's return on either its general account assets or a specified block of those assets (such as a specific portfolio of the ceding entity's investment securities). The risk exposure of the ceding entity's return on its general account assets or its securities portfolio is not clearly and closely related to the risk exposure arising from the overall creditworthiness of the ceding entity, which is also affected by other factors. Consequently, the economic characteristics and risks of the embedded derivative feature are not clearly and closely related to the economic characteristics and risks of the host contract and, accordingly, the criterion in paragraph 815-15-25-1(a) is met. This analysis applies whether the host contract is determined to be a debt host or an insurance contract. For example, if the host contract is determined to be the modified coinsurance arrangement (including the funds-withheld receivable-payable but excluding the embedded derivative), the economic characteristics and risks of the embedded derivative feature are not clearly and closely related to the economic characteristics and risks of the host contract and, accordingly, the criterion in that paragraph is met.

55-109 The other criteria in paragraph 815-15-25-1 generally would be met, thereby requiring that the embedded derivative be bifurcated and accounted for separately.

>> Example 5: Clearly and Closely Related Criterion—Mandatorily Redeemable Preferred Stock Denominated in a Precious Metal or a Foreign Currency

55-110 This Example illustrates the application of the clearly and closely related criterion in paragraph 815-15-25-1(a). A reporting entity issues $100,000 of mandatorily redeemable preferred stock whose preferred dividends are payable in cash but that requires redemption at the end of 1 year for a payment of 312 ounces of gold. Alternatively, the reporting entity issues $100,000 of mandatorily redeemable preferred stock whose redemption at the end of 1 year is payable only in a fixed amount of a specified foreign currency. Topic 480 requires that mandatorily redeemable financial instruments in the form of shares, as defined in that Subtopic, be classified as liabilities, and not as temporary equity (which had been done previously). Consequently, this guidance does not address the application of paragraph 815-10-15-74(a).

55-111 The mandatorily redeemable preferred stock payable in gold contains an embedded derivative whose underlying is the price of gold. That embedded derivative should be separated from the host contract and accounted for as a derivative instrument because the embedded derivative is not clearly and closely related to the host contract.

55-112 Mandatorily redeemable preferred stock whose periodic preferred dividend payments, redemption payment, or both are payable only in a stipulated amount of a specified foreign currency contain no embedded foreign currency derivative that warrants separate accounting under this Subtopic. Instead, the reporting entity shall apply the provisions of Topic 830 to the foreign-currency-denominated mandatorily redeemable preferred stock.

55-113 In contrast, if the holder of the mandatorily redeemable preferred stock had the choice of receiving, or the issuer had the choice of making, the redemption payment, the dividend payments, or both in either a stipulated amount of U.S. dollars or a stipulated amount of a specified currency, then that instrument contains an embedded foreign currency option that is subject to this Subtopic. Because the reporting entity has the option to make payments in U.S. dollars or in a specified foreign currency, the provisions of paragraph 815-15-15-10 are not relevant to that instrument. That embedded foreign currency option should be separated from the host contract and accounted for as a derivative instrument because the embedded foreign currency option is not clearly and closely related to issuing preferred stock unless a fair value election is made pursuant to paragraph 815-15-25-4.

>> Example 6: Clearly and Closely Related Criterion—Purchase Contracts with a Selling Price Subject to a Cap and a Floor

55-114 This Example illustrates the application of the clearly and closely related criterion as discussed in paragraphs 815-15-25-1(a) and 815-15-25-19. A manufacturer enters into a long-term contract to purchase a specified quantity of certain raw materials from a supplier. Under the contract, the supplier will provide the manufacturer with the materials at the then-current list price but within a specified range. For example, the purchase price may not exceed a cap of $120 per ton or fall below a floor of $100 per ton, and the current list price at inception of the contract is $110 per ton. The purchase contract in its entirety does not meet the definition of a derivative instrument due to the absence of a net settlement characteristic (that is, the contract requires delivery of a raw material that is not readily convertible to cash). In addition, the purchase contract is not measured at fair value under other applicable GAAP.

55-115 From the manufacturer's perspective, the embedded derivatives contained in the purchase contract are 2 options: a purchased call option with a strike price of $120 per ton and a written put option with a strike price of $100 per ton. Those options would meet the definition of a derivative instrument under Subtopic 815-10 if they were freestanding because they have a notional amount, have an underlying (the price per ton), require a small or no initial net investment, and can be net settled. Those options have the characteristic of net settlement under paragraph 815-10-15-100 because they represent an adjustment (that is, either a premium or rebate) of the current list price in an amount equal to the difference between that current list price and the applicable strike amount (of either $120 per ton or $100 per ton). (Paragraphs 815-10-15-119 through 15-120 do not apply to the options because they have no provision for delivery.) The host contract can be considered a purchase contract that requires delivery of the raw materials at a price equal to the current list price.

55-116 Although the example purchase contract economically contains embedded derivatives, those embedded derivatives should not be accounted for separately because they are clearly and closely related to the host contract.

>> Example 7: Clearly and Closely Related Criterion—Characterizing a Debt Host

55-117 This Example illustrates the application of the clearly and closely related criterion in paragraph 815-15-25-1(a)to the determination of what is the host contract and what is the embedded derivative composing the illustrative hybrid instrument. This Example has the following assumptions:

a. An entity (Entity A) issues a 5-year debt instrument with a principal amount of $1,000,000 indexed to the stock of an unrelated publicly traded entity (Entity B).

b. At maturity, the holder of the instrument will receive the principal amount plus any appreciation or minus any depreciation in the fair value of 10,000 shares of Entity B, with changes in fair value measured from the issuance date of the debt instrument.

c. No separate interest payments are made.

d. The market price of Entity B shares to which the debt instrument is indexed is $100 per share at the issuance date.

55-118 The instrument is not itself a derivative instrument because it requires an initial net investment equal to the notional amount. The host contract is a debt instrument because the instrument has a stated maturity and because the holder has none of the rights of a shareholder, such as the ability to vote the shares and receive distributions to shareholders. The embedded derivative is an equity-based derivative that has as its underlying the fair value of the stock of Entity B. As a result of the host instrument being a debt instrument and the embedded derivative having an equity-based return, the embedded derivative is not clearly and closely related to the host contract and must be separated from the host contract and accounted for as a derivative by both the issuer and the holder of the hybrid instrument. (Paragraph 815-15-25-4 allows for a fair value election for hybrid financial instruments that otherwise would require bifurcation. Hybrid financial instruments that are elected to be accounted for in their entirety at fair value cannot be used as a hedging instrument in a Topic 815 hedging relationship.)

>> Example 8: Clearly and Closely Related Criterion—Debt Instrument Incorporating Equity-Based Return

55-119 This Example illustrates the application of the clearly and closely related criterion in paragraph 815-15-25-1(a). Even though an overall hybrid instrument that provides for repayment of principal may include a return based on the market price (the underlying as defined) of XYZ Corporation common stock, the host contract does not involve any existing or potential residual interest rights (that is, rights of ownership) and thus would not be an equity instrument. The host contract would instead be considered a debt instrument, and the embedded derivative that incorporates the equity-based return would not be clearly and closely related to the host contract.

>> Example 9: Clearly and Closely Related Criterion—Market-Adjusted Value Prepayment Options

55-120 This Example illustrates the application of the clearly and closely related criterion in paragraph 815-15-25-1(a) to a **market value annuity** accounted for as an investment contract under Topic 944.

55-121 As an example of how the market-adjusted value is calculated at any period end, the formula typically takes the contractual guaranteed amount payable at the end of the specified term, including the applicable guaranteed interest, and discounts that future cash flow to its present value using rates currently being offered for new market value annuity purchases with terms equal to the remaining term to maturity of the existing market value annuity. As a result, the market value adjustment may be positive or negative, depending on market interest rates at each period end. In a rising interest rate environment, the market adjustment may be such that less than substantially all principal is recovered upon surrender.

55-122 Assume all of the following terms of an example annuity with a fixed return if held for a specified period or market-adjusted value if surrendered early:

a. Single premium deposit: $100,000 on December 31, 1998

b. Maturity date: December 31, 2007 (9-year term)

c. Guaranteed fixed rate: 7%

d. Fixed maturity value: $183,846 ($100,000 at 7% compounded for 9 years)

e. Market value adjustment formula: discount future fixed maturity value to present value at surrender date using currently offered market value annuity rate for the period of time left until maturity.

55-123 Assume the following values at December 31, 1999.

12/31/99 Valuation Date	5%	9%
(1) Fixed rate account value @7%	$107,000	$107,000
(2) Market adjusted value	124,434	92,266
(3) Market value adjustment	$ 17,434	$ (14,734)

55-124 Because the criteria in paragraphs 815-15-25-26 and 815-15-25-40 through 25-43 are not met, the embedded derivative (prepayment option) is clearly and closely related to the host debt contract.

55-125 There is no substantial premium or discount present in these contracts at inception, and the put option is exercisable at any time by the contract holder (that is, the put option is not contingently exercisable). Because the investor always has the option to hold the market value annuity to maturity and receive the fixed rate and the insurance entity cannot force the investor to surrender, the condition in paragraph 815-15-25-26(a) would not be met (that is, the insurance entity does not have the contractual right to demand surrender and put the investor in a situation of not recovering substantially all of its initial recorded investment).

55-126 The condition in paragraph 815-15-25-26(b) also would not be met in a typical market value annuity, because there is no leverage feature that would result in twice the initial and current market rate of return.

55-127 The prepayment option enables the holder simply to cash out of the instrument at fair value at the surrender date. The prepayment option provides only liquidity to the holder. The holder receives only the market-adjusted value, which is equal to the fair value of the investment contract at the surrender date. As such, the prepayment option (the embedded derivative) has a fair value of zero at all times.

>> Example 10: Interest-Rate-Related Underlyings—Recovering Substantially All of an Initial Recorded Investment

55-128 The following Cases illustrate the application of paragraph 815-15-25-26(a):

a. Note A (Case A)

b. Note B (Case B)

c. Note C (Case C).

55-129 The accompanying analysis does not address the application of the condition in paragraph 815-15-25-26(b).

>>> Case A: Note A

55-130 If an investor in a 10-year note has the contingent option at the end of Year 2 to put it back to the issuer at its then fair value (based on its original 10-year term), the condition in paragraph 815-15-25-26(a) would not be met even though the note's fair value could have declined so much that, by exercising the option, the investor ends up not recovering substantially all of its initial recorded investment. See paragraph 815-15-25-29.

>>> Case B: Note B

55-131 An investor purchased from a A-rated issuer for $10 million a structured note with a $10 million principal, a 9.5 percent interest coupon, and a term of 10 years at a time when the current market rate for 10-year A-rated debt is 7 percent. Assume that the terms of the note require that, at the beginning of the third year of its term, the principal on the note be reduced to $7.1 million and the coupon interest rate be reduced to zero for the remaining term to maturity if interest rates for A-rated debt have increased to at least 8 percent by that date. That structured note would meet the condition in paragraph 815-15-25-26(a) for both the issuer and the investor because the investor could be forced to accept settlement that causes the investor not to recover substantially all of its initial recorded investment. That is, if increases in the interest rate for A-rated debt trigger the modification of terms, the investor would receive only $9 million, comprising $1.9 million in interest payments for the first 2 years and $7.1 million in principal repayment, thus not recovering substantially all of its $10 million initial net investment.

>>> Case C: Note C

55-132 The investor purchases for $10,000,000 a structured note with a **face amount** of $10,000,000, a coupon of 8.9 percent, and a term of 10 years. The current market rate for 10-year debt is 7 percent given the A credit quality of the issuer. The terms of the structured note require that if the interest rate for A-rated debt has increased to at least 10 percent at the end of 2 years, the coupon on the note be reduced to zero, and the investor purchase from the issuer for $10,000,000 an additional note with a face amount of $10,000,000, a zero coupon, and a term of 3.5 years.

55-133 The structured note contains an embedded derivative that shall be accounted for separately unless a fair value election is made pursuant to paragraph 815-15-25-4.

55-134 The requirement that, if interest rates increase and the embedded derivative is triggered, the investor purchase the second $10,000,000 note for an amount in excess of its fair value (which is about $7,100,000 based on a 10 percent interest rate) generates a result that is economically equivalent to requiring the investor to make a cash payment to the issuer for the amount of the excess. As a result, the cash flows on the original structured note and the excess purchase price on the second note shall be considered in concert. The cash inflows ($10,000,000 principal and $1,780,000 interest) that will be received by the investor on the original note shall be reduced by the amount ($2,900,000) by which the purchase price of the second note is in excess of its fair value, resulting in a net cash inflow ($8,880,000) that is not substantially all of the investor's initial net investment on the original note.

55-135 As demonstrated by this Case, if an embedded derivative requires an asset to be purchased for an amount that exceeds its fair value, the amount of the excess—and not the cash flows related to the purchased asset—shall be considered when analyzing whether the hybrid instrument can contractually be settled in such a way that the investor would not recover substantially all of its initial recorded investment under paragraph 815-15-25-26 (a). Whether that purchased asset is a financial asset or a nonfinancial asset (such as gold) is not relevant to the treatment of the excess purchase price. It is noted that requiring the investor to make a cash payment to the issuer is also economically equivalent to reducing the principal on the note.

55-136 The note described could have been structured to include terms requiring that the principal of the note be substantially reduced and the coupon reduced to zero if the interest rate for A-rated debt increased to at least 10 percent at the end of 2 years. That alternative structure would clearly have required that the embedded derivative be accounted for separately, because that embedded derivative's existence would have resulted in the possibility that the hybrid instrument could contractually be settled in such a way that the investor would not recover substantially all of its initial recorded investment.

>> Example 11: Debt Host—Securitized Interest in Prepayable Financial Assets

55-137 The following Cases illustrate the application of the guidance beginning in paragraph 815-15-25-26(b) to specific securitized interests in **prepayable** financial assets:

a. Securitized pool of guaranteed single-class mortgage pass-through securities (Case A)

b. Securitized pool of guaranteed single-class mortgage pass-through securities (Case B)

c. Inverse floater collateralized mortgage obligation (Case C).

55-138 The Cases provide no discussion of the requirements of paragraphs 815-15-25-1 and 815-15-25-26(a). However, an analysis of those paragraphs would be required to determine whether the instruments meet the criterion in paragraph 815-15-25-26(b). The analysis of the Cases considers only paragraph 815-15-25-26(b).

>>> Case A: Securitized Pool of Guaranteed Single-Class Mortgage Pass-Through Securities

55-139 The following Cases illustrate application of the guidance in paragraph 815-15-25-26(b) to a guaranteed single-class mortgage pass-through security:

a. Guaranteed single-class mortgage pass-through security (Case A1)

b. Securitization trust includes a freestanding derivative instrument (Case A2).

55-140 Cases A1 and A2 share all of the following assumptions:

a. A fixed-rate guaranteed single-class mortgage pass-through security is issued.

b. Both the interest and principal payments are guaranteed by a third party for a fixed market-based guarantee fee, and a servicer receives a market-based servicing fee that is expected to be more than adequate compensation.

c. Both the guarantee fee and the servicing fee have priority over the payments to the investors.

d. The investor does not have the right to accelerate the settlement of the securitized interest.

>>>> Case A1: Guaranteed Single-Class Mortgage Pass-Through Security

55-141 Under the security, the net cash flows received on the underlying fixed-rate, prepayable, single-family mortgage loans are proportionately passed through to the investors.

55-142 Paragraph 815-15-25-26(b) does not apply to the guaranteed single-class mortgage pass-through security described in the common assumptions and the preceding paragraph. While the priority of the payments to the guarantor and servicer reallocates the cash flows, the example security meets the two criteria in paragraph 815-15-25-26(b).

>>>> Case A2: Securitization Trust Includes a Freestanding Derivative Instrument

55-143 Under the security, the underlying prepayable single-family mortgage loans have a variable interest rate. The securitization trust also holds an interest rate swap that is designed to perfectly swap the variable interest rate assets to a fixed interest rate to match the payments on the fixed-rate guaranteed single-class mortgage pass-through security.

55-144 Paragraph 815-15-25-26(b) is not applicable to the guaranteed single-class mortgage pass-through security. Because the addition of the freestanding derivative instrument (the interest rate swap) does not create an embedded derivative that requires bifurcation in the guaranteed single-class mortgage pass-through security itself, the example security meets the two criteria in that paragraph. However, if the notional amounts of the securitized loans and the interest rate swap do not match, the fixed-rate securitized interest would have to be evaluated for an embedded derivative because the financial instruments held by the entity might not provide the necessary cash flows.

>>> Case B: Securitization of a Pool of Guaranteed Single-Class Mortgage Pass-Through Certificates

55-145 The following Cases illustrate application of paragraph 815-15-25-26(b) to an interest in a securitized pool of guaranteed single-class mortgage pass-through securities:

a. Sequential-pay collateralized mortgage obligation (Case B1)

b. Planned-amortization-class and companion collateralized mortgage obligation (Case B2)

c. Interest-only strip and principal-only strip (Case B3).

55-146 Cases B1, B2, and B3 share the assumption that an entity securitizes a pool of guaranteed single-class mortgage pass-through securities (each identical to those described in the common assumptions in Case A).

>>>> Case B1: Sequential-Pay Collateralized Mortgage Obligation

55-147 This Case assumes that the principal payments received, including prepayments of principal, on the underlying collateral are not allocated proportionately to all investors (bond holders). Three classes of securities are issued, Class A, Class B, and Class C, which mature sequentially. All three classes participate in interest payments from the underlying collateral, but, initially, only Class A receives principal payments. Class A receives all principal payments, including prepayments of principal, until it is retired. Next, all principal payments are paid to Class B until it is retired, and so on. Additionally, the investor does not have the right to accelerate the settlement of the securitized interest.

55-148 The analysis of the bonds requires the holder to assess the securitized interest in accordance with the criterion in paragraph 815-15-25-33(b). To determine whether the individual bond classes contain an embedded derivative that requires bifurcation, the investor would have to understand the nature and amount of assets, liabilities, and other financial instruments that compose the entire securitization transaction. The holder should obtain sufficient information about the payoff structure and the payment priority of the interest to determine whether an embedded derivative that requires bifurcation exists. Because the securitized interests (assumed to be identical to those described in Case A) included in the resecuritization do not contain any embedded derivatives and there have been no other changes in the cash flows that create other embedded derivatives that require bifurcation, the criterion in paragraph 815-15-25-33(b) is met.

55-149 Paragraph 815-15-25-26(b) is not applicable to any of the bond classes in the sequential-pay collateralized mortgage obligation. While the prepayment risk in the underlying financial assets is reallocated through the securitization process, concentrating prepayment risk in certain bond classes, all three classes in the Case meet the two criteria in paragraph 815-15-25-33.

>>>> Case B2: Planned-Amortization-Class and Companion Collateralized Mortgage Obligation

55-150 Case B assumes that the principal payments received, including prepayments of principal, on the underlying collateral are not allocated proportionately to all investors (bond holders). Two classes of securities are issued, a planned-amortization-class bond and a companion bond. The planned-amortization-class bond is designed to reduce the prepayment risk to investors by transferring prepayment risk to the companion bond. The planned-amortization-class bond offers a fixed principal repayment schedule that will be met if prepayment on the underlying collateral is within a specified range. Additionally, the investor does not have the right to accelerate the settlement of the securitized interest.

55-151 The analysis of the bonds requires the holder to assess the securitized interest in accordance with the criterion in paragraph 815-15-25-33(b). To determine whether the individual bond classes contain an embedded derivative that requires bifurcation, the investor would have to understand the nature and amount of assets, liabilities, and other financial instruments that compose the entire securitization transaction. The holder should obtain sufficient information about the payoff structure and the payment priority of the interest to determine whether an embedded derivative that requires bifurcation exists. Because the securitized interests (assumed to be identical to those described in Case A) included in the resecuritization do not contain any embedded derivatives and there have been no other changes in the cash flows that create other embedded derivatives that require bifurcation, the criterion in paragraph 815-15-25-33(b) is met.

55-152 Paragraph 815-15-25-26(b) is not applicable to either the planned-amortization-class or the companion collateralized mortgage obligation. While the prepayment risk in the underlying prepayable financial assets is reallocated through the securitization process, concentrating prepayment risk in the companion bond, the example securities meet the two criteria in paragraph 815-15-25-33.

>>>> Case B3: Interest-Only Strip and Principal-Only Strip

55-153 An interest-only strip and principal-only strip are created by separating the net interest cash flows from the principal cash flows received on a pool of guaranteed single-class mortgage pass-through securities (identical to those described in Case A). The interest cash flows form one bond, which is the interest-only strip. The principal cash flows form the second bond, which is the principal-only strip. Additionally, the investor does not have the right to accelerate the settlement of the securitized interest.

55-154 As a result of the guarantee fee and the servicing fee in excess of adequate compensation in the underlying guaranteed single-class mortgage pass-through securities, neither the interest-only strip nor the principal-only strip qualifies for the scope exception in paragraphs 815-10-15-72 through 15-73.

55-155 The analysis of the interest-only and principal-only strip requires the holder to assess the securitized interest in accordance with the criterion in paragraph 815-15-25-33(b). To determine whether the individual bond classes contain an embedded derivative that requires bifurcation, the investor would have to understand the nature and amount of assets, liabilities, and other financial instruments that compose the entire securitization transaction. The holder should obtain sufficient information about the payoff structure and the payment priority of the interest to determine whether an embedded derivative that requires bifurcation exists. Because the securitized interests (assumed to be identical to those described in Case A) included in the resecuritization do not contain any embedded derivatives and there have been no other changes in the cash flows that create other embedded derivatives that require bifurcation, the criterion in paragraph 815-15-25-33(b) is met.

55-156 Paragraph 815-15-25-26(b) is not applicable to either the interest-only strip or the principal-only strip. While the prepayment risk in the underlying prepayable financial assets is reallocated through the securitization process, concentrating prepayment risk in certain bond classes, both the interest-only strip and principal-only strip in the example meet the two criteria in paragraph 815-15-25-33.

>>> Case C: Inverse Floater Collateralized Mortgage Obligation

55-157 A collateralized mortgage obligation is issued with a coupon that fluctuates inversely with a referenced rate. The underlying securitized financial assets are fixed-rate, prepayable, single-family mortgage loans. Two classes of securitized interests are issued, one with a coupon based on a referenced rate (for example, the London Interbank Offered Rate [LIBOR]) and the second with a coupon that fluctuates inversely with that same referenced rate (the inverse floater collateralized mortgage obligation). Cash flows received on the underlying collateral are first used to pay a servicer a market-based servicing fee that is expected to be more than adequate compensation. Additionally, the investor does not have the right to accelerate the settlement of the securitized interest.

55-158 Paragraph 815-15-25-26(b) would be applicable to the inverse floater. When assessing the conditions in that paragraph, the holder shall consider the effect of prepayment risk. Therefore, the holder may identify both an embedded derivative related to the prepayment risk and an embedded derivative related to the inverse **interest rate risk**, which would be combined and recorded as one instrument.

55-159 While the inverse floater collateralized mortgage obligation meets the criterion in paragraph 815-15-25-33(a), the fact that the coupon rate fluctuates inversely with the referenced rate results in the instrument failing the criterion in paragraph 815-15-25-33(b). The inverse floater contains an embedded interest rate derivative that requires bifurcation, and that embedded interest rate derivative does not result solely from the embedded call options in the underlying financial assets. Said another way, the inverse floater meets the conditions of paragraph 815-15-25-26(b) without consideration of the prepayment risk in the underlying mortgage loans.

>> Example 12: Separating a Non-Option Embedded Derivative

55-160 This Example illustrates the application of paragraph 815-15-30-4 and assumes that the illustrative non-option embedded derivative is a plain-vanilla forward contract with symmetrical risk exposure and that the hybrid instrument was newly entered into by the parties to the contract. Assume that the hybrid instrument is not a derivative instrument in its entirety.

55-161 Entity A plans to advance Entity X $900 for 1 year at a 6 percent interest rate and concurrently enter into an equity-based derivative instrument in which it will receive any increase or pay any decrease in the current market price ($200) of XYZ Corporation's common stock. Those two transactions (that is, the loan and the derivative instrument) can be bundled in a structured note that could have almost an infinite variety of terms. The following presents 5 possible contractual terms for the structured note that would be purchased by Entity A for $900:

a. Note 1: Entity A is entitled to receive at the end of 1 year $954 plus any excess (or minus any shortfall) of the current per-share market price of XYZ Corporation's common stock over (or under) $200.

b. Note 2: Entity A is entitled to receive at the end of 1 year $955 plus any excess (or minus any shortfall) of the current per-share market price of XYZ Corporation's common stock over (or under) $201.

c. Note 3: Entity A is entitled to receive at the end of 1 year $755 plus any excess (or minus any shortfall) of the current per-share market price of XYZ Corporation's common stock over (or under) $1.

d. Note 4: Entity A is entitled to receive at the end of 1 year $1,054 plus any excess (or minus any shortfall) of the current per-share market price of XYZ Corporation's common stock over (or under) $300.

e. Note 5: Entity A is entitled to receive at the end of 1 year $1,060 plus any excess (or minus any shortfall) of the current per-share market price of XYZ Corporation's common stock over (or under) $306.

55-162 All of these five terms of a structured note will provide the same cash flows, given a specified market price of XYZ Corporation's common stock. If the market price of XYZ Corporation's common stock at the end of 1 year is still $200, Entity A will receive $954 under all 5 note terms. If the market price of XYZ Corporation's common stock at the end of 1 year increases to $306, Entity A will receive $1,060 under all 5 note terms.

55-163 For simplicity in constructing this Example, it is assumed that an equity-based cash-settled forward contract with a strike price equal to the stock's current market price has a zero fair value. In many circumstances, a zero-value forward contract can have a strike price greater or less than the stock's current market price.

55-164 The differences in the terms for these five notes are totally arbitrary because those differences have no effect on the ultimate cash flows under the structured note; thus, those differences are nonsubstantive and should have no influence on how the terms of an embedded derivative are identified. Therefore, the separation of the hybrid instrument into an embedded derivative and a host debt instrument should be the same for all five terms described above for the structured note (because they are merely different descriptions of the same ultimate cash flows). That bifurcation would generally result in the structured note being accounted for as a debt host contract with an initial carrying amount of $900 and a fixed annual rate of interest of 6 percent and an embedded forward contract with a $200 forward price, which results in an initial fair value of zero. Instead, if the five notes were bifurcated based on all their contractual terms, such bifurcation would be the equivalent of simply marking an arbitrary portion of a debt instrument to market based on nonsubstantive arbitrary differences in those contractual terms—an inappropriate outcome.

>> Example 13: Applying the Bifurcation Criteria

55-165 The following Cases illustrate the application of the guidance in this Subtopic to instruments that contain a variety of embedded derivatives:

a. Inverse floater (Case A)

b. Levered inverse floater (Case B)

c. Delevered floater (Case C)

d. Range floater (Case D)

e. Ratchet floater (Case E)

f. Fixed-to-variable note (Case F)

g. Indexed amortizing note (Case G)

h. Equity-indexed note (Case H)

i. Variable principal redemption bond (Case I)

j. Crude oil knock-in note (Case J)

k. Gold-linked bull note (Case K)

l. Step-up bond (Case L)

m. Credit-sensitive bond (Case M)

n. Inflation bond (Case N)

o. Disaster bond (Case O)

p. Specific equity-linked bond (Case P)

q. Dual currency bond (Case Q)

r. Short-term loan with a foreign currency option (Case R)

s. Lease payment in foreign currency (Case S)

t. Certain purchases in a foreign currency (Case T)

u. Convertible debt (Case U)

v. Dollar-denominated variable-rate interest issued by a special-purpose entity that holds yen-denominated variable-rate bonds and a cross-currency swap (Case V)

w. Variable-rate interest issued by a special-purpose entity that holds fixed-rate bonds and a pay-fixed, receive-variable interest rate swap (Case W)

x. Securitization involving subordination and variable-rate tranches (Case X)

y. Securitization involving subordination and fixed-rate tranches (Case Y)

z. Partially funded synthetic collateralized debt obligation with multiple tranches (Case Z)

aa. Fully funded synthetic collateralized debt obligation with multiple tranches (Case AA)

ab. Fully funded synthetic collateralized debt obligation with a single-tranche structure (Case AB).

55-166 Cases A through AB illustrate how the guidance in this Subtopic would be applied to contracts with the described terms. If the terms of a contract are different from the described terms, the application of this Subtopic by either party to the contract may be affected. Furthermore, if any contract of the types discussed in Cases A through AB meets the definition of a derivative instrument in its entirety under paragraphs 815-10-15-83 through 15-139, the guidance for the application of the provisions of this Subtopic to embedded derivatives does not apply.

55-167 The illustrative instruments and related assumptions in Cases A through P are based on structured notes illustrated in paragraph 320-10-55-10.

55-168 Specifically, each Case does both of the following:

a. Provides a brief discussion of the terms of an instrument that contains an embedded derivative

b. Analyzes the instrument (as of the date of inception) in relation to the provisions of this Subtopic that require an embedded derivative to be accounted for according to this Subtopic if it is not clearly and closely related to the host contract.

55-169 Unless otherwise stated, Cases A through AB share both of the following assumptions:

a. If the embedded derivative and host portions of the contract are not clearly and closely related, a separate instrument with the same terms as the embedded derivative would meet the scope requirements in Section 815-10-15.

b. The contract is not remeasured at fair value under otherwise applicable GAAP with changes in fair value currently included in earnings.

>>> Case A: Inverse Floater

55-170 An inverse floater is a bond with a coupon rate of interest that varies inversely with changes in specified general interest rate levels or indexes, for example, LIBOR.

55-171 Assume the coupon is 5.25 percent for 3 months to July 1994 and thereafter at 8.75 percent-6-month U.S. dollar (USD) LIBOR to January 1995. Assume the bond includes a stepping option that allows for spread and caps to step semiannually to maturity.

55-172 An inverse floater contains an embedded derivative (a fixed-for-variable interest rate swap) that is referenced to an interest rate index (in this circumstance, LIBOR) that alters net interest payments that otherwise would be paid by the debtor or received by the investor on an interest-bearing host contract. If the embedded derivative could potentially result in the investor's not recovering substantially all of its initial recorded investment in the bond (that is, if the inverse floater contains no floor to prevent any erosion of principal due to a negative interest rate), the embedded derivative is not considered to be clearly and closely related to the host contract (see paragraph 815-15-25-26[a]). In that circumstance, the embedded derivative should be separated from the host contract and accounted for by both parties pursuant to the provisions of this Subtopic. (In this Case, there appears to be no possibility of the embedded derivative increasing the investor's rate of return on the host contract to an amount that is at least double the initial rate of return on the host contract [see paragraph 815-15-25-26(b)].) In contrast, if the embedded derivative could not potentially result in the investor's failing to recover substantially all of its initial recorded investment in the bond, the embedded derivative is considered to be clearly and closely related to the host contract and separate accounting for the derivative is neither required nor permitted.

>>> Case B: Levered Inverse Floater

55-173 A levered inverse floater is a bond with a coupon that varies indirectly with changes in general interest rate levels and applies a multiplier (greater than 1.00) to the specified index in its calculation of interest.

55-174 Assume that interest accrues at 6 percent to June 1994 and thereafter at 14.55 percent–(2.5x 3-month USD LIBOR).

55-175 A levered inverse floater can be viewed as an inverse floater in which the embedded interest rate swap is leveraged. Similar to Case A, the embedded derivative would not be clearly and closely related to the host contract if it potentially could result in the investor's not recovering substantially all of its initial recorded investment in the bond (see paragraph 815-15-25-26[a]) because there is no floor to the interest rate. In that circumstance, the embedded derivative (the leveraged interest rate swap) should be separated from the host contract and accounted for by both parties pursuant to the provisions of Subtopic. In contrast, if an embedded derivative could not potentially result in the investor's failing to recover substantially all of its initial recorded investment in the bond and if there was no possibility of the embedded derivative increasing the investor's rate of return on the host contract to an amount that is at least double the initial rate of return on the host contract (see paragraph 815-15-25-26[b]), the embedded derivative is considered to be clearly and closely related to the host contract and no separate accounting for the derivative is required or permitted.

>>> Case C: Delevered Floater

55-176 A delevered floater is a bond with a coupon rate of interest that lags overall movements in specified general interest rate levels or indexes.

55-177 Assume that the coupon is (.5x 10-year U.S. Treasury constant maturities) + 1.25 percent.

55-178 A delevered floater may be viewed as containing an embedded derivative (a deleveraged swap or a series of forward contracts) that is referenced to an interest rate index (for example, 50 percent of 10-year U.S. Treasury constant maturities) that alters net interest payments that otherwise would be paid or received on an interest-bearing host contract but could not potentially result in the investor's failing to recover substantially all of its initial recorded investment in the bond (see paragraph 815-15-25-26[a]). (In this circumstance, there appears to be no possibility of the embedded derivative increasing the investor's rate of return on the host contract to an amount that is at least double the initial rate of return on the host contract [see paragraph 815-15-25-26(b)].) The embedded derivative is considered to be clearly and closely related to the host contract as described in paragraph 815-15-25-26. Therefore, the embedded derivative should not be separated from the host contract.

>>> Case D: Range Floater

55-179 A range floater is a bond with a coupon that depends on the number of days that a reference rate stays within a preestablished collar; otherwise, the bond pays either zero percent interest or a below-market rate.

55-180 Assume the investor receives 5.5 percent on each day that 3-month USD LIBOR is between 3 percent and 4 percent, with the upper limit increasing annually after a specified date. The coupon will be equal to 0 percent for each day that 3-month USD LIBOR is outside that range.

55-181 A range floater may be viewed as containing embedded derivatives (two written conditional exchange option contracts with notional amounts equal to the par value of the fixed-rate instrument) that are referenced to an interest rate index (in this instance, LIBOR) that alter net interest payments that otherwise would be paid by the debtor or received by the investor on an interest-bearing host contract but could not potentially result in the investor's failing to recover substantially all of its initial recorded investment in the bond (see paragraph 815-15-25-26[a]). In this instance, there appears to be no possibility of increasing the investor's rate of return on the host contract to an amount that is at least double the initial rate of return on the host contract (see paragraph 815-15-25-26[b]). The embedded derivatives are considered to be clearly and closely related to the host contract as described in paragraph 815-15-25-26. Therefore, the embedded derivatives should not be separated from the host contract.

>>> Case E: Ratchet Floater

55-182 A ratchet floater is a bond that pays a variable rate of interest and has an adjustable cap, adjustable floor, or both that move in sync with each new reset rate.

55-183 Assume the coupon is 3-month USD LIBOR + 50 basis points. In addition to having a lifetime cap of 7.25 percent, the coupon will be collared each period between the previous coupon and the previous coupon plus 25 basis points.

55-184 A ratchet floater may be viewed as containing embedded derivatives (combinations of purchased and written options that create changing caps and floors) that are referenced to an interest rate index (in this example, LIBOR) that alter net interest payments that otherwise would be paid by the debtor or received by the investor on an interest-bearing host contract but could not potentially result in the investor's failing to recover substantially all of its initial recorded investment in the bond (see paragraph 815-15-25-26[a]). In this Case, there appears to be no possibility of increasing the investor's rate of return on the host contract to an amount that is at least double the initial rate of return on the host contract (see paragraph 815-15-25-26[b]). The embedded derivatives are considered to be clearly and closely related to the host contract as described in paragraph 815-15-25-26. Therefore, the embedded derivatives should not be separated from the host contract.

>>> Case F: Fixed-to-Variable Note

55-185 A fixed-to-variable note is a bond that pays a varying coupon (first-year coupon is fixed; second- and third-year coupons are based on LIBOR, U.S. Treasury bills, or a prime rate).

55-186 A fixed-to-variable note may be viewed as containing an embedded derivative (a forward-starting interest rate swap) that is referenced to an interest rate index (such as LIBOR) that alters net interest payments that otherwise would be paid by the debtor or received by the investor on an interest-bearing host instrument but could not potentially result in the investor's failing to recover substantially all of its initial recorded investment in the bond (see paragraph 815-15-25-26[a]). Likewise, there is no possibility of increasing the investor's rate of return on the host contract to an amount that is both at least double the initial rate of return on the host contract and at least twice what otherwise would be the market return for a contract that has the same terms as the host contract and that involves a debtor with a similar credit quality (see paragraph 815-15-25-26[b]). The embedded derivative is considered to be clearly and closely related to the host contract as described in paragraph 815-15-25-26. Therefore, the embedded derivative should not be separated from the host contract.

>>> Case G: Indexed Amortizing Note

55-187 An indexed amortizing note is a bond that repays principal based on a predetermined amortization schedule or target value. The amortization is linked to changes in a specific mortgage-backed security index or interest rate index. The maturity of the bond changes as the related index changes. This instrument includes a varying maturity. Assume that the contract does not meet the conditions in paragraph 815-15-25-26(a) or 815-15-25-26(b).

55-188 An indexed amortizing note can be viewed as a fixed-rate amortizing note combined with a conditional exchange option contract that requires partial or total early payment of the note based on changes in a specific mortgage-backed security index or a specified change in an interest rate index. Because the requirement to prepay is ultimately tied to changing interest rates, the embedded derivative is considered to be clearly and closely related to a fixed-rate note. Therefore, the embedded derivative should not be separated from the host contract.

>>> Case H: Equity-Indexed Note

55-189 An equity-indexed note is a bond for which the return of interest, principal, or both is tied to a specified equity security or index, for instance, the Standard and Poor's 500 S&P 500 Index. This instrument may contain a fixed or varying coupon rate and may place all or a portion of principal at risk.

55-190 An equity-indexed note essentially combines an interest-bearing instrument with a series of forward exchange contracts or option contracts. Often, a portion of the coupon interest rate is, in effect, used to purchase options that provide some form of floor on the potential loss of principal that would result from a decline in the referenced equity index. Because forward or option contracts for which the underlying is an equity index are not clearly and closely related to an investment in an interest-bearing note, those embedded derivatives should be separated from the host contract and accounted for by both parties pursuant to the provisions of this Subtopic.

>>> Case I: Variable Principal Redemption Bond

55-191 A variable principal redemption bond's principal redemption value at maturity depends on the change in an underlying index over a predetermined observation period. A typical circumstance would be a bond that guarantees a minimum par redemption value of 100 percent and provides the potential for a supplemental principal payment at maturity as compensation for the below-market rate of interest offered with the instrument.

55-192 Assume that a supplemental principal payment will be paid to the investor, at maturity, if the final S&P 500 closing value (determined at a specified date) is less than its initial value at date of issuance and the 10-year U.S. Treasury constant maturities is greater than 2 percent as of a specified date. In all circumstances, the minimum principal redemption will be 100 percent of par.

55-193 A variable principal redemption bond essentially combines an interest-bearing investment with an option that is purchased with a portion of the bond's coupon interest payments. Because the embedded option entitling the investor to an additional return is partially contingent on the S&P 500 index closing above a specified amount, it is not clearly and closely related to an investment in a debt instrument. Therefore, the embedded option should be separated from the host contract and accounted for by both parties pursuant to the provisions of this Subtopic.

>>> Case J: Crude Oil Knock-In Note

55-194 An illustrative crude oil knock-in note has a 1 percent coupon and guarantees repayment of principal with upside potential based on the strength of the oil market.

55-195 A crude oil knock-in note essentially combines an interest-bearing instrument with a series of option contracts. A significant portion of the coupon interest rate is, in effect, used to purchase options that provide the investor with potential gains resulting from increases in specified crude oil prices. Because the option contracts are indexed to the price of crude oil, they are not clearly and closely related to an investment in an interest-bearing note. Therefore, the embedded option contract should be separated from the host contract and accounted for by both parties pursuant to the provisions of this Subtopic.

>>> Case K: Gold-Linked Bull Note

55-196 An illustrative gold-linked bull note has a fixed 3 percent coupon and guarantees repayment of principal with upside potential if the price of gold increases.

55-197 A gold-linked bull note can be viewed as combining an interest-bearing instrument with a series of option contracts. A portion of the coupon interest rate is, in effect, used to purchase call options that provide the investor with potential gains resulting from increases in gold prices. Because the option contracts are indexed to the price of gold, they are not clearly and closely related to an investment in an interest-bearing note. Therefore, the embedded option contracts should be separated from the host contract and accounted for by both parties pursuant to the provisions of this Subtopic.

>>> Case L: Step-Up Bond

55-198 A step-up bond provides an introductory above-market yield and steps up to a new coupon, which will be below then-current market rates or, alternatively, the bond may be called in lieu of the step-up in the coupon rate.

55-199 A step-up bond can be viewed as a fixed-rate bond with an embedded call option and a changing interest rate feature. The bond pays an initial above-market interest rate to compensate for the call option and the future below-market rate (that is, below the forward yield curve, as determined at issuance based on the existing upward-sloping yield curve). Because the call option is related to changes in interest rates, it is clearly and closely related to an investment in a fixed-rate bond. Therefore, the embedded derivatives should not be separated from the host contract.

>>> Case M: Credit-Sensitive Bond

55-200 A credit-sensitive bond has a coupon rate of interest that resets based on changes in the issuer's credit rating.

55-201 A credit-sensitive bond can be viewed as combining a fixed-rate bond with a conditional exchange contract (or option contract) that entitles the investor to a higher rate of interest if the credit rating of the issuer declines. Because the creditworthiness of the debtor and the interest rate on a debt instrument are clearly and closely related, the embedded derivative should not be separated from the host contract.

>>> Case N: Inflation Bond

55-202 An inflation bond has a contractual principal amount that is indexed to the inflation rate but cannot decrease below par; the coupon rate is typically below that of traditional bonds of similar maturity.

55-203 An inflation bond can be viewed as a fixed-rate bond for which a portion of the coupon interest rate has been exchanged for a conditional exchange contract (or option contract) indexed to the consumer price index, or other index of inflation in the economic environment for the currency in which the bond is denominated, that entitles the investor to payment of additional principal based on increases in the referenced index. Such rates of inflation and interest rates on the debt instrument are considered to be clearly and closely related. Therefore, the embedded derivative should not be separated from the host contract.

>>> Case O: Disaster Bond

55-204 A disaster bond pays a coupon above that of an otherwise comparable traditional bond; however, all or a substantial portion of the principal amount is subject to loss if a specified disaster experience occurs.

55-205 A disaster bond can be viewed as a fixed-rate bond combined with a conditional exchange contract (an option contract). The investor receives an additional coupon interest payment in return for giving the issuer an option indexed to industry loss experience on a specified disaster. Because the option contract is indexed to the specified disaster experience, it cannot be viewed as being clearly and closely related to an investment in a fixed-rate bond. Therefore, the embedded derivative should be separated from the host contract and accounted for by both parties pursuant to the provisions of this Subtopic.

55-206 However, if the embedded derivative entitles the holder of the option (that is, the issuer of the disaster bond) to be compensated only for changes in the value of specified assets or liabilities for which the holder is at risk (including the liability for insurance claims payable due to the specified disaster) as a result of an identified insurable event (see paragraphs 815-10-15-53 through 15-54), a separate instrument with the same terms as the embedded derivative would not meet the definition of a derivative instrument in Section 815-10-15. In that circumstance, because the criterion in paragraph 815-15-25-1(c) would not be met, there is no embedded derivative to be separated from the host contract, and the disaster bond would not be subject to the requirements of this Subtopic. The investor is essentially providing a form of insurance or reinsurance coverage to the issuer.

>>> Case P: Specific Equity-Linked Bond

55-207 A specific equity-linked bond pays a coupon slightly below that of traditional bonds of similar maturity; however, the principal amount is linked to the stock market performance of an equity investee of the issuer. The issuer may settle the obligation by delivering the shares of the equity investee or may deliver the equivalent fair value in cash.

55-208 A specific equity-linked bond can be viewed as combining an interest-bearing instrument with, depending on its terms, a series of forward exchange contracts or option contracts based on an equity instrument. Often, a portion of the coupon interest rate is used to purchase options that provide some form of floor on the loss of principal due to a decline in the price of the referenced equity instrument. The forward or option contracts do not qualify for the exception in paragraph 815-10-15-59(b) because the shares in the equity investee owned by the issuer meet the definition of a **financial instrument**. Because forward or option contracts for which the underlying is the price of a specific equity instrument are not clearly and closely related to an investment in an interest-bearing note, the embedded derivative should be separated from the host contract and accounted for by both parties pursuant to the provisions of this Subtopic.

>>> Case Q: Dual Currency Bond

55-209 A dual currency bond provides for repayment of principal in U.S. dollars and periodic interest payments denominated in a foreign currency. In this circumstance, a U.S. entity with the dollar as its functional currency is borrowing funds from an independent party with those repayment terms as described.

55-210 Because the portion of this instrument relating to the periodic interest payments denominated in a foreign currency is subject to the requirement in Topic 830 to recognize the foreign currency transaction gain or loss in earnings, the instrument should not be considered as containing an embedded foreign currency derivative instrument pursuant to paragraph 815-15-15-10. In this circumstance, the U.S. entity has the dollar as the functional currency and is making interest payments in a foreign currency. Remeasurement of the liability is required using future equivalent dollar interest payments determined by the current spot exchange rate and discounted at the historical effective interest rate.

>>> Case R: Short-Term Loan with a Foreign Currency Option

55-211 A U.S. lender issues a loan at an above-market interest rate. The loan is made in U.S. dollars, the borrower's functional currency, and the borrower has the option to repay the loan in U.S. dollars or in a fixed amount of a specified foreign currency.

55-212 This instrument can be viewed as combining a loan at prevailing market interest rates and a foreign currency option. The lender has written a foreign currency option exposing it to changes in foreign currency exchange rates during the outstanding period of the loan. The premium for the option has been paid as part of the interest rate. Because the borrower has the option to repay the loan in U.S. dollars or in a fixed amount of a specified foreign currency, the provisions of paragraph 815-15-15-5 are not relevant to this Case. That paragraph addresses foreign-currency-denominated interest or principal payments but does not apply to foreign currency options embedded in a functional-currency-denominated debt host contract. Because a foreign currency option is not clearly and closely related to issuing a loan, the embedded option should be separated from the host contract and accounted for by both parties pursuant to the provisions of this Subtopic. In contrast, if both the principal payment and the interest payments on the loan had been payable only in a fixed amount of a specified foreign currency, there would be no embedded foreign currency derivative pursuant to this Subtopic.

>>> Case S: Lease Payment in Foreign Currency

55-213 This Case involves a lease payment in foreign currency. A U.S. entity's operating lease with a Japanese lessor is payable in yen (JPY). The functional currency of the U.S. entity is the U.S. dollar (USD).

55-214 Using available information about the lessor and its operations, the U.S. entity may decide it is reasonable to conclude that JPY would be the currency of the primary economic environment in which the Japanese lessor operates, consistent with the functional currency notion in Topic 830.

55-215 Thus, the lease should not be viewed as containing an embedded swap converting USD lease payments to JPY. Alternatively, if the lease payments are specified in a currency seemingly unrelated to each party’s functional currency, such as drachmas (GRD) (assuming the leased property is not in Greece), the embedded foreign currency swap should be separated from the host contract and accounted for as a derivative for purposes of this Subtopic because the provisions of paragraph 815-15-15-10 would not apply and a separate instrument with the same terms would meet the definition of a derivative instrument in Section 815-10-15.

>>> Case T: Certain Purchases in a Foreign Currency

55-216 Assume a U.S. entity enters into a contract to purchase corn from a local American supplier in six months for a fixed amount of Japanese yen (JPY); JPY is the functional currency of neither party to the transaction. The corn is expected to be delivered and used over a reasonable period in the normal course of business. Because JPY is not the functional currency of either party to the contract and the purchase of corn is transacted internationally in many different currencies, the contract does not qualify for the normal purchases and normal sales exception. The contract is a compound derivative comprising a U.S. dollar- (USD-) denominated forward contract for the purchase of corn and an embedded foreign currency swap from the purchaser’s functional currency (USD) to JPY. The compound derivative instrument cannot be separated into its components (representing the foreign currency derivative instrument and the forward commodity contract) and accounted for separately under this Subtopic.

>>> Case U: Convertible Debt Instrument

55-217 In a convertible debt instrument, an investor receives a below-market interest rate and receives the option to convert its debt instrument into the equity of the issuer at an established conversion rate. The terms of the conversion require that the issuer deliver shares of stock to the investor.

55-218 This instrument essentially contains a call option on the issuer’s stock. Under the provisions of this Subtopic, the accounting by the issuer and investor can differ. The issuer's accounting depends on whether a separate instrument with the same terms as the embedded written option would be a derivative instrument pursuant to Section 815-10-15. Because the option is indexed to the issuer's own stock and a separate instrument with the same terms would be classified in stockholders' equity in the statement of financial position, the written option is not considered to be a derivative instrument for the issuer under paragraph 815-10-15-74(a) and should not be separated from the host contract.

55-219 In contrast, if the terms of the conversion allow for a cash settlement rather than delivery of the issuer’s shares at the investor’s option, the exception in paragraph 815-10-15-74(a) for the issuer does not apply because the contract would not be classified in stockholders’ equity in the issuer’s statement of financial position. In that circumstance, the issuer should separate the embedded derivative from the host contract and account for it pursuant to the provisions of this Subtopic because both of the following conditions exist:

a. An option based on the entity’s stock price is not clearly and closely related to an interest-bearing debt instrument.

b. The option would not be considered an equity instrument of the issuer.

55-220 Similarly, if the convertible debt is indexed to another entity’s publicly traded common stock, the issuer should separate the embedded derivative from the host contract and account for it pursuant to the provisions of this Subtopic because both of the following conditions exist:

a. An option based on another entity’s stock price is not clearly and closely related to an investment in an interest-bearing note.

b. The option would not be considered an equity instrument of the issuer.

55-221 The exception in paragraph 815-10-15-74 does not apply to the investor's accounting. Therefore, in both circumstances described, the investor should separate the embedded option contract from the host contract and account for the embedded option contract pursuant to the provisions of this Subtopic because the option contract is based on the price of another entity's equity instrument and thus is not clearly and closely related to an investment in an interest-bearing note. However, if the terms of conversion do not allow for a cash settlement and if the common stock delivered upon conversion is privately held (that is, is not readily convertible to cash), the embedded derivative would not be separated from the host contract because it would not meet the criteria for net settlement as discussed beginning in paragraph 815-10-15-99.

>>> Case V: Dollar-Denominated Variable-Rate Interest Involving Yen-Denominated Variable-Rate Bonds and a Cross-Currency Swap

55-222 Assume a dollar-denominated variable-rate interest is issued by a special-purpose entity that holds yen-denominated variable-rate bonds and a cross-currency swap to pay yen and receive dollars. If the variable rate reflects a current market rate and the notional amounts of the bonds and the swap correspond to the notional amount of the interests issued, the dollar-denominated variable-rate interest would not have an embedded derivative requiring bifurcation because the terms of the beneficial interest do not indicate an embedded derivative and the financial instruments held by the entity provide the necessary cash flows.

>>> Case W: Variable-Rate Interest Involving Fixed-Rate Bonds and a Pay-Fixed, Receive-Variable Interest Rate Swap

55-223 Assume a variable-rate interest is issued by a special-purpose entity that holds fixed-rate bonds and a pay-fixed, receive-variable interest rate swap. The variable-rate interest would not have an embedded derivative requiring bifurcation because the terms of the beneficial interest do not indicate an embedded derivative and the financial instruments held by the entity provide the necessary cash flows. However, if the notional amounts of the fixed-rate bonds and the variable interest rate swap do not match, the variable-rate interest would have to be evaluated for an embedded derivative under paragraph 815-15-25-26 because the financial instruments held by the entity might not provide the necessary cash flows.

>>> Case X: Securitization Involving Subordination and Variable-Rate Tranches

55-224 Assume a special-purpose entity that holds nonprepayable fixed-rate bonds issues all of the following three tranches:

a. A senior, variable-rate financial instrument (with a limited exposure to credit losses on the fixed-rate bonds)

b. A subordinated financial instrument that is entitled to 90 percent of the difference between the fixed rate received from the bonds and the variable rate paid to the senior financial instrument (with a limited exposure to credit losses on the fixed-rate bonds)

c. A residual financial instrument that is entitled to the remainder of the fixed-rate payment from the bonds after any credit losses on the fixed-rate bonds.

55-225 Each of the three tranches in the preceding paragraph would be a hybrid financial instrument with an embedded interest rate derivative feature that requires bifurcation analysis under paragraph 815-10-15-11 and Section 815-15-25 because the terms are variable rate even though the entity does not hold assets that bear a variable rate. This analysis considers the structure as a whole including the related liabilities. The embedded interest rate derivative feature in the senior, variable-rate financial instrument is considered to be clearly and closely related to the host contract. With respect to the subordinated financial instrument and the residual financial instrument, there could be a shortfall of cash flow after the senior interest holders are paid, due to adverse changes in interest rates, and the investor in either the subordinated interest or the residual interest might not recover substantially all of its initial recorded investment in the interest; thus, the embedded interest rate derivative feature is considered to be not clearly and closely related to the host contract. Therefore, the embedded interest rate derivative should be separated from the host contract and accounted for in accordance with the provisions of this Subtopic. Paragraph 815-15-15-9 is not relevant because risk features other than credit risk are present in the beneficial interests that require application of paragraph 815-10-15-11 and Section 815-15-25.

>>> Case Y: Securitization Involving Subordination and Fixed Rate Tranches

55-226 Assume a special-purpose entity that holds prepayable fixed-rate loans issues all of the following three tranches:

a. A senior, fixed-rate financial instrument that is entitled to receive fixed-rate interest payments and all the prepayments and repayments of principal amounts received from the debtors (with a limited exposure to credit losses on the fixed-rate loans)

b. A subordinated, fixed-rate financial instrument that is entitled to receive fixed-rate interest payments and the prepayments and repayments of principal amounts received from the debtors only after the holders of the senior financial instrument have been paid in full (with a limited exposure to credit losses on the fixed-rate loans)

c. A residual financial instrument that is entitled to the remainder of the fixed-rate interest payments from the loans and the prepayments and repayments of principal amounts received from the debtors only after the holders of both the senior financial instrument and the subordinated financial instrument have been paid in full. All credit losses on the fixed-rate loans are absorbed first by the holders of the residual financial instrument.

55-226A Each of the three tranches in the preceding paragraph would be a hybrid financial instrument with an embedded derivative feature. Because the embedded derivative feature involves only the transfer of credit risk that is only in the form of subordination of one financial instrument to another (assuming that the investor did not pay a significant premium for the interest in the tranche), the scope exception in paragraph 815-15-15-9 applies, and the embedded credit derivative feature existing in the tranches would not be subject to the application of paragraph 815-10-15-11 and Section 815-15-25.

>>> Case Z: Partially Funded Synthetic Collateralized Debt Obligation with Multiple Tranches

55-226B Assume a special-purpose entity that holds guaranteed investment contracts and that wrote a credit default swap on a referenced credit to a third party with a significantly larger notional amount than the guaranteed investment contracts issues various tranches of credit-linked beneficial interests to investors that differ in terms of priority and in their potential obligation to fund any losses on the credit default swap. That is, if credit losses greater than the value of the guaranteed investment contracts are incurred under the credit default swap, the investors in each of the tranches might be required to provide additional funds to the special-purpose entity, which would then pass those funds on as payments to the holder of the credit default swap. Because the investors in those tranches are exposed to making potential future payments, all the embedded derivative features would be subject to the application of paragraph 815-10-15-11 and Section 815-15-25 (provided that the investor's overall contract is not a derivative in its entirety under Section 815-10-15). While the risk in those tranches is credit related, the investor can lose more than its original investment. Therefore, the credit risk for those tranches is not related only to subordination and would be evaluated under paragraph 815-10-15-11 and Section 815-15-25, particularly paragraph 815-15-25-51A.

>>> Case AA: Fully Funded Synthetic Collateralized Debt Obligation with Multiple Tranches

55-226C Assume a special-purpose entity that holds securities issued by AA-rated Entity A and that wrote a credit default swap on a referenced credit (BBB-rated Entity B) to a third party (with a smaller notional amount than the securities held) issues various tranches of credit-linked beneficial interests to investors that differ in terms of priority for the distribution of cash flows from the special-purpose entity. The assets in the special-purpose entity are sufficient to fund any losses on the credit default swap. Furthermore, none of the tranches expose the investor to making potential future payments related to defaults on the written credit default swap. Rather, the investor is exposed to a potential reduction in its future cash inflows, which is the effect of the credit risk related to the credit default swap. That reduction in future cash flows is allocated among the tranches by the subordination of one tranche to another. Each of the tranches would be a hybrid financial instrument with an embedded credit derivative feature that requires bifurcation analysis under paragraph 815-10-15-11 and Section 815-15-25 because the beneficial interests are exposed to credit risk from the securities held (Entity A) and also from credit risk introduced by the credit default swap (Entity B) and, thus, the payments to investors would be affected if either Entity A or Entity B defaults. The embedded credit derivative feature in the beneficial interests would not be clearly and closely related to the host contract under Section 815-15-25. Therefore, the embedded credit derivative feature should be separated from the host contract and accounted for in accordance with the provisions of this Subtopic. Paragraph 815-15-15-9 is not relevant because the embedded credit risk is not related solely to subordination.

>>> Case AB: Fully Funded Synthetic Collateralized Debt Obligation with a Single-Tranche Structure

55-226D Assume a special-purpose entity that holds securities issued by AA-rated Entity C and that wrote a credit default swap on a referenced credit (BBB-rated Entity D) to a third party uses a single-tranche structure to issue credit-linked beneficial interests to multiple investors. The assets in the special-purpose entity are sufficient to fund any losses on the credit default swap. Because the single-tranche structure involves no subordination of one financial instrument to another, the scope exception in paragraph 815-15-15-9 does not apply. The embedded credit derivative feature existing in the beneficial interests would be subject to the application of paragraph 815-10-15-11 and Section 815-15-25, as discussed in Case AA.

>> Example 14: Purchases of Life Insurance

55-227 To illustrate the host contract and embedded derivative valuation issues in this Subtopic, consider the following equity-indexed annuity point-to-point design example, which includes a minimum account value stated as a return on the principal amount of the annuity.

Initial premium	$ 100,000
Participation rate	100% participation in the equity returns, credited at the end of the contract term
Contract term	3 years
Minimum account value at the end of the contract term	$103,030 ($100,000 compounded annually at the minimum accumulation rate of 1% per year)
Implied option strike price	Current S&P 500 X 1.0303
Embedded option valuation	Monte-Carlo-Option model calculated value at $20,000 at inception

55-228 At inception, the insurer has received $100,000, recorded as follows.

Cash	$100,000	
Embedded derivative		$20,000
Host zero-coupon debt obligation		80,000

55-229 In the preceding journal entry, paragraphs 815-15-30-2 and 815-15-35-3 are followed: the embedded derivative is recorded at fair value, and the carrying value assigned to the host contract is the difference between the proceeds received from the issuance of the hybrid instrument and the fair value of the embedded derivative.

55-230 Accordingly, in this Example, the host contract would be accreted annually to the minimum account value at the end of the contract ($103,030) using an effective yield method (in this Example, the implicit interest rate underlying the host is 8.8 percent).

55-231 From the issuer's (insurer's) perspective, an equity-indexed annuity liability comprises a fixed annuity host and an embedded written equity option. The embedded equity option should be accounted for under the provisions of Subtopic 815-10. The fixed annuity component should be accounted for under the provisions of Topic 944 that require debt instrument accounting. In this Example, the host contract is a discounted debt instrument that should be accreted using the effective yield method to its minimum account value at the projected maturity or termination date.

55-232 Upon receipt of consideration for an equity-indexed annuity, the issuing entity should allocate a portion of the consideration to the embedded written option, as described in paragraphs 815-15-30-2 and 815-15-35-3, that is, the fair value of the option is assigned to the embedded derivative. The remainder of the consideration should be assigned to a fixed annuity host contract. Both credited interest and changes in the fair value of the embedded equity option would be recognized in earnings. Accordingly, in this Example, the host contract would be accreted annually to the minimum account value at the end of the contract ($103,030) using an effective yield method (in this example, the implicit interest rate underlying the host is 8.8 percent).

55-233 The following Cases illustrate valuation of the components under the following scenarios at the end of Year 1:

a. Standard and Poor's Index increases (Case A).

b. Standard and Poor's Index decreases (Case B).

>>> Case A: Standard and Poor's Index Increases

55-234 The components are valued as follows.

Embedded derivative	$ 28,968	(Assumed)
Accreted value of host contract	87,032	($80,000 x 1.088)
Value of hybrid instrument	$116,000	

Value under Topic 944 (in absence of this Subtopic): $115,000 ($100,000 at 15% return)

55-235 Note that because of the market's implicit valuation of future volatility in the Standard and Poor's Index, as reflected in the fair value of the embedded derivative, the combined value of the embedded derivative and the host contract is greater than that which would be calculated for the contract as a whole under Topic 944. The proper accounting in this Case is to record a total liability of $116,000, the hybrid contract value under this Subtopic.

>>> Case B: Standard and Poor's Index Decreases

55-236 The components are valued as follows.

Embedded derivative	$ 7,968
Accreted value of host contract	87,032
Value of hybrid instrument	$ 95,000

Value under Topic 944 (in absence of this Subtopic): $101,000 ($100,000 at 1% return)

55-237 The components already reflect the application of paragraph 815-15-25-1 (the derivative instrument is measured at fair value) and paragraph 815-15-25-4 (the host contract is accreted like a debt instrument).

55-238 As a result, the equity-indexed annuity liability would be recorded at $95,000 at the end of Year 1. A separate Topic 944 calculation of account value is no longer required because the derivative instrument is carried at fair value in accordance with this Subtopic and the host contract is recorded following the GAAP accounting guidance for an investment contract under that Topic. Therefore, the insurer should ignore any minimum liability that exceeds the sum of the embedded derivative separately accounted for and the host debt instrument that is accounted for applying the debt model.

>> Example 15: Foreign Currency Features

55-239 This Example illustrates the application of paragraph 815-15-15-15 to the cited contract.

55-240 On March 1, 20X0, Entity A enters into a Japanese yen- (JPY-) denominated forward purchase agreement to purchase a specified quantity of widgets in six months from Entity B. Entity A's functional currency is the U.S. dollar (USD) and Entity B's functional currency is JPY. The spot JPY/USD foreign exchange rate at the inception of the agreement is USD 1.00 equals JPY 110.00. Entity A wishes to collar its foreign exchange rate risk by ensuring that it will never pay more than the JPY equivalent to USD 11.00 per widget in return for committing to Entity B that it will never pay less than the JPY equivalent to USD 8.80 per widget. The agreement defines the price according to the following schedule.

When USD 1.00 equals . . .	The JPY price per widget is . . .
More than JPY 125	The JPY equivalent to USD 11.00
Between JPY 100 and JPY 125	JPY 1,100
Less than JPY 100	The JPY equivalent to USD 8.80

55-241 Entity A is exposed to **foreign exchange risk** in the range between JPY 100 and JPY 125, whereas Entity B is exposed outside that range. The following are various scenarios.

	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
Foreign exchange rate (JPY/USD)	110/1	125/1	100/1	80/1	135/1
Purchase price (JPY)	1,100	1,100	1,100	880	1,188
USD-equivalent purchase price	10.00	8.80	11.00	11.00	8.80

55-242 In essence, Entity A has not locked in a USD price or a JPY price for the purchased widgets. Instead, as desired, Entity A has locked in a price range in its functional currency (USD) between USD 8.80 and USD 11.00 for the purchased widgets. The final price to be paid within this range will be determined based on the JPY/USD foreign exchange rate. Based on the terms, the contract contains an embedded cap and floor (options). For purposes of this Example, assume that the combination of options represents a net purchased option for Entity A.

55-243 The embedded foreign currency options within Entity A's purchase contract would qualify for the exclusion under paragraph 815-15-15-15 for purposes of Entity A's accounting because all of the following conditions exist:

a. The options are denominated in JPY and USD (the functional currencies of both parties to the contract).

b. There is no leverage feature within the options.

c. The combination of foreign currency options represents a net purchased option.

END OF DOCUMENT -

815-15-65 Transition and Open Effective Date Information

General Note: The Transition Section contains a description of the required transition provisions and a list of the related paragraphs that have been modified. This section will retain the transition content during the transition period. After the transition period, the transition content will be removed yet will be available in archived versions of the Section.

General

65-1 Paragraph superseded on 06/20/2011 after the end of the transition period stated in Accounting Standards Update No. 2010-08, *Technical Corrections to Various Topics.*

END OF DOCUMENT -

Checkpoint Contents
Accounting, Audit & Corporate Finance Library
Standards and Regulations
FASB Codification
Codification
Broad Transactions
815 Derivatives and Hedging
815-15 Embedded Derivatives
815-15-75 XBRL Elements

815-15-75 XBRL Elements

General Note: This section contains a list of XBRL elements that reference paragraphs in this Subtopic. For additional details regarding changes to the development version of the US GAAP Financial Reporting Taxonomy, refer to the FASB taxonomy review and comment system on the FASB web site.

XBRL Links to Codification

Accounting Standards Update 2010-08 [Member]

Element Name: *AccountingStandardsUpdate201008Member*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 15 Embedded Derivatives > 65 Transition > General, 65-1

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 805 Business Combinations > 10 Overall > 65 Transition > General, 65-1
- 810 Consolidation > 10 Overall > 65 Transition > General, 65-1

Derivative Asset, Notional Amount

Element Name: *DerivativeAssetNotionalAmount*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Derivative Financial Instruments, Assets [Member]

Element Name: *DerivativeFinancialInstrumentsAssetsMember*

This XBRL element references the following glossary term(s):

- Master Glossary > Derivative Instrument

Derivative Financial Instruments, Liabilities [Member]

Element Name: *DerivativeFinancialInstrumentsLiabilitiesMember*

This XBRL element references the following glossary term(s):

- Master Glossary > Derivative Instrument

Derivative Liability, Notional Amount

Element Name: *DerivativeLiabilityNotionalAmount*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Derivative, Nonmonetary Notional Amount

Element Name: *DerivativeNonmonetaryNotionalAmount*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Derivative, Notional Amount

Element Name: *DerivativeNotionalAmount*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Derivatives, Embedded Derivatives [Policy Text Block]

Element Name: *DerivativesEmbeddedDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > 50 Disclosure > General, 50-3

This XBRL element references the following glossary term(s):

- Master Glossary > Embedded Derivative

Description of Accounting Method for Hybrid Instruments

Element Name: *DescriptionOfAccountingMethodForHybridInstruments*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 15 Embedded Derivatives > 45 Other Presentation > General, 45-1
- 815 Derivatives and Hedging > 15 Embedded Derivatives > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 15 Embedded Derivatives > 50 Disclosure > General, 50-2

Description of Embedded Derivative

Element Name: *DescriptionOfEmbeddedDerivative*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 15 Embedded Derivatives > 25 Recognition > General, 25-1

This XBRL element references the following glossary term(s):

- Master Glossary > Embedded Derivative

Description of Hybrid Instruments Accounted for at Fair Value

Element Name: *DescriptionOfHybridInstrumentsAccountedForAtFairValue*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 15 Embedded Derivatives > 45 Other Presentation > General, 45-1
- 815 Derivatives and Hedging > 15 Embedded Derivatives > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 15 Embedded Derivatives > 50 Disclosure > General, 50-2

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 825 Financial Instruments > 10 Overall > 50 Disclosure > Fair Value Option, 50-28 (a)

Description of Location of Hybrid Instruments on Balance Sheet

Element Name: *DescriptionOfLocationOfHybridInstrumentsOnBalanceSheet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 15 Embedded Derivatives > 45 Other Presentation > General, 45-1

Discussion of Earnings Effect of Hybrid Instrument Fair Value Changes

Element Name: *DiscussionOfEarningsEffectOfHybridInstrumentFairValueChanges*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 15 Embedded Derivatives > 50 Disclosure > General, 50-2

Discussion of Hybrid Instruments and Embedded Derivatives [Text Block]

Element Name: *DiscussionOfHybridInstrumentsAndEmbeddedDerivativesTextBlock*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 15 Embedded Derivatives > 25 Recognition > General, 25-1
- 815 Derivatives and Hedging > 15 Embedded Derivatives > 45 Other Presentation > General, 45-1
- 815 Derivatives and Hedging > 15 Embedded Derivatives > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 15 Embedded Derivatives > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 15 Embedded Derivatives > 50 Disclosure > General, 50-3

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (1), (7))
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C
- 825 Financial Instruments > 10 Overall > 50 Disclosure > General, 50-10
- 825 Financial Instruments > 10 Overall > 50 Disclosure > General, 50-15
- 825 Financial Instruments > 10 Overall > 50 Disclosure > Fair Value Option, 50-28
- 825 Financial Instruments > 10 Overall > 50 Disclosure > Fair Value Option, 50-30 (a)

This XBRL element references the following glossary term(s):

- Master Glossary > Embedded Derivative
- Master Glossary > Hybrid Instrument

Embedded Derivative, Description of Host Contract

Element Name: *EmbeddedDerivativeDescriptionOfHostContract*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 15 Embedded Derivatives > 25 Recognition > General, 25-1
- 815 Derivatives and Hedging > 15 Embedded Derivatives > 25 Recognition > General, 25-54

Embedded Derivative, Line Item on Balance Sheet

Element Name: *EmbeddedDerivativeLineItemOnBalanceSheet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 15 Embedded Derivatives > 45 Other Presentation > General, 45-1

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (a)

Embedded Derivative, No Longer Bifurcated, Amount Reclassified to Stockholders' Equity

Element Name: *EmbeddedDerivativeNoLongerBifurcatedAmountReclassifiedToStockholdersEquity*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 15 Embedded Derivatives > 50 Disclosure > General, 50-3 (b)

Embedded Derivative, No Longer Bifurcated, Reason

Element Name: *EmbeddedDerivativeNoLongerBifurcatedReason*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 15 Embedded Derivatives > 50 Disclosure > General, 50-3 (a)

Fair Value Disclosure, Off-balance Sheet Risks, Description

Element Name: *FairValueDisclosureOffBalanceSheetRisksDescription*

This XBRL element references the following glossary term(s):

- Master Glossary > Financial Instrument

Fair Value Disclosure, Off-balance Sheet Risks, Methodology

Element Name: *FairValueDisclosureOffBalanceSheetRisksMethodology*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 270 Interim Reporting > 10 Overall > 60 Relationships > General, 60-1
- 825 Financial Instruments > 10 Overall > 50 Disclosure > General, 50-10 (b)

This XBRL element references the following glossary term(s):

- Master Glossary > Financial Instrument

Fair Value Disclosure, Off-balance Sheet Risks, Significant Assumptions

Element Name: *FairValueDisclosureOffBalanceSheetRisksSignificantAssumptions*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 820 Fair Value Measurement > 10 Overall > 50 Disclosure > General, 50-1
- 825 Financial Instruments > 10 Overall > 50 Disclosure > General, 50-10 (b)

This XBRL element references the following glossary term(s):

- Master Glossary > Financial Instrument

Hybrid Instruments at Fair Value, Net

Element Name: *HybridInstrumentsAtFairValueNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 15 Embedded Derivatives > 45 Other Presentation > General, 45-1

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 825 Financial Instruments > 10 Overall > 50 Disclosure > General, 50-10 (a)
- 825 Financial Instruments > 10 Overall > 50 Disclosure > General, 50-15

Investment Owned, Underlying Face Amount, at Market Value

Element Name: *InvestmentOwnedUnderlyingFaceAmountAtMarketValue*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 10 Objectives > General, 10-1 (a)
- 815 Derivatives and Hedging > 20 Hedging—General > 10 Objectives > General, 10-1

This XBRL element references the following glossary term(s):

- Master Glossary > Underlying

Line Item in Financial Statements for Gain (Loss) on Hybrid Instruments

Element Name: *LineItemInFinancialStatementsForGainLossOnHybridInstruments*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 15 Embedded Derivatives > 50 Disclosure > General, 50-1

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 825 Financial Instruments > 10 Overall > 50 Disclosure > Fair Value Option, 50-30 (a)

Nonmonetary Notional Amount of Price Risk Cash Flow Hedge Derivatives

Element Name: *NonmonetaryNotionalAmountOfPriceRiskCashFlowHedgeDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Nonmonetary Notional Amount of Price Risk Derivative Instruments Not Designated as Hedging Instruments

Element Name: *NonmonetaryNotionalAmountOfPriceRiskDerivativeInstrumentsNotDesignatedAsHedgingInstruments*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Nonmonetary Notional Amount of Price Risk Derivatives

Element Name: *NonmonetaryNotionalAmountOfPriceRiskDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Nonmonetary Notional Amount of Price Risk Fair Value Hedge Derivatives

Element Name: *NonmonetaryNotionalAmountOfPriceRiskFairValueHedgeDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Cash Flow Hedge Instruments

Element Name: *NotionalAmountOfCashFlowHedgeInstruments*

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Credit Risk Derivatives

Element Name: *NotionalAmountOfCreditRiskDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Derivative Instruments Designated as Net Investment Hedges

Element Name: *NotionalAmountOfDerivativeInstrumentsDesignatedAsNetInvestmentHedges*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Fair Value Hedge Instruments

Element Name: *NotionalAmountOfFairValueHedgeInstruments*

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Foreign Currency Cash Flow Hedge Derivatives

Element Name: *NotionalAmountOfForeignCurrencyCashFlowHedgeDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Foreign Currency Derivative Instruments Not Designated as Hedging Instruments

Element Name: *NotionalAmountOfForeignCurrencyDerivativeInstrumentsNotDesignatedAsHedgingInstruments*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Foreign Currency Derivative Purchase Contracts

Element Name: *NotionalAmountOfForeignCurrencyDerivativePurchaseContracts*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Foreign Currency Derivative Sale Contracts

Element Name: *NotionalAmountOfForeignCurrencyDerivativeSaleContracts*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Foreign Currency Derivatives

Element Name: *NotionalAmountOfForeignCurrencyDerivatives*

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Foreign Currency Fair Value Hedge Derivatives

Element Name: *NotionalAmountOfForeignCurrencyFairValueHedgeDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Interest Rate Cash Flow Hedge Derivatives

Element Name: *NotionalAmountOfInterestRateCashFlowHedgeDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Interest Rate Derivative Instruments Not Designated as Hedging Instruments

Element Name: *NotionalAmountOfInterestRateDerivativeInstrumentsNotDesignatedAsHedgingInstruments*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Interest Rate Derivatives

Element Name: *NotionalAmountOfInterestRateDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Interest Rate Fair Value Hedge Derivatives

Element Name: *NotionalAmountOfInterestRateFairValueHedgeDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Net Investment Hedging Instruments

Element Name: *NotionalAmountOfNetInvestmentHedgingInstruments*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Nonderivative Instruments Designated as Net Investment Hedges

Element Name: *NotionalAmountOfNonderivativeInstrumentsDesignatedAsNetInvestmentHedges*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Other Derivatives Not Designated as Hedging Instruments

Element Name: *NotionalAmountOfOtherDerivativesNotDesignatedAsHedgingInstruments*

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Price Risk Cash Flow Hedge Derivatives

Element Name: *NotionalAmountOfPriceRiskCashFlowHedgeDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Price Risk Derivative Instruments Not Designated as Hedging Instruments

Element Name: *NotionalAmountOfPriceRiskDerivativeInstrumentsNotDesignatedAsHedgingInstruments*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Price Risk Derivatives

Element Name: *NotionalAmountOfPriceRiskDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Price Risk Fair Value Hedge Derivatives

Element Name: *NotionalAmountOfPriceRiskFairValueHedgeDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Unrealized Gain (Loss) on Hybrid Instrument, Net

Element Name: *UnrealizedGainLossOnHybridInstrumentNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 15 Embedded Derivatives > 50 Disclosure > General, 50-1

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 825 Financial Instruments > 10 Overall > 50 Disclosure > Fair Value Option, 50-30 (a)

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815-20-00 Status

General Note: The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

General

00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Credit Risk	Amended	Accounting Standards Update No. 2010-08	02/02/2010
815-20-25-15	Amended	Accounting Standards Update No. 2010-07	01/28/2010
815-20-25-15	Amended	Accounting Standards Update No. 2010-08	02/02/2010
815-20-25-104	Amended	Accounting Standards Update No. 2011-04	05/12/2011
815-20-50-1	Amended	Accounting Standards Update No. 2009-16	12/23/2009

END OF DOCUMENT -

815-20-05 Overview and Background

General Note: The Overview and Background Section provides overview and background material for the guidance contained in the Subtopic. It does not provide the historical background or due process. It may contain certain material that users generally consider useful to understand the typical situations addressed by the standards. The Section does not summarize the accounting and reporting requirements.

General

05-1 The Derivatives and Hedging Topic includes several Subtopics on hedging activities:

a. Hedging—General

b. Fair Value Hedges

c. Cash Flow Hedges

d. Net Investment Hedges.

05-2 This Subtopic provides guidance on accounting for and financial reporting of three types of hedging relationships: **fair value hedges**, **cash flow hedges**, and hedges of a net investment in a foreign operation. The other three Subtopics of the Derivatives and Hedging Topic provide incremental guidance specific to the particular type of hedging relationship.

> Interest Rate Swap in Arrears

05-3 The guidance beginning in paragraph 815-20-25-102 sets forth conditions that determine which hedging relationships involving interest rate swaps qualify for a shortcut version of hedge accounting that does not immediately recognize hedge ineffectiveness. Plain-vanilla interest rate swaps are contractual arrangements that require the periodic exchange of two cash flows (usually settled net)—one relating to an interest calculation involving a fixed interest rate, and the other relating to an interest calculation involving a floating interest rate. In plain-vanilla interest rate swaps, the fixed interest rate does not change, while the floating interest rate is determined (that is, reset) at the beginning of each period; thus, on that date, the scheduled net cash flow for the period will be known. The net cash flow does not actually occur, however, until the payment date, which is at the end of the period. That is, if the swap interest rates are reset every three months, the cash flows occur at the end of each three-month period based on the interest rates determined at the beginning of the three-month period. Thus, for plain-vanilla interest rate swaps, the floating interest rate is applied prospectively.

05-4 An interest rate swap-in-arrears works the same way as a plain-vanilla swap except that the floating interest rate for a swap-in-arrears is applied retrospectively. With an interest rate swap-in-arrears, the net cash flow occurs immediately at the interest rate reset date (which is at the end of the reset period). That is, if the swap interest rates are reset every three months, the cash flows occur at the end of each three-month period based on the interest rates determined at that same time applied to the three-month period just ended. Note that generally, both plain-vanilla swaps and swaps-in-arrears are initiated with market values equal to zero. At any given time, however, there will be some difference between the fixed interest rates on the two respective swaps or between the variable interest rates on the two respective swaps unless the yield curve is perfectly flat. See paragraphs 815-20-25-106(d) through 25-107 for related guidance.

> Commercial Paper and Similar Instruments

05-5 This Subtopic includes guidance on hedging relationships involving commercial paper and similar instruments. Commercial paper and similar markets present an opportunity for highly rated borrowers, or those with high quality collateral, to consistently obtain low-cost short-term financing. Similarly, investments in these instruments provide a high-quality short-term investment vehicle. Frequently, **derivative instruments** (typically interest rate swaps, or purchased caps or floors) are used to hedge the forecasted interest payments or receipts arising from future issuances or future investments.

05-6 Commercial paper and similar instruments are issued on a fixed-rate discounted basis with relatively short contractual maturities (for example, from 7 to 270 days). That is, the issuer receives a single discounted amount as proceeds of the issuance and makes a single payment of the stated amount at maturity. There are no periodic interest payments; thus, those instruments are effectively zero-coupon instruments.

05-7 The interest rate is established for each issuer based on market conditions that exist at the time of issuance. Although commercial paper interest rate indexes exist, they represent the average rates paid by selected issuers at a point in time. In other cases, the depth of the markets and the consistency of collateral lead to very tight bid-ask interest rate quotes. In any of these cases, however, the actual rate paid by any particular issuer reflects the market's perception of the liquidity, credit, and other risks that are unique to the issuer or the **transaction** on any given day.

05-8 Issuers and investors in commercial paper typically issue and invest in very large volumes and actively manage their funding programs. A typical commercial paper program will involve daily issuances of a broad range of maturities of paper so as to balance the objectives of achieving the lowest cost of funds and a target average maturity of the portfolio of outstanding commercial paper.

05-9 An entity with a rolling commercial paper program may wish to hedge the risk of changes in the interest element of the final cash flows at maturity attributable to changes in the **benchmark interest rate** related to each of the forecasted issuances of fixed-rate commercial paper (that is, zero-coupon instruments).

> CDs

05-10 This Subtopic includes guidance on hedging relationships involving certificates of deposit (CDs). CDs are an important source of funds for banks and savings institutions. CDs generally have a stipulated maturity and a fixed interest rate that is payable either periodically or at maturity. A bank with CDs may wish to hedge the risk of changes in the coupon payments (or the interest element of the final cash flow if interest is paid only at maturity) attributable to changes in the benchmark interest rate related to the forecasted issuance of fixed-rate CDs. The interest rate of the CDs actually issued will be based on market conditions that exist at the time of issuance. Influences such as market appetite, the bank's liquidity and needs, and other CD rates at other banks may have an effect on the actual fixed interest rate on the date of issuance.

END OF DOCUMENT -

815-20-10 Objectives

General Note: The Objectives Section provides the high-level objectives that the Subtopic is intended to accomplish or attain. The Section does not summarize or discuss the main principles of accounting and reporting requirements.

General

10-1 Paragraph 815-10-10-1 states that one cornerstone underlying the guidance in this Topic is that special accounting for items designated as being hedged should be provided only for qualifying items. That paragraph explains that one aspect of qualification should be an assessment of the expectation of effective offsetting changes in **fair values** or cash flows during the term of the hedge for the risk being hedged.

END OF DOCUMENT -

815-20-15 Scope and Scope Exceptions

General Note: The Scope and Scope Exceptions Section outlines the items (for example, the entities, transactions, instruments, or events) to which the guidance in the Subtopic does or does not apply. In some cases, the Section may contain definitional or other text to frame the scope.

General Note for Financial Instruments: Some of the items subject to the guidance in this Subtopic are **financial instruments**. For guidance on matters related broadly to all financial instruments, (including the fair value option, accounting for registration payment arrangements, and broad financial instrument disclosure requirements), see Topic 825. See Section 825-10-15 for guidance on the scope of the Financial Instruments Topic.

General

> Entities

15-1 The guidance in this Subtopic applies to all entities.

END OF DOCUMENT -

815-20-20 Glossary

General Note: The Master Glossary contains all terms identified as glossary terms throughout the Codification. Clicking on any term in the Master Glossary will display where the term is used. The Master Glossary may contain identical terms with different definitions, some of which may not be appropriate for a particular Subtopic. For any particular Subtopic, users should only use the glossary terms included in the particular Subtopic Glossary Section (Section 20).

All-in-One Hedge

In an all-in-one hedge, a derivative instrument that will involve gross settlement is designated as the hedging instrument in a cash flow hedge of the variability of the consideration to be paid or received in the forecasted transaction that will occur upon gross settlement of the derivative instrument itself.

Auction Rate Notes

Auction rate notes are notes that generally have long-term nominal maturities and interest rates that reset periodically through a Dutch auction process, typically every 7, 28, or 35 days. At an auction, existing holders of auction rate notes and potential buyers enter a competitive bidding process through a broker-dealer, specifying the number of shares (units) to purchase with the lowest interest rate they are willing to accept. Generally, the lowest bid rate at which all shares can be sold at the notes' par value establishes the interest rate (also known as the clearing rate) to be applied until the next auction. Auction rate notes are an example of a variable-rate financial instrument whose interest rate is not explicitly based on a benchmark rate.

Benchmark Interest Rate

A widely recognized and quoted rate in an active financial market that is broadly indicative of the overall level of interest rates attributable to high-credit-quality obligors in that market. It is a rate that is widely used in a given financial market as an underlying basis for determining the interest rates of individual financial instruments and commonly referenced in interest-rate-related transactions.

In theory, the benchmark interest rate should be a risk-free rate (that is, has no risk of default). In some markets, government borrowing rates may serve as a benchmark. In other markets, the benchmark interest rate may be an interbank offered rate.

Cash Flow Hedge

A hedge of the exposure to variability in the cash flows of a recognized asset or liability, or of a forecasted transaction, that is attributable to a particular risk.

Credit Risk

For purposes of a hedged item in a fair value hedge, credit risk is the risk of changes in the hedged item's fair value attributable to both of the following:

a. Changes in the obligor's creditworthiness

b. Changes in the spread over the benchmark interest rate with respect to the hedged item's credit sector at inception of the hedge.

For purposes of a hedged transaction in a cash flow hedge, credit risk is the risk of changes in the hedged transaction's cash flows attributable to all of the following:

a. Default

b. Changes in the obligor's creditworthiness

c. Changes in the spread over the benchmark interest rate with respect to the related financial asset's or liability's credit sector at inception of the hedge.

Derivative Instrument

Paragraphs 815-10-15-83 through 15-139 define the term *derivative instrument*.

Embedded Derivative

Implicit or explicit terms that affect some or all of the cash flows or the value of other exchanges required by a contract in a manner similar to a derivative instrument.

Expected Cash Flow

The sum of probability-weighted amounts in a range of possible estimated amounts; the estimated mean or average.

Note: The following definition is Pending Content; see Transition Guidance in 820-10-65-8.

The probability-weighted average (that is, mean of the distribution) of possible future cash flows.

Face Amount

See **Notional Amount**.

Fair Value

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair Value Hedge

A hedge of the exposure to changes in the fair value of a recognized asset or liability, or of an unrecognized firm commitment, that are attributable to a particular risk.

Financial Instrument

Cash, evidence of an ownership interest in an entity, or a contract that both:

a. Imposes on one entity a contractual obligation either:

1. To deliver cash or another financial instrument to a second entity

2. To exchange other financial instruments on potentially unfavorable terms with the second entity.

b. Conveys to that second entity a contractual right either:

1. To receive cash or another financial instrument from the first entity

2. To exchange other financial instruments on potentially favorable terms with the first entity.

The use of the term financial instrument in this definition is recursive (because the term financial instrument is included in it), though it is not circular. The definition requires a chain of contractual obligations that ends with the delivery of cash or an ownership interest in an entity. Any number of obligations to deliver financial instruments can be links in a chain that qualifies a particular contract as a financial instrument.

Contractual rights and contractual obligations encompass both those that are conditioned on the occurrence of a specified event and those that are not. All contractual rights (contractual obligations) that are financial instruments meet the definition of asset (liability) set forth in FASB Concepts Statement No. 6, Elements of Financial Statements, although some may not be recognized as assets (liabilities) in financial statements—that is, they may be off-balance-sheet—because they fail to meet some other criterion for recognition.

For some financial instruments, the right is held by or the obligation is due from (or the obligation is owed to or by) a group of entities rather than a single entity.

Firm Commitment

An agreement with an unrelated party, binding on both parties and usually legally enforceable, with the following characteristics:

a. The agreement specifies all significant terms, including the quantity to be exchanged, the fixed price, and the timing of the transaction. The fixed price may be expressed as a specified amount of an entity's functional currency or of a foreign currency. It may also be expressed as a specified interest rate or specified effective yield. The binding provisions of an agreement are regarded to include those legal rights and obligations codified in the laws to which such an agreement is subject. A price that varies with the market price of the item that is the subject of the firm commitment cannot qualify as a fixed price. For example, a price that is specified in terms of ounces of gold would not be a fixed price if the market price of the item to be purchased or sold under the firm commitment varied with the price of gold.

b. The agreement includes a disincentive for nonperformance that is sufficiently large to make performance probable. In the legal jurisdiction that governs the agreement, the existence of statutory rights to pursue remedies for default equivalent to the damages suffered by the nondefaulting party, in and of itself, represents a sufficiently large disincentive for nonperformance to make performance probable for purposes of applying the definition of a firm commitment.

Forecasted Transaction

A transaction that is expected to occur for which there is no firm commitment. Because no transaction or event has yet occurred and the transaction or event when it occurs will be at the prevailing market price, a forecasted transaction does not give an entity any present rights to future benefits or a present obligation for future sacrifices.

Foreign Exchange Risk

The risk of changes in a hedged item's fair value or functional-currency-equivalent cash flows attributable to changes in the related foreign currency exchange rates.

Hybrid Instrument

A contract that embodies both an **embedded derivative** and a host contract.

Interest Rate Risk

The risk of changes in a hedged item's fair value or cash flows attributable to changes in the designated benchmark interest rate.

Internal Derivative

A foreign currency derivative instrument that has been entered into with another member of a consolidated group (such as a treasury center).

Intra-entity Derivative

A derivative instrument contract between two members of a consolidated group.

LIBOR Swap Rate

See **London Interbank Offered Rate Swap Rate**.

London Interbank Offered Rate Swap Rate

The fixed rate on a single-currency, constant-notional interest rate swap that has its variable-rate leg referenced to the London Interbank Offered Rate (LIBOR) with no additional spread over LIBOR on that variable-rate leg. That fixed rate is the derived rate that would result in the swap having a zero fair value at inception because the present value of fixed cash flows, based on that rate, equate to the present value of the variable cash flows.

Make-Whole Provision

A contractual option that gives a debtor (that is, an issuer) the right to pay off debt before maturity at a significant premium over the fair value of the debt at the date of settlement.

Noncontrolling Interest

The portion of equity (net assets) in a subsidiary not attributable, directly or indirectly, to a parent. A noncontrolling interest is sometimes called a minority interest.

Notional Amount

A number of currency units, shares, bushels, pounds, or other units specified in a derivative instrument. Sometimes other names are used. For example, the notional amount is called a face amount in some contracts.

Prepayable

Able to be settled by either party before its scheduled maturity.

Readily Convertible to Cash

Assets that are readily convertible to cash have both of the following:

a. Interchangeable (fungible) units

b. Quoted prices available in an active market that can rapidly absorb the quantity held by the entity without significantly affecting the price.

(Based on paragraph 83(a) of FASB Concepts Statement No. 5, *Recognition and Measurement in Financial Statements of Business Enterprises*.)

Stock Appreciation Right

A stock appreciation right is an award entitling employees to receive cash, stock, or a combination of cash and stock in an amount equivalent to any excess of the fair value of a stated number of shares of the employer's stock over a stated price.

Stub Period

Interest rate swaps with variable rates based on the London Interbank Offered Rate (LIBOR) typically reset at three-month or six-month intervals. Often, swaps may trade on interim dates that do not correspond to a swap reset date. Calendar dates that are swap reset and payment dates are set by market convention. A swap that resets quarterly may have a first payment period that is shorter than a full quarter, such as 30 days versus 90 days. Because the first payment period is not equal to a full quarter, it is referred to as a stub period. That stub period is the period that begins on the date coupon payments begin to accrue and ends on the first payment date.

Stub Rate

The stub rate is the variable rate that corresponds to the length of a **stub period**.

Synthetic Instrument Accounting

Synthetic instrument accounting views two or more distinct financial instruments (generally a cash instrument and a derivative instrument) as having synthetically created another single cash instrument. The objective of synthetic instrument accounting is to present those multiple instruments in the financial statements as if they were the single instrument that the entity sought to create. Paragraph 815-10-25-4 states that synthetic instrument accounting is prohibited.

Time Value of an Option

The time value of an option is equal to the fair value of an option less its intrinsic value.

Transaction

An external event involving transfer of something of value (future economic benefit) between two (or more) entities. (See FASB Concepts Statement No. 6, Elements of Financial Statements.)

Underlying

A specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, or other variable (including the occurrence or nonoccurrence of a specified event such as a scheduled payment under a contract). An underlying may be a price or rate of an asset or liability but is not the asset or liability itself. An underlying is a variable that, along with either a notional amount or a payment provision, determines the settlement of a derivative instrument.

END OF DOCUMENT -

815-20-25 Recognition

General Note: The Recognition Section provides guidance on the required criteria, timing, and location (within the financial statements) for recording a particular item in the financial statements. Disclosure is not recognition.

General

25-1 This Section sets forth criteria that must be met for designated hedging instruments and hedged items or **transactions** to qualify for **fair value hedge** accounting, **cash flow hedge** accounting, and accounting for a hedge of a net investment in a foreign operation. The criteria are organized as follows:

a. Formal designation and documentation at hedge inception

b. Eligibility of hedged items and transactions

c. Eligibility of hedging instruments

d. Hedge effectiveness.

25-2 The guidance in this Section specifies whether a criterion applies to one or more types of hedging relationships. For example, paragraph 815-20-25-3(a)(1) is specified as a criterion that applies to fair value hedges, cash flow hedges, and net investment hedges.

> Formal Designation and Documentation at Hedge Inception

25-3 Concurrent designation and documentation of a hedge is critical; without it, an entity could retroactively identify a hedged item, a hedged **transaction**, or a method of measuring effectiveness to achieve a desired accounting result. To qualify for hedge accounting, there shall be, at inception of the hedge, formal documentation of all of the following:

a. [Subparagraph Not Used]

b. Documentation requirement applicable to fair value hedges, cash flow hedges, and net investment hedges:

1. The hedging relationship

2. The entity's risk management objective and strategy for undertaking the hedge, including identification of all of the following:

i. The hedging instrument.

ii. The hedged item or transaction.

iii. The nature of the risk being hedged.

iv. The method that will be used to retrospectively and prospectively assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's **fair value** (if a fair value hedge) or hedged transaction's variability in cash flows (if a cash flow hedge) attributable to the hedged risk. There shall be a reasonable basis for how the entity plans to assess the hedging instrument's effectiveness.

v. The method that will be used to measure hedge ineffectiveness (including those situations in which the change in fair value method as described in paragraphs 815-30-35-31 through 35-32 will be used).

vi. If the entity is hedging foreign currency risk on an after-tax basis, that the assessment of effectiveness, including the calculation of ineffectiveness, will be on an after-tax basis (rather than on a pretax basis).

c. Documentation requirement applicable to fair value hedges only:

1. For a fair value hedge of a **firm commitment**, a reasonable method for recognizing in earnings the asset or liability representing the gain or loss on the hedged firm commitment.

d. Documentation requirement applicable to cash flow hedges only:

1. For a cash flow hedge of a **forecasted transaction**, documentation shall include all relevant details, including all of the following:

i. The date on or period within which the forecasted transaction is expected to occur.

ii. The specific nature of asset or liability involved (if any).

iii. Either of the following:

01. The expected currency amount for hedges of foreign currency exchange risk; that is, specification of the exact amount of foreign currency being hedged

02. The quantity of the forecasted transaction for hedges of other risks; that is, specification of the physical quantity (that is, the number of items or units of measure) encompassed by the hedged forecasted transaction.

iv. If a forecasted sale or purchase is being hedged for price risk, the hedged transaction shall not be specified in either of the following ways:

01. Solely in terms of expected currency amounts

02. As a percentage of sales or purchases during a period.

v. The current price of a forecasted transaction shall be identified to satisfy the criterion in paragraph 815-20-25-75(b) for offsetting cash flows.

vi. The hedged forecasted transaction shall be described with sufficient specificity so that when a transaction occurs, it is clear whether that transaction is or is not the hedged transaction. Thus, a forecasted transaction could be identified as the sale of either the first 15,000 units of a specific product sold during a specified 3-month period or the first 5,000 units of a specific product sold in each of 3 specific months, but it could not be identified as the sale of the last 15,000 units of that product sold during a 3-month period (because the last 15,000 units cannot be identified when they occur, but only when the period has ended).

> Eligibility of Hedged Items and Transactions

25-4 The eligibility criteria for hedged items and transactions are organized as follows:

a. Hedged item and transaction criteria applicable to both fair value hedges and cash flow hedges

b. Hedged item criteria applicable to fair value hedges only

c. Hedged transaction criteria applicable to cash flow hedges only

d. Hedged items involving **foreign exchange risk**

e. Items specifically ineligible for designation as a hedged item or transaction.

>> Hedged Item and Transaction Criteria Applicable to Both Fair Value Hedges and Cash Flow Hedges

25-5 Incremental eligibility criteria applicable to both fair value hedges and cash flow hedges are organized as follows:

a. Hedged items involving **interest rate risk**

b. Normal purchase or normal sale contract as a hedged item or transaction

c. Different proportions of the same asset as a hedged item.

>>> Hedged Items Involving Interest Rate Risk

25-6 Hedges involving the benchmark interest rate are addressed in paragraph 815-20-25-12(f) (for fair value hedges) and paragraph 815-20-25-15(j) (for cash flow hedges). The **benchmark interest rate** being hedged in a hedge of **interest rate risk** shall be specifically identified as part of the designation and documentation at the inception of the hedging relationship. Ordinarily, an entity shall designate the same benchmark interest rate as the risk being hedged for similar hedges, consistent with paragraphs 815-20-25-80 through 25-81. The use of different benchmark interest rates for similar hedges shall be rare and shall be justified. An entity shall not simply designate prepayment risk as the risk being hedged for a financial asset. However, it can designate the option component of a **prepayable** instrument as the hedged item in a fair value hedge of the entity's exposure to changes in the overall fair value of that prepayment option, perhaps thereby achieving the objective of its desire to hedge prepayment risk. The effect of an **embedded derivative** of the same risk class shall be considered in designating a hedge of an individual risk. For example, the effect of an embedded prepayment option shall be considered in designating a hedge of interest rate risk.

>>>> Benchmark Interest Rate

25-6A In the United States, currently only the interest rates on direct Treasury obligations of the U.S. government and, for practical reasons, the London Interbank Offered Rate (LIBOR) swap rate are considered to be benchmark interest rates. In each financial market, only the one or two most widely used and quoted rates that meet these criteria may be considered benchmark interest rates. The Fed Funds rate, the Prime rate, the Federal National Mortgage Association (FNMA or Fannie Mae) Par Mortgage rate, and the Securities Industry and Financial Markets Association Municipal Swap Index (formerly called the Bond Market Association index) shall not be used as the benchmark interest rate in the United States.

>>> Normal Purchases or Normal Sales as Hedged Items or Transactions

25-7 A contract that is not subject to the requirements of Subtopic 815-10 because it qualifies for the normal purchases and normal sales scope exception may be designated as a hedged item in a fair value hedge, if the provisions of this Section are met. As the hedged item, the contract would be accounted for under fair value hedge accounting. Similarly, the purchase under that contract may be the hedged transaction in a cash flow hedge, if the provisions of paragraph 815-20-25-15 are met. For cash flow hedges, the special accounting applies to the hedging instrument, not to the purchase contract that is related to the hedged forecasted transaction.

25-8 In emphasizing the conditions in the definition of a **derivative instrument** in paragraphs 815-10-15-83 through 15-139, paragraphs 815-10-15-13 through 15-82 essentially exempt contracts that meet the definition of a derivative instrument from the requirements of Subtopic 815-10 applicable to derivative instruments. However, paragraphs 815-10-15-13 through 15-82 are not intended to preclude such contracts from being subject to the requirements of Subtopic 815-10 applicable to the hedged item in a fair value hedge.

25-9 A contract that qualifies for the normal purchases and normal sales exception will typically satisfy the criteria for a firm commitment and will not be recognized on an entity's financial statements because of the exclusion from recognition under Subtopic 815-10 or other Topics. The transaction under a contract that qualifies for the normal purchases and normal sales exception but does not satisfy the criteria for a firm commitment because the contract does not contain a fixed price may be the hedged transaction in a cash flow hedge.

>>> Different Proportions of the Same Asset as a Hedged Item

25-10 In a hedging relationship in which a collar that is comprised of a purchased option and a written option that have different **notional amounts** is designated as the hedging instrument and the hedge's effectiveness is assessed based on changes in the collar's intrinsic value, the hedged item may be specified as two different proportions of the same asset referenced in the collar, based on the upper and lower price ranges specified in the two options that make up the collar. That is, the quantities of the asset designated as being hedged may be different based on those price ranges in which the collar's intrinsic value is other than zero. This guidance shall be applied only to collars that are a combination of a single written option and a single purchased option for which the **underlying** in both options is the same. This guidance shall not be applied by analogy to other derivative instruments designated as hedging instruments. Although the quantities of the asset designated as being hedged may be different based on the upper and lower price ranges in the collar, the actual assets that are the subject of the hedging relationship may not change. The quantities that are designated as hedged for a specific price or rate change shall be specified at the inception of the hedging relationship and shall not be changed unless the hedging relationship is dedesignated and a new hedging relationship is redesignated. Since the hedge's effectiveness is based on changes in the collar's intrinsic value, the assessment of hedge effectiveness shall compare the actual change in intrinsic value of the collar to the change in value of the prespecified quantity of the hedged asset that occurred during the hedge period.

>> Hedged Item Criteria Applicable to Fair Value Hedges Only

25-11 An entity may designate a derivative instrument as hedging the exposure to changes in the fair value of an asset or a liability or an identified portion thereof (hedged item) that is attributable to a particular risk if all applicable criteria in this Section are met.

25-12 An asset or a liability is eligible for designation as a hedged item in a fair value hedge if all of the following additional criteria are met:

a. The hedged item is specifically identified as either all or a specific portion of a recognized asset or liability or of an unrecognized firm commitment.

b. The hedged item is a single asset or liability (or a specific portion thereof) or is a portfolio of similar assets or a portfolio of similar liabilities (or a specific portion thereof), in which circumstance:

1. If similar assets or similar liabilities are aggregated and hedged as a portfolio, the individual assets or individual liabilities shall share the risk exposure for which they are designated as being hedged. The change in fair value attributable to the hedged risk for each individual item in a hedged portfolio shall be expected to respond in a generally proportionate manner to the overall change in fair value of the aggregate portfolio attributable to the hedged risk. See the discussion beginning in paragraph 815-20-55-14 for related implementation guidance. An entity may use different stratification criteria for the purposes of Topic 860 impairment testing and for the purposes of grouping similar assets to be designated as a hedged portfolio in a fair value hedge.

2. If the hedged item is a specific portion of an asset or liability (or of a portfolio of similar assets or a portfolio of similar liabilities), the hedged item is one of the following:

i. A percentage of the entire asset or liability (or of the entire portfolio). An entity shall not express the hedged item as multiple percentages of a recognized asset or liability and then retroactively determine the hedged item based on an independent matrix of those multiple percentages and the actual scenario that occurred during the period for which hedge effectiveness is being assessed.

ii. One or more selected contractual cash flows, including one or more individual interest payments during a selected portion of the term of a debt instrument (such as the portion of the asset or liability representing the present value of the interest payments in the first two years of a four-year debt instrument).

iii. A put option or call option (including an interest rate cap or price cap or an interest rate floor or price floor) embedded in an existing asset or liability that is not an embedded derivative accounted for separately pursuant to paragraph 815-15-25-1.

iv. The residual value in a lessor's net investment in a direct financing or sales-type lease.

c. The hedged item presents an exposure to changes in fair value attributable to the hedged risk that could affect reported earnings. The reference to affecting reported earnings does not apply to an entity that does not report earnings as a separate caption in a statement of financial performance, such as a not-for-profit entity (NFP), as discussed in paragraphs 815-30-15-2 through 15-3.

d. If the hedged item is all or a portion of a debt security (or a portfolio of similar debt securities) that is classified as held to maturity in accordance with Topic 320, the designated risk being hedged is the risk of changes in its fair value attributable to **credit risk**, **foreign exchange risk**, or both. If the hedged item is an option component of a held-to-maturity security that permits its prepayment, the designated risk being hedged is the risk of changes in the entire fair value of that option component. If the hedged item is other than an option component of a held-to-maturity security that permits its prepayment, the designated hedged risk also shall not be the risk of changes in its overall fair value.

e. If the hedged item is a nonfinancial asset or liability (other than a recognized loan servicing right or a nonfinancial firm commitment with financial components), the designated risk being hedged is the risk of changes in the fair value of the entire hedged asset or liability (reflecting its actual location if a physical asset). That is, the price risk of a similar asset in a different location or of a major ingredient shall not be the hedged risk. Thus, in hedging the exposure to changes in the fair value of gasoline, an entity may not designate the risk of changes in the price of crude oil as the risk being hedged for purposes of determining effectiveness of the fair value hedge of gasoline.

f. If the hedged item is a financial asset or liability, a recognized loan servicing right, or a nonfinancial firm commitment with financial components, the designated risk being hedged is any of the following:

1. The risk of changes in the overall fair value of the entire hedged item

2. The risk of changes in its fair value attributable to changes in the designated benchmark interest rate (referred to as interest rate risk)

3. The risk of changes in its fair value attributable to changes in the related foreign currency exchange rates (referred to as foreign exchange

risk)

4. The risk of changes in its fair value attributable to both of the following (referred to as credit risk):

i. Changes in the obligor's creditworthiness

ii. Changes in the spread over the benchmark interest rate with respect to the hedged item's credit sector at inception of the hedge.

5. If the risk designated as being hedged is not the risk in paragraph 815-20-25-12(f)(1), two or more of the other risks (interest rate risk, foreign currency exchange risk, and credit risk) may simultaneously be designated as being hedged.

g. The item is not otherwise specifically ineligible for designation (see paragraph 815-20-25-43).

>> Hedged Transaction Criteria Applicable to Cash Flow Hedges Only

25-13 An entity may designate a derivative instrument as hedging the exposure to variability in expected future cash flows that is attributable to a particular risk. That exposure may be associated with either of the following:

a. An existing recognized asset or liability (such as all or certain future interest payments on variable-rate debt)

b. A forecasted transaction (such as a forecasted purchase or sale).

Note that the glossary definition of **transaction** is intended to clearly distinguish a transaction from an internal cost allocation or an event that happens within an entity.

25-14 For purposes of this Subtopic and Subtopic 815-30, the individual cash flows related to a recognized asset or liability and the cash flows related to a forecasted transaction are both referred to as a forecasted transaction or hedged transaction.

25-15 A forecasted transaction is eligible for designation as a hedged transaction in a cash flow hedge if all of the following additional criteria are met:

a. The forecasted transaction is specifically identified as either of the following:

1. A single transaction

2. A group of individual transactions that share the same risk exposure for which they are designated as being hedged. A forecasted purchase and a forecasted sale shall not both be included in the same group of individual transactions that constitute the hedged transaction.

b. The occurrence of the forecasted transaction is probable.

c. The forecasted transaction meets both of the following conditions:

1. It is a transaction with a party external to the reporting entity (except as permitted by paragraphs 815-20-25-30 and 815-20-25-38 through 25-40).

2. It presents an exposure to variations in cash flows for the hedged risk that could affect reported earnings.

d. The forecasted transaction is not the acquisition of an asset or incurrence of a liability that will subsequently be remeasured with changes in fair value attributable to the hedged risk reported currently in earnings.

e. If the forecasted transaction relates to a recognized asset or liability, the asset or liability is not remeasured with changes in fair value attributable to the hedged risk reported currently in earnings.

f. If the variable cash flows of the forecasted transaction relate to a debt security that is classified as held to maturity under Topic 320, the risk being hedged is the risk of changes in its cash flows attributable to any of the following risks:

1. Credit risk

2. Foreign exchange risk.

g. The forecasted transaction does not involve a business combination subject to the provisions of Topic 805or a combination accounted for by an NFP that is subject to the provisions of Subtopic 958-805.

h. The forecasted transaction is not a transaction (such as a forecasted purchase, sale, or dividend) involving either of the following:

1. A parent entity's interests in consolidated subsidiaries

2. An entity's own equity instruments.

i. If the hedged transaction is the forecasted purchase or sale of a nonfinancial asset, the designated risk being hedged is either of the following:

1. The risk of changes in the functional-currency-equivalent cash flows attributable to changes in the related foreign currency exchange rates

2. The risk of changes in the cash flows relating to all changes in the purchase price or sales price of the asset reflecting its actual location if a physical asset (regardless of whether that price and the related cash flows are stated in the entity's functional currency or a foreign currency), not the risk of changes in the cash flows relating to the purchase or sale of a similar asset in a different location or of a major ingredient. Thus, for example, in hedging the exposure to changes in the cash flows relating to the purchase of its bronze bar inventory, an entity may not designate the risk of changes in the cash flows relating to purchasing the copper component in bronze as the risk being hedged for purposes of assessing offset as required by paragraph 815-20-25-75(b).

j. If the hedged transaction is the forecasted purchase or sale of a financial asset or liability (or the interest payments on that financial asset or liability) or the variable cash inflow or outflow of an existing financial asset or liability, the designated risk being hedged is any of the following:

1. The risk of overall changes in the hedged cash flows related to the asset or liability, such as those relating to all changes in the purchase price or sales price (regardless of whether that price and the related cash flows are stated in the entity's functional currency or a foreign currency)

2. The risk of changes in its cash flows attributable to changes in the designated benchmark interest rate (referred to as interest rate risk)

3. The risk of changes in the functional-currency-equivalent cash flows attributable to changes in the related foreign currency exchange rates (referred to as foreign exchange risk)

4. The risk of changes in its cash flows attributable to all of the following (referred to as credit risk):

i. Default

ii. Changes in the obligor's creditworthiness

iii. Changes in the spread over the benchmark interest rate with respect to the related financial asset's or liability's credit sector at inception of the hedge.

k. The item is not otherwise specifically ineligible for designation (see paragraph 815-20-25-43).

25-15A This Topic places no limitations on an entity's ability to prospectively designate, dedesignate, and redesignate a qualifying hedge of the same forecasted transaction.

>>> Timing and Probability of the Hedged Forecasted Transaction

25-16 Example 4 (see paragraph 815-20-55-88) illustrates that how the hedged forecasted transaction is designated and documented in a cash flow hedge is critically important in determining whether it is probable that the hedged forecasted transaction will occur. The following guidance expands on the timing and probability criteria in paragraphs 815-20-25-3 and (b) in the preceding paragraph:

a. Effect of counterparty creditworthiness on probability. An entity using a cash flow hedge shall assess the creditworthiness of the counterparty to the hedged forecasted transaction in determining whether the forecasted transaction is probable, particularly if the hedged transaction involves payments pursuant to a contractual obligation of the counterparty.

b. Probability of forecasted acquisition of a marketable security. To qualify for cash flow hedge accounting for an option designated as a hedge of the forecasted acquisition of a marketable security, an entity must be able to establish at the inception of the hedging relationship that the acquisition of the marketable security is probable, without regard to the means of acquiring it. In documenting the hedging relationship, the entity shall specify the date on or period within which the forecasted acquisition of the security will occur. The evaluation of whether the forecasted acquisition of a marketable security is probable of occurring shall be independent of the terms and nature of the derivative instrument designated as the hedging instrument. Specifically, in determining whether an option designated as a hedge of the forecasted acquisition of a marketable security may qualify for cash flow hedge accounting, the probability of the forecasted transaction being consummated shall be evaluated without consideration of whether the option designated as the hedging instrument has an intrinsic value other than zero.

c. Uncertainty of timing within a range. For forecasted transactions whose timing involves some uncertainty within a range, that range could be documented as the originally specified time period if the hedged forecasted transaction is described with sufficient specificity so that when a transaction occurs, it is clear whether that transaction is or is not the hedged transaction. As long as it remains probable that a forecasted transaction will occur by the end of the originally specified time period, cash flow hedge accounting for that hedging relationship would continue. See paragraph 815-30-40-4 for related guidance and Example 5 (see paragraph 815-20-55-100), which illustrates the application of this paragraph.

d. Importance of timing in both documentation and hedge effectiveness. Although documenting only the period within which the forecasted transaction will occur is sufficient to comply with the requirements of paragraph 815-20-25-3, compliance with Section 815-20-35 and paragraph 815-20-25-75(b) requires that the best estimate of the forecasted transaction's timing be both documented and used in assessing hedge effectiveness. As explained in paragraphs 815-20-25-84 and 815-20-25-120 through 25-121, the time value of money is likely to be important in the assessment of cash flow hedge effectiveness, especially if the entity plans to use a rollover or tailing strategy to hedge its forecasted transaction. The use of time value of money requires information about the timing of cash flows.

e. The term *probable* requires a significantly greater likelihood of occurrence than the phrase *more likely than not*.

f. The cash flow hedging model does not require that it be probable that any variability in the hedged transaction will actually occur—that is, in a cash flow hedge, the variability in future cash flows must be a possibility, but not necessarily a probability. However, the hedging derivative must be highly effective at achieving offsetting cash flows whenever that variability in future interest does occur.

>>> Forecasted Issuances or Purchases of Fixed-Rate Debt as a Hedged Transaction

25-17 Paragraph 815-20-25-43 explains that the restriction against hedging interest rate risk in paragraph 815-20-25-43(d)(3) does not apply to a cash flow hedge of the forecasted issuance or forecasted purchase of fixed-rate debt because the contractually fixed interest rate established at the issuance of fixed-rate debt is based on current market interest rates for that debtor and the debt's future interest payments will not be variable explicitly based on any index. In this Subtopic, the phrase *issuance of fixed-rate debt* includes the issuance of a zero-coupon instrument because the interest element in a zero-coupon instrument is fixed at its issuance.

25-18 Provided the entity meets all the other cash flow hedging criteria, an entity may designate as the hedged risk the risk of changes in either of the following:

a. The coupon payments (or the interest element of the final cash flow if interest is paid only at maturity) related to the forecasted issuance of fixed-rate debt

b. The total proceeds attributable to changes in the benchmark interest rate related to the forecasted issuance of fixed-rate debt.

The derivative instrument used to hedge either of these risks must provide offsetting cash flows for the hedging relationship to be effective in accordance with paragraph 815-20-35-3.

25-19 An entity shall not characterize its variable-rate debt as fixed-rate debt that, at each interest reset date, is effectively rolled over to another issuance of fixed-rate debt that has a new fixed interest rate until the next reset date. Such a characterization cannot justify not applying the restriction against hedging interest rate risk in paragraph 815-20-25-43(d)(3) to variable-rate debt.

>>> Interest Rate Risk of Prepayable Obligations

25-20 Paragraph 815-20-25-15(a) does not require that hedged variable interest payments relate to a specific unchanging obligation or group of variable-rate obligations if those obligations are prepayable. Example 7 (see paragraph 815-20-55-106) illustrates this principle.

>>> All-in-One Hedge

25-21 Paragraph 815-10-15-4 states that, if a contract meets the definition of both a derivative instrument and a firm commitment under the Derivatives and Hedging Topic (as illustrated in Example 8 [see paragraph 815-20-55-111]), then an entity shall account for the contract as a derivative instrument unless one of the exceptions in this Topic applies. In that circumstance, either of the following may be true:

a. The forecasted transaction and the derivative instrument used to hedge it are with the same counterparty.

b. The derivative instrument is the same contract under which the entity executes the forecasted transaction.

25-22 Assuming other cash flow hedge criteria are met, a derivative instrument that will involve gross settlement may be designated as the hedging instrument in a cash flow hedge of the variability of the consideration to be paid or received in a forecasted transaction that will occur upon gross settlement of the derivative instrument itself (an **all-in-one hedge**). This guidance applies to fixed-price contracts to acquire or sell a nonfinancial or financial asset that are accounted for as derivative instruments under this Topic provided the criteria for a cash flow hedge are met.

>> Hedged Items and Transactions Involving Foreign Exchange Risk

25-23 Under the functional currency concept of Topic 830, exposure to a foreign currency exists only in relation to a specific operating unit's designated functional currency cash flows. Therefore, exposure to foreign currency risk shall be assessed at the unit level.

25-24 A unit has exposure to foreign currency risk only if it enters into a transaction (or has an exposure) denominated in a currency other than the unit's functional currency.

25-25 Due to the requirement in Topic 830 for remeasurement of assets and liabilities denominated in a foreign currency into the unit's functional currency, changes in exchange rates for those currencies will give rise to exchange gains or losses, which results in direct foreign currency exposure for the unit but not for the parent entity if its functional currency differs from its unit's functional currency.

25-26 The functional currency concepts of Topic 830 are relevant if the foreign currency exposure being hedged relates to any of the following:

a. An unrecognized foreign-currency-denominated firm commitment

b. A recognized foreign-currency-denominated asset or liability

c. A foreign-currency-denominated forecasted transaction

d. The forecasted functional-currency-equivalent cash flows associated with a recognized asset or liability

e. A net investment in a foreign operation.

25-27 Because a parent entity whose functional currency differs from its subsidiary's functional currency is not directly exposed to the risk of exchange rate changes due to a subsidiary transaction that is denominated in a currency other than a subsidiary's functional currency, the parent cannot qualify for hedge accounting for a hedge of that risk. Accordingly, a parent entity that has a different functional currency cannot qualify for hedge accounting for direct hedges of a subsidiary's recognized asset or liability, unrecognized firm commitment or forecasted transaction denominated in a currency other than the subsidiary's functional currency. Also, a parent that has a different functional currency cannot qualify for hedge accounting for a hedge of a net investment of a first-tier subsidiary in a second-tier subsidiary.

25-28 If the hedged item is denominated in a foreign currency, an entity may designate any of the following types of hedges of foreign currency exposure:

a. A fair value hedge of an unrecognized firm commitment or a recognized asset or liability (including an available-for-sale security)

b. A cash flow hedge of any of the following:

1. A forecasted transaction

2. An unrecognized firm commitment

3. The forecasted functional-currency-equivalent cash flows associated with a recognized asset or liability

4. A forecasted intra-entity transaction.

c. A hedge of a net investment in a foreign operation.

25-29 The recognition in earnings of the foreign currency transaction gain or loss on a foreign-currency-denominated asset or liability based on changes in the foreign currency spot rate is not considered to be the remeasurement of that asset or liability with changes in fair value attributable to foreign exchange risk recognized in earnings, which is discussed in the criteria in paragraphs 815-20-25-15(d) and 815-20-25-43(c). Thus, those criteria are not impediments to either of the following:

a. A foreign currency fair value or cash flow hedge of such a foreign-currency-denominated asset or liability

b. A foreign currency cash flow hedge of the forecasted acquisition or incurrence of a foreign-currency-denominated asset or liability whose carrying amount will be remeasured at spot exchange rates under paragraph 830-20-35-1.

25-30 Both of the following conditions shall be met for foreign currency cash flow hedges, foreign currency fair value hedges, and hedges of the net investment in a foreign operation:

a. For consolidated financial statements, either of the following conditions is met:

1. The operating unit that has the foreign currency exposure is a party to the hedging instrument.

2. Another member of the consolidated group that has the same functional currency as that operating unit is a party to the hedging instrument

and there is no intervening subsidiary with a different functional currency. See guidance beginning in paragraph 815-20-25-52 for conditions under which an intra-entity foreign currency derivative can be the hedging instrument in a cash flow hedge of foreign exchange risk.

b. The hedged transaction is denominated in a currency other than the hedging unit's functional currency.

25-31 However, a subsidiary may enter into an intra-entity hedging instrument with the parent entity, and that contract can be a hedging instrument in the consolidated financial statements if the parent entity enters into an offsetting contract (pursuant to paragraph 815-20-25-52 for the appropriate hedging relationship) with an unrelated third party to hedge the exposure it acquired from issuing the derivative instrument to the subsidiary that initiated the hedge.

25-32 If a subsidiary has the same functional currency as the parent entity or other member of the consolidated group, the parent entity or that other member of the consolidated group may, subject to certain restrictions, enter into a derivative instrument or nonderivative instrument that is designated as the hedging instrument in a hedge of that subsidiary's foreign exchange risk in consolidated financial statements.

25-33 In some instances, it may not be practical or feasible to hedge in the same currency and, therefore, a hedging instrument also may be denominated in a currency for which the exchange rate generally moves in tandem with the exchange rate for the currency in which the hedged item is denominated.

>>> Sale or Purchase on Credit as a Hedged Item Involving Foreign Exchange Risk

25-34 The provisions of this Section (including paragraph 815-20-25-28) that permit a recognized foreign-currency-denominated asset or liability to be the hedged item in a fair value or cash flow hedge of foreign currency exposure also pertain to a recognized foreign-currency-denominated receivable or payable that results from a hedged forecasted foreign-currency-denominated sale or purchase on credit. Specifically, an entity may choose to designate either of the following:

a. A single cash flow hedge that encompasses the variability of functional currency cash flows attributable to foreign exchange risk related to the settlement of the foreign-currency-denominated receivable or payable resulting from a forecasted sale or purchase on credit

b. Both of the following separate hedges:

1. A cash flow hedge of the variability of functional currency cash flows attributable to foreign exchange risk related to a forecasted foreign-currency-denominated sale or purchase on credit

2. A foreign currency fair value hedge of the resulting recognized foreign-currency-denominated receivable or payable.

25-35 If two separate hedges are designated, the cash flow hedge would terminate (that is, be dedesignated) when the hedged sale or purchase occurs and the foreign-currency-denominated receivable or payable is recognized.

25-36 The use of the same foreign currency derivative instrument for both the cash flow hedge and the fair value hedge is not prohibited though some ineffectiveness may result.

>>> Items in Fair Value Hedges of Foreign Exchange Risk

25-37 This paragraph identifies possible hedged items in fair value hedges of foreign exchange risk. If every applicable criterion is met, all of the following are eligible for designation as a hedged item in a fair value hedge of foreign exchange risk:

a. Recognized asset or liability. A derivative instrument can be designated as hedging the changes in the fair value of a recognized asset or liability (or a specific portion thereof) for which a foreign currency transaction gain or loss is recognized in earnings under the provisions of paragraph 830-20-35-1. All recognized foreign-currency-denominated assets or liabilities for which a foreign currency transaction gain or loss is recorded in earnings shall qualify for the accounting specified in Subtopic 815-25 if all the fair value hedge criteria in this Section (including the conditions in paragraph 815-20-25-30[a] through [b]) are met.

b. Available-for-sale debt security. A derivative instrument can be designated as hedging the changes in the fair value of an available-for-sale debt security (or a specific portion thereof) attributable to changes in foreign currency exchange rates. The designated hedging relationship qualifies for the accounting specified in Subtopic 815-25 if all the fair value hedge criteria in this Section (including the conditions in paragraph 815-20-25-30[a] through [b]) are met.

c. Available-for-sale equity security. An available-for-sale equity security can be hedged for changes in the fair value attributable to changes in foreign currency exchange rates and qualify for the accounting specified in Subtopic 815-25 only if the fair value hedge criteria in this Section are met and both of the following conditions are satisfied:

1. The security is not traded on an exchange (or other established marketplace) on which trades are denominated in the investor's functional currency.

2. Dividends or other cash flows to holders of the security are all denominated in the same foreign currency as the currency expected to be received upon sale of the security.

d. Unrecognized firm commitment. Paragraph 815-20-25-58 states that a derivative instrument or a nonderivative financial instrument that may give rise to a foreign currency transaction gain or loss under Topic 830 can be designated as hedging changes in the fair value of an unrecognized firm commitment, or a specific portion thereof, attributable to foreign currency exchange rates.

>>> Items and Transactions in Cash Flow Hedges of Foreign Exchange Risk

25-38 The conditions in the following paragraph relate to a derivative instrument designated as hedging the foreign currency exposure to variability in the functional-currency-equivalent cash flows associated with any of the following:

a. A forecasted transaction (for example, a forecasted export sale to an unaffiliated entity with the price to be denominated in a foreign currency)

b. A recognized asset or liability

c. An unrecognized firm commitment

d. A forecasted intra-entity transaction (for example, a forecasted sale to a foreign subsidiary or a forecasted royalty from a foreign subsidiary).

25-39 A hedging relationship of the type described in the preceding paragraph qualifies for hedge accounting if all the following criteria are met:

a. The criteria in paragraph 815-20-25-30(a) through (b) are met.

b. All of the cash flow hedge criteria in this Section otherwise are met, except for the criterion in paragraph 815-20-25-15(c) that requires that the forecasted transaction be with a party external to the reporting entity.

c. If the hedged transaction is a group of individual forecasted foreign-currency-denominated transactions, a forecasted inflow of a foreign currency and a forecasted outflow of the foreign currency cannot both be included in the same group.

d. If the hedged item is a recognized foreign-currency-denominated asset or liability, all the variability in the hedged item's functional-currency-equivalent cash flows shall be eliminated by the effect of the hedge.

25-40 For purposes of item (d) in the preceding paragraph, an entity shall not specifically exclude a risk from the hedge that will affect the variability in cash flows. For example, a cash flow hedge cannot be used with a variable-rate foreign-currency-denominated asset or liability and a derivative instrument based solely on changes in exchange rates because the derivative instrument does not eliminate all the variability in the functional currency cash flows. As long as no element of risk that affects the variability in foreign-currency-equivalent cash flows has been specifically excluded from a foreign currency cash flow hedge and the hedging instrument is highly effective at providing the necessary offset in the variability of all cash flows, a less-than-perfect hedge would meet the requirement in (d) in the preceding paragraph. That criterion does not require that the derivative instrument used to hedge the foreign currency exposure of the forecasted foreign-currency-equivalent cash flows associated with a recognized asset or liability be perfectly effective, rather it is intended to ensure that the hedging relationship is highly effective at offsetting all risks that impact the variability of cash flows.

25-41 If all of the variability of the functional-currency-equivalent cash flows is eliminated as a result of the hedge (as required by paragraph 815-20-25-39[d]), an entity can use cash flow hedge accounting to hedge the variability in the functional-currency-equivalent cash flows associated with any of the following:

a. All of the payments of both principal and interest of a foreign-currency-denominated asset or liability

b. All of the payments of principal of a foreign-currency-denominated asset or liability

c. All or a fixed portion of selected payments of either principal or interest of a foreign-currency-denominated asset or liability

d. Selected payments of both principal and interest of a foreign-currency-denominated asset or liability (for example, principal and interest payments on December 31, 20X1, and December 31, 20X3).

>>>> Foreign Exchange Risk of a Firm Commitment as Hedged Transaction in a Cash Flow Hedge

25-42 The reference in the definition of a forecasted transaction indicating that a forecasted transaction is not a firm commitment focuses on firm commitments that have no variability. The reference does not preclude a cash flow hedge of the variability in functional-currency-equivalent cash flows if the commitment's fixed price is denominated in a foreign currency. Although that definition of a firm commitment requires a fixed price, it permits the fixed price to be denominated in a foreign currency. A firm commitment can expose the parties to variability in their functional-currency-equivalent cash flows. The definition of a forecasted transaction also indicates that the transaction or event will occur at the prevailing market price. From the perspective of the hedged risk (foreign exchange risk), the translation of the foreign currency proceeds from the sale of the nonfinancial assets will occur at the prevailing market price (that is, current exchange rate). Example 14 (see paragraph 815-20-55-136) illustrates the application of this guidance.

>> Items Specifically Ineligible for Designation as a Hedged Item or Transaction

25-43 Besides those hedged items and transactions that fail to meet the specified eligibility criteria, none of the following shall be designated as a hedged item or transaction in the respective hedges:

a. [Subparagraph Not Used]

1. [Subparagraph Not Used]

b. With respect to both fair value hedges and cash flow hedges:

1. An investment accounted for by the equity method in accordance with the requirements of Subtopic 323-10

2. A **noncontrolling interest** in one or more consolidated subsidiaries

3. Transactions with stockholders as stockholders, such as either of the following:

i. Projected purchases of treasury stock

ii. Payments of dividends.

4. Intra-entity transactions (except for foreign-currency-denominated forecasted intra-entity transactions) between entities included in consolidated financial statements

5. The price of stock expected to be issued pursuant to a stock option plan for which recognized compensation expense is not based on changes in stock prices after the date of grant.

c. With respect to fair value hedges only:

1. If the entire asset or liability is an instrument with variable cash flows, an implicit fixed-to-variable swap (or similar instrument) perceived to be embedded in a host contract with fixed cash flows

2. For a held-to-maturity security, the risk of changes in its fair value attributable to interest rate risk

3. An asset or liability that is remeasured with the changes in fair value attributable to the hedged risk reported currently in earnings

4. An equity investment in a consolidated subsidiary

5. A firm commitment either to enter into a business combination or to acquire or dispose of a subsidiary, a noncontrolling interest, or an equity method investee

6. An equity instrument issued by the entity and classified in stockholders' equity in the statement of financial position

7. A component of an embedded derivative in a hybrid instrument—for example, embedded options in a **hybrid instrument** that are required to be considered a single forward contract under paragraph 815-10-25-10 cannot be designated as items hedged individually in a fair value hedge in which the hedging instrument is a separate, unrelated freestanding option.

d. With respect to cash flow hedges only:

1. [Subparagraph Not Used]

2. If variable cash flows of the forecasted transaction relate to a debt security that is classified as held-to-maturity under Topic 320, the risk of changes in its cash flows attributable to interest rate risk

3. In a cash flow hedge of a variable-rate financial asset or liability, either existing or forecasted, the risk of changes in its cash flows attributable to changes in the specifically identified benchmark interest rate if the cash flows of the hedged transaction are explicitly based on a different index, for example, based on a specific bank's prime rate, which cannot qualify as the benchmark rate. That is, the hedged risk cannot be

designated as interest rate risk unless the cash flows of the hedged transaction are explicitly based on that same benchmark interest rate. However, the risk designated as being hedged could potentially be the risk of overall changes in the hedged cash flows related to the asset or liability, if the other criteria for a cash flow hedge have been met.

The restriction against hedging interest rate risk in item (d)(3) does not apply to a cash flow hedge of the forecasted issuance or forecasted purchase of fixed-rate debt.

25-44 The earnings exposure criterion specifically precludes hedge accounting for derivative instruments used to hedge items in (b)(3) through (b)(5) in the preceding paragraph. However, intra-entity transactions may present an earnings exposure for a subsidiary in its freestanding financial statements; a hedge of an intra-entity transaction would be eligible for hedge accounting for purposes of those statements.

> Eligibility of Hedging Instruments

25-45 Either all or a proportion of a derivative instrument (including a compound embedded derivative that is accounted for separately) may be designated as a hedging instrument. Two or more derivative instruments, or proportions thereof, may also be viewed in combination and jointly designated as the hedging instrument. A proportion of a derivative instrument or derivative instruments designated as the hedging instrument shall be expressed as a percentage of the entire derivative instrument(s) so that the profile of risk exposures in the hedging portion of the derivative instrument(s) is the same as that in the entire derivative instrument(s). Subsequent references in the Derivatives and Hedging Topic to a derivative instrument as a hedging instrument include the use of only a proportion of a derivative instrument as a hedging instrument. Whether a written option may be designated as a hedging instrument depends on the terms of both the hedging instrument and the hedged item as discussed beginning in paragraph 815-20-25-94.

25-46 The eligibility criteria for hedging instruments are organized as follows:

a. **Intra-entity derivatives**

b. [Subparagraph Not Used]

c. Hedging instrument in a cash flow hedge of basis risk

d. Hedging instruments in hedges of foreign exchange risk

e. Instruments specifically ineligible for designation as hedging instruments.

>> Intra-entity Derivatives

25-46A There is no requirement in this Subtopic that the operating unit with the interest rate, market price, or credit risk exposure be a party to the hedging instrument. Thus, for example, a parent entity's central treasury function can enter into a derivative instrument with a third party and designate it as the hedging instrument in a hedge of a subsidiary's interest rate risk for purposes of the consolidated financial statements. However, if the subsidiary wishes to qualify for hedge accounting of the interest rate exposure in its separate-entity financial statements, the subsidiary (as the reporting entity) shall be a party to the hedging instrument, which can be an intra-entity derivative obtained from the central treasury function. Thus, an intra-entity derivative for interest rate risk can qualify for designation as the hedging instrument in separate-entity financial statements but not in consolidated financial statements. (As used in this guidance, the term *subsidiary* refers only to a consolidated subsidiary. This guidance shall not be applied directly or by analogy to an equity method investee.)

25-46B An intra-entity derivative shall not be designated as the hedging instrument if the hedged risk is any of the following:

a. The risk of changes in the overall fair value or cash flows of the entire hedged item or transaction

b. The risk of changes in hedged item's or transaction's fair value or cash flows attributable to changes in the designated benchmark interest rate

c. The risk of changes in hedged item's or transaction's fair value or cash flows attributable to changes in credit risk.

Similarly, a derivative instrument contract between operating units within a single legal entity shall not be designated as the hedging instrument in a hedge of those risks. Only a derivative instrument with an unrelated third party can be designated as the hedging instrument in a hedge of those risks in consolidated financial statements.

25-47 [Paragraph Not Used]

25-48 [Paragraph Not Used]

25-49 [Paragraph Not Used]

>> Hedging Instrument in a Cash Flow Hedge of Basis Risk

25-50 If a hedging instrument is used to modify the interest receipts or payments associated with a recognized financial asset or liability from one variable rate to another variable rate, the hedging instrument shall meet both of the following criteria:

a. It is a link between both of the following:

1. An existing designated asset (or group of similar assets) with variable cash flows

2. An existing designated liability (or group of similar liabilities) with variable cash flows.

b. It is highly effective at achieving offsetting cash flows.

25-51 For purposes of paragraph 815-20-25-50, a link exists if both of the following conditions are met:

a. The basis (that is, the rate index on which the interest rate is based) of one leg of an interest rate swap is the same as the basis of the interest receipts for the designated asset.

b. The basis of the other leg of the swap is the same as the basis of the interest payments for the designated liability.

In this situation, the criterion in paragraph 815-20-25-15(a) is applied separately to the designated asset and the designated liability.

>> Hedging Instruments in Hedges of Foreign Exchange Risk

25-51A The guidance on hedging instruments in hedges of foreign exchange risk is organized as follows:

a. Intra-entity derivatives

b. Hedging instruments in fair value hedges involving foreign exchange risk

c. Internal derivatives as hedging instruments in cash flow hedges of foreign exchange risk

d. Hedging instruments in net investment hedges.

>>> Intra-Entity Derivatives

25-52 A foreign currency derivative instrument that has been entered into with another member of a consolidated group can be a hedging instrument in any of the following hedging relationships only if that other member of the consolidated group has entered into an offsetting contract with an unrelated third party to hedge the exposure it acquired from issuing the derivative instrument to the affiliate that initiated the hedge:

a. A fair value hedge

b. A cash flow hedge of a recognized foreign-currency-denominated asset or liability

c. A net investment hedge in the consolidated financial statements.

25-53 Paragraph 815-20-25-46A states that there is no requirement in this Subtopic that the operating unit with the interest rate, market price, or credit risk exposure be a party to the hedging instrument and provides related guidance.

25-54 An intra-entity derivative can be designated as a hedging instrument in consolidated financial statements if all of the following conditions are met:

a. The hedged risk is either of the following:

1. The risk of changes in fair value or cash flows attributable to changes in a foreign currency exchange rate

2. The foreign exchange risk for a net investment in a foreign operation.

b. In a fair value hedge or in a cash flow hedge of a recognized foreign-currency-denominated asset or liability or in a net investment hedge in the consolidated financial statements the counterparty (that is, the other member of the consolidated group) has entered into a contract with an unrelated third party that offsets the intra-entity derivative completely, thereby hedging the exposure it acquired from issuing the intra-entity derivative to the affiliate that designated the hedge.

c. In a foreign currency cash flow hedge of a forecasted borrowing, purchase, or sale or an unrecognized firm commitment the counterparty has entered into a derivative instrument with an unrelated third party to offset the exposure that results from that **internal derivative** or, if the conditions in paragraphs 815-20-25-62 through 25-63 are met, entered into derivative instruments with unrelated third parties that would offset, on a net basis for each foreign currency, the foreign exchange risk arising from multiple internal derivative instruments.

25-55 The designation of intra-entity derivatives as hedging instruments for hedges of foreign exchange risk enables entities to continue using a central treasury function for derivative instruments with third parties and still comply with the requirement in paragraph 815-20-25-30(a) that the operating unit with the foreign currency exposure be a party to the hedging instrument.

25-56 Paragraph 815-20-25-46B states that an intra-entity derivative shall not be designated as the hedging instrument in other circumstances and provides related guidance.

25-57 [Paragraph Not Used]

>>> Hedging Instruments in Fair Value Hedges Involving Foreign Exchange Risk

25-58 A derivative instrument or a nonderivative **financial instrument** that may give rise to a foreign currency transaction gain or loss under Topic 830 can be designated as hedging changes in the fair value of an unrecognized firm commitment, or a specific portion thereof, attributable to foreign currency exchange rates. The designated hedging relationship qualifies for the accounting specified in Subtopic 815-25 if all the fair value hedge conditions in this Section and the conditions in paragraph 815-20-25-30 are met.

25-59 The carrying basis for a nonderivative financial instrument that gives rise to a foreign currency transaction gain or loss under Subtopic 830-20 is not addressed by this Subtopic.

25-60 An entity may designate an intra-entity loan or other payable as the hedging instrument in a foreign currency fair value hedge of an unrecognized firm commitment and qualify for hedge accounting in the consolidated financial statements. That designation is consistent with the ability under paragraphs 815-20-25-58 through 25-59 to designate nonderivative instruments as hedging instruments in foreign currency fair value hedges of firm commitments. However, hedge accounting in the consolidated financial statements shall only be applied if the member of the consolidated entity that is the counterparty to the intra-entity loan has entered into a third-party contract that offsets the foreign exchange exposure of that entity's intra-entity loan receivable. That is, the requirement in paragraphs 815-20-25-28 through 25-29 that an intra-entity derivative instrument designated as a hedging instrument in a foreign currency fair value hedge be offset by a third-party contract would also apply to intra-entity nonderivative instruments designated as hedging instruments. To remain consistent with the notion that the intra-entity contract is simply a conduit for the third-party exposure, an intra-entity loan designated as a hedging instrument shall be offset by a third-party loan (that is, it shall not be offset by a derivative instrument). Hedge accounting shall be applied in consolidation only to those gains and losses occurring during the period that the offsetting third-party loan is in place.

>>> Internal Derivatives as Hedging Instruments in Cash Flow Hedges of Foreign Exchange Risk

25-61 An internal derivative can be a hedging instrument in a foreign currency cash flow hedge of a forecasted borrowing, purchase, or sale or an unrecognized firm commitment in the consolidated financial statements only if both of the following conditions are satisfied:

a. From the perspective of the member of the consolidated group using the derivative instrument as a hedging instrument (the hedging affiliate), the criteria for foreign currency cash flow hedge accounting otherwise specified in this Section are satisfied.

b. The member of the consolidated group not using the derivative instrument as a hedging instrument (the issuing affiliate) either:

1. Enters into a derivative instrument with an unrelated third party to offset the exposure that results from that internal derivative

2. If the conditions in paragraphs 815-20-25-62 through 25-63 are met, enters into derivative instruments with unrelated third parties that would offset, on a net basis for each foreign currency, the foreign exchange risk arising from multiple internal derivative instruments. In complying with this guidance the issuing affiliate could enter into a third-party position with neither leg of the third-party position being the issuing affiliate's functional currency to offset its exposure if the amount of the respective currencies of each leg are equivalent with respect to each other based on forward exchange rates.

25-62 If an issuing affiliate chooses to offset exposure arising from multiple internal derivatives on an aggregate or net basis, the derivative instruments issued to hedging affiliates shall qualify as cash flow hedges in the consolidated financial statements only if all of the following conditions are satisfied:

a. The issuing affiliate enters into a derivative instrument with an unrelated third party to offset, on a net basis for each foreign currency, the foreign exchange risk arising from multiple internal derivatives.

b. The derivative instrument with the unrelated third party generates equal or closely approximating gains and losses when compared with the aggregate or net losses and gains generated by the derivative instruments issued to affiliates.

c. Internal derivatives that are not designated as hedging instruments are excluded from the determination of the foreign currency exposure on a net basis that is offset by the third-party derivative instrument. Nonderivative contracts shall not be used as hedging instruments to offset exposures arising from internal derivatives.

d. Foreign currency exposure that is offset by a single net third-party contract arises from internal derivatives that mature within the same 31-day period and that involve the same currency exposure as the net third-party derivative instrument. The offsetting net third-party derivative instrument related to that group of contracts shall meet all of the following criteria:

1. It offsets the aggregate or net exposure to that currency.

2. It matures within the same 31-day period.

3. It is entered into within three business days after the designation of the internal derivatives as hedging instruments.

e. The issuing affiliate meets both of the following conditions:

1. It tracks the exposure that it acquires from each hedging affiliate.

2. It maintains documentation supporting linkage of each internal derivative and the offsetting aggregate or net derivative instrument with an unrelated third party.

f. The issuing affiliate does not alter or terminate the offsetting derivative instrument with an unrelated third party unless the hedging affiliate initiates that action.

25-63 If the issuing affiliate alters or terminates any offsetting third-party derivative (which should be rare), the hedging affiliate shall prospectively cease hedge accounting for the internal derivatives that are offset by that third-party derivative instrument.

25-64 A member of a consolidated group cannot meet the offsetting criteria by offsetting exposures arising from multiple internal derivative contracts on a net basis for foreign currency cash flow exposures related to recognized foreign-currency-denominated assets or liabilities. That prohibition includes situations in which a recognized foreign-currency-denominated asset or liability in a fair value hedge or cash flow hedge results from the occurrence of a specifically identified forecasted transaction initially designated as a cash flow hedge.

25-65 A qualifying foreign currency cash flow hedge shall be accounted for as specified in Subtopic 815-30.

>>> Hedging Instruments in Net Investment Hedges

25-66 A derivative instrument or a nonderivative financial instrument that may give rise to a foreign currency transaction gain or loss under Subtopic 830-20 can be designated as hedging the foreign currency exposure of a net investment in a foreign operation provided the conditions in paragraph 815-20-25-30 are met. A nonderivative financial instrument that is reported at fair value does not give rise to a foreign currency transaction gain or loss under Subtopic 830-20 and, thus, cannot be designated as hedging the foreign currency exposure of a net investment in a foreign operation.

25-67 Hedging instruments that are eligible for designation in a net investment hedge include, among others, both of the following:

a. A receive-variable-rate, pay-variable-rate cross-currency interest rate swap, provided both of the following conditions are met:

1. The interest rates are based on the same currencies contained in the swap.

2. Both legs of the swap have the same repricing intervals and dates.

b. A receive-fixed-rate, pay-fixed-rate cross-currency interest rate swap. A cross-currency interest rate swap that has two fixed legs is not a compound derivative instrument and, therefore, is not subject to the criteria in (a).

25-68 A cross-currency interest rate swap that has either two variable legs or two fixed legs has a fair value that is primarily driven by changes in foreign exchange rates rather than changes in interest rates. Therefore, foreign exchange risk, rather than interest rate risk, is the dominant risk exposure in such a swap.

25-68A Under the guidance in paragraph 815-20-25-71(d)(1), a cross-currency interest rate swap with one fixed-rate leg and one floating-rate leg cannot be designated as the hedging instrument in a net investment hedge.

25-69 To designate a derivative instrument as a hedge of a net investment, an entity shall have an expectation that the derivative instrument will be effective as an economic hedge of foreign exchange risk associated with the hedged net investment. Accordingly, if any difference in **notional amount**, currencies, or underlyings is present, the entity shall establish an expectation that the actual derivative instrument designated as the hedging instrument will be effective as an economic hedge.

25-70 For example, if an entity designates a derivative instrument that has an underlying exchange rate involving a currency other than the functional currency of the net investment, that exchange rate shall be expected to move in tandem with the exchange rate between the functional currency of the hedged net investment and the investor's functional currency. Use of a currency different from the exposed currency is not limited to cases in which it is not practical or feasible to hedge in the exposed currency if all other qualifying criteria are met.

>> Instruments Specifically Ineligible for Designation as Hedging Instruments

25-71 Besides those hedging instruments that fail to meet the specified eligibility criteria, none of the following shall be designated as a hedging instrument for the respective hedges:

a. With respect to fair value hedges, cash flow hedges, and net investment hedges:

1. A nonderivative instrument, such as a U.S. Treasury note, except as provided in paragraphs 815-20-25-58 through 25-59 and 815-20-25-66

2. Components of a compound derivative instrument representing different risks

3. A hybrid financial instrument that an entity irrevocably elects under paragraph 815-15-25-4 to initially and subsequently measure in its entirety at fair value (with changes in fair value recognized in earnings)

4. A hybrid instrument for which an entity cannot reliably identify and measure the embedded derivative instrument that paragraph 815-15-25-1 requires be separated from the host contract

5. Any of the individual components of a compound embedded derivative that is separated from the host contract.

b. With respect to fair value hedges only:

1. A nonderivative financial instrument as the hedging instrument in a fair value hedge of the foreign currency exposure of a recognized asset or liability.

2. A nonderivative financial instrument as the hedging instrument in a fair value hedge of the foreign currency exposure of an available-for-sale security.

c. With respect to cash flow hedges only:

1. A nonderivative financial instrument as a hedging instrument in a foreign currency cash flow hedge.

d. With respect to net investment hedges only:

1. A compound derivative instrument that has multiple underlyings—one based on foreign exchange risk and one or more not based on foreign exchange (for example, the price of gold or the price of an S&P 500 contract), except as indicated in paragraph 815-20-25-67 for certain cross-currency interest rate swaps

2. A derivative instrument and a cash instrument in combination as a single hedging instrument (that is, an entity shall not consider a separate derivative instrument and a cash instrument as a single synthetic instrument for accounting purposes)

3. [Subparagraph Not Used]

> Hedge Effectiveness

25-72 The hedge effectiveness criteria are organized as follows:

a. Hedge effectiveness criteria applicable to both fair value hedges and cash flow hedges

b. Hedge effectiveness criterion applicable to fair value hedges only—effectiveness horizon

c. Hedge effectiveness criteria applicable to cash flow hedges only

d. Time value in net investment hedges.

25-73 Sections 815-25-55 and 815-30-55 illustrate some ways in which an entity may assess hedge effectiveness and measures hedge ineffectiveness for specific strategies. The Examples are not intended to imply that other reasonable methods are precluded. However, not all possible methods are reasonable or consistent with this Subtopic. Those Sections also discuss some methods of assessing hedge effectiveness and determining hedge ineffectiveness that are not consistent with this Subtopic and thus may not be used.

>> Hedge Effectiveness Criteria Applicable to Both Fair Value Hedges and Cash Flow Hedges

25-74 This guidance addresses hedge effectiveness criteria applicable to both fair value hedges and cash flow hedges.

25-75 To qualify for hedge accounting, the hedging relationship, both at inception of the hedge and on an ongoing basis, shall be expected to be highly effective in achieving either of the following:

a. Offsetting changes in fair value attributable to the hedged risk during the period that the hedge is designated (if a fair value hedge)

b. Offsetting cash flows attributable to the hedged risk during the term of the hedge (if a cash flow hedge), except as indicated in paragraph 815-20-25-50.

25-76 If the hedging instrument (such as an at-the-money option contract) provides only one-sided offset of the hedged risk, either of the following conditions shall be met:

a. The increases (or decreases) in the fair value of the hedging instrument are expected to be highly effective in offsetting the decreases (or increases) in the fair value of the hedged item (if a fair value hedge).

b. The cash inflows (outflows) from the hedging instrument are expected to be highly effective in offsetting the corresponding change in the cash outflows or inflows of the hedged transaction (if a cash flow hedge).

25-77 Hedge ineffectiveness would result from any of the following circumstances, among others:

a. A difference between the basis of the hedging instrument and the hedged item or hedged transaction, to the extent that those bases do not move in tandem

b. Differences in critical terms of the hedging instrument and hedged item or hedged transaction, such as differences in any of the following:

1. Notional amounts

2. Maturities

3. Quantity

4. Location

5. Delivery dates.

c. A change in the counterparty’s creditworthiness.

25-78 Paragraph 815-20-55-62 discusses basis differences in cash flow hedges of interest rate risk.

25-79 An entity shall consider hedge effectiveness in two different ways—in prospective considerations and in retrospective evaluations:

a. Prospective considerations. The entity's expectation that the relationship will be highly effective over future periods in achieving offsetting changes in fair value or cash flows, which is forward-looking, can be based on regression or other statistical analysis of past changes in fair values or cash flows as well as on other relevant information. The prospective assessment of hedge effectiveness shall consider all reasonably possible changes in fair value (if a fair value hedge) or in fair value or cash flows (if a cash flow hedge) of the derivative instrument and the hedged items for the period used to assess whether the requirement for expectation of highly effective offset is satisfied. The prospective assessment shall not be limited only to the likely or expected changes in fair value (if a fair value hedge) or in fair value or cash flows (if a cash flow hedge) of the derivative instrument or the hedged items. Generally, the process of formulating an expectation regarding the effectiveness of a proposed hedging relationship involves a probability-weighted analysis of the possible changes in fair value (if a fair value hedge) or in fair value or cash flows (if a cash flow hedge) of the derivative instrument and the hedged items for the hedge period. Therefore, a probable future change in fair value will be more heavily weighted than a reasonably possible future change. That calculation technique is consistent with the definition of the term **expected cash flow** in FASB Concepts Statement No. 7, Using Cash Flow Information and Present Value in Accounting Measurements.

b. Retrospective evaluations. An assessment of effectiveness shall be performed whenever financial statements or earnings are reported, and at least every three months. See paragraphs 815-20-35-2 through 35-4 for further guidance. At inception of the hedge, an entity electing a dollar-offset approach to perform retrospective evaluations may choose either a period-by-period approach or a cumulative approach in designating how effectiveness of a fair value hedge or of a cash flow hedge will be assessed retrospectively under that approach, depending on the nature of the hedge documented in accordance with paragraph 815-20-25-3. For example, an entity may decide that the cumulative approach is generally preferred, yet may wish to use the period-by-period approach in certain circumstances. See paragraphs 815-20-35-5 through 35-7 for further guidance.

25-80 All assessments of effectiveness shall be consistent with the originally documented risk management strategy for that particular hedging relationship. An entity shall use the effectiveness assessment method defined at hedge inception consistently throughout the hedge period to do both of the following:

a. Assess at inception of the hedge and on an ongoing basis whether it expects the hedging relationship to be highly effective in achieving offset

b. Measure the ineffective part of the hedge.

25-81 This Subtopic does not specify a single method for either assessing whether a hedge is expected to be highly effective or measuring hedge ineffectiveness. The method of assessing effectiveness shall be reasonable. The appropriateness of a given method of assessing hedge effectiveness depends on the nature of the risk being hedged and the type of hedging instrument used. Ordinarily, an entity shall assess effectiveness for similar hedges in a similar manner, including whether a component of the gain or loss on a derivative instrument is excluded in assessing effectiveness for similar hedges. Use of different methods for similar hedges shall be justified. The mechanics of isolating the change in **time value of an option** discussed beginning in paragraph 815-20-25-98 also shall be applied consistently.

25-82 In defining how hedge effectiveness will be assessed, an entity shall specify whether it will include in that assessment all of the gain or loss on a hedging instrument. An entity may exclude all or a part of the hedging instrument’s time value from the assessment of hedge effectiveness, as follows:

a. If the effectiveness of a hedge with an option is assessed based on changes in the option’s intrinsic value, the change in the time value of the option would be excluded from the assessment of hedge effectiveness.

b. If the effectiveness of a hedge with an option is assessed based on changes in the option’s minimum value, that is, its intrinsic value plus the effect of discounting, the change in the volatility value of the contract shall be excluded from the assessment of hedge effectiveness.

c. An entity may exclude any of the following components of the change in an option’s time value from the assessment of hedge effectiveness:

1. The portion of the change in time value attributable to the passage of time (theta)

2. The portion of the change in time value attributable to changes due to volatility (vega)

3. The portion of the change in time value attributable to changes due to interest rates (rho).

d. If the effectiveness of a hedge with a forward contract or futures contract is assessed based on changes in fair value attributable to changes in spot prices, the change in the fair value of the contract related to the changes in the difference between the spot price and the forward or futures price shall be excluded from the assessment of hedge effectiveness.

25-83 Changes in the excluded component shall be included currently in earnings, together with any ineffectiveness that results under the defined method of assessing ineffectiveness. No other components of a gain or loss on the designated hedging instrument shall be excluded from the assessment of hedge effectiveness nor shall an entity exclude any aspect of a change in an option's value from the assessment of hedge effectiveness that is not one of the permissible components of the change in an option's time value. For example, an entity shall not exclude from the assessment of hedge effectiveness the portion of the change in time value attributable to changes in other market variables (that is, other than rho and vega).

25-84 Whether a hedging relationship qualifies as highly effective sometimes will be easy to assess, and there will be no ineffectiveness to recognize in earnings during the term of the hedge. If the critical terms of the hedging instrument and of the entire hedged asset or liability (as opposed to selected cash flows) or hedged forecasted transaction are the same, the entity could conclude that changes in fair value or cash flows attributable to the risk being hedged are expected to completely offset at inception and on an ongoing basis. For example, an entity may assume that a hedge of a forecasted purchase of a commodity with a forward contract will be highly effective and that there will be no ineffectiveness to be recognized in earnings if all of the following criteria are met:

a. The forward contract is for purchase of the same quantity of the same commodity at the same time and location as the hedged forecasted purchase.

b. The fair value of the forward contract at inception is zero.

c. Either of the following criteria is met:

1. The change in the discount or premium on the forward contract is excluded from the assessment of effectiveness and included directly in earnings pursuant to paragraphs 815-20-25-81 through 25-83.

2. The change in expected cash flows on the forecasted transaction is based on the forward price for the commodity.

25-85 If all of the criteria in the preceding paragraph are met, an entity shall still perform and document an assessment of hedge effectiveness at the inception of the hedging relationship and, as discussed beginning in paragraph 815-20-35-9, on an ongoing basis throughout the hedge period.

25-86 The remainder of this guidance on hedge effectiveness criteria applicable to both fair value hedges and cash flow hedges is organized as follows:

a. Hedge effectiveness when the hedging instrument is an option or combination of options

b. Hedge effectiveness when hedged exposure is more limited than hedging instrument

c. Hedge effectiveness during designated hedge period

d. Assuming no hedge ineffectiveness in a hedge with an interest rate swap (the shortcut method).

>>> Hedge Effectiveness when the Hedging Instrument Is an Option or Combination of Options

25-87 The hedge effectiveness criteria applicable to options and combinations of options are organized as follows:

a. Determining whether a combination of options is net written

b. Hedge effectiveness of written options

c. Hedge effectiveness of options in general.

>>>> Determining Whether a Combination of Options Is Net Written

25-88 This guidance addresses how an entity shall determine whether a combination of options is considered a net written option subject to the requirements of paragraph 815-20-25-94. A combination of options (for example, an interest rate collar) entered into contemporaneously shall be considered a written option if either at inception or over the life of the contracts a net premium is received in cash or as a favorable rate or other term. Furthermore, a derivative instrument that results from combining a written option and any other non-option derivative instrument shall be considered a written option. The determination of whether a combination of options is considered a net written option depends in part on whether strike prices and notional amounts of the options remain constant.

>>>>> Strike Prices and Notional Amounts Remain Constant

25-89 For a combination of options in which the strike price and the notional amount in both the written option component and the purchased option component remain constant over the life of the respective component, that combination of options would be considered a net purchased option or a zero cost collar (that is, the combination shall not be considered a net written option subject to the requirements of paragraph 815-20-25-94) provided all of the following conditions are met:

a. No net premium is received.

b. The components of the combination of options are based on the same underlying.

c. The components of the combination of options have the same maturity date.

d. The notional amount of the written option component is not greater than the notional amount of the purchased option component.

25-90 If the combination of options does not meet all of those conditions, it shall be subject to the test in paragraph 815-20-25-94. For example, a combination of options having different underlying indexes, such as a collar containing a written floor based on three-month U.S. Treasury rates and a purchased cap based on three-month London Interbank Offered Rate (LIBOR), shall not be considered a net purchased option or a zero cost collar even though those rates may be highly correlated.

>>>>> Strike Prices and Notional Amounts Do Not Remain Constant

25-91 If either the written option component or the purchased option component for a combination of options has either strike prices or notional amounts that do not remain constant over the life of the respective component, the assessment to determine whether that combination of options can be considered not to be a written option under paragraph 815-20-25-88 shall be evaluated with respect to each date that either the strike prices or the notional amounts change within the contractual term from inception to maturity.

25-92 Even though that assessment is made on the date that a combination of options is designated as a hedging instrument (to determine the applicability of paragraph 815-20-25-94), it shall consider the receipt of a net premium (in cash or as a favorable rate or other term) from that combination of options at each point in time that either the strike prices or the notional amounts change, such as either of the following circumstances:

a. If strike prices fluctuate over the life of a combination of options and no net premium is received at inception, a net premium will typically be received as a favorable term in one or more reporting periods within the contractual term from inception to maturity.

b. If notional amounts fluctuate over the life of a combination of options and no net premium is received at inception, a net premium or a favorable term will typically be received in one or more periods within the contractual term from inception to maturity.

25-93 In addition, a combination of options in which either the written option component or the purchased option component has either strike prices or notional amounts that do not remain constant over the life of the respective component shall satisfy all of the conditions in paragraph 815-20-25-89 to be considered not to be a written option (that is, to be considered to be a net purchased option or zero cost collar) under paragraph 815-20-25-88. For example, if the notional amount of the written option component is greater than the notional amount of the purchased option component at any date that the notional amount changes within the contractual term from inception to maturity, the combination of options shall be considered to be a written option under paragraph 815-20-25-88 and, thus, subject to the criteria in the following paragraph.

>>>> Hedge Effectiveness of Written Options

25-94 If a written option is designated as hedging a recognized asset or liability or an unrecognized firm commitment (if a fair value hedge) or the variability in cash flows for a recognized asset or liability or an unrecognized firm commitment (if a cash flow hedge), the combination of the hedged item and the written option provides either of the following:

a. At least as much potential for gains as a result of a favorable change in the fair value of the combined instruments (that is, the written option and the hedged item, such as an embedded purchased option) as exposure to losses from an unfavorable change in their combined fair value (if a fair value hedge)

b. At least as much potential for favorable cash flows as exposure to unfavorable cash flows (if a cash flow hedge).

25-95 The written-option test in the preceding paragraph shall be applied only at inception of the hedging relationship and is met if all possible percentage favorable changes in the underlying (from zero percent to 100 percent) would provide either of the following:

a. At least as much gain as the loss that would be incurred from an unfavorable change in the underlying of the same percentage (if a fair value hedge)

b. At least as much favorable cash flows as the unfavorable cash flows that would be incurred from an unfavorable change in the underlying of the same percentage (if a cash flow hedge).

25-96 The time value of a written option (or net written option) may be excluded from the written-option test if, in defining how hedge effectiveness will be assessed, the entity specifies that it will base that assessment on only changes in the option’s intrinsic value. In that circumstance, the change in the time value of the options would be excluded from the assessment of hedge effectiveness in accordance with paragraph 815-20-25-82(a).

25-97 When applying the written-option test to determine whether there is symmetry of the gain and loss potential of the combined hedged position for all possible percentage changes in the underlying, an entity is permitted to measure the change in the intrinsic value of the written option (or net written option) combined with the change in fair value of the hedged item.

>>>> Computing Changes in an Option's Time Value

25-98 In computing the changes in an option's time value that would be excluded from the assessment of hedge effectiveness, an entity shall use a technique that appropriately isolates those aspects of the change in time value. Generally, to allocate the total change in an option's time value to its different aspects—the passage of time and the market variables—the change in time value attributable to the first aspect to be isolated is determined by holding all other aspects constant as of the beginning of the period. Each remaining aspect of the change in time value is then determined in turn in a specified order based on the ending values of the previously isolated aspects.

25-99 Based on that general methodology, if only one aspect of the change in time value is excluded from the assessment of hedge effectiveness (for example, theta), that aspect shall be the first aspect for which the change in time value is computed and would be determined by holding all other parameters constant for the period used for assessing hedge effectiveness. However, if more than one aspect of the change in time value is excluded from the assessment of hedge effectiveness (for example, theta and vega), an entity shall determine the amount of that change in time value by isolating each of those two aspects in turn in a prespecified order (one first, the other second). The second aspect to be isolated would be based on the ending value of the first isolated aspect and the beginning values of the remaining aspects. The portion of the change in time value that is included in the assessment of effectiveness shall be determined by deducting from the total change in time value the portion of the change in time value attributable to excluded components.

>>> Hedge Effectiveness when Hedged Exposure Is More Limited than Hedging Instrument

25-100 An entity may designate as the hedging instrument in a fair value hedge or cash flow hedge a derivative instrument that does not have a limited exposure comparable to the limited exposure of the hedged item to the risk being hedged. However, to make that designation, in accordance with paragraph 815-20-25-75, the entity shall establish that the hedging relationship is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period that the hedge is designated. See paragraph 815-20-25-79(a) for additional guidance on prospective considerations of hedge effectiveness in this circumstance.

>>> Hedge Effectiveness During Designated Hedge Period

25-101 It is inappropriate under this Subtopic for an entity to designate a derivative instrument as the hedging instrument if the entity expects that the derivative instrument will not be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period that the hedge is designated, unless the entity has documented undertaking a dynamic hedging strategy in which it has committed itself to an ongoing repositioning strategy for its hedging relationship.

>>> Assuming No Hedge Ineffectiveness in a Hedge with an Interest Rate Swap (The Shortcut Method)

25-102 The conditions for the shortcut method do not determine which hedging relationships qualify for hedge accounting; rather, those conditions determine which hedging relationships qualify for a shortcut version of hedge accounting that does not immediately recognize hedge ineffectiveness. If all of the applicable conditions in the list in paragraph 815-20-25-104 are met, an entity may assume no ineffectiveness in a hedging relationship of interest rate risk involving a recognized interest-bearing asset or liability (or a firm commitment arising on the trade [pricing] date to purchase or issue an interest-bearing asset or liability) and an interest rate swap (or a compound hedging instrument composed of an interest rate swap and a mirror-image call or put option as discussed in paragraph 815-20-25-104[e]) provided that, in the case of a firm commitment, the trade date of the asset or liability differs from its settlement date due to generally established conventions in the marketplace in which the transaction is executed. Given the potential for not recognizing hedge ineffectiveness in earnings under the shortcut method, its application shall be limited to hedging relationships that meet each and every applicable condition. That is, all the conditions applicable to fair value hedges shall be met to apply the shortcut method to a fair value hedge, and all the conditions applicable to cash flow hedges shall be met to apply the shortcut method to a cash flow hedge. A hedging relationship cannot qualify for application of the shortcut method based on an assumption of no ineffectiveness justified by applying other criteria. The verb match is used in the specified conditions in the list to mean be exactly the same or correspond exactly.

25-103 Implicit in the conditions for the shortcut method is the requirement that a basis exist for concluding on an ongoing basis that the hedging relationship is expected to be highly effective in achieving offsetting changes in fair values or cash flows. In applying the shortcut method, an entity shall consider the likelihood of the counterparty's compliance with the contractual terms of the hedging derivative that require the counterparty to make payments to the entity.

25-104 All of the following conditions apply to both fair value hedges and cash flow hedges:

a. The notional amount of the interest rate swap matches the principal amount of the interest-bearing asset or liability being hedged.

b. If the hedging instrument is solely an interest rate swap, the fair value of that interest rate swap at the inception of the hedging relationship must be zero, with one exception. The fair value of the swap may be other than zero at the inception of the hedging relationship only if the swap was entered into at the relationship's inception, the transaction price of the swap was zero in the entity's principal market (or most advantageous market), and the difference between transaction price and fair value is attributable solely to differing prices within the bid-ask spread between the entry transaction and a hypothetical exit transaction. The guidance in the preceding sentence is applicable only to transactions considered *at market* (that is, transaction price is zero exclusive of commissions and other transaction costs, as discussed in 820-10-35-7). If the hedging instrument is solely an interest rate swap that at the inception of the hedging relationship has a positive or negative fair value, but does not meet the one exception specified in this paragraph, the shortcut method shall not be used even if all the other conditions are met.

c. If the hedging instrument is a compound derivative composed of an interest rate swap and mirror-image call or put option as discussed in (e), the premium for the mirror-image call or put option shall be paid or received in the same manner as the premium on the call or put option embedded in the hedged item based on the following:

1. If the implicit premium for the call or put option embedded in the hedged item is being paid principally over the life of the hedged item (through an adjustment of the interest rate), the fair value of the hedging instrument at the inception of the hedging relationship shall be zero (except as discussed previously in (b) regarding differing prices due to the existence of a bid-ask spread).

2. If the implicit premium for the call or put option embedded in the hedged item was principally paid at inception-acquisition (through an original issue discount or premium), the fair value of the hedging instrument at the inception of the hedging relationship shall be equal to the fair value of the mirror-image call or put option.

d. The formula for computing net settlements under the interest rate swap is the same for each net settlement. That is, both of the following conditions are met:

1. The fixed rate is the same throughout the term.

2. The variable rate is based on the same index and includes the same constant adjustment or no adjustment. The existence of a **stub period** and **stub rate** is not a violation of the criterion in (d) that would preclude application of the shortcut method if the stub rate is the variable rate that corresponds to the length of the stub period.

e. The interest-bearing asset or liability is not prepayable, that is, able to be settled by either party before its scheduled maturity, with the following qualifications:

1. This criterion does not apply to an interest-bearing asset or liability that is prepayable solely due to an embedded call option (put option) if the hedging instrument is a compound derivative composed of an interest rate swap and a mirror-image call option (put option).

2. The call option embedded in the interest rate swap is considered a mirror image of the call option embedded in the hedged item if all of the following conditions are met:

i. The terms of the two call options match exactly, including all of the following:

01. Maturities

02. Strike price (that is, the actual amount for which the debt instrument could be called) and there is no termination payment equal to the deferred debt issuance costs that remain unamortized on the date the debt is called

03. Related notional amounts

04. Timing and frequency of payments

05. Dates on which the instruments may be called.

ii. The entity is the writer of one call option and the holder (purchaser) of the other call option.

iii. [Subparagraph Not Used].

f. The index on which the variable leg of the interest rate swap is based matches the benchmark interest rate designated as the interest rate risk being hedged for that hedging relationship.

g. Any other terms in the interest-bearing financial instruments or interest rate swaps meet both of the following conditions:

1. The terms are typical of those instruments.

2. The terms do not invalidate the assumption of no ineffectiveness.

Pending Content:

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All of the following conditions apply to both fair value hedges and cash flow hedges:

a. The notional amount of the interest rate swap matches the principal amount of the interest-bearing asset or liability being hedged.

b. If the hedging instrument is solely an interest rate swap, the fair value of that interest rate swap at the inception of the hedging relationship must be zero, with one exception. The fair value of the swap may be other than zero at the inception of the hedging relationship only if the swap was entered into at the relationship's inception, the transaction price of the swap was zero in the entity's principal market (or most advantageous market), and the difference between transaction price and fair value is attributable solely to differing prices within the bid-ask spread between the entry transaction and a hypothetical exit transaction. The guidance in the preceding sentence is applicable only to transactions considered *at market* (that is, transaction price is zero exclusive of commissions and other transaction costs, as discussed in paragraph 820-10-35-9B). If the hedging instrument is solely an interest rate swap that at the inception of the hedging relationship has a positive or negative fair value, but does not meet the one exception specified in this paragraph, the shortcut method shall not be used even if all the other conditions are met.

c. If the hedging instrument is a compound derivative composed of an interest rate swap and mirror-image call or put option as discussed in (e), the premium for the mirror-image call or put option shall be paid or received in the same manner as the premium on the call or put option embedded in the hedged item based on the following:

1. If the implicit premium for the call or put option embedded in the hedged item is being paid principally over the life of the hedged item (through an adjustment of the interest rate), the fair value of the hedging instrument at the inception of the hedging relationship shall be zero (except as discussed previously in (b) regarding differing prices due to the existence of a bid-ask spread).

2. If the implicit premium for the call or put option embedded in the hedged item was principally paid at inception-acquisition (through an original issue discount or premium), the fair value of the hedging instrument at the inception of the hedging relationship shall be equal to the fair value of the mirror-image call or put option.

d. The formula for computing net settlements under the interest rate swap is the same for each net settlement. That is, both of the following conditions are met:

1. The fixed rate is the same throughout the term.

2. The variable rate is based on the same index and includes the same constant adjustment or no adjustment. The existence of a **stub period** and **stub rate** is not a violation of the criterion in (d) that would preclude application of the shortcut method if the stub rate is the variable rate that corresponds to the length of the stub period.

e. The interest-bearing asset or liability is not prepayable, that is, able to be settled by either party before its scheduled maturity, with the following qualifications:

1. This criterion does not apply to an interest-bearing asset or liability that is prepayable solely due to an embedded call option (put option) if the hedging instrument is a compound derivative composed of an interest rate swap and a mirror-image call option (put option).

2. The call option embedded in the interest rate swap is considered a mirror image of the call option embedded in the hedged item if all of the following conditions are met:

i. The terms of the two call options match exactly, including all of the following:

01. Maturities

02. Strike price (that is, the actual amount for which the debt instrument could be called) and there is no termination payment equal to the deferred debt issuance costs that remain unamortized on the date the debt is called

03. Related notional amounts

04. Timing and frequency of payments

05. Dates on which the instruments may be called.

ii. The entity is the writer of one call option and the holder (purchaser) of the other call option.

iii. [Subparagraph Not Used].

f. The index on which the variable leg of the interest rate swap is based matches the benchmark interest rate designated as the interest rate risk being hedged for that hedging relationship.

g. Any other terms in the interest-bearing financial instruments or interest rate swaps meet both of the following conditions:

1. The terms are typical of those instruments.

2. The terms do not invalidate the assumption of no ineffectiveness.

25-105 All of the following incremental conditions apply to fair value hedges only:

a. The expiration date of the interest rate swap matches the maturity date of the interest-bearing asset or liability.

b. There is no floor or cap on the variable interest rate of the interest rate swap.

c. The interval between repricings of the variable interest rate in the interest rate swap is frequent enough to justify an assumption that the variable payment or receipt is at a market rate (generally three to six months or less).

d. For fair value hedges of a proportion of the principal amount of the interest-bearing asset or liability, the notional amount of the interest rate swap designated as the hedging instrument (see [a] in the preceding paragraph) matches the portion of the asset or liability being hedged.

e. For fair value hedges of portfolios (or proportions thereof) of similar interest-bearing assets or liabilities, both of the following criteria are met:

1. The notional amount of the interest rate swap designated as the hedging instrument matches the aggregate notional amount of the hedged item (whether it is all or a proportion of the total portfolio).

2. The remaining criteria for the shortcut method are met with respect to the interest rate swap and the individual assets or liabilities in the portfolio.

25-106 All of the following incremental conditions apply to cash flow hedges only:

a. All interest receipts or payments on the variable-rate asset or liability during the term of the interest rate swap are designated as hedged.

b. No interest payments beyond the term of the interest rate swap are designated as hedged.

c. Either of the following conditions is met:

1. There is no floor or cap on the variable interest rate of the interest rate swap.

2. The variable-rate asset or liability has a floor or cap and the interest rate swap has a floor or cap on the variable interest rate that is comparable to the floor or cap on the variable-rate asset or liability. For purposes of this paragraph, comparable does not necessarily mean equal. For example, if an interest rate swap's variable rate is based on LIBOR and an asset's variable rate is LIBOR plus 2 percent, a 10 percent cap on the interest rate swap would be comparable to a 12 percent cap on the asset.

d. The repricing dates of the variable-rate asset or liability and the hedging instrument occur on the same dates and be calculated the same way (that is, both shall be either prospective or retrospective). If the repricing dates of the hedged item occur on the same dates as the repricing dates of the hedging instrument but the repricing calculation for the hedged item is prospective whereas the repricing calculation for the hedging instrument is retrospective, those repricing dates do not match.

e. For cash flow hedges of the interest payments on only a portion of the principal amount of the interest-bearing asset or liability, the notional amount of the interest rate swap designated as the hedging instrument (see paragraph 815-20-25-104[a]) matches the principal amount of the portion of the asset or liability on which the hedged interest payments are based.

f. For a cash flow hedge in which the hedged forecasted transaction is a group of individual transactions (as permitted by paragraph 815-20-25-15 [a]), if both of the following criteria are met:

1. The notional amount of the interest rate swap designated as the hedging instrument (see paragraph 815-20-25-104[a]) matches the notional amount of the aggregate group of hedged transactions.

2. The remaining criteria for the shortcut method are met with respect to the interest rate swap and the individual transactions that make up the group. For example, the interest rate repricing dates for the variable-rate assets or liabilities whose interest payments are included in the group of forecasted transactions shall match (that is, be exactly the same as) the reset dates for the interest rate swap.

25-107 The shortcut method may be applied to a hedging relationship that involves the use of an interest rate swap-in-arrears provided all of the applicable conditions are met.

25-108 Any discount or premium in hedged debt's carrying amount (including any related deferred issuance costs) is irrelevant to and has no direct impact on the determination of whether an interest rate swap contains a mirror-image call option under paragraph 815-20-25-104(e). Typically, the call price is greater than the par or **face amount** of the debt instrument. The carrying amount of the debt is economically unrelated to the amount the issuer would be required to pay to exercise the call embedded in the debt.

25-109 The fixed interest rate on a hedged item need not exactly match the fixed interest rate on an interest rate swap designated as a fair value hedge. Nor does the variable interest rate on an interest-bearing asset or liability need to be the same as the variable interest rate on an interest rate swap designated as a cash flow hedge. An interest rate swap’s fair value comes from its net settlements. The fixed and variable interest rates on an interest rate swap can be changed without affecting the net settlement if both are changed by the same amount. That is, an interest rate swap with a payment based on LIBOR and a receipt based on a fixed rate of 5 percent has the same net settlements and fair value as an interest rate swap with a payment based on LIBOR plus 1 percent and a receipt based on a fixed rate of 6 percent.

25-110 [Paragraph Not Used]

25-111 Comparable credit risk at inception is not a condition for assuming no ineffectiveness even though actually achieving perfect offset would require that the same discount rate be used to determine the fair value of the swap and of the hedged item or hedged transaction. To justify using the same discount rate, the credit risk related to both parties to the swap as well as to the debtor on the hedged interest-bearing asset (in a fair value hedge) or the variable-rate asset on which the interest payments are hedged (in a cash flow hedge) would have to be the same. However, because that complication is caused by the interaction of interest rate risk and credit risk, which are not easily separable, comparable creditworthiness is not considered a necessary condition for assuming no ineffectiveness in a hedge of interest rate risk.

>>>> Application of Prepayable Criterion

25-112 An interest-bearing asset or liability shall be considered prepayable under the provisions of paragraph 815-20-25-104(e) if one party to the contract has the right to cause the payment of principal before the scheduled payment dates unless either of the following conditions is met:

a. The debtor has the right to cause settlement of the entire contract before its stated maturity at an amount that is always greater than the then fair value of the contract absent that right.

b. The creditor has the right to cause settlement of the entire contract before its stated maturity at an amount that is always less than the then fair value of the contract absent that right.

25-113 However, none of the following shall be considered a prepayment provision:

a. Any term, clause, or other provision in a debt instrument that gives the debtor or creditor the right to cause prepayment of the debt contingent upon the occurrence of a specific event related to the debtor's credit deterioration or other change in the debtor's credit risk, such as any of the following:

1. The debtor's failure to make timely payment, thus making it delinquent
2. The debtor's failure to meet specific covenant ratios
3. The debtor's disposition of specific significant assets (such as a factory)
4. A declaration of cross-default
5. A restructuring by the debtor.

b. Any term, clause, or other provision in a debt instrument that gives the debtor or creditor the right to cause prepayment of the debt contingent upon the occurrence of a specific event that meets all of the following conditions:

1. It is not probable at the time of debt issuance.
2. It is unrelated to changes in benchmark interest rates or any other market variable.
3. It is related either to the debtor's or creditor's death or to regulatory actions, legislative actions, or other similar events that are beyond the control of the debtor or creditor.

c. Contingent acceleration clauses that permit the debtor to accelerate the maturity of an outstanding note only upon the occurrence of a specified event that meets all of the following conditions:

1. It is not probable at the time of debt issuance.
2. It is unrelated to changes in benchmark interest rates or any other market variable.
3. It is related to regulatory actions, legislative actions, or other similar events that are beyond the control of the debtor or creditor.

25-114 Further, a right to cause a contract to be prepaid at its then fair value would not cause the interest-bearing asset or liability to be considered prepayable since that right would have a fair value of zero at all times and essentially would provide only liquidity to the holder.

25-115 Application of this guidance to specific debt instruments is illustrated in paragraph 815-20-55-75.

>>>> Application of the Shortcut Method to a Portfolio of Hedged Items

25-116 Portfolio hedging cannot be used to circumvent the application of the shortcut method criteria beginning in paragraph 815-20-25-102 to a fair value hedge of an individual interest-bearing asset or liability. A portfolio of interest-bearing assets or interest-bearing liabilities cannot qualify for the shortcut method if it contains an interest-bearing asset or liability that individually cannot qualify for the shortcut method.

25-117 The fair value hedge requirements of paragraph 815-20-25-12(b)(1) ensure that the individual items in a portfolio share the same risk exposure and have fair value changes attributable to the hedged risk that are expected to respond in a generally proportionate manner to the overall fair value changes of the entire portfolio. That requirement restricts the types of portfolios that can qualify for portfolio hedging; however, it also permits the existence of a certain amount of ineffectiveness in portfolios that do qualify. As a result, the assumption of no ineffectiveness required for the shortcut method generally is inappropriate for portfolio hedges of similar assets or liabilities that are not also nearly identical (except for their notional amounts). Application of the shortcut method to portfolios that meet the requirements of paragraph 815-20-25-12(b)(1) is appropriate only if the assets or liabilities in the portfolio meet the same stringent criteria in paragraphs 815-20-25-104(e), 815-20-25-104(g), and 815-20-25-105(a) as required for hedges of individual assets and liabilities.

>> Hedge Effectiveness Criterion Applicable to Fair Value Hedges Only—Effectiveness Horizon

25-118 In documenting its risk management strategy for a fair value hedge, an entity may specify an intent to consider the possible changes (that is, not limited to the likely or expected changes) in value of the hedging derivative instrument and the hedged item only over a shorter period than the derivative instrument's remaining life in formulating its expectation that the hedging relationship will be highly effective in achieving offsetting changes in fair value for the risk being hedged. The entity does not need to contemplate the offsetting effect for the entire term of the hedging instrument.

>> Hedge Effectiveness Criteria Applicable to Cash Flow Hedges Only

25-119 The hedge effectiveness criteria applicable to cash flow hedges only are organized as follows:

a. Consideration of the time value of money

b. Consideration of counterparty credit risk

c. Additional considerations for options in cash flow hedges

>>> Consideration of the Time Value of Money

25-120 In assessing the effectiveness of a cash flow hedge, an entity generally shall consider the time value of money, especially if the hedging instrument involves periodic cash settlements.

25-121 An example of a situation in which an entity likely would reflect the time value of money is a tailing strategy with futures contracts. When using a tailing strategy, an entity adjusts the size or contract amount of futures contracts used in a hedge so that earnings (or expense) from reinvestment (or funding) of daily settlement gains (or losses) on the futures do not distort the results of the hedge. To assess offset of expected cash flows when a tailing strategy has been used, an entity could reflect the time value of money, perhaps by comparing the present value of the hedged forecasted cash flow with the results of the hedging instrument.

>>> Consideration of Counterparty Credit Risk

25-122 For a cash flow hedge, an entity shall consider the likelihood of the counterparty’s compliance with the contractual terms of the hedging derivative instrument that require the counterparty to make payments to the entity. Paragraph 815-20-35-14 states that, for an entity to conclude on an ongoing basis that a cash flow hedging relationship is expected to be highly effective in achieving offsetting changes in cash flows, the entity shall not ignore whether it will collect the payments it would be owed under the contractual provisions of the derivative instrument. See paragraphs 815-20-35-14 through 35-18 for further guidance.

>>> Additional Considerations for Options in Cash Flow Hedges

25-123 When an entity has documented that the effectiveness of a cash flow hedge will be assessed based on changes in the hedging option’s intrinsic value pursuant to paragraph 815-20-25-82(a), that assessment (and the related cash flow hedge accounting) shall be performed for all changes in intrinsic value—that is, for all periods of time when the option has an intrinsic value, such as when the underlying is above the strike price of the call option.

25-124 When a purchased option is designated as a hedging instrument in a cash flow hedge, an entity shall not define only limited parameters for the risk exposure designated as being hedged that would include the time value component of that option. An entity cannot arbitrarily exclude some portion of an option’s intrinsic value from the hedge effectiveness assessment simply through an articulation of the risk exposure definition. It is inappropriate to assert that only limited risk exposures are being hedged (for example, exposures related only to currency-exchange-rate changes above $1.65 per pound sterling as illustrated in Example 26 [see paragraph 815-20-55-205]).

25-125 If an option is designated as the hedging instrument in a cash flow hedge, an entity may assess hedge effectiveness based on a measure of the difference, as of the end of the period used for assessing hedge effectiveness, between the strike price and forward price of the underlying, undiscounted. Although measurement of cash flow hedge effectiveness with respect to an option designated as the hedging instrument in a cash flow hedge shall be performed by comparing the changes in present value of the expected future cash flows of the forecasted transaction to the change in fair value of the derivative instrument (aside from any excluded component under paragraph 815-20-25-82), that measure of changes in the expected future cash flows of the forecasted transaction based on forward rates, undiscounted, is not prohibited. With respect to an option designated as the hedging instrument in a cash flow hedge, assessing hedge effectiveness based on a similar measure with respect to the hedging instrument eliminates any difference that the effect of discounting may have on the hedging instrument and the hedged transaction. Pursuant to paragraphs 815-20-25-3(b)(2)(iv) and 25-3(b)(2)(v), entities shall document the measure of intrinsic value that will be used in the assessment of hedge effectiveness. As discussed in paragraph 815-20-25-80, that measure must be used consistently for each period following designation of the hedging relationship.

>>>> Assessing Hedge Effectiveness Based on an Option's Terminal Value

25-126 The guidance in paragraph 815-20-25-129 addresses a cash flow hedge that meets all of the following conditions:

a. The hedging instrument is a purchased option or a combination of only options that comprise either a net purchased option or a zero-cost collar.

b. The exposure being hedged is the variability in expected future cash flows attributed to a particular rate or price beyond (or within) a specified level (or levels).

c. The assessment of effectiveness is documented as being based on total changes in the option’s cash flows (that is, the assessment will include the hedging instrument’s entire change in fair value, not just changes in intrinsic value).

25-127 This guidance has no effect on the accounting for fair value hedging relationships. In addition, in determining the accounting for seemingly similar cash flow hedging relationships, it would be inappropriate to analogize to this guidance.

25-128 For a hedging relationship that meets all of the conditions in paragraph 815-20-25-126, an entity may focus on the hedging instrument’s terminal value (that is, its expected future pay-off amount at its maturity date) in determining whether the hedging relationship is expected to be highly effective in achieving offsetting cash flows attributable to the hedged risk during the term of the hedge. An entity’s focus on the hedging instrument’s terminal value is not an impediment to the entity’s subsequently deciding to dedesignate that cash flow hedge before the occurrence of the hedged transaction. If the hedging instrument is a purchased cap consisting of a series of purchased caplets that are each hedging an individual hedged transaction in a series of hedged transactions (such as caplets hedging a series of hedged interest payments at different monthly or quarterly dates), the entity may focus on the terminal value of each caplet (that is, the expected future pay-off amount at the maturity date of each caplet) in determining whether each of those hedging relationships is expected to be highly effective in achieving offsetting cash flows. The guidance in this paragraph applies to a purchased option regardless of whether at the inception of the cash flow hedging relationship it is at the money, in the money, or out of the money.

25-129 A hedging relationship that meets all of the conditions in paragraph 815-20-25-126 may be considered to be perfectly effective (resulting in recognizing no ineffectiveness in earnings) if all of the following conditions are met:

a. The critical terms of the hedging instrument (such as its notional amount, underlying, maturity date, and so forth) completely match the related terms of the hedged forecasted transaction (such as the notional amount, the variable that determines the variability in cash flows, the expected date of the hedged transaction, and so forth).

b. The strike price (or prices) of the hedging option (or combination of options) matches the specified level (or levels) beyond (or within) which the entity’s exposure is being hedged.

c. The hedging instrument’s inflows (outflows) at its maturity date completely offset the change in the hedged transaction’s cash flows for the risk being hedged.

d. The hedging instrument can be exercised only on a single date—its contractual maturity date.

The condition in (d) is consistent with the entity’s focus on the hedging instrument’s terminal value. If the holder of the option chooses to pay for the ability to exercise the option at dates before the maturity date (for example, by acquiring an American-style option), the potential for recognizing ineffectiveness exists.

>>>> Hedge Effectiveness of a Net-Purchased Combination of Options

25-130 The guidance in the following paragraph addresses a cash flow hedging relationship that meets both of the following conditions:

a. A combination of options (deemed to be a net purchased option) is designated as the hedging instrument.

b. The effectiveness of the hedge is assessed based only on changes in intrinsic value of the hedging instrument (the combination of options).

25-131 The assessment of effectiveness of a cash flow hedging relationship meeting the conditions in the preceding paragraph may be based only on changes in the underlying that cause a change in the intrinsic value of the hedging instrument (the combination of options). Thus, the assessment can exclude ranges of changes in the underlying for which there is no change in the hedging instrument's intrinsic value.

>> Time Value in Net Investment Hedges

25-132 The premium or discount (also referred to as the forward points) on a foreign currency forward contract that is used to hedge the foreign exchange exposure of the entity's net investment in foreign operations shall not be accounted for separately. Paragraphs 815-35-35-1 through 35-2 do not provide an entity the option of separately amortizing the premium or discount on the forward exchange contract to earnings ratably over the period of the contract.

END OF DOCUMENT -

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815-20-35 Subsequent Measurement

General Note: The Subsequent Measurement Section provides guidance on an entity's subsequent measurement and subsequent recognition of an item. Situations that may result in subsequent changes to carrying amount include impairment, fair value adjustments, depreciation and amortization, and so forth.

General

35-1 Paragraph 815-10-35-2 states that the accounting for subsequent changes in the **fair value** (that is, gains or losses) of a **derivative instrument** depends on whether it has been designated and qualifies as part of a hedging relationship and, if so, on the reason for holding it. Specifically, subsequent gains and losses on derivative instruments shall be accounted for as follows:

a. No hedging designation. Paragraph 815-10-35-2 requires that the gain or loss on a derivative instrument not designated as a hedging instrument be recognized currently in earnings.

b. **Fair value hedge**. The gain or loss on a derivative instrument designated and qualifying as a fair value hedging instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk shall be recognized currently in earnings in the same accounting period, as provided in paragraphs 815-25-35-1 through 35-6. The gain or loss on the hedging derivative or nonderivative instrument in a hedge of a foreign-currency-denominated **firm commitment** and the offsetting loss or gain on the hedged firm commitment shall be recognized currently in earnings in the same accounting period, as provided in paragraphs 815-20-25-58 through 25-59. The gain or loss on the hedging derivative instrument in a hedge of an available-for-sale security and the offsetting loss or gain on the hedged available-for-sale security shall be recognized currently in earnings in the same accounting period, as provided in the next sentence. The change in fair value of a hedged available-for-sale equity security attributable to **foreign exchange risk** is reported in earnings pursuant to paragraph 815-25-35-6 and not in other comprehensive income.

c. **Cash flow hedge**. The effective portion of the gain or loss on a derivative instrument designated and qualifying as a cash flow hedging instrument shall be reported as a component of other comprehensive income (outside earnings) and reclassified into earnings in the same period or periods during which the hedged **forecasted transaction** affects earnings, as provided in paragraphs 815-30-35-3 and 815-30-35-38 through 35-41. The remaining gain or loss on the derivative instrument, if any, shall be recognized currently in earnings, as provided in paragraph 815-30-35-3. If an entity's defined risk management strategy for a particular hedging relationship excludes a specific component of the gain or loss, or related cash flows, on the hedging derivative from the assessment of hedge effectiveness (see paragraphs 815-20-25-81 through 25-83), that excluded component of the gain or loss shall be recognized currently in earnings. The effective portion of the gain or loss on the hedging derivative instrument in a hedge of a forecasted foreign-currency-denominated **transaction** shall be reported as a component of other comprehensive income (outside earnings) and reclassified into earnings in the same period or periods during which the hedged forecasted transaction affects earnings, as provided in paragraph 815-20-25-65. The remaining gain or loss on the hedging instrument shall be recognized currently in earnings.

d. Net investment hedge. The gain or loss on the hedging derivative or nonderivative instrument in a hedge of a net investment in a foreign operation shall be reported in other comprehensive income (outside earnings) as part of the cumulative translation adjustment to the extent it is effective as a hedge, as provided in paragraph 815-20-25-66.

> Hedge Effectiveness—After Designation

35-2 If a fair value hedge or cash flow hedge initially qualifies for hedge accounting, the entity would continue to assess whether the hedge meets the effectiveness test and also would measure any ineffectiveness during the hedge period. If the hedge fails the effectiveness test at any time (that is, if the entity does not expect the hedge to be highly effective at achieving offsetting changes in fair values or cash flows), the hedge ceases to qualify for hedge accounting. At least quarterly, the hedging entity shall determine whether the hedging relationship has been highly effective in having achieved offsetting changes in fair value or cash flows through the date of the periodic assessment. That assessment can be based on regression or other statistical analysis of past changes in fair values or cash flows as well as on other relevant information.

35-3 If an entity elects at the inception of a hedging relationship to use the same regression analysis approach for both prospective considerations and retrospective evaluations of assessing effectiveness, then during the term of that hedging relationship both of the following conditions shall be met:

a. Those regression analysis calculations shall generally incorporate the same number of data points.

b. That entity must periodically update its regression analysis (or other statistical analysis).

35-4 Electing to use a regression or other statistical analysis approach instead of a dollar-offset approach to perform retrospective evaluations of assessing hedge effectiveness may affect whether an entity can apply hedge accounting for the current assessment period.

35-5 In periodically (that is, at least quarterly) assessing retrospectively the effectiveness of a fair value hedge (or a cash flow hedge) in having achieved offsetting changes in fair values (or cash flows) under a dollar-offset approach, an entity shall use either a period-by-period approach or a cumulative approach on individual fair value hedges (or cash flow hedges):

a. Period-by-period approach. The period-by-period approach involves comparing the changes in the hedging instrument’s fair values (or cash flows) that have occurred during the period being assessed to the changes in the hedged item’s fair value (or hedged transaction’s cash flows) attributable to the risk hedged that have occurred during the same period. If an entity elects to base its comparison of changes in fair value (or cash flows) on a period-by-period approach, the period cannot exceed three months. Fair value (or cash flow) patterns of the hedging instrument or the hedged item (or hedged transaction) in periods before the period being assessed are not relevant.

b. Cumulative approach. The cumulative approach involves comparing the cumulative changes (to date from inception of the hedge) in the hedging instrument’s fair values (or cash flows) to the cumulative changes in the hedged item’s fair value (or hedged transaction’s cash flows) attributable to the risk hedged.

35-6 If an entity elects at inception of a hedging relationship to base its comparison of changes in fair value (or cash flows) on a cumulative approach, then that entity must abide by the results of that methodology as long as that hedging relationship remains designated. Electing to utilize a period-by-period approach instead of a cumulative approach (or vice versa) to perform retrospective evaluations of assessing hedge effectiveness under the dollar-offset method may affect whether an entity can apply hedge accounting for the current assessment period.

35-7 The preceding guidance relates to an entity’s periodic retrospective assessment and determining whether a hedging relationship continues to qualify for hedge accounting; it does not relate to the actual measurement of hedge ineffectiveness to be recognized in earnings under hedge accounting. The actual measurement of ineffectiveness is based on the extent to which exact offset is not achieved as specified in paragraphs 815-25-35-1 through 35-4 for fair value hedges or paragraph 815-30-35-3 for cash flow hedges.

35-8 The remainder of this guidance is organized as follows:

a. Relative ease of assessing effectiveness

b. Possibility of default by the counterparty to hedging derivative

c. Change in hedge effectiveness method.

>> Relative Ease of Assessing Effectiveness

35-9 If, at inception, the critical terms of the hedging instrument and the hedged forecasted transaction are the same (see paragraph 815-20-25-84), the entity can conclude that changes in cash flows attributable to the risk being hedged are expected to be completely offset by the hedging derivative. Therefore, subsequent assessments can be performed by verifying and documenting whether the critical terms of the hedging instrument and the forecasted transaction have changed during the period in review.

35-10 Because the assessment of hedge effectiveness in a cash flow hedge involves assessing the likelihood of the counterparty’s compliance with the contractual terms of the derivative instrument designated as the hedging instrument, the entity must also assess whether there have been adverse developments regarding the risk of counterparty default, particularly if the entity planned to obtain its cash flows by liquidating the derivative instrument at its fair value.

35-11 If there are no such changes in the critical terms or adverse developments regarding counterparty default, the entity may conclude that there is no ineffectiveness to be recorded. In that case, the change in fair value of the derivative instrument can be viewed as a proxy for the present value of the change in cash flows attributable to the risk being hedged.

35-12 However, the entity must measure the amount of ineffectiveness that must be recorded currently in earnings pursuant to the guidance beginning in paragraph 815-30-35-10 if any of the following conditions exist:

a. The critical terms of the hedging instrument or the hedged forecasted transaction have changed.

b. There have been adverse developments regarding the risk of counterparty default.

35-13 In addition, the entity must assess whether the hedging relationship is expected to continue to be highly effective (using either a dollar-offset test or a statistical method such as regression analysis).

>> Possibility of Default by the Counterparty to Hedging Derivative

35-14 For an entity to conclude on an ongoing basis that the hedging relationship is expected to be highly effective in achieving offsetting changes in cash flows, the entity shall not ignore whether it will collect the payments it would be owed under the contractual provisions of the derivative instrument. In complying with the requirements of paragraph 815-20-25-75(b), the entity shall assess the possibility of whether the counterparty to the derivative instrument will default by failing to make any contractually required payments to the entity as scheduled in the derivative instrument. In making that assessment, the entity shall also consider the effect of any related collateralization or financial guarantees. The entity shall be aware of the counterparty's creditworthiness (and changes therein) in determining the fair value of the **derivative instrument**. Although a change in the counterparty's creditworthiness would not necessarily indicate that the counterparty would default on its obligations, such a change shall warrant further evaluation.

35-15 If the likelihood that the counterparty will not default ceases to be probable, an entity would be unable to conclude that the hedging relationship in a cash flow hedge is expected to be highly effective in achieving offsetting cash flows.

35-16 In contrast, a change in the creditworthiness of the derivative instrument's counterparty in a fair value hedge would have an immediate impact because that change in creditworthiness would affect the change in the derivative instrument's fair value, which would immediately affect both of the following:

a. The assessment of whether the relationship qualifies for hedge accounting

b. The amount of ineffectiveness recognized in earnings under fair value hedge accounting.

35-17 A change in the creditworthiness of the derivative instrument's counterparty in a cash flow hedge of **interest rate risk** would also have an immediate impact if ineffectiveness were measured under the change-in-fair-value method discussed beginning in paragraph 815-30-35-31.

35-18 Paragraph 815-20-25-103 states that, in applying the shortcut method, an entity shall consider the likelihood of the counterparty's compliance with the contractual terms of the hedging derivative that require the counterparty to make payments to the entity. That paragraph explains that implicit in the criteria for the shortcut method is the requirement that a basis exist for concluding on an ongoing basis that the hedging relationship is expected to be highly effective in achieving offsetting changes in fair values or cash flows.

>> Change in Hedge Effectiveness Method

35-19 If the entity identifies an improved method of assessing hedge effectiveness and measuring hedge ineffectiveness in accordance with the guidance in paragraph 815-20-25-80 and wants to apply that method prospectively, it shall do both of the following:

a. Discontinue the existing hedging relationship

b. Designate the relationship anew using the improved method.

35-20 The new method of assessing hedge effectiveness shall be applied prospectively and shall also be applied to similar hedges unless the use of a different method for similar hedges is justified. A change in the method of assessing hedge effectiveness by an entity shall not be considered a change in accounting principle as defined in Topic 250.

END OF DOCUMENT -

815-20-45 Other Presentation Matters

General Note: The Other Presentation Matters Section provides guidance on other presentation matters not addressed in the Recognition, Initial Measurement, Subsequent Measurement, and Derecognition Sections. Other presentation matters may include items such as current or long-term balance sheet classification, cash flow presentation, earnings per share matters, and so forth. The FASB Codification also contains Presentation Topics, which provide guidance for general presentation and display items. See those Topics for general guidance.

General

> Income Statement Classification

45-1 This Subtopic does not provide guidance on the required income statement classification of the amount of hedge ineffectiveness and the component of a **derivative instrument's** gain or loss, if any, excluded from the assessment of hedge effectiveness. While the Derivatives and Hedging Topic does not specify whether certain income statement categories are either permitted or appropriate, the other hedging-related Subtopics in this Topic do contain specific disclosure requirements for those items. See Section 815-10-50 and Subtopics 815-25, 815-30, and 815-35.

> Statement of Cash Flows

45-2 For guidance on the classification of cash receipts and payments related to hedging activities, see paragraph 230-10-45-27.

END OF DOCUMENT -

815-20-50 Disclosure

General Note: The Disclosure Section provides guidance regarding the disclosure in the notes to financial statements. In some cases, disclosure may relate to disclosure on the face of the financial statements.

General

50-1 See Section 815-10-50 for overall guidance on disclosures about derivative instruments used in hedging activities. For guidance on disclosures about instruments used to mitigate the income statement effect of changes in **fair value** of servicing assets and servicing liabilities, see paragraph 860-50-50-2(b). For guidance on encouraged disclosure of quantitative information about instruments used to manage the risks inherent in servicing assets and servicing liabilities, see paragraph 860-50-50-2.

END OF DOCUMENT -

815-20-55 Implementation Guidance and Illustrations

General Note: The Implementation Guidance and Illustrations Section contains implementation guidance and illustrations that are an integral part of the Subtopic. The implementation guidance and illustrations do not address all possible variations. Users must consider carefully the actual facts and circumstances in relation to the requirements of the Subtopic.

General

> Implementation Guidance

55-1 This implementation guidance is organized as follows:

a. Eligibility of hedged items

b. Eligibility of hedging instruments

c. Hedge effectiveness.

>> Eligibility of Hedged Items

55-2 This implementation guidance on eligibility criteria for hedged items is organized as follows:

a. Embedded options as hedged items

b. Partial term defines hedged item

c. Hedged items in fair value hedges only

d. Hedged items in cash flow hedges only

e. Hedged items involving foreign exchange risk

f. Items specifically ineligible for designation as a hedged item or risk.

55-3 [Paragraph Not Used]

55-4 [Paragraph Not Used]

>>> Hedged Items in Fair Value Hedges Only

55-4A This implementation guidance on hedged items in fair value hedges only is organized as follows:

a. Partial term defines hedged item

b. Application of the definition of firm commitment

c. Determining whether risk exposure is shared within a portfolio

d. Servicing rights as a hedged item.

>>>> Partial Term Defines Hedged Item

55-5 Although paragraph 815-20-25-12(b)(2)(ii) permits identification of a selected portion (rather than proportion) of an asset or liability as the hedged item, in many cases, partial-term hedge **transactions** will fail to meet the offset requirement. For example, the changes in the **fair value** of a two-year interest rate swap cannot be expected to offset the changes in fair value attributable to changes in market interest rates of a four-year fixed-rate debt instrument. For offset to be expected, a principal repayment on the debt (equal to the **notional amount** on the swap) would need to be expected at the end of Year 2.

55-6 Though there is no prohibition against partial-term hedging and other designations of a portion of an asset or liability, paragraph 815-20-25-43(c) requires an entity to define how the expectation of offsetting changes in fair value or cash flows would be assessed. However, the absence of a prohibition does not necessarily result in qualification for hedge accounting for partial-term or other hedges of part of an asset or a liability. It likely will be difficult to find a **derivative instrument** that will be effective as a **fair value hedge** of selected cash flows.

55-7 For example, an entity may not designate a 3-year interest rate swap with a notional amount equal to the principal amount of its nonamortizing debt as the hedging instrument in a hedge of the exposure to changes in fair value, attributable to changes in the designated **benchmark interest rate**, of the entity's obligation to make interest payments during the first 3 years of its 10-year fixed-rate debt instrument. There would be no basis for expecting that the change in that swap's fair value would be highly effective in offsetting the change in fair value of the liability for only the interest payments to be made during the first three years. Even though under certain circumstances a partial-term fair value hedge can qualify for hedge accounting under this Subtopic, this Subtopic's provisions do not result in reporting a fixed-rate 10-year borrowing as having been effectively converted into a 3-year variable-rate and 7-year fixed-rate borrowing as was previously accomplished under **synthetic instrument accounting**, which is now prohibited (see paragraph 815-10-25-4).

55-8 The derivative instrument selected as the hedging instrument in a partial-term fair value hedge must be highly effective at offsetting changes in fair value of the group of selected individual cash flows designated as being hedged. A partial-term fair value hedge of one or more selected contractual cash flows may be achieved under paragraph 815-20-25-12(b)(2)(ii) by designating an appropriate derivative instrument (or instruments) as the hedging instrument. For example, the instrument designated as hedging those individual coupon payments could be described as a derivative instrument that can hedge the changes in the fair value of a zero-coupon bond that corresponds to the timing and amount of each individual interest payment.

55-9 [Paragraph Not Used]

>>>> Application of the Definition of Firm Commitment

55-10 This implementation guidance discusses whether certain items meet the definition of a **firm commitment** for purposes of paragraph 815-20-25-12.

55-11 A firm commitment that represents an asset or liability that a specific accounting standard prohibits recognizing (such as a noncancelable operating lease or an unrecognized mortgage servicing right) may nevertheless be designated as the hedged item in a fair value hedge.

55-12 A mortgage banker's unrecognized interest rate lock commitment does not qualify as a firm commitment (because as an option it does not obligate both parties) and thus is not eligible for fair value hedge accounting as the hedged item. (However, a mortgage banker's forward sale commitments, which are derivative instruments that lock in the prices at which the mortgage loans will be sold to investors, may qualify as hedging instruments in **cash flow hedges** of the forecasted sales of mortgage loans.)

55-13 A supply contract for which the contract price is fixed only in certain circumstances (such as if the selling price is above an embedded price cap or below an embedded price floor) meets the definition of a firm commitment for purposes of designating the hedged item in a fair value hedge. Provided the embedded price cap or floor is considered clearly and closely related to the host contract and therefore is not accounted for separately under paragraph 815-15-25-1, either party to the supply contract can hedge the fair value exposure arising from the cap or floor.

>>>> Determining Whether Risk Exposure Is Shared Within a Portfolio

55-14 This implementation guidance discusses the application of the guidance in paragraph 815-20-25-12(b)(1) that the individual assets or individual liabilities within a portfolio hedged in a fair value hedge shall share the risk exposure for which they are designated as being hedged. If the change in fair value of a hedged portfolio attributable to the hedged risk was 10 percent during a reporting period, the change in the fair values attributable to the hedged risk for each item constituting the portfolio should be expected to be within a fairly narrow range, such as 9 percent to 11 percent. In contrast, an expectation that the change in fair value attributable to the hedged risk for individual items in the portfolio would range from 7 percent to 13 percent would be inconsistent with the requirement in that paragraph.

55-15 In aggregating loans in a portfolio to be hedged, an entity may choose to consider some of the following characteristics, as appropriate:

a. Loan type

b. Loan size

c. Nature and location of collateral

d. Interest rate type (fixed or variable)

e. Coupon interest rate (if fixed)

f. Scheduled maturity

g. Prepayment history of the loans (if seasoned)

h. Expected prepayment performance in varying interest rate scenarios.

>>>> Servicing Rights as a Hedged Item

55-16 Paragraph 815-20-25-12(b)(1) provides criteria under which similar assets or similar liabilities may be aggregated and hedged as a portfolio under a fair value hedge, requiring, in part, that the individual assets or individual liabilities share the risk exposure for which they are designated as being hedged. Servicers of financial assets that designate a hedged portfolio by aggregating servicing rights within one or more risk strata used under paragraph 860-50-35-9 would not necessarily comply with the requirement in paragraph 815-20-25-12(b)(1) for portfolios of similar assets because the risk strata under paragraph 860-50-35-9 can be based on any predominant risk characteristic, including date of origination or geographic location.

>>> Hedged Items in Cash Flow Hedges Only

55-17 This guidance on hedged items in cash flow hedges only is organized as follows:

a. Exposure to variability in cash flows

b. Variable price component of a purchase contract as hedged item

c. Grouping individual transactions

d. Probability of a forecasted transaction

e. Specificity of timing of a forecasted transaction

f. Forecasted acquisition of a marketable security

g. Stock-appreciation-right obligation as a hedged item

h. First-payments-received technique in hedging variable nonbenchmark interest payments on a group of loans.

>>>> Exposure to Variability in Cash Flows

55-18 The future sale of an asset or settlement of a liability that exposes an entity (consistent with the criterion in paragraph 815-20-25-15[c][2]) to the risk of a change in fair value may result in recognizing a gain or loss in earnings when the sale or settlement occurs. Changes in market price could change the amount for which the asset or liability could be sold or settled and, consequently, change the amount of gain or loss recognized. **Forecasted transactions** that expose an entity to cash flow risk have the potential to affect reported earnings because the amount of related revenue or expense may differ depending on the price eventually paid or received. Thus, an entity could designate the forecasted sale of a product at the market price at the date of sale as a hedged transaction because revenue will be recorded at that future sales price.

>>>> Variable Price Component of a Purchase Contract as Hedged Item

55-19 This guidance discusses the implementation of paragraph 815-20-25-15(i). In a contract that requires the buyer to pay $100 per unit adjusted for a portion of the change in the average market price of sugar, a major ingredient in the item purchased, the buyer may use a derivative instrument whose underlying is the price of sugar in a cash flow hedge of its purchases under the contract in a hedge of its exposure to changes in the price of sugar.

Assume the purchase contract does not meet the definition of a freestanding derivative instrument and does not contain an **embedded derivative** that warrants separate accounting under Subtopic 815-15. Because of the limitations in paragraph 815-20-25-15(i), the buyer must designate as the risk being hedged the risk of changes in the cash flows relating to all changes in the purchase price of the items being acquired under the contract. If the only variability in the items' purchase price under this peculiar contract relates to changes in the average market price of sugar, the buyer may use a derivative instrument whose underlying is the price of sugar in a cash flow hedge of its purchases under the contract. The buyer must determine that all the criteria for cash flow hedges are satisfied, including that the hedging relationship is highly effective in achieving offsetting cash flows attributable to the hedged risk during the term of the hedge.

>>>> Grouping Individual Transactions

55-20 It sometimes will be impractical (perhaps impossible) and not cost-effective for an entity to identify each individual transaction that is being hedged. An example is a group of sales or purchases over a period of time to or from one or more parties. This Subtopic permits an entity to aggregate individual forecasted transactions for hedging purposes in some circumstances. As it does for a hedge of a single forecasted transaction, paragraph 815-20-25-3(d)(1)(vi) requires that an entity identify the hedged transactions with sufficient specificity that it is possible to determine which transactions are hedged transactions when they occur.

55-21 For example, an entity that expects to sell at least 300,000 units of a particular product in its next fiscal quarter might designate the sales of the first 300,000 units as the hedged transactions. Alternatively, it might designate the first 100,000 sales in each month as the hedged transactions. It could not, however, simply designate any sales of 300,000 units during the quarter as the hedged transaction because it then would be impossible to determine whether the first sales transaction of the quarter was a hedged transaction. Similarly, an entity could not designate the last 300,000 sales of the quarter as the hedged transaction because it would not be possible to determine whether sales early in the quarter were hedged or not.

55-22 Under the guidance in this Subtopic, a single derivative instrument of appropriate size could be designated as hedging a given amount of aggregated forecasted transactions, such as any of the following:

a. Forecasted sales of a particular product to numerous customers within a specified time period, such as a month, a quarter, or a year

b. Forecasted purchases of a particular product from the same or different vendors at different dates within a specified time period

c. Forecasted interest payments on several variable-rate debt instruments within a specified time period.

55-23 However, the transactions in each group must share the risk exposure for which they are being hedged. For example, the interest payments in the group in (c) in the preceding paragraph shall vary with the same index to qualify for hedging with a single derivative instrument.

>>>> Probability of a Forecasted Transaction

55-24 An assessment of the likelihood that a forecasted transaction will take place (see paragraph 815-20-25-15[b]) should not be based solely on management's intent because intent is not verifiable. The transaction's probability should be supported by observable facts and the attendant circumstances. Consideration should be given to all of the following circumstances in assessing the likelihood that a transaction will occur.

a. The frequency of similar past transactions

b. The financial and operational ability of the entity to carry out the transaction

c. Substantial commitments of resources to a particular activity (for example, a manufacturing facility that can be used in the short run only to process a particular type of commodity)

d. The extent of loss or disruption of operations that could result if the transaction does not occur

e. The likelihood that transactions with substantially different characteristics might be used to achieve the same business purpose (for example, an entity that intends to raise cash may have several ways of doing so, ranging from a short-term bank loan to a common stock offering).

55-25 Both the length of time until a forecasted transaction is projected to occur and the quantity of the forecasted transaction are considerations in determining probability. Other factors being equal, the more distant a forecasted transaction is or the greater the physical quantity or future value of a forecasted transaction, the less likely it is that the transaction would be considered probable and the stronger the evidence that would be required to support an assertion that it is probable.

>>>> Specificity of Timing of a Forecasted Transaction

55-26 Paragraph 815-20-25-3(d)(1)(vi) requires an entity to identify the hedged forecasted transaction with sufficient specificity to make it clear whether a particular transaction is a hedged transaction when it occurs. Paragraph 815-20-25-3(d)(1)(i) requires that an entity document the date on or period within which the forecasted transaction is expected to occur. An entity should not be able to choose when to reclassify into earnings a gain or loss on a hedging instrument in accumulated other comprehensive income after the gain or loss has occurred by asserting that the instrument hedges a transaction that has or has not yet occurred. However, this Subtopic does not require that an entity be able to specify at the time of entering into a hedge the date on which the hedged forecasted transaction will occur.

>>>> Forecasted Acquisition of a Marketable Security

55-27 This discussion provides additional information on the forecasted acquisition of a marketable security as a hedged item (see paragraph 815-20-25-16[b]).

55-28 An entity seeking to reduce the variability of the price at which it will acquire a marketable security in the future might use a forward contract to fix the price today, or a warrant or purchased option to lock in a ceiling on the price it will eventually pay.

55-29 With a forward contract, the typical settlement is the delivery of the marketable security at a later date at the pre-fixed price.

55-30 With a purchased option (including a warrant), the typical settlement might be the delivery of the marketable security at the ceiling price, or the holder may allow the purchased option to expire unexercised.

55-31 Therefore, to qualify for cash flow hedge accounting in this circumstance, the entity shall be able to establish that it is probable that it will acquire the security by any of the following means:

a. Exercising the option designated as the hedging instrument if it is in the money

b. Purchasing the security in the marketplace at its prevailing market price if the option is out of the money.

55-32 If the entity expects to acquire the marketable security only by exercising the option and only if the option were in the money, a cash flow hedging relationship typically would not be designated because acquisition of the security is contingent and thus would not be considered probable.

>>>> Stock-Appreciation-Right Obligation as a Hedged Item

55-33 This guidance addresses the application of the criteria in Section 815-20-25 to an unrecognized, nonvested **stock appreciation right** as a hedged item. An unrecognized, nonvested stock appreciation right relates to the portion of the stock appreciation right liability that has not yet been accrued. It does not refer to future fair value changes in the recognized liability for the vested portion of the stock appreciation right. To the extent that vesting of stock appreciation rights is probable, a purchased call option indexed to an entity's own stock that is recorded as an asset and accounted for as a derivative instrument may be designated as the hedging instrument in a hedge of cash flow variability of expected future obligations associated with unrecognized, nonvested stock appreciation rights if the option is classified as an asset in the entity's financial statements and the option is a derivative instrument subject to Subtopic 815-10. Presumably, if using this strategy, hedge effectiveness typically would be assessed based on changes in the entire value of the purchased call option, rather than just the intrinsic value of the option because the fair value of the unrecognized, nonvested stock appreciation rights likewise consists of a time value portion and an intrinsic value portion. Because an unrecognized, nonvested stock appreciation right results in exposure to cash flow variability of expected future obligations that affects reported earnings, it is eligible to be designated as being hedged. A stock appreciation right that is recognized as a liability may not be designated as being hedged in a cash flow hedge because the hedged cash flow variability in a recognized stock appreciation right relates to a liability that is remeasured with changes in fair value reported currently in earnings. The hedge of exposure to cash flow variability in an unrecognized, nonvested stock appreciation right could be expected to be highly effective. The entity's stock price is the underlying for both the unrecognized, nonvested stock appreciation right and the option on the entity's own stock. Changes in fair value of the purchased call option on the entity's own stock would be recorded in other comprehensive income consistent with paragraph 815-30-35-3. As required by paragraphs 815-30-35-38 through 35-41, the amount in other comprehensive income would be reclassified into earnings concurrent with the recognition in earnings of compensation cost on the stock appreciation right that relates to those fair value changes that occurred during the hedge period over the requisite service period.

>>>> First-Payments-Received Technique in Hedging Variable Nonbenchmark Interest Payments on a Group of Loans

55-33A This implementation guidance discusses how a first-payments-received technique for identifying the hedged forecasted transactions (that is, the hedged interest payments) may be used in a cash flow hedge of the variable prime-rate-based or other variable non-benchmark-rate-based interest payments for a rolling portfolio of prepayable interest-bearing loans (or other interest-bearing financial assets), provided all other conditions for a cash flow hedge have been met. Such a technique involves identifying the hedged forecasted transactions in a cash flow hedge as the first interest payments based on the specific nonbenchmark rate received by an entity during each recurring period of a specified length and beginning date for the period covered by the hedging instrument.

55-33B Similarly, a comparable first-payments-made technique may be used to identify the hedged forecasted transactions in a cash flow hedge of the variable non-benchmark-rate-based interest payments for a group of the reporting entity's financial liabilities, provided all other conditions for a cash flow hedge have been met.

55-33C In cash flow hedging relationships involving variable nonbenchmark-rate-based interest payments, the entity is limited to designating the hedged risk as the risk of overall changes in those hedged cash flows (including the risk of decreases in cash flows attributable to credit default) because paragraph 815-20-25-43(d)(3) prohibits an entity from designating interest rate risk as the hedged risk if the cash flows of the hedged transaction are explicitly based on an index different from the benchmark interest rates permitted. Consequently, the shortcut method described in paragraph 815-20-25-102 cannot be used because that method is limited to hedges of interest rate risk.

55-33D The use of the first-payments-received technique as described in the paragraph 815-20-55-33A is permitted by this Subtopic as an exception even though that technique excludes the variable interest payments that are contractually due but not paid by the debtor from being hedged transactions, thereby excluding some of the risk of decreases in interest payment inflows attributable to credit default. This implementation guidance related to applying the first-payments-received technique to variable nonbenchmark-rate-based interest payments for a rolling portfolio of interest-bearing financial assets shall not be applied by analogy to other circumstances.

55-33E This implementation guidance regarding use of a first-cash-flows technique may also be applied to a cash flow hedging relationship in which the hedging instrument is a basis swap as discussed beginning in paragraph 815-20-25-50. However, use of that technique for those basis-swap hedging relationships may not be common since that paragraph limits designating a basis swap as the hedging instrument to cash flow hedges of the interest payments of only recognized financial assets and liabilities existing at the inception of the hedge, whereas the first-cash-flows technique is typically applied to interest payments for rolling portfolios whose composition of financial assets changes over the period of the hedge.

55-33F Entities that choose to use the first-payments-received technique are still required by this Subtopic to assess the effectiveness of the cash flow hedging relationship and to recognize ineffectiveness in earnings attributable to overhedges. For example, if the hedged interest payments on a variable-rate bank loan are based on a bank's own prime rate but the hedging interest rate swap is based on the prime rate specified in the Federal Reserve Statistical Release H-15, and the hedging relationship is not expected to be highly effective in achieving offsetting of the overall changes in designated cash flows (pursuant to either prospective considerations or retrospective evaluations), then hedge accounting would not be permitted. In contrast, if the hedging relationship is expected to be highly effective (and all hedge accounting criteria have been met), any difference between the changes in each of those two prime rates (for the period between assessment dates) could cause the hedging relationship to have some ineffectiveness in achieving offsetting cash flows. However, that ineffectiveness would be recognized immediately in earnings only if it resulted from an overhedge pursuant to Section 815-30-35. Another potential source of ineffectiveness is margin variability (that is, changes in the spread over the nonbenchmark rate) attributable to the replacement loans being added to (and existing loans removed from) the rolling portfolio of interest-bearing loans. Margin variability would cause changes over time in the hedged cash flows (which are the interest payments received first chronologically), with no offset in the cash flows of the hedging derivative. In determining which interest payments are received first and thus are the hedged transactions, interest payments that are received concurrently may not be arbitrarily sorted to minimize or achieve a desired amount of ineffectiveness in the hedging relationship.

>>> Hedged Items Involving Foreign Exchange Risk

55-34 This implementation guidance on hedged items involving **foreign exchange risk** is organized as follows:

a. Foreign-currency-denominated interest payments

b. Foreign-currency-denominated debt instrument as both hedging instrument and hedged item.

>>>> Foreign-Currency-Denominated Interest Payments

55-35 An entity may not treat foreign-currency-denominated fixed-rate interest coupon payments arising from an issuance of foreign-currency-denominated fixed-rate debt as an unrecognized firm commitment that may be designated as a hedged item in a foreign currency fair value hedge. (See paragraph 815-20-25-23.) The foreign-currency exposure of the future interest payments would not meet this Subtopic's definition of an unrecognized firm commitment because the obligation is recognized on the balance sheet—that is, the carrying amount of the foreign-currency-denominated fixed-rate debt incorporates the entity's obligation to make those future interest payments as well as the repayment of principal. However, those fixed-rate interest payments could be designated as the hedged transaction in a cash flow hedge.

55-36 Those fixed-rate interest payments might arise as follows. An entity whose functional currency is the U.S. dollar issues fixed-rate debt denominated in a foreign currency. The debt has a fixed interest coupon that is payable semiannually in that foreign currency. The entity wishes to lock in, in U.S. dollar functional currency terms, the future interest expense that will result from the debt and enters into a derivative instrument to hedge the foreign currency risk of the fixed foreign-currency-denominated interest coupon payments. For example, the entity may enter into a foreign currency swap to receive an amount of the foreign currency required to satisfy the interest coupon obligation in exchange for U.S. dollars at each coupon date, or, alternatively, it may enter into a strip of foreign currency forward contracts that provide for receipt of an amount of foreign currency required to satisfy the interest coupon obligation in exchange for the payment of U.S. dollars at each coupon date.

55-37 This guidance also applies to dual-currency bonds that provide for repayment of principal in the functional currency and periodic fixed-rate interest payments denominated in a foreign currency. Subtopic 830-20 applies to dual-currency bonds and requires the present value of the interest payments denominated in a foreign currency to be remeasured and the transaction gain or loss recognized in earnings. Thus, those fixed-rate interest payments on a dual-currency bond could be designated as the hedged transaction in a cash flow hedge of foreign exchange risk.

>>>> Foreign-Currency-Denominated Debt Instrument as Both Hedging Instrument and Hedged Item

55-38 A foreign-currency-denominated debt instrument that is designated as the hedging instrument in a net investment hedge may also be designated as the hedged item in a fair value hedge of **interest rate risk**. The two hedging relationships address separate risk types that are permitted to be hedged individually under this Subtopic. Example 10 (see paragraph 815-20-55-127) illustrates this circumstance.

>>> Items Specifically Ineligible for Designation as a Hedged Item or Risk

55-39 This implementation guidance on items specifically ineligible for designation as a hedged item or risk is organized as follows:

a. Strategic risk ineligible as hedged risk

b. Auction rate notes ineligible as hedged item for interest rate risk.

>>>> Strategic Risk Ineligible as Hedged Risk

55-40 The offset criterion in paragraph 815-20-25-75 precludes hedge accounting for certain risk management techniques, such as hedges of strategic risk. For example, a U.S. manufacturer, with no export business, that designates a forward contract to buy U.S. dollars (USD) for Japanese yen (JPY) as a hedge of its USD sales would fail the requirement that the cash flows of the derivative instrument are expected to be highly effective in achieving offsetting cash flows on the hedged transaction. A weakened JPY might allow a competitor to sell goods imported from Japan more cheaply, undercutting the domestic manufacturer's prices and reducing its sales volume and revenues. However, it would be difficult for the U.S. manufacturer to expect a high degree of offset between a decline in U.S. sales revenue due to increased competition and cash inflows on a foreign currency derivative instrument. Any relationship between the exposure and the hedging derivative typically would be quite indirect, would depend on price elasticities, and would be only one of many factors influencing future results. In addition, the risk that a desired or expected number of transactions will not occur, that is, the potential absence of a transaction, is not a hedgeable risk for accounting purposes.

>>>> Auction Rate Notes Ineligible as Hedged Item for Interest Rate Risk

55-41 This implementation guidance discusses further the application of paragraph 815-20-25-43(d)(3).

55-42 A variable-rate financial asset or liability that is reset through an auction process is not based on a benchmark interest rate. Although the interest rate may be described as a designated benchmark interest rate plus or minus an adjustment specified by the bidder, the clearing rate is effectively established by a bidding process that does not provide for transparent separation of interest rate risk and **credit risk**. Thus, the designated risk being hedged in an **auction rate note** cannot be interest rate risk.

55-43 In a cash flow hedge of a variable-rate financial asset or liability for which the interest rate is not based solely on an index, including situations in which an interest rate is reset through an auction process, the designated risk being hedged can be the risk of overall changes in the hedged cash flows related to the variable-rate financial asset or liability provided all of the other cash flow hedging criteria in this Subtopic are met.

>> Eligibility of Hedging Instruments

55-44 This implementation guidance on eligibility of hedging instruments is organized as follows:

a. Contingent designation of a hedging instrument

b. No hedge accounting for covered call strategies

c. Mixed-attribute derivative commodity contracts as cash flow hedging instruments

d. Relationship of swap to hedged forecasted transactions

e. Synthetic foreign currency borrowing ineligible as a hedging instrument.

>> Contingent Designation of a Hedging Instrument

55-44A A contract that meets the definition of a derivative instrument after acquisition by an entity may be designated as a hedging instrument.

55-44B During the period in which the contract does not meet the definition of a derivative instrument, that contract cannot be designated as the hedging instrument in any hedging relationship. (However, the contract could potentially be the hedged item in a fair value hedge or its cash flows could potentially be the hedged transactions in a cash flow hedge.)

55-44C The contingent designation of a hedging relationship in which the hedging instrument is not currently a derivative instrument but may become one cannot justify the application of hedge accounting to fair value changes occurring before inception of the hedge; the inception of that hedging relationship would be the date on which the contract meets the definition of a derivative instrument. If an entity had anticipated that a contract that was not a derivative instrument at inception might later meet the definition of a derivative instrument and has made a contingent designation of an all-in-one hedging relationship to be effective upon the date that the contract meets the definition of a derivative instrument, only the changes in the fair value of the new derivative instrument occurring after the date the contract became a derivative instrument would be recognized in other comprehensive income pursuant to paragraph 815-30-35-3(b).

>>> No Hedge Accounting for Covered Call Strategies

55-45 This Subtopic does not permit hedge accounting for covered call strategies (strategies in which an entity writes an option on an asset that it owns) unless that asset is a call option that is embedded in another instrument. In a covered call strategy, any loss on the written option will be covered by the gain on the owned asset. A covered call strategy will not qualify for hedge accounting because the risk profile of the combined position is asymmetrical (the exposure to losses is greater than the potential for gains). In contrast, the risk profile of the asset alone is symmetrical or better (the potential for gains is at least as great as the exposure to losses). The symmetry requirement for hedges with written options precludes a written option that is used to sell a portion of the gain potential on an asset or liability from being eligible for hedge accounting.

>>> Mixed-Attribute Derivative Commodity Contracts as Cash Flow Hedging Instruments

55-46 Commodity contracts commonly have features of both fixed-price contracts and variable-price contracts, such as an agreement to purchase a commodity in the future at the prevailing market index price at that future date plus or minus a fixed basis differential set at the inception of the contract. Assume an example mixed-attribute contract has the characteristics of notional amount, underlying, and no initial net investment and the commodity to be delivered is **readily convertible to cash** pursuant to the guidance beginning in paragraph 815-10-15-119.

55-47 Because that mixed-attribute contract is a derivative instrument and has an underlying related solely to changes in the basis differential, that contract (as a derivative instrument) would generally not be sufficiently effective if designated as the sole hedging instrument in a cash flow hedge of the anticipated purchase or sale of the commodity—a forecasted transaction whose variability in cash flows is based on changes in both the basis differential and the base commodity price. Because its underlying relates solely to changes in the basis differential, the mixed-attribute contract would essentially be hedging only a portion of the variability in cash flows. The entity is not permitted to designate a cash flow hedging relationship as hedging only the change in cash flows attributable to changes in the basis differential. For an entity to be able to conclude that such a hedging relationship is expected to be highly effective in achieving offsetting cash flows, the entity would need to consider the likelihood of changes in the base commodity price as remote or insignificant to the variability in hedged cash flows (for the total purchase or sales price). However, the mixed-attribute contract may be combined with another derivative instrument whose underlying is the base commodity price, with the combination of those derivative instruments designated as the hedging instrument in a cash flow hedge of the overall variability of cash flows for the anticipated purchase or sale of the commodity. Such a combination would address the risk of changes in both the basis differential and the base commodity price.

55-48 [Paragraph Not Used]

>>> Synthetic Foreign Currency Borrowing Ineligible as a Hedging Instrument

55-49 A debt instrument denominated in the investor's functional currency and a cross-currency interest rate swap cannot be accounted for as synthetically created foreign-currency-denominated debt to be designated as a hedge of the entity's net investment in a foreign operation.

55-50 For example, a parent entity that has the U.S. dollar (USD) as its functional and reporting currency has a net investment in a Japanese yen- (JPY-) functional-currency subsidiary. The parent borrows in Deutsche marks (DEM) on a fixed-rate basis and simultaneously enters into a receive-DEM, pay-Japanese yen currency swap (for all interest and principal payments) to synthetically convert the borrowing into a yen-denominated borrowing. The parent entity cannot designate the DEM-denominated borrowing and the currency swap in combination as a hedging instrument for its net investment in the JPY-functional-currency subsidiary.

55-51 An approach that would involve measuring a derivative instrument and a cash instrument as a single unit at the current spot rate (which is used in the translation of the hedged net investment) violates the requirements of Subtopic 830-20 for translation of foreign-currency-denominated borrowings at the spot rate relevant to the currency of the borrowing. It also violates the requirements of Subtopic 815-10 for measurement of all derivative instruments at fair value. Accordingly, combining the DEM-denominated borrowing and the currency swap for designation as a single hedging instrument—a JPY-denominated borrowing—in a net investment hedge is not permitted.

55-52 In contrast, an entity could designate a foreign currency derivative instrument and a foreign-currency-denominated cash instrument individually as hedging different portions of its net investment in a foreign operation provided the derivative instrument and the cash instrument each individually qualified as a hedging instrument.

55-53 For example, a JPY-USD forward contract and a JPY-denominated cash instrument could each be designated as the hedging instrument in a hedge of different portions of the net investment in a JPY-functional-currency subsidiary (that is, two separate hedging relationships would be designated).

>> Hedge Effectiveness

55-54 This implementation guidance on hedge effectiveness is organized as follows:

a. Changes in assessment methods

b. Components of option time value

c. Effect of interest rate indexes

d. Prohibition of preset hedge coverage ratios

e. Methodologies to assess effectiveness of fair value and cash flow hedges

f. Applicability of the shortcut method

g. Application of the prepayable criterion under the shortcut method

h. Determining whether a mirror-image call provision exists in application of the shortcut method.

>>> Changes in Assessment Methods

55-55 Examples of changes in the types of methods an entity may use in assessing hedge effectiveness (see paragraph 815-20-35-20) could include the following:

a. A change from the dollar-offset method to the use of regression analysis or vice versa

b. A change between any one of the three methods discussed beginning in paragraph 815-30-35-10 (for example, a change from the change in variable cash flows method to either the hypothetical derivative method or the change in fair value method)

c. A change from excluding certain components of a derivative instrument gain or loss to including such components or vice versa (for example, a change from measuring effectiveness based on changes in intrinsic value to the entire change in an option's fair value)

d. A change from assessing hedge effectiveness on a period-by-period basis to a cumulative basis or vice versa.

55-56 This Subtopic permits a hedging relationship to be dedesignated (that is, discontinued) at any time. (See paragraphs 815-25-40-1[c] and 815-30-40-1[c].) If an entity wishes to change any of the critical terms of the hedging relationship (including the method designated for use in assessing hedge effectiveness), as documented at inception, the mechanism provided in this Subtopic to accomplish that change is the dedesignation of the original hedging relationship and the designation of a new hedging relationship that incorporates the desired changes. The dedesignation of an original hedging relationship and the designation of a new hedging relationship represents the application of this Subtopic and is not a change in accounting principle under Topic 250, even though the new relationship may differ from the original relationship only with respect to the method designated for use in assessing the hedge effectiveness of that relationship. Although paragraph 815-20-35-19 refers to discontinuing an existing hedging relationship and then designating and documenting a new hedging relationship using an improved method for assessing effectiveness, that reference was not meant to imply that the perceived improved method had to be justified as a preferable method of applying an accounting principle under Topic 250.

>>> Components of Option Time Value

55-57 This guidance discusses implementation of paragraph 815-20-25-82.

55-58 Some entities may wish to assess hedge effectiveness based on the change in an option's value excluding a certain aspect of the change in the

option's time value. For example, some entities may wish to exclude the change in time value attributable to the passage of time (theta) from the assessment of hedge effectiveness, while assessing hedge effectiveness based on the remaining components of changes in an option's value. As an illustration, if out-of-the-money options are designated as hedging instruments, changes in value of the option are primarily driven by the change, if any, in the value of the underlying (delta). If the price of the underlying asset changes, in effective hedging strategies involving out-of-the-money options, the hedge gain or loss due to delta would offset the change in value of the hedged item; however, if the price of the underlying does not change, there is no change in fair value attributable to changes in delta. In that case, the only change in the option's value is attributable to the passage of time (theta), or to changes in other market variables such as volatilities or interest rates. Accordingly, for those hedging relationships to qualify for hedge accounting, an entity may need to exclude the change in value attributable to theta from the assessment of hedge effectiveness.

55-59 Other entities may wish to exclude changes in time value attributable to certain market variables—volatility (vega) or interest rates (rho)—from the assessment of hedge effectiveness. An entity may wish to exclude changes in time value attributable to volatility (vega) from the assessment of hedge effectiveness because the fair value measurement of the hedged item does not incorporate a measure of implied volatility.

55-60 Similarly, an entity may seek to exclude changes in time value attributable to interest rates (rho) from the assessment of hedge effectiveness. For example, in a foreign currency hedge involving a country in which interest rates are volatile, a substantial portion of the change in value of the option may be attributable to fluctuations in those interest rates, while the fair value of the hedged item is not affected correspondingly. Accordingly, for these hedging relationships to qualify for hedge accounting, an entity may need to exclude the change in value attributable to the relevant market variable from the assessment of hedge effectiveness.

55-61 In summary, the exclusion of a certain aspect of the change in an option's time value from the assessment of hedge effectiveness is driven by the fact that, in certain circumstances, the measurement of changes in fair value of the hedged item or changes in the cash flows of the hedged transaction does not depend on or incorporate that aspect. Option valuation models are capable of isolating the various aspects of changes in an option's time value.

>>> Effect of Interest Rate Indexes

55-62 The effectiveness of a cash flow hedge of the variability in interest payments of a variable-rate financial asset or liability, either existing or forecasted, is affected by the interest rate index on which the variability is based and the extent to which the hedging instrument provides offset. Changes in credit sector spreads embodied within the interest rate index on which the variability is based do not affect the assessment and measurement of hedge effectiveness if both the cash flows on the hedging instrument and the hedged cash flows of the existing financial asset or liability or the variable-rate financial asset or liability that is forecasted to be acquired or issued are based on the same index. However, if the cash flows on the hedging instrument and the hedged cash flows of the existing financial asset or liability or the variable-rate financial asset or liability that is forecasted to be acquired or issued are based on different indexes, the basis difference between those indexes would affect the assessment and measurement of hedge effectiveness. Paragraph 815-20-25-43(d)(3) states that in a cash flow hedge of a variable-rate financial asset or liability, either existing or forecasted, the designated hedged risk cannot be the risk of changes in its cash flows attributable to changes in the specifically identified benchmark interest rate if the cash flows of the hedged transaction are explicitly based on a different index.

>>> Prohibition of Preset Hedge Coverage Ratios

55-63 Subtopic 860-50 requires that if an entity subsequently measures servicing assets and servicing liabilities using the amortization method, any impairment of servicing assets, which is the amount by which the carrying amount of the servicing assets for an individual stratum exceeds their fair value, be recognized in current earnings. However, an increase in the fair value above the carrying amount of servicing assets for an individual stratum may not be recognized in current earnings.

55-64 Entities that service certain types of financial assets may wish to designate as the hedged item in a fair value hedge a prespecified percentage of the total change in fair value of those servicing rights (attributable to the hedged risk) that varies based on changes in a specified independent variable. Because the prespecified percentage for each specified independent variable can be presented in a rectangular array, that method of determining the hedged item retroactively based on the actual independent variable is sometimes referred to as the matrix method. Under that approach, at the end of the hedge assessment period, the entity would determine the hedged item and measure hedge ineffectiveness by determining retrospectively which hedge coverage ratio would be applied to the servicing right asset to identify the hedged item for that period. That approach is in contrast to designating the hedged item at the inception of the hedge by specifying a single percentage of that recognized servicing right asset as the hedged item.

55-65 In a fair value hedge of a portion of a recognized servicing right asset subsequently measured using the amortization method and its related impairment analysis, an entity may not designate the hedged item at the inception of the hedge by initially specifying a series of possible percentages of the servicing right asset (that is, preset hedge coverage ratios) and then determining at the end of the assessment period what specific percentage of the servicing right asset is the actual hedged item for that period based on the change in a specified independent variable during that period. Such a matrix method would not be a valid application of the provisions of this Subtopic.

55-66 Paragraph 815-20-25-12(b)(2)(i) precludes an entity from expressing the hedged item as multiple percentages of a recognized asset or liability and then retroactively determining the hedged item based on an independent matrix of those multiple percentages and the actual scenario that occurred during the period for which hedge effectiveness is being assessed.

55-67 There is a limited exception under paragraph 815-20-25-10 in which a collar that is comprised of one purchased option and one written option that have different notional amounts is designated as the hedging instrument, and the hedged item is specified as two different proportions of the same asset based on the upper and lower rate or price range of the asset referenced in those two options.

>>> Methodologies to Assess Effectiveness of Fair Value and Cash Flow Hedges

55-68 As discussed in paragraph 815-20-25-80, if an entity elects at the inception of a hedging relationship to utilize a regression analysis approach for prospective considerations of assessing effectiveness and the dollar-offset method to perform retrospective evaluations of assessing effectiveness, then that entity must abide by the results of that methodology as long as that hedging relationship remains designated. Thus, in its retrospective evaluation, an entity might conclude that, under a dollar-offset approach, a designated hedging relationship does not qualify for hedge accounting for the period just ended, but that the hedging relationship may continue because, under a regression analysis approach, there is an expectation that the relationship will be highly effective in achieving offsetting changes in fair value or cash flows in future periods. In its retrospective evaluation, if that entity concludes that, under a dollar-offset approach, the hedging relationship has not been highly effective in having achieved offsetting changes in fair value or cash flows, hedge accounting may not be applied in the current period. Whenever a hedging relationship fails to qualify for hedge accounting in a certain assessment period, the overall change in fair value of the derivative instrument for that current period is recognized in earnings (not reported in other comprehensive income for a cash flow hedge) and the change in fair value of the hedged item would not be recognized in earnings for that period (for a fair value hedge).

55-69 As discussed in paragraph 815-20-35-3(b), if an entity elects at the inception of a hedging relationship to utilize a regression analysis (or other statistical analysis) approach for either prospective considerations or retrospective evaluations of assessing effectiveness, then that entity shall periodically update its regression analysis (or other statistical analysis). For example, if there is significant ineffectiveness measured and recognized in earnings for a hedging relationship, which is calculated each assessment period, the regression analysis should be rerun to determine whether the expectation of high effectiveness is still valid. As long as an entity reruns its regression analysis and determines that the hedging relationship is still expected to be highly effective, then it can continue to apply hedge accounting without interruption.

55-70 The application of a regression or other statistical analysis approach to assessing effectiveness is complex. Those methodologies require appropriate interpretation and understanding of the statistical inferences.

>>> Applicability of the Shortcut Method

55-71 Given the conditions in paragraph 815-20-25-104, the shortcut method cannot be applied, for example, to any of the following hedging relationships:

a. Those hedging interest rate risk that involve hedging instruments other than interest rate swaps.

b. Those that involve hedged risks other than the risk of changes in fair value (or cash flows) attributable to changes in the designated benchmark interest rate. For example, cash flow hedging relationships in which the cash flows of the hedged item and the hedging instrument are based on the same index but that index is not the benchmark interest rate.

c. Those that do not involve a recognized interest-bearing asset or liability.

55-72 Based on (c) in the preceding paragraph, the shortcut method cannot be applied in a cash flow hedge of a forecasted transaction, even if an entity determines that all critical terms of the hedging instrument and the hedged forecasted transaction are matched.

55-73 Based on paragraph 815-20-55-71(c), the shortcut method cannot be applied to a cash flow hedge of the variability in lease payments for an interest-rate-indexed operating lease because that lease is not a recognized interest-bearing asset or liability. Although a capital lease is reported as a leased asset and an interest-bearing obligation under Subtopic 840-30 (and thus the shortcut method could potentially be applied to a fair value hedge of a capital lease's exposure to interest rate risk), an operating lease is accounted for as an executory contract that is not recognized as an interest-bearing asset or liability.

>>> Application of the Prepayable Criterion Under the Shortcut Method

55-74 This implementation guidance discusses the application of the **prepayable** criterion in paragraph 815-20-25-104(e) and related guidance beginning in paragraph 815-20-25-112.

55-75 A debt instrument may contain various terms and provisions that permit either the debtor or the creditor to cause prepayment of the debt (that is, cause the payment of principal before the scheduled payment dates), including the terms in the following illustrative instruments:

a. Illustrative debt instrument 1. Some fixed-rate debt instruments include a typical call option that permits the debt instrument to be called for prepayment by the debtor at a fixed amount, for example, at par or at a specified premium over par. In some instruments, the prepayment amount varies based on when the call option is exercised. Fixed-rate debt instruments that provide the borrower with the option to prepay at a fixed amount are considered prepayable under paragraph 815-20-25-104(e), because those contracts permit settlement at an amount that is potentially below the contract's fair value (absent the effect of the call provision) as of the date of settlement. Such clauses can be exercised based on an economic advantage related to changes in the designated benchmark interest rate.

b. Illustrative debt instrument 2. Some debt instruments include contingent acceleration clauses that permit the lender to accelerate the maturity of an outstanding note only if a specified event related to the debtor's credit deterioration or other change in the debtor's credit risk occurs (for example, the debtor's failure to make timely payment, thus making it delinquent; its failure to meet specific covenant ratios; its disposition of specific significant assets, such as a factory; a declaration of cross-default; or a restructuring by the debtor). A common example is a clause in a mortgage note secured by certain property that permits the lender to accelerate the maturity of the note if the borrower sells the property. Debt instruments that include contingent acceleration clauses that permit the lender to accelerate the maturity of an outstanding note only upon the occurrence of a specified event related to the debtor's credit deterioration or other changes in the debtor's credit risk are not considered prepayable under paragraph 815-20-25-104(e).

c. Illustrative debt instrument 3. Some fixed-rate debt instruments include a call option that permits the debtor to repurchase the debt instrument from the creditor at an amount equal to its then fair value. Fixed-rate debt instruments that provide the debtor with the option to repurchase from the creditor the debt at an amount equal to the then fair value of the contract are not considered prepayable under paragraph 815-20-25-104(e), because that right would have a fair value of zero at all times. Such clauses, which provide the debtor with the discretionary opportunity to settle its obligation before maturity, are not exercised based on an economic advantage related to changes in the designated benchmark interest rate because the repurchases are done at fair value.

d. Illustrative debt instrument 4. Some fixed-rate debt instruments, typically issued in private markets, include a **make-whole provision**. A make-whole provision differs from a typical call option, which enables the issuer to benefit by prepaying the debt if market interest rates decline. In a declining interest rate market, the settlement amount of a typical call option is less than what the fair value of the debt would have been absent the call option. In contrast, a make-whole provision involves settlement at a variable amount typically determined by discounting the debt's remaining contractual cash flows at a specified small spread over the current Treasury rate. That calculation results in a settlement amount significantly above the debt's current fair value based on the issuer's current spread over the current Treasury rate. The make-whole provision contains a premium settlement amount to penalize the debtor for prepaying the debt and to compensate the investor (that is, to approximately make the investor whole) for its being forced to recognize a taxable gain on the settlement of the debt investment. In some debt instruments, the prepayment option under a make-whole provision will not be exercisable during an initial lock-out period. (For example, Private Entity A borrows from Insurance Entity B under a 10-year loan with fixed periodic coupon payments. The spread over the Treasury rate for Entity A at issuance of the debt is 275 basis points. The loan agreement contains a make-whole provision that if Entity A prepays the debt, it will pay Insurance Entity B an amount equal to all the future contractual cash flows discounted at the current Treasury rate plus 50 basis points.) Fixed-rate debt instruments that include a make-whole provision (as previously described) are not considered prepayable under paragraph 815-20-25-104(e), because it involves settlement of the entire contract by the debtor before its stated maturity at an amount greater than (rather than an amount less than) the then fair value of the contract.

e. Illustrative debt instrument 5. Some variable-rate debt instruments include a call option that permits the debtor to repurchase the debt instrument from the creditor at each interest reset date at an amount equal to par. Although illustrative debt instrument 5, a variable-rate debt instrument, does have a fair value exposure between the date of a change in the benchmark interest rate and the reset date, a swap would not be an appropriate hedging instrument to hedge that fair value exposure. Thus, a fair value hedge of illustrative debt instrument 5 could not qualify for the shortcut method discussed in paragraph 815-20-25-102, which requires the hedging instrument to be an interest rate swap. In cash flow hedges, if the reset provisions always result in the instrument's par amount being equal to its fair value at a reset date, then an option for the debtor to prepay the variable-rate debt instrument at par at that reset date would not be considered prepayable under paragraph 815-20-25-104(e). However, if the reset provisions can result in the instrument's par amount not being equal to its fair value at those reset dates, then an option for the debtor to prepay the variable-rate debt instrument at par at a reset date would be considered prepayable under that paragraph. (Because the reset provisions typically do not adjust the variable interest rate for changes in credit sector spreads and changes in the debtor's creditworthiness, the variable-rate debt instrument's par amount could seldom be expected to be equal to its fair value at each reset date.) Furthermore, to qualify for cash flow hedge accounting, the hedging relationship must meet the applicable conditions in this Subtopic and the entity designating the hedge (that is, the debtor or creditor) must conclude it is probable that future interest payments will be made during the term of the interest rate swap. If the creditor's counterparty (that is, the debtor) on a recognized variable-rate asset related to the hedged forecasted interest payments can cause that asset to be prepaid, then that creditor would likely be unable to conclude that all the forecasted interest payments on its recognized interest-bearing asset are probable and, thus, the cash flow hedging relationship would not qualify for the shortcut method. (Even though the creditor believes it could immediately obtain a replacement variable-rate asset if prepayment occurs and thus could conclude that the forecasted variable interest inflows are probable, the only hedged forecasted interest inflows that are eligible for application of the shortcut method are those related to a recognized interest-bearing asset at the inception of the hedge.) However, paragraph 815-20-25-104(e) indicates that its criterion that prohibits a prepayment option in the interest-bearing asset or liability does not apply to a hedging relationship if the hedging interest rate swap contains an embedded mirror-image option. In that latter case, if both the prepayment option and the mirror-image option in the swap were exercised, there would be no future hedged interest cash flows related to the recognized interest-bearing asset or liability and no future cash flows under the swap and, thus, the existence of the prepayment option would not preclude the use of the shortcut method.

f. Illustrative debt instrument 6. Some fixed-rate debt instruments include both a call option as described in illustrative debt instrument 1 and a contingent acceleration clause as described in illustrative debt instrument 2. The same conclusions reached relative to illustrative debt instrument 1 also apply to illustrative debt instrument 6.

g. Illustrative debt instrument 7. Some debt instruments contain an investor protection clause (which is standard in substantially all debt issued in Europe) that provides that, in the event of a change in tax law that would subject the investor to additional incremental taxation by tax jurisdictions other than those entitled to tax the investor at the time of debt issuance, the coupon interest rate of the debt increases so that the investor’s yield, net of the incremental taxation effect, is equal to the investor’s yield before the tax law change. The debt issuance also contains an issuer protection clause (which is standard in substantially all debt issued in Europe) that provides that, in the event of a tax law change that triggers an increase in the coupon interest rate, the issuer has the right to call the debt obligation at par. There would be no market for the debt were it not for the prepayment and interest rate adjustment clauses that protect the issuer and investors. Illustrative debt instrument 7 is not considered prepayable under paragraph 815-20-25-104(e) because it meets the exclusion criteria under paragraph 815-20-25-113(c).

55-76 An entity is not precluded from applying the shortcut method to a fair value hedging relationship of interest rate risk involving illustrative debt instruments 1 and 6 that are prepayable due to an embedded purchased call option if the hedging interest rate swap contains an embedded mirror-image written call option.

55-77 In addition, an entity is not precluded from applying the shortcut method to a fair value hedging relationship of interest rate risk involving illustrative debt instruments 2, 3, 4, and 7 that are not considered prepayable if the hedging interest rate swap does not contain an embedded purchased or written call option related to changes in the designated benchmark interest rate.

55-78 However, an entity would likely be precluded from applying the shortcut method to a cash flow hedging relationship of interest rate risk involving illustrative debt instrument 5 because the entity would likely be unable to conclude that all the forecasted interest payments on the recognized interest-bearing asset or liability are probable.

>>> Determining Whether a Mirror-Image Call Provision Exists in Application of the Shortcut Method

55-79 This implementation guidance addresses the application of paragraph 815-20-25-104(e). It is common to quote the call prices (strike prices) on debt as a percentage of par value. In contrast, the strike prices of options embedded in interest rate swaps are generally quoted as a rate or current yield (the current fixed-rate coupon on a noncallable-nonputtable swap having zero fair value at inception). One means of determining whether these strike prices are the same would be to:

a. Impute the yield to maturity at a price equal to the call price for a noncallable-nonputtable debt instrument that is otherwise identical to the hedged debt instrument

b. Compare that yield to the call or put yield embedded in the swap.

> Illustrations

>> Example 1: Designation and Documentation of Hedged Forecasted Transaction

55-80 This Example illustrates the requirement in paragraph 815-20-25-3(d)(1) for specific identification of the hedged transaction. Entity A determines with a high degree of probability that it will issue $5,000,000 of fixed-rate bonds with a 5-year maturity sometime during the next 6 months, but it cannot predict exactly when the debt issuance will occur. That situation might occur, for example, if the funds from the debt issuance are needed to finance a major project to which Entity A is already committed but the precise timing of which has not yet been determined. To qualify for cash flow hedge accounting, Company A might identify the hedged forecasted transaction as, for example, the first issuance of five-year, fixed-rate bonds that occurs during the next six months.

>> Example 2: Portions and Portfolios of Individual Items as Hedged Item

55-81 This Example illustrates the application of paragraph 815-20-25-12.

55-82 An entity that issues $100 million of fixed-rate debt may wish to hedge 50 percent of its fair value exposure to interest rate risk, as permitted by paragraph 815-20-25-12(b)(2). To accomplish that, the entity could enter into an interest rate swap with a notional amount of $50 million. The paragraph

815-20-25-104(a) criterion is satisfied because the entity has designated as a fair value hedge 50 percent of the contractual principal amount as the hedged item and has entered into an interest rate swap with a notional amount that matches the hedged principal amount.

55-83 If $100 million of fixed-rate debt were issued in increments of $1,000 individual bonds, the entity could aggregate 50,000 of those individual bonds as a portfolio to equal the notional amount of the swap, as permitted by paragraph 815-20-25-12(b)(1) (for the purposes of this Example, it is assumed that the hedge satisfies the portfolio requirements of that paragraph).

>> Example 3: Firm Commitment as Hedged Item in Relation to Long-Term Supply Contracts with Embedded Price Caps or Floors

55-84 This Example illustrates the application of paragraph 815-20-25-12 and the definition of firm commitment in relation to long-term supply contracts with embedded price caps or floors.

55-85 Entity A enters into a long-term supply contract with a customer to sell a specified amount of a certain material. The selling price is the current monthly average list price for the quantity delivered each month but not to exceed $15 per pound. The current list price at the contract signing date is $12 per pound. The contract can be settled only by physical delivery. The contract also includes a penalty provision that is sufficiently large to make performance probable. The customer is not required to make an up-front cash payment for the written option (that is, the price cap) in the supply contract. Consequently, the supply contract is neither a recognized asset nor a recognized liability at inception.

55-86 The supply contract in its entirety does not meet the definition of a derivative instrument due to the absence of a net settlement characteristic—that is, the contract does not permit or require net settlement (see guidance beginning in paragraph 815-10-15-100), there is no market mechanism (see guidance beginning in paragraph 815-10-15-110), and it does not require delivery of an asset that is readily convertible to cash (see guidance beginning in paragraph 815-10-15-119). Pursuant to the guidance in paragraph 815-15-25-19, the embedded cap on the selling price is an option that does not warrant separate accounting under Subtopic 815-15 because it is clearly and closely related to the host supply contract. In addition, because the supply contract is not remeasured with changes in fair value reported currently in earnings, it meets the criteria in paragraph 815-20-25-41(c)(3) to qualify as a hedged item in a fair value hedge.

55-87 Entity A wishes to enter into a transaction to hedge the risk of changes in the fair value of the embedded written price cap in the supply contract. Accordingly, it purchases a cash-settled call option with a strike price of $15 per pound and a notional amount equal to the quantity specified in the supply contract. In accordance with the guidance in paragraph 815-20-25-12, a supply contract for which the contract price is fixed only under certain circumstances (such as when market prices are above an embedded price cap) meets the definition of a firm commitment for purposes of designating the hedged item in a fair value hedge. Therefore, if the selling price in a supply contract is subject to a cap, a floor, or both, either party to the contract is eligible to apply fair value hedge accounting in a hedging relationship to hedge the fair value exposure of the cap or floor. For the range of monthly average list prices above $15 per pound, the contract has a fixed $15 per pound price. Thus, Entity A may designate the written cap embedded in the supply contract as the hedged item in a fair value hedging relationship provided the other criteria for a fair value hedge are met. The embedded written cap in this Example is a specific portion of the contract that is subject to the risk of changes in fair value due to changes in the list price of the underlying materials. Because it is not accounted for separately from the supply contract, the embedded written cap may be designated as the hedged item in a fair value hedge. Paragraph 815-20-25-12 allows a nonbifurcated call option that is embedded in a supply contract to be the hedged item in a fair value hedge regardless of whether that supply contract is a recognized asset or liability or an unrecognized firm commitment.

>> Example 4: Variable Interest Payments on a Group of Variable-Rate, Interest-Bearing Loans as Hedged Item

55-88 The following Cases illustrate the implications of two different approaches to designation of variable interest payments on a group of variable-rate, interest-bearing loans:

a. Designation based on first payments received (Case A)

b. Designation based on a specific group of individual loans (Case B).

55-89 For Cases A and B, assume Entity A and Entity B both make to their respective customers London Interbank Offered Rate- (LIBOR-) indexed variable-rate loans for which interest payments are due at the end of each calendar quarter, and the LIBOR-based interest rate resets at the end of each quarter for the interest payment that is due at the end of the following quarter. Both entities determine that they will each always have at least $100 million of those LIBOR-indexed variable-rate loans outstanding throughout the next 3 years, even though the composition of those loans will likely change to some degree due to prepayments, loan sales, and potential defaults.

55-90 This Example does not address cash flow hedging relationships in which the hedged risk is the risk of overall changes in the hedged cash flows related to an asset or liability, as discussed in paragraph 815-20-25-15(j)(1). Example 29 (see paragraph 815-20-55-226) illustrates application of a comparable first-payments-received technique in hedging variable nonbenchmark interest payments on a group of loans.

>>> Case A: Designation Based on First Payments Received

55-91 In this Case, Entity A wishes to hedge its interest rate exposure to changes in the quarterly interest receipts on $100 million principal of those LIBOR-indexed variable-rate loans by entering into a 3-year interest rate swap that provides for quarterly net settlements based on Entity A receiving a fixed interest rate on a $100 million notional amount and paying a variable LIBOR-based rate on a $100 million notional amount.

55-92 In a cash flow hedge of interest rate risk, Entity A may identify the hedged forecasted transactions as the first LIBOR-based interest payments received by Entity A during each 4-week period that begins 1 week before each quarterly due date for the next 3 years that, in the aggregate for each quarter, are payments on $100 million principal of its then existing LIBOR-indexed variable-rate loans. The LIBOR-based interest payments received by Entity A after it has received payments on $100 million aggregate principal would be unhedged interest payments for that quarter.

55-93 The hedged forecasted transactions for Entity A in this Case are described with sufficient specificity so that when a transaction occurs, it is clear whether that transaction is or is not the hedged transaction.

55-94 Because Entity A has designated the hedging relationship as hedging the risk of changes attributable to changes in the LIBOR benchmark interest rate in Entity A's first LIBOR-based interest payments received, any prepayment, sale, or credit difficulties related to an individual LIBOR-indexed variable-rate loan would not affect the designated hedging relationship.

55-95 Provided Entity A determines it is probable that it will continue to receive interest payments on at least $100 million principal of its then existing LIBOR-indexed variable-rate loans, Entity A can conclude that the hedged forecasted transactions in the documented cash flow hedging relationships are probable of occurring.

55-96 An entity may not assume no ineffectiveness in such a hedging relationship as described in paragraph 815-20-25-102 because the hedging relationship does not involve hedging the interest payments related to the same recognized interest-bearing loan throughout the life of the hedging relationship. Consequently, at a minimum, Entity A must consider the timing of the hedged cash flows vis-à-vis the swap's cash flows when assessing effectiveness and calculating ineffectiveness.

>>> Case B: Designation Based on a Specific Group of Individual Loans

55-97 In this Case, Entity B wishes to hedge its interest rate exposure to changes in the quarterly interest receipts on $100 million principal of those LIBOR-indexed variable-rate loans by entering into a 3-year interest rate swap that provides for quarterly net settlements based on Entity B receiving a fixed interest rate on a $100 million notional amount and paying a variable LIBOR-based rate on a $100 million notional amount. Entity B initially designates cash flow hedging relationships of interest rate risk and identifies as the related hedged forecasted transactions each of the variable interest receipts on a specified group of individual LIBOR-indexed variable-rate loans aggregating $100 million principal but then some of those loans experience prepayments, are sold, or experience credit difficulties.

55-98 This Case addresses whether the original cash flow hedging relationships remain intact if the composition of the group of loans whose interest payments are the hedged forecasted transactions is changed by replacing the principal amount of the specified loans with similar variable-rate interest-bearing loans. Entity B cannot conclude that the original cash flow hedging relationships have remained intact if the composition of the group of loans whose interest payments are the hedged forecasted transactions is changed by replacing the principal amount of the originally specified loans with similar variable-rate interest-bearing loans. Paragraph 815-20-25-15(a) requires that, for a cash flow hedge, the forecasted transaction be specifically identified as a single transaction or group of transactions. At inception, the entity designated cash flow hedging relationships for each of the variable interest receipts on a specified group of benchmark-interest-rate-based variable-rate loans. If a loan within the group experiences a prepayment, has been sold, or experiences an unexpected change in its **expected cash flows** due to credit difficulties, the remaining hedged interest payments to Entity B specifically related to that loan are now no longer probable of occurring. Pursuant to paragraphs 815-30-40-1 through 40-3, Entity B must discontinue the hedging relationships with respect to the hedged forecasted transactions that are now no longer probable of occurring. However, had the hedged forecasted transactions been designated in a manner similar to that described in Case A, the consequences of a loan's prepayment, a loan sale, or an unexpected change in a loan's expected cash flows due to credit difficulties would not have been the same. How the forecasted transaction in a cash flow hedge is designated can have a significant impact on the application of the Derivatives and Hedging Topic.

55-99 Changing the composition of the specified individual loans within the group of variable-rate interest-bearing loans due to prepayment, a loan sale, or an unexpected change in a loan's expected cash flows due to credit difficulties reflects a change in the probability of the identified hedged forecasted transactions for the hedging relationships related to the individual loans removed from the group of variable-rate interest-bearing loans. Consequently, the hedging relationships for future interest payments that are no longer probable of occurring must be terminated. The provisions related to immediately reclassifying a derivative instrument's gain or loss out of accumulated other comprehensive income into earnings are based on the hedged forecasted transaction being probable that it will not occur—not no longer being probable of occurring—and includes consideration of an additional two-month period of time. After the discontinuation of the hedging relationships for interest payments related to the individual loans removed from the group of variable-rate interest-bearing loans and the reclassification into earnings of the net gain or loss in accumulated other comprehensive income related to those hedging relationships, the derivative instrument (or a proportion thereof) specifically related to the hedging relationships that have been terminated is eligible to be redesignated as the hedging instrument in a new cash flow hedging relationship. However, paragraph 815-30-40-5 warns that a pattern of determining that hedged forecasted transactions probably will not occur would call into question both the entity's ability to accurately predict forecasted transactions and the propriety of using hedge accounting in the future for similar forecasted transactions.

>> Example 5: Hedged Forecasted Transaction when Timing Involves Some Uncertainty Within a Range

55-100 This Example illustrates the application of paragraph 815-20-25-16(c).

55-101 A general contractor enters into a long-term contract to build a power plant. The long-term contract is to be completed within five years. As part of the construction project, the general contractor expects to subcontract a portion of the construction to a foreign entity with a functional currency different from its own. Because the subcontractor will be paid in its functional currency, the general contractor will have a foreign currency exposure that it desires to hedge. At the start of the project, the general contractor concludes it is probable that the subcontract work will be completed and paid for at the end of Year 2. However, the general contractor knows that the timing of a subcontractor's work, and thus the foreign-currency-denominated payment for its work, may possibly be delayed by a period of more than two months, even though it is probable that the overall project will remain on schedule in meeting the ultimate completion date. The contractor intends to hedge the exposure by using a forward contract with a maturity date that coincides with the current expected date of payment (that is, a two-year foreign currency forward) and the expected notional amount of the forecasted transaction.

55-102 The general contractor could document (as required by paragraph 815-20-25-3[d][1]) that the hedged forecasted transaction is the foreign-currency-denominated payment to the foreign subcontractor to be paid within the five-year contract period of the overall project (which is the originally specified time period referred to in paragraphs 815-30-40-4 through 40-5). In accordance with paragraph 815-20-25-16(c), as long as it remains probable that the forecasted transaction will occur by the end of the originally projected five-year period of the overall project, cash flow hedge accounting for that hedging relationship would continue. Consequently, if the subcontractor's payment is delayed by more than two months, but less than three years and two months, then the forecasted transaction would still be considered probable of occurrence within the originally specified time period.

55-103 If the expected timing of the forecasted transaction changes, the contractor must first apply the requirements of paragraph 815-30-35-3 using its originally documented hedging strategy and the newly revised best estimate of the cash flows, and then reevaluate whether continuing hedge accounting is appropriate, pursuant to the requirements of paragraphs 815-30-40-1 through 40-3. If hedge accounting is discontinued prospectively, the derivative instrument's gains or losses in other comprehensive income after the application of paragraph 815-30-35-3(b) should be accounted for pursuant to paragraphs 815-30-35-38 through 35-41 (unless paragraphs 815-30-40-4 through 40-5 require reclassification into earnings).

55-104 Paragraph 815-30-35-3 requires recognition of cumulative ineffectiveness for overhedges. This could result in an entity reporting a significant amount of ineffectiveness in income (in essence a catch-up adjustment) in the period that a change is made in the expected future cash flows on the hedged forecasted transaction from the inception of the hedge. Specifically, the final measurement under paragraph 815-30-35-3(b)(2) should be based on the most recent best estimate of the hedged forecasted transaction as of the date that a cash flow hedge is discontinued prospectively. If the assessment of effectiveness is based on changes in forward rates, the most recent best estimate would be based on the current forward rate for the hedged transaction relevant for the probable date that the transaction will occur. If the assessment of effectiveness is based on changes in spot rates, the best estimate would be based on the current spot rate.

>> Example 6: Prohibition on Characterization of Variable-Rate Debt as Rolled Fixed-Rate Debt

55-105 This Example illustrates the application of paragraph 815-20-25-19. Consider an entity with existing variable-rate debt that is prepayable, resets monthly based on a specified bank's prime rate plus 1 percent as of the beginning of each month, and matures in 5 years. Although the variable-rate debt does, after each reset, have a fixed rate for each monthly period, it is inappropriate to characterize that debt as a series of fixed-rate debt instruments whose issuances would not be subject to the restriction against hedging interest rate risk in paragraphs 815-20-25-15(j) and 815-20-25-19. When each reset occurs, it is not a new issuance of fixed-rate debt based on current market interest rates for that debtor; instead, it is a contractual continuation of a debtor-creditor relationship and the fixed rate for each month is explicitly (and contractually) based on a specific index (a specified bank's prime rate) that is different from a designated benchmark interest rate. Thus, the restriction against hedging interest rate risk in paragraph 815-20-25-15(j) must be applied to the variable-rate debt instrument.

>> Example 7: Determination of the Appropriate Hypothetical Derivative for Variable-Rate Debt that Is Prepayable at Par at Each Interest Reset Date

55-106 This Example illustrates the application of paragraph 815-20-25-20.

55-107 Entity A issues variable-rate debt that is prepayable at par on each interest rate reset date. The credit sector spread on the debt issuance is not reset on the interest rate reset dates. Specifically, the debt bears interest at a rate of LIBOR plus 100 basis points, with LIBOR reset every quarter. Entity

A also enters into a receive-variable, pay-fixed interest rate swap that is designated as a hedge of the variability in the debt interest payments due to changes in the benchmark interest rate (LIBOR). During the term of the hedging relationship (that is, the specific term of the interest rate swap), Entity A expects to issue new variable-rate debt (in the event the original debt is repaid before maturity) to maintain an aggregate debt principal balance equal to or greater than the notional amount of the interest rate swap, and expects the new debt (if any) to share the key characteristics of the original debt issuance (specifically, quarterly repricing to the LIBOR index and no minimum, maximum, or periodic constraints of the debt interest rate). The hedging relationship meets all of the criteria for shortcut method accounting beginning in paragraph 815-20-25-102 except for the criterion in paragraph 815-20-25-104(e); the debt is prepayable and the interest rate swap does not contain a mirror-image call option to match the call option embedded in the debt instrument, as required by that paragraph.

55-108 Entity A wishes to apply the hypothetical derivative method (as described beginning in paragraph 815-30-35-25 to calculate the amount of ineffectiveness in the hedging relationship to be recognized in earnings in accordance with paragraph 815-30-35-3(b). Because the actual interest rate swap used in Entity A's hedging relationship already meets all of the criteria in paragraph 815-20-25-102 except the criterion in paragraph 815-20-25-104 (e), this guidance would seem to suggest that the hypothetical interest rate swap would need to be the same as the actual interest rate swap except that a mirror-image call option would need to be added to meet the criterion in that paragraph and the guidance beginning in paragraph 815-30-35-10. However, Entity A observes that because the hedged transactions are the variable interest payments (on debt with a principal amount equal to the notional amount of the swap) due to changes in the benchmark interest rate (LIBOR), and because the transaction had to be probable of occurring under paragraph 815-20-25-15(b) for it to qualify for hedge accounting, the actual swap would be expected to perfectly offset the hedged cash flows.

55-109 In this fact pattern, the hypothetical interest rate swap under the guidance beginning paragraph 815-30-35-10 would be the same as the actual interest rate swap described in this Example. Because Entity A has concluded that if the original debt issuance is repaid before maturity, it is probable that a sufficient principal amount of variable-rate debt with key characteristics that match those of the original debt issuance (specifically quarterly repricing to the LIBOR index and no minimum, maximum, or periodic constraints of the debt interest rate) will be issued and remain outstanding during the term of the hedging relationship (providing exposure to benchmark-interest-rate-based variable cash payments), the prepayment provisions of the debt instrument should not be considered in determining the appropriate hypothetical derivative under that guidance. The prepayment of the original variable-rate debt eliminates the contractual obligation to make those interest payments; however, this Subtopic permits replacing the hedged interest payments that are no longer contractually obligated to be paid without triggering the dedesignation of the original cash flow hedging relationship. Replacing the original debt issuance with a new variable-rate debt issuance is permissible in a cash flow hedge of interest rate risk and does not automatically result in the discontinuation of the original cash flow hedging relationship.

55-110 Although the entity can terminate the debt at any interest rate reset date for reasons that may be totally unrelated to changes in the benchmark interest rate (which is the hedged risk), it expects to be at risk for variability in cash flows due to changes in the benchmark interest rate in an amount based on debt principal equal to or greater than the notional amount of the swap during the specific term of the interest rate swap. Therefore, the prepayment feature of the debt is not relevant for purposes of determining the appropriate hypothetical swap under the guidance beginning in paragraph 815-30-35-10 as long as the relevant conditions to qualify for cash flow hedge accounting have been met with respect to the hedged transaction.

>> Example 8: All-in-One Hedges

55-111 The following Cases illustrate the application of paragraph 815-20-25-21:

a. Purchase of a nonfinancial asset (Case A)

b. Purchase of a financial asset (Case B).

55-112 Settling a forward contract gross involves delivery of an asset in exchange for the payment of cash or other assets and is differentiated from settling net, which typically involves a payment for the change in a contract's value as the method of settling the contract.

55-113 A forecasted purchase or sale meets the definition of forecasted transaction and, if it is probable, meets the criteria in paragraph 815-20-25-15 for designation as a hedged transaction. An entity concerned about variability in cash flows from its forecasted purchases or sales can economically fix the price of those purchases or sales by entering into a fixed-price contract. Because the fixed-price purchase or sale contract is a derivative instrument, it is eligible for use as a hedging instrument.

55-114 The forecasted purchase or sale at a fixed price is eligible for cash flow hedge accounting because the total consideration paid or received is variable. The total consideration paid or received for accounting purposes is the sum of the fixed amount of cash paid or received and the fair value of the fixed price purchase or sale contract, which is recognized as an asset or liability, and which can vary over time.

>>> Case A: Purchase of a Nonfinancial Asset

55-115 Entity A plans to purchase a nonfinancial asset. To fix the price to be paid (that is, to hedge the price), Entity A enters into a contract that meets the definition of a firm commitment with an unrelated party to purchase the asset at a fixed price at a future date. Assume that the terms of the contract (such as net settlement under the default provisions) or the nature of the asset cause the contract to meet the definition of a derivative instrument and the contract is not excluded by paragraphs 815-10-15-13 through 15-82 from the scope of the Derivatives and Hedging Topic. As such, Entity A has entered into a derivative instrument under which it is expected to take delivery of the asset. Entity A may designate the fixed-price purchase contract (that is, the derivative instrument) as a cash flow hedge of the variability of the consideration to be paid for the purchase of the asset (that is, the forecasted transaction) even though the derivative instrument is the same contract under which the asset itself will be acquired.

>>> Case B: Purchase of a Financial Asset

55-116 Entity B plans to purchase U.S. government bonds and expects to classify those bonds in its available-for-sale portfolio. To fix the price to be paid (that is, to hedge the price), Entity B enters into a contract that meets the Derivatives and Hedging Topic's definition of a firm commitment with an unrelated party to purchase the bonds at a fixed price at a future date. Assume the contract meets the definition of a derivative instrument and is not excluded by paragraphs 815-10-15-13 through 15-82 from the scope of this Topic. As such, Entity B has entered into a derivative instrument under which it is expected to take delivery of the asset. Entity B may designate the fixed-price purchase contract (that is, the derivative instrument) as a cash flow hedge of the variability of the consideration to be paid for the purchase of the bonds (that is, the forecasted transaction) even though the derivative instrument is the same contract under which the asset itself will be acquired.

>> Example 9: Definition of Hedged Item when Using a Zero-Cost Collar with Different Notional Amounts

55-117 The following Cases illustrate the application of paragraph 815-20-25-10 to two collars:

a. Equity collar (Case A)

b. Currency collar (Case B).

>>> Case A: Equity Collar

55-118 During January 1999, Entity A issued a $100,000 debt instrument at a fixed interest rate of 8 percent that contains an embedded combination of options. The combination of options comprises both of the following:

a. A purchased put option with a notional amount equal to 1,000 shares of XYZ stock and a strike price of $100 per share. The purchased put option provides Entity A a return of $1,000 for each dollar that the price of XYZ stock falls below $100.

b. A written call option with a notional amount equal to 700 shares of XYZ stock and a strike price of $120 per share. The written call option obligates Entity A to pay $700 for each dollar that the price of XYZ stock increases above $120.

55-119 Overall, the collar provides the investor with a potential gain equal to 70 percent of the share price of XYZ stock in excess of $120 per share at maturity and exposes the investor to a potential loss in principal to the extent that the share price of XYZ stock is below $100 per share at maturity. (For both options, the underlying is the same—the share market price of XYZ stock.) Entity A also has 1,000 shares of XYZ stock classified as available for sale. The current market value of XYZ stock at the debt issuance date is $100 per share. The debt issuance is intended to eliminate the risk of a decrease in the market value in Entity A’s investment in XYZ stock.

55-120 Pursuant to the guidance in paragraphs 815-20-25-89 through 25-90, the combination of options should be accounted for as a net purchased option. As a result, if Entity A chooses to use the combination of options as a hedging instrument, it is not required to comply with the provisions contained in paragraph 815-20-25-94 related to written options.

55-121 Entity A would like to designate the combination of options as a fair value hedge of its investment in XYZ stock. Entity A would specify in the hedge effectiveness documentation that the collar’s time value would be excluded from the assessment of hedge effectiveness.

55-122 The hedging relationship involving the equity collar and the shares of XYZ stock owned by Entity A qualifies for fair value hedge accounting. In that case, the hedged risk is changes in the overall fair value of the hedged item. The hedged item is expressed as 100 percent of 1,000 shares of XYZ stock for price changes below $100 per share and 70 percent of each of the same 1,000 shares of stock for price changes above $120 per share. Fair value hedge accounting will be applied for those changes in the underlying (market price of XYZ stock) that cause changes in the collar’s intrinsic value (that is, decreases below $100 per share and increases above $120 per share). Because the hedge’s effectiveness is based on changes in the collar’s intrinsic value, hedge effectiveness must be assessed based on the actual price change of XYZ stock by comparing the change in intrinsic value of the collar to the change in fair value of the specified quantity of shares for those changes in the underlying.

>>> Case B: Currency Collar

55-123 Entity B forecasts that it will purchase inventory that will cost 100 million foreign currency (FC) units. Entity B's functional currency is the U.S. dollar (USD). To limit the variability in USD-equivalent cash flows associated with changes in the USD-FC exchange rate, Entity B constructs a currency collar as follows:

a. A purchased call option providing Entity B the right to purchase FC 100 million at an exchange rate of USD 0.885 per FC 1.

b. A written put option obligating Entity B to purchase FC 50 million at an exchange rate of USD 0.80 per FC 1.

55-124 The purchased call option provides Entity B with protection when the USD-FC exchange rate increases above USD 0.885 per FC 1. The written put option partially offsets the cost of the purchased call option and obligates Entity B to give up some of the foreign currency gain related to the forecasted inventory purchase as the USD-FC exchange rate decreases below USD 0.80 per FC 1. (For both options, the underlying is the same—the USD-FC exchange rate.) Assuming that a net premium was not received for the combination of options and all the other criteria in paragraphs 815-20-25-89 through 25-90 have been met, if Entity B chooses to use the combination of options as a hedging instrument, it is not required to comply with the provisions contained in paragraph 815-20-25-94 related to written options.

55-125 Entity B would like to designate the combination of options as a hedge of the variability in USD-equivalent cash flows of its forecasted purchase of inventory denominated in FC. Assume Entity B specifies in the hedge effectiveness documentation that the collar's time value would be excluded from the assessment of hedge effectiveness.

55-126 The hedging relationship involving the currency collar designated as a hedge of the effect of fluctuations in the USD-FC exchange rate qualifies for cash flow hedge accounting. In that example, the hedged risk is the risk of changes in USD-equivalent cash flows attributable to foreign currency risk (specifically, the risk of fluctuations in the USD-FC exchange rate). The foreign currency collar is hedging the variability in USD-equivalent cash flows for 100 percent of the forecasted FC 100 million purchase price of inventory for USD-FC exchange rate movements above USD 0.885 per FC 1 and variability in USD-equivalent cash flows for 50 percent of the forecasted FC 100 million purchase price of inventory for USD-FC exchange rate movements below USD 0.80 per FC 1. Cash flow hedge accounting will be applied for those changes in the underlying (the USD-FC exchange rate) that cause changes in the collar's intrinsic value (that is, changes below USD 0.80 per FC 1 and above USD 0.885 per FC 1). Because the hedge's effectiveness is based on changes in the collar's intrinsic value, hedge effectiveness must be assessed based on the actual exchange rate changes by comparing the change in intrinsic value of the collar to the change in the specified quantity of the forecasted transaction for those changes in the underlying.

>> Example 10: Foreign-Currency-Denominated Debt Instrument as Both Hedging Instrument and Hedged Item

55-127 This Example illustrates the application of paragraph 815-20-55-38.

55-128 A U.S. parent entity (Parent A) with a U.S. dollar (USD) functional currency has a German subsidiary that has the Euro (EUR) as its functional currency. On January 1, 2001, Parent A issues a five-year, fixed-rate EUR-denominated debt instrument and designates that EUR-denominated debt instrument as a hedge of its net investment in the German subsidiary. On the same date, Parent A enters into a five-year EUR-denominated receive-fixed, pay-Euribor-interest rate swap. Parent A designates the interest rate swap as a hedge of the foreign-currency-denominated fair value of the fixed-rate EUR-denominated debt instrument attributable to changes in Euribor interest rates, which is considered the benchmark interest rate for a hedge of the EUR-denominated fair value of that instrument.

55-129 As permitted by paragraph 815-20-55-38, Parent A may designate the EUR-denominated debt instrument as a hedge of its net investment in the German subsidiary and also as the hedged item in a fair value hedge of the debt instrument's foreign-currency-denominated fair value attributable to changes in the designated benchmark interest rate. As a result of applying fair value hedge accounting, the debt's carrying amount will be adjusted to reflect changes in its foreign-currency-denominated fair value attributable to interest rate risk. The notional amount of the debt that is designated as the hedging instrument in the net investment hedge will change over time such that it may not match the notional amount of the hedged net investment. The entity then applies the net investment hedge guidance in Subtopic 815-35 and the fair value hedge guidance in Subtopic 815-25. As discussed in paragraph 815-35-35-19(a), because the notional amount of the derivative instrument designated as a hedge of the net investment does not match the portion of the net investment designated as being hedged, the amount of hedge ineffectiveness required to be recognized in earnings is measured by comparing the following two values:

a. The change in fair value of the actual derivative instrument designated as the hedging instrument

b. The change in fair value of a hypothetical derivative instrument that has a notional amount that matches the portion of the net investment being hedged and a maturity that matches the maturity of the actual derivative instrument designated as the net investment hedge.

>> Example 11: Identifying an Intervening Subsidiary with a Different Functional Currency

55-130 This Example illustrates the application of paragraph 815-20-25-30(a)(2). If a dollar- (USD-) functional, second-tier subsidiary has a Euro (EUR) exposure, the USD-functional consolidated parent entity could designate its USD–EUR derivative instrument as a hedge of the second-tier subsidiary's exposure if the functional currency of the intervening first-tier subsidiary (that is, the parent of the second-tier subsidiary) is also USD. In contrast, if the functional currency of the intervening first-tier subsidiary was the Japanese yen (JPY) (thus requiring the financial statements of the second-tier subsidiary to be translated into JPY before the JPY-denominated financial statements of the first-tier subsidiary are translated into USD for consolidation), the consolidated parent entity could not designate its USD–EUR derivative instrument as a hedge of the second-tier subsidiary's exposure.

>> Example 12: Grandfathered Hybrid Instrument as a Hedged Item

55-131 This Example illustrates how an entity may achieve hedge accounting for a hedge of a **hybrid instrument** that was not separated into a host contract and embedded derivative instrument because of grandfathering provisions applied when the guidance in the Derivatives and Hedging Topic initially took effect. During January 1998, Entity A issued a $100 million structured note that pays quarterly a 3 percent annual rate of interest plus an additional quarterly return based on any increase in the Standard and Poor's S&P 500 Index for that quarter, with a guaranteed return of principal at maturity. Because of grandfathering provisions when the guidance in this Topic initially took effect, the embedded equity derivative instrument was not separated from the debt host contract. The following guidance relates to Entity A's ability to designate various fair value and cash flow hedging relationships involving the example structured note:

a. Entity A may designate a fair value hedge of the risk of changes in the structured note's overall fair value. Because Entity A must have an expectation at the inception of the hedge and on an ongoing basis that the hedging relationship will be highly effective in achieving offsetting changes in fair value during the period the hedge is designated, it must obtain a derivative instrument or combination of derivative instruments that would be a highly effective hedge of changes in the structured note's overall fair value. While this strategy is permitted, it may be difficult to construct a hedging instrument that is highly effective in offsetting the interest-rate-based and equity-based components of the structured note's return while also encompassing a hedge of credit risk exposure. However, if it is expected that the embedded equity-based component of the structured note will generate de minimis changes in fair value during the hedge period, an expectation of high effectiveness may be established.

b. Entity A may designate a fair value hedge of the risk of changes in the fair value of the embedded equity derivative that is not being accounted for separately. The equity-based component of the structured note is an equity derivative that provides the holder of the structured note with potential gains resulting from increases in the S&P 500 Index. That equity derivative can be identified as the hedged item because it is a portion of a recognized liability that meets the requirements in paragraph 815-20-25-12(b)(2)(iii).

c. Entity A may designate a fair value hedge of the risk of changes in the structured note's fair value attributable to changes in the designated benchmark interest rate (for example, the U.S. Treasury rate). Similar to the hedging relationship discussed under (a), Entity A must have an expectation at the inception of the hedge and on an ongoing basis that the hedging relationship will be highly effective in achieving offsetting changes in fair value attributable to the benchmark interest rate during the period the hedge is designated. However, it is unlikely that Entity A could establish an expectation that a derivative instrument based on the benchmark interest rate would be highly effective as a hedge of the structured note's fair value attributable to interest rate risk because of the impact of the equity-based-component on the calculation of that change in fair value attributable to interest rate risk. As required by paragraph 815-20-25-12(f), the estimated cash flows used in calculating the change in the hedged item's fair value attributable to changes in the benchmark interest rate must be based on all of the contractual cash flows of the entire hedged item; excluding some of the hedged item's contractual cash flows is not permitted. Therefore, in employing this hedging strategy, Entity A must incorporate into that calculation the cash flows that will be generated by both the structured note's interest-rate-based component (based on the 3 percent fixed rate) and an estimation of the cash flows that will be generated by the equity-based component (based on expected increases in the S&P 500 Index). While this hedging relationship would typically be expected not to qualify as a fair value hedge of interest rate risk, if it is expected that the embedded equity-based component of the structured note will have a de minimis effect on the changes in fair value of the structured note during the hedge period, an expectation that the hedging relationship will be highly effective in achieving offsetting changes in fair value attributable to interest rate risk may be established.

d. Entity A may designate a cash flow hedge of the risk of changes in the structured note's total quarterly cash flows. To be highly effective, the entity would be required to designate as the hedging instrument a derivative instrument that is expected to produce offsetting cash flows as the S&P 500 Index increases.

e. Entity A may not designate a cash flow hedge of the risk of changes in the structured note's cash flows attributable to changes in the designated benchmark interest rate (for example, the U.S. Treasury rate). In accordance with paragraph 815-20-25-15(j), to designate a hedge of cash flow variability attributable to changes in the benchmark interest rate, the hedged variable interest flows must be explicitly based on the designated benchmark rate (that is, either the U.S. Treasury rate or the **LIBOR swap rate** in the United States). If the hedged transaction's variability is based on an index other than the designated benchmark rate, the risk being hedged must be the risk of overall changes in the hedged cash flows, as discussed in (d). The variability in the structured note's cash flows is based on changes in the S&P 500 Index, not the designated benchmark rate.

>> Example 13: Eliminating All Variability in Cash Flows

55-132 The following Cases illustrate the application of paragraph 815-20-25-39(d) regarding whether all the variability in a hedged item's functional-currency-equivalent cash flows are eliminated by the effect of the hedge:

a. Difference in optionality (Case A)

b. Difference in reset dates (Case B)

c. Difference in notional amounts (Case C).

>>> Case A: Difference in Optionality

55-133 An entity has issued a fixed-rate foreign-currency-denominated debt obligation that is callable (that is, by that entity) and desires to hedge its foreign currency exposure related to that obligation with a fixed-to-fixed cross-currency swap. A fixed-to-fixed currency swap could be used to hedge the fixed-rate foreign-currency-denominated debt instrument that is callable even though the swap does not contain a mirror-image call option as long as the terms of the swap and the debt instrument are such that they would be highly effective at providing offsetting cash flows and as long as it was probable that the debt instrument would not be called and would remain outstanding.

>>> Case B: Difference in Reset Dates

55-134 An entity has issued a variable-rate foreign-currency-denominated debt obligation and desires to hedge its foreign currency exposure related to that obligation. The entity uses a variable-to-fixed cross-currency interest rate swap in which it receives the same foreign currency based on the variable rate index contained in the debt obligation and pays a fixed amount in its functional currency. If the swap would otherwise meet this Subtopic's definition of providing high effectiveness in hedging the foreign currency exposure of the debt instrument, but there is a one day difference between the reset dates in the debt obligation and the swap (that is, the one day difference in reset dates results in the hedge being highly effective, but not perfectly effective), the variable-to-fixed cross-currency interest rate swap could be used to hedge the variable-rate foreign-currency-denominated debt instrument even though there is a one-day difference between the reset dates or a slight difference in the notional amounts in the debt instrument and the swap. This would be true as long as the difference in reset dates or notional amounts is not significant enough to cause the hedge to fail to be highly effective at providing offsetting cash flows.

>>> Case C: Difference in Notional Amounts

55-135 This Case involves the same facts as in Case B, except that there is no difference in the reset dates. However, there is a slight difference in the notional amount of the swap and the hedged item. If the swap would otherwise meet this Subtopic's definition of providing high effectiveness in hedging the foreign currency exposure of the debt instrument, paragraph 815-20-25-39(d) does not preclude the swap from qualifying for hedge accounting simply because the notional amounts do not exactly match. The ineffectiveness attributable to the slight difference in the notional amount of the swap and the hedged item could be eliminated by designating only a portion of the contract with the larger notional amount as either the hedging instrument or hedged item, as appropriate.

>> Example 14: Hedging a Firm Commitment or Fixed-Price Agreement Denominated in a Foreign Currency

55-136 The following Cases illustrate hedging foreign exchange risk under the cash flow hedging model as discussed in paragraph 815-20-25-42 and others:

a. Firm commitment (Case A)

b. Fixed-price agreement (Case B).

>>> Case A: Firm Commitment

55-137 On January 1, an entity enters into an agreement to sell 1,000 tons of a nonfinancial asset to an unrelated party on June 30. The agreement meets the definition of a firm commitment. The firm commitment is denominated in the buyer's functional currency, which is not the seller's functional currency. Accordingly, the firm commitment exposes the seller to foreign currency risk. The seller may hedge the foreign currency exposure arising from the firm commitment under the fair value hedging model.

55-138 The seller may hedge its exposure to foreign currency risk under the cash flow hedging model even though the agreement meets the definition of a firm commitment. Accordingly, the seller may hedge the foreign currency exposure arising from the firm commitment to sell 1,000 tons of the nonfinancial asset under the cash flow hedging model, even though the seller has previously hedged its foreign currency exposure arising from another similar firm commitment under the fair value hedging model.

>>> Case B: Fixed-Price Agreement

55-139 On January 1, an entity enters into an agreement to sell 1,000 tons of a nonfinancial asset to an unrelated party on June 30. Although the agreement in this Case does not meet the definition of a firm commitment, the seller's assessment of the observable facts and circumstances is that performance under the agreement is probable. The agreement is denominated in the buyer's functional currency, which is not seller's functional currency. Accordingly, the foreign-currency-denominated fixed-price agreement exposes the seller to foreign currency risk.

55-140 If the agreement does not meet the definition of a firm commitment, but contains a fixed foreign-currency-denominated price, the seller may not hedge the foreign currency risk relating to the agreement to sell the nonfinancial asset under the fair value hedging model because the agreement is not a recognized asset, a recognized liability, or a firm commitment, which are the only items that can be designated as the hedged item in a fair value hedge. However, the seller may hedge the foreign currency risk relating to the agreement under the cash flow hedging model. The agreement is by definition a forecasted transaction because the sale of the nonfinancial assets will occur at the prevailing market price, that is, the fixed foreign-currency-denominated market price converted into the seller's functional currency at the prevailing exchange rate when the transaction occurs. Therefore, because the agreement includes a fixed foreign-currency-denominated price, the agreement exposes the seller to variability in the functional-currency-equivalent cash flows. Accordingly, the seller may not hedge the foreign currency risk relating to the agreement to sell 1,000 tons of the nonfinancial asset under the fair value hedging model but may hedge the foreign currency risk under the cash flow hedging model.

>> Example 15: Portions of a Foreign-Currency-Denominated Financial Asset or Liability as Hedged Item

55-141 The following Cases illustrate the application of paragraph 815-20-25-41 to fixed-rate and variable-rate foreign-currency-denominated debt:

a. Foreign-currency-denominated fixed-rate debt (Case A)

b. Foreign-currency-denominated variable-rate debt (Case B).

55-142 Specifically, for each of the eight situations presented collectively in Cases A (see paragraph 815-20-55-143) and B (see paragraph 815-20-55-153), an entity can use cash flow hedge accounting to hedge the variability in the specific principal repayments, interest cash flows, or both by applying the guidance in paragraph 815-30-35-3(d) to the specifically identified hedged cash flows. Only an amount that would offset the transaction gain or loss arising from the remeasurement of a hedged cash flow would be reclassified each period from other comprehensive income to earnings. Also, the change in the fair value of the forward points (time value) attributable to the hedged future cash flows would be reported in other comprehensive income, while the change in the fair value of the forward points (time value) attributable to the unhedged future cash flows would be reported in earnings.

>>> Case A: Foreign-Currency-Denominated Fixed-Rate Debt

55-143 Entity ABC, a U.S. dollar (USD) functional entity, issues a five-year foreign-currency-denominated fixed-rate debt obligation that requires interest payments and partial principal payments annually in the foreign currency with the remaining principal due at the end of five years (maturity) in the foreign currency. More specifically, Entity ABC issues an FC 45 million debt obligation on December 31, 20X0, with FC 5 million due on December 31 of each of the next 4 years and FC 25 million due on December 31, 20X5. Interest payments at 10 percent are paid annually.

55-144 In this Case, Entity ABC can use cash flow hedge accounting to hedge the variability in its functional-currency-equivalent cash flows associated with any of the following:

a. All of the payments of both principal and interest of the debt

b. All of the payments of principal of the debt

c. All or a fixed portion of selected payments of either principal or interest of the debt (such as either principal or interest payments on December 31, 2001, and December 31, 2003)

d. Selected payments of both principal and interest of the debt (such as principal and interest payments on December 31, 2001, and December 31, 2003.

55-145 For instance, Entity ABC could use a receive-fixed-rate, pay-fixed-rate cross-currency interest rate swap or a series of forward contracts to eliminate variability attributable to foreign exchange rates.

55-146 The following illustrates the second option, hedging the variability in all principal cash flows attributable to foreign exchange risk.

55-147 Entity ABC enters into the following five forward contracts to hedge all principal cash flows:

a. Forward contract to purchase FC 5,000 on December 31, 20X1, at a forward rate of 1.05061019

b. Forward contract to purchase FC 5,000 on December 31, 20X2, at a forward rate of 1.06061601

c. Forward contract to purchase FC 5,000 on December 31, 20X3, at a forward rate of 1.07066924

d. Forward contract to purchase FC 5,000 on December 31, 20X4, at a forward rate of 1.08076989

e. Forward contract to purchase FC 25,000 December 31, 20X5, at a forward rate of 1.090871.

55-148 Exchange rates are as follows.

Period	Spot	12/31/X1 Forward	12/31/X2 Forward	12/31/X3 Forward	12/31/X4 Forward	12/31/X5 Forward
12/31/X0	1.04060438	1.05061019	1.06061601	1.07066924	1.08076989	1.090871
12/31/X1	1.1		1.12125604	1.14271548	1.16448149	1.18655697
12/31/X2	1.1			1.12125604	1.14272548	1.16448149
12/31/X3	1.1				1.12125604	1.14272548
12/31/X4	1.1					1.12125604
12/31/X5	1.1					

55-149 Entity ABC would make the following journal entries.

	Debit (Credit)				
	Cash	Forward Contracts	Note Payable	Income or Expense	Accum. Other Comprehensive Income
Inception 12/31/X0	46,827		(46,827)		
December 31, 20X1 entries:					
Repayment of principal	(5,500)		5,203	297	
Payment of interest	(4,950)			4,950	
Transaction loss on note payable			(2,376)	2,376	
Fair value of forward contract #1		247			(247)
Settlement of forward #1	247	(247)			
Offset $247 of loss on principal ($50 related to cost of hedge remains in earnings)				(247)	247
Fair value of forward contracts #2–5 (based on 6% discount rate)		2,853			(2,853)
Paragraph 815-30-35-3(d) through (f) adjustment—offset the transaction loss related to principal				(1,734)	1,734
Paragraph 815-30-35-3(d) through (f) adjustment—effect of hedge				396	(396)
December 31, 20X2 entries:					
Repayment of principal	(5,500)		5,203	297	
Payment of interest	(4,400)			4,400	
Fair value of forward contract #2		(89)			89
Settlement of forward #2	197	(197)			
Offset $197 of loss on principal ($100 related to cost of hedge remains in earnings)				(197)	197
Fair value of forward contracts #3–5 (based on 6% discount rate)		(507)			507
Paragraph 815-30-35-3(d) through (f) adjustment—effect of hedge				299	(299)
Change in time value related to principal goes to other comprehensive income or change in time value related to interest goes to earnings [(a)]			297	(180)	(117)
December 31, 20X3 entries:					
Repayment of principal	(5,500)		5,203	297	
Payment of interest	(3,850)			(3,850)	
Fair value of forward contract #3		(92)			92
Settlement of forward #3	147	(147)			
Offset $147 of loss on principal ($150 related to cost of hedge remains in earnings)				(147)	147
Fair value of forward contracts #4–5 (based on 6% discount rate)		(477)			477
Paragraph 815-30-35-3(d) through (f) adjustment—effect of hedge				202	(202)
Change in time value related to principal goes to other comprehensive income or change in time value related to interest goes to earnings			297	(168)	(129)
December 31, 20X4 entries:					
Repayment of principal	(5,500)		5,203	297	
Payment of interest	(3,300)			3,300	
Fair value of forward contract #4		(95)			95
Settlement of forward #4	96	(96)			
Offset $96 of loss on principal ($201 related to cost of hedge remains in earnings)				(96)	96
Fair value of forward contract #5 (based on 6% discount rate)		(437)			437
Paragraph 815-30-35-3(d) through (f) adjustment—effect of hedge				104	(104)
Change in time value related to principal goes to other comprehensive income or change in time value related to interest goes to earnings			297	(154)	(143)
December 31, 20X5 entries:					
Repayment of principal	(27,500)		26,015	1,485	
Payment of interest	(2,750)			2,750	
Fair value of forward contract #5		(488)			488
Settlement of forward #5	228	(228)			
Offset $228 of loss on principal				(228)	228
Paragraph 815-30-35-3(d) through (f) adjustment—effect of hedge			1,485	(1,001)	(484)
Change in time value related to principal goes to other comprehensive income or change in time value related to interest goes to earnings				(140)	140
	(21,008)	-	-	(b)	-

(a) The entry recording the $297 gain for the period ended December 31, 20X2, results from the spot exchange rate remaining unchanged from December 31, 20X1, and one less period remaining on the loan payable. The $117 principal portion of the gain goes to other comprehensive income because only principal is being hedged. The $180 interest portion of the gain goes to earnings because interest is not being hedged.

(b) See Schedule 3 (paragraph 815-20-55-152) for income or expense for each period.

55-150 The following schedules support the preceding entries.

Schedule 1	Foreign Currency	Functional Currency at 12/31/X0 Spot Rate (1)	Functional Currency at Current Spot Rate (2)	Transaction Gain or Loss	(2) – (1)	Change in Time Value
12/31/X0						
Principal	30,976 [(a)]	32,234				
Interest	14,024 [(a)]	14,593				
Loan value	45,000	46,827				
12/31/X1						
Principal	29,192	30,377	32,111	1,734		
Interest	10,808	11,247	11,889	642		
Loan value	40,000	41,624	44,000			
12/31/X2						
Principal	27,222	28,328	29,945		1,617	117 = (1,734 – 1,617)
Interest	7,778	8,093	8,555		462	180 = (642 – 462)
Loan value	35,000	36,421	38,500			
12/31/X3						
Principal	25,048	26,065	27,553		1,488	129 = (1,617 – 1,488)
Interest	4,952	5,153	5,447		294	168 = (462 – 294)
Loan value	30,000	31,218	33,000			
12/31/X4						
Principal	22,649	23,568	24,913		1,345	143
Interest	2,351	2,447	2,586		140	154
Loan value	25,000	26,015	27,500			
12/31/X5 (before final principal payment is made)						
Principal	25,000	26,015	27,500		1,485	(140)
Interest	-	-	-			140
Loan value	25,000	26,015	27,500			

(a) The value ascribed to the principal portion was determined by discounting the future principal payments at an annual rate of 10% compounded quarterly. The value ascribed to the interest portion was determined by discounting future quarterly interest accruals at an annual rate of 10%.

55-151 Schedule 2 provides the amount of cost attributed to each period for each forward contract. Each period's cost is determined based on applying the interest method to each forward contract.

Schedule 2	Forward Contract #1	Forward Contract #2	Forward Contract #3	Forward Contract #4	Forward Contract #5	Total
12/31/X1	$ 50.03	$ 49.79	$ 49.63	$ 49.50	$ 246.61	$ 445.56
12/31/X2		50.27	50.11	49.97	248.95	399.30
12/31/X3			50.59	50.44	251.31	352.34
12/31/X4				50.92	253.69	304.61
12/31/X5					256.11	256.11
Total	$ 50.03	$ 100.06	$ 150.33	$ 200.83	$ 1,256.67	$ 1,757.92

55-152 Schedule 3 provides a breakdown for each year-end reporting period.

Schedule 3

12/31/X1		
$	4,950	Interest expense
	446	Cost of hedge (396 + (297 – 247))
	642	Transaction loss related to unhedged interest (2,376 – 1,734)
$	6,038	Total expense
12/31/X2		
$	4,400	Interest expense
	399	Cost of hedge (299 + (297 – 197))
	(180)	Time value related to unhedged interest
$	4,619	Total expense
12/31/X3		
$	3,850	Interest expense
	352	Cost of hedge (202 + (297 – 147))
	(168)	Time value related to unhedged interest
$	4,034	Total expense
12/31/X4		
$	3,300	Interest expense
	305	Cost of hedge (104 + (297 – 96))
	(154)	Time value related to unhedged interest
$	3,451	Total expense
12/31/X5		
$	2,750	Interest expense
	256	Cost of hedge (1,485 – (1,001 + 228))
	(140)	Time value related to unhedged interest
$	2,866	Total expense

>>> Case B: Foreign-Currency-Denominated Variable-Rate Debt

55-153 Entity XYZ, a U.S. dollar (USD) functional entity issues a five-year foreign-currency-denominated variable-rate debt obligation that requires interest payments and partial principal payments annually in the foreign currency with the remaining principal due at the end of five years (maturity) in the foreign currency. More specifically, Entity XYZ issues an FC 45 million debt obligation on December 31, 20X0, with FC 5 million due on December 31 of each of the next 4 years and FC 25 million due on December 31, 20X5. Interest payments are paid annually based on LIBOR.

55-154 In this Case the guidance in paragraph 815-20-25-41 provides that Entity XYZ can use cash flow hedge accounting to hedge the variability in its functional-currency-equivalent cash flows associated with any the following:

a. All of the payments of both principal and interest of the debt

b. All of the payments of principal of the debt

c. All or a fixed portion of selected payments of either principal or interest of the debt

d. Selected payments of both principal and interest of the debt (such as principal and interest payments on December 31, 2001, and December 31, 2003).

55-155 An entity could use a receive-variable-rate, pay-fixed-rate cross-currency interest rate swap to eliminate variability attributable to interest rates and foreign exchange rates. In cash flow hedges of recognized foreign-currency-denominated assets and liabilities, the entity must assess whether the changes in cash flows attributable to the risk being hedged are expected to offset at the inception of the hedging relationship and on an ongoing basis. As the hedging relationship does not qualify for the shortcut method, the entity must measure ineffectiveness. In a manner similar to that described beginning in paragraph 815-30-35-25, the entity would measure the ineffectiveness of the hedge using the hypothetical derivative method.

>> Example 16: Oil-Linked Interest Rate Cap as Hedging Instrument

55-156 This Example illustrates whether an oil-linked interest rate cap can be designated in a qualifying hedging relationship.

55-157 Entity A enters into a complex option contract with multiple underlyings for which no net premium is received. The payoffs under the contract are nontraditional. Entity A wishes to designate the option in a cash flow hedging relationship. Specifically, Entity A is an oil producer with five-year variable-rate debt (indexed to three-month LIBOR) and is concerned that an environment of falling oil prices and rising interest rates could affect its ability to meet increasing interest payments on the variable-rate debt. To limit its exposure, Entity A enters into a five-year oil-linked interest rate cap with a notional amount equal to the principal amount of Entity A's three-month LIBOR-based variable-rate debt.

55-158 Under the terms of the oil-linked interest rate cap (a complex option), Entity A receives specified payments if both of the following conditions exist:

a. 3-month LIBOR is greater than 7 percent

b. The price of oil is less than $25 per barrel.

55-159 Specifically, if both of the conditions in the preceding paragraph are met, Entity A receives payments under the oil-linked interest rate cap equal to the increased interest payments (that is, for floating-rate amounts above 7 percent) due on their floating-rate debt.

55-160 However, if the daily price of oil goes above $25 per barrel at any time during a quarter, the option is knocked out for only that specific quarter. The option's knock-out feature is reset each quarter such that the interest rate coverage is knocked out for a specific quarter only if the daily price of oil goes above $25 per barrel at any time during that specific quarter. Thus, the option limits Entity A's exposure to increases in interest rates for all quarters in which oil prices remain under $25 per barrel throughout the quarter.

55-161 The oil-linked interest rate cap cannot be designated in a hedge of the variability in the difference between interest payments and sales proceeds on oil. The oil-linked interest rate cap purchased by Entity A is attempting to hedge Entity A's exposure to variability in the net cash flows related to certain revenue inflows and certain expense outflows. Entity A wishes to reduce the risk that an increase in cash outflows due to increases in interest rates will occur without a concurrent increase in cash inflows due to increases in the price of oil per barrel. Those are separate and dissimilar risks that Entity A wishes to hedge with a single derivative instrument. Thus, the hedged forecasted transaction cannot be a group of oil sales inflows and interest payment outflows. This Subtopic is not structured to permit hedge accounting for strategies involving hedges of a spread between revenues and expenses as Entity A is attempting to accomplish.

55-162 The oil-linked interest rate cap cannot be designated in a hedge of the variability in interest cash flows attributable to changes in LIBOR above 7 percent. Entity A could not simply define its hedged risk as the risk of changes in cash flows attributable to changes in the three-month LIBOR rate for only those periods when the price of oil per barrel is below a specified dollar amount.

55-163 If Entity A wanted to designate the oil-linked interest rate cap as a cash flow hedge of the variability in interest payments on the LIBOR-based variable-rate debt due to changes in interest rates above the contractually specified 7 percent rate in the interest rate cap, Entity A would be required to assess effectiveness whenever interest rates were above that 7 percent rate. Because the cap also has an underlying related to oil prices, there could be times when interest rates will be above the contractually specified interest rate in the cap but the complex option will not result in any cash flows because the selling price of oil is not below the contractually specified price per barrel ($25). In other words, the complex option will be out of the money but Entity A will be required to assess the option's effectiveness in offsetting the increase in interest payments for the effect of the excess of 3-month LIBOR over 7 percent.

55-164 Generally, it would be unlikely that Entity A could conclude that the oil-linked interest rate cap is expected to be highly effective in achieving offsetting cash flows if it is reasonably possible that the oil-linked option will knock out the cash inflows from the derivative instrument. In its assessment of the effectiveness of the hedge of the interest payments on the variable-rate debt, Entity A must consider the likelihood that the interest-rate protection from the oil-linked interest rate cap may be knocked out due to oil prices exceeding the contractually specified amount per barrel and it may not exclude from its assessment of effectiveness those periods when the interest rate protection is knocked out. For those quarters when the cap is knocked out, there are no cash flows from the cap to be used to offset the change in the cash flows on the hedged forecasted transaction.

55-165 In the unlikely event that Entity A was able to conclude that the relationship was expected to be highly effective (because the complex option was expected to be highly effective for all changes in the three-month LIBOR rate above the contractually specified rate due to the remoteness that the price of oil per barrel would not be below the contractually specified amount over the contractual life of the debt), the complex option could be used as the hedging derivative.

55-166 The oil-linked interest rate cap cannot be designated in a hedge of the variability in proceeds from the forecasted sale of oil. If Entity A wanted to designate the oil-linked interest rate cap as a cash flow hedge of the risk of overall changes in the sales proceeds from the forecasted sale of oil below the contractually specified price per barrel in the interest rate cap, the hedging relationship would fail to qualify under paragraph 815-20-25-75(b) because the cash inflows from the oil-linked interest rate cap are calculated based on the debt's principal amount and the excess of 3-month LIBOR over 7 percent. Because the cash inflows from the oil-linked interest rate cap are unrelated to the proceeds from oil sales, Entity A could not expect the proposed hedging relationship to be highly effective at achieving offsetting cash flows.

>> Example 17: Designation of an Intra-Entity Loan or Other Payable as the Hedging Instrument in a Fair Value Hedge of an Unrecognized Firm Commitment

55-167 This Example illustrates the application of paragraph 815-20-25-60.

55-168 A parent entity (Parent A) with the U.S. dollar (USD) as both its functional currency and reporting currency has a subsidiary with a Euro (EUR) functional currency (Subsidiary B). Subsidiary B enters into an unrecognized firm commitment with a third party that will result in Japanese yen (JPY) cash inflows. Concurrent with Subsidiary B entering into the firmly committed contract, Parent A extends a loan to Subsidiary B denominated in JPY, which is funded by a third-party, JPY-denominated borrowing by Parent A. Subsidiary B wishes to designate its JPY-denominated intra-entity loan payable as the hedging instrument in consolidated financial statements in a fair value hedge of foreign currency exposure related to its JPY-denominated unrecognized firm commitment to a third party.

55-169 In accordance with paragraph 830-20-35-1, at each balance sheet date, Subsidiary B's JPY-denominated intra-entity loan payable would be remeasured from the foreign currency (JPY) into Subsidiary B's functional currency (EUR) at the current EUR/JPY spot rate. Similarly, Parent A's intra-entity JPY-denominated receivable and its third-party JPY-denominated loan payable are remeasured from the foreign currency (JPY) into Parent A's functional currency (USD) at the current USD/JPY spot rate. The transaction gains or losses that are generated from remeasurement into functional currency are recorded in net income. If Subsidiary B designates its JPY-denominated intra-entity loan payable as the hedging instrument in consolidated financial statements, the transaction gains and losses related to the intra-entity loan payable would offset the change in fair value of the firm commitment attributable to changes in foreign exchange rates in the consolidated income statement.

55-170 In this Example, Subsidiary B's JPY-denominated intra-entity payable may be designated as a fair value hedge of the foreign exchange exposure arising from the third-party JPY-denominated firm commitment. Parent A has in place a third-party JPY-denominated borrowing that offsets the exposure of its JPY-denominated intra-entity receivable from Subsidiary B during the period the intra-entity loan receives hedge accounting.

>> Example 18: Offsetting a Subsidiary's Exposure on a Net Basis

55-171 This Example illustrates the application of paragraph 815-20-25-61(b)(2) in offsetting a subsidiary's exposure on a net basis in which neither leg of the third-party position is in the treasury center's functional currency.

55-172 If a U.S. dollar (USD) functional currency treasury center was short 390 Euros (EUR) and long 40,684.80 yen (JPY) after netting its exposures obtained from **internal derivatives** and the forward exchange rate between EUR and JPY was EUR 1.00 = JPY 104.32, then the treasury center could enter into a third-party receive EUR 390, pay JPY 40,684.80 contract to offset the exposures. In contrast, if the treasury center was short EUR 390 and long JPY 51,000, then the treasury center would need to enter into 2 third-party contracts with the receive leg of the second third-party position being the treasury center's functional currency. For example, the treasury center could enter into a third-party receive EUR 390, pay JPY 40,684.80 contract to offset the EUR exposure and partially offset the JPY exposure. It would then need to enter into a receive functional currency, pay JPY contract to hedge the remainder of its JPY exposure.

>> Example 19: Hedging a Portfolio of Fixed-Rate Financial Assets

55-173 This Example illustrates the application of paragraphs 815-20-25-12(b)(1) and 815-20-25-75 to a hedge of a portfolio of fixed-rate financial assets.

55-174 Entity A has a portfolio of seasoned, one to four family, fixed-rate mortgages that it wishes to designate as the hedged item in a fair value hedge of the benchmark interest rate (LIBOR). Each loan within the portfolio has similar settlement terms, is collateralized by property in the same geographic region, and has similar scheduled maturities. The loans are all within a specified interest rate band and are prepayable at par; each of the loans contained in the portfolio is expected to react in a generally proportionate manner to changes in the benchmark interest rate based on calculations performed by Entity A.

55-175 Entity A enters into a pay-fixed, receive-LIBOR interest rate swap with a fair value of zero at the inception of the hedging relationship. The stated maturity of the interest rate swap is consistent with the stated maturities of the loans. The notional amount of the interest rate swap amortizes based on a schedule that is expected to approximate the principal repayments of the loans (excluding prepayments). There is no optionality included in the interest rate swap. As part of its documented risk management strategy associated with this hedging relationship, on a quarterly basis, Entity A intends to do both of the following:

a. Assess effectiveness of the existing hedging relationship for the past three-month period

b. Consider possible changes in value of the hedging derivative and the hedged item over the next three months in deciding whether it has an expectation that the hedging relationship will continue to be highly effective at achieving offsetting changes in fair value.

55-176 Entity A's portfolio of loans satisfies the requirements of paragraph 815-20-25-12(b)(1) regarding the grouping of similar assets because the portfolio of loans has been defined in a restrictive manner and Entity A determined, by calculation, that each of the loans contained in the portfolio is expected to react in a generally proportionate manner to changes in the benchmark interest rate. Even though certain of the loans may prepay, each loan still may be considered to have the same exposure to prepayment risk because each loan has a similar prepayment option. When aggregating loans in a portfolio, an entity is permitted to consider among other things prepayment history of the loans (if seasoned) and expected prepayment performance in varying interest rate scenarios.

55-177 Entity A's documented hedging strategy meets the requirements of paragraph 815-20-25-75 for a prospective assessment of effectiveness provided the entity established that the hedging relationship is expected to be highly effective in achieving offsetting changes in fair value attributable to the hedged risk during the period that the hedge is designated.

55-178 Paragraph 815-20-25-79(a) explains that a probable future change in fair value will be more heavily weighted than a reasonably possible future change. For example, Entity A could assign a probability weighting to each possible future change in value of the hedged portfolio. Depending on the level of market interest rates and the expected prepayment rates for the types of loans in the hedged portfolio, Entity A may reach a conclusion that the change in fair value of the swap will be highly effective at offsetting the change in the value of the portfolio of loans, inclusive of the prepayment option. As a result of this analysis, management would conclude that hedge accounting is permitted for the hedging relationship for the next three-month period; however, any ineffectiveness related to the current period must be reflected currently in earnings. (That is, management is required to assess the effectiveness of the existing hedging relationship for the past three-month period.) The amount of ineffectiveness related to the current period will be the difference between the change in fair value of the swap (which could have a notional amount different than the hedged portfolio) and the change in fair value of the existing hedged portfolio. If necessary, the notional amount of the swap in excess of the portfolio balance at the end of each three-month period must be dedesignated and a new hedging relationship designated (with a smaller percentage of the swap as the hedging instrument) going forward to allow high effectiveness to continue in the future.

>> Example 20: Combinations of Options in Which Strike Prices or Notional Amounts Do Not Remain Constant

55-179 The following Cases illustrate the application of paragraph 815-20-25-91 to combinations of options in which either the strike price or the notional amount in either the written option component or the purchased option component can fluctuate over the life of the respective component:

a. Changes in strike prices (Case A)

b. Changes in notional amounts (Case B).

55-180 Cases A and B share the following assumptions:

a. An entity wishes to hedge its forecasted sales of a commodity by entering into a five-year commodity-price collar.

b. Under the collar, the entity will do both of the following:

1. Purchase commodity-price put option components (a floor)

2. Write commodity-price call option components (a cap).

c. Each of the alternative collars discussed otherwise meets the criteria established in paragraphs 815-20-25-89 through 25-90 including all of the following:

1. No net premium is received at inception of the combination of options. Paragraph 815-20-25-94 addresses, in part, whether a net premium is received at any point during the life of the combination of options that the strike price or notional amount is changed.

2. The components of the combination of options are based on the same underlying (that is, the same commodity price).

3. The components of the combination of options have the same maturity date.

4. The notional amount of the written option component is not greater than the notional amount of the purchased option component. Paragraph 815-20-25-94 addresses, in part, whether this criterion should be applied to only the entire contractual term to maturity or to some part thereof.

>>> Case A: Changes in Strike Prices

55-181 The following table presents both of the following:

a. Commodity prices implied by the forward price curve based on market prices

b. The strike prices of two alternative collars.

The minimum prices for each collar represent the strike prices of the purchased put options. The maximum prices for each collar represent the strike prices of the written call options. (Assume that the notional amounts of the two option components are identical and constant over the life of the option components.)

(Cents Per Unit)	20X2	20X3	20X4	20X5	20X6	5-Year Average
Forward price	100.0	103.9	105.6	106.4	106.7	104.5
Collar 1						
Minimum	98.3	98.3	98.3	98.3	98.3	98.3
Maximum	110.6	110.6	110.6	110.6	110.6	110.6
Collar 2						
Minimum	108.5	108.5	91.5	91.5	91.5	98.3
Maximum	108.5	108.5	108.5	110.4	117.2	110.6

55-182 Note that the 5-year averages of the minimum prices (98.3 cents) and the maximum prices (110.6 cents) of the 2 collars are identical and are consistent with the 5-year average implied by the forward price curve. (That is, 104.5 cents equals the average of the 98.3-cent minimum strike price and the 110.6-cent maximum strike price.) No net premium is received at inception for either collar taking into consideration the entire contractual term of the combination of options from inception to maturity.

55-183 For Collar 2, premiums are received in early periods as consideration for entering into net written options in later periods. Specifically, the (higher-than-average) strike prices in years 20X2 and 20X3 are received (that is, receipt of a net premium) in return for accepting less favorable (lower-than-average) strike prices in years 20X4 through 20X6 (that is, net written options). Thus, at the inception of the hedge and over its life, Collar 2 would be subject to the provisions of paragraph 815-20-25-94.

>>> Case B: Changes in Notional Amounts

55-184 The following table presents the notional amounts of two alternative collars. (Assume that the strike prices of the two collars are identical and constant over the life of the collars.)

(Notional Units)	20X2	20X3	20X4	20X5	20X6	Total Notional Amount	5-Year Average
Collar 3							
Minimum	750	750	750	750	750	3,750	750
Maximum	750	750	750	750	750	3,750	750
Collar 4							
Minimum	1,240	1,240	1,240	15	15	3,750	750
Maximum	250	250	250	1,500	1,500	3,750	750

55-185 Note that both the sum and average of the notional amounts of the written option component for all periods are not greater than the sum and average of the notional amounts of the purchased option component for all periods.

55-186 For Collar 4, favorable terms are received in early periods (net purchased options) as consideration for entering into net written options in later periods. Specifically, the (higher-than-average) notional amounts on the purchased put option in years 20X2 through 20X4 are received in return for accepting a less favorable notional amount in years 20X5 and 20X6. Thus, at the inception of the hedge and over its life, Collar 4 in Case B would be subject to the provisions of paragraph 815-20-25-94.

>> Example 21: Application of Collar-Based Hedging Relationships

55-187 This Example illustrates the application of paragraph 815-20-25-95.

55-188 An entity enters into an equity price collar with an investment bank to hedge the fair value exposure of an equity security that it holds as an available-for-sale security. That collar is indexed to the price of the equity security held and consists of a purchased put with the strike price equal to $40 per share (whereby the holder can put the equity security to the investment bank for $40 per share) and a written call with the strike price equal to $60 per share (whereby the investment bank can call the equity security from the holder for $60 per share). The collar has the effect of insulating the equity security holder from any losses caused by equity price decreases below $40 per share, but the holder must sacrifice any unrealized gains caused by equity price increases above $60 per share. The hedged equity security has a fair value of $50 per share at inception of the collar. If the underlying increases by 50 percent to $75, the intrinsic value of the collar will decrease from zero to a loss of $15 per share ($75 – $60). If the underlying decreases by 50 percent to $25, the intrinsic value of the collar will increase from zero to a gain of $15 per share ($40 – $25). Despite the symmetrical changes in the intrinsic value of the collar in response to an upward and a downward change in the equity index by the same percentage, the market views the likelihood that the underlying equity price will increase as greater than the likelihood that it will decrease. Accordingly, the investment bank is willing to pay a premium to the equity security holder.

55-189 The following table shows the calculation of the gain and loss for a market price move of 50 percent. The written-option test in paragraph 815-20-25-94 requires consideration of all possible percentage favorable changes in the underlying (from 0 percent to 100 percent) and all possible percentage unfavorable changes in the underlying.

Potential Gain and Loss on the Combination of the Hedged Item and the Net Written Option If the Market Moves Each Direction by the Same Percentage

(The time values of the options were selected to emphasize importance of the Example.)

	Inception	Price Move up 50%	Price Move down 50%
Purchased put			
Intrinsic value	-	-	$ 15
Time value	$ 4	$ 2	$ 1
Fair value	4	3	16
Written call			
Intrinsic value	-	(15)	-
Time value	(6)	(4)	(4)
Fair value	(6)	(19)	(4)
Equity security	50	75	25
Combined fair value	$ 48	$ 58	$ 37
		Gain	Loss
Change in fair value of combination from inception		$ 10	$ (11)
Percentage change in fair value of combination from inception		21%	–23%

55-190 Pursuant to paragraph 815-20-25-88 and the guidance in paragraphs 815-20-25-89 through 25-90, the combination of options in the collar in this Example is a net written option from the equity security holder's perspective. Therefore, the written-option test in paragraph 815-20-25-94 must be applied to determine whether the hedging relationship between the equity security and the collar qualifies for fair value hedge accounting.

55-191 That test requires consideration of the potential gain and loss on the combined collar and equity security for all percentage changes in the equity index. Performance of that analysis demonstrates that the combination of the hedged item's price change and the net written option's intrinsic value change provides at least as much potential for gains as a result of a favorable change in their respective prices as exposure to losses from an unfavorable change in their respective prices.

55-192 The calculations in the preceding table demonstrate that the example hedging relationship would fail the written-option test in paragraph 815-20-25-94 if the time value were required to be considered. The amount of the gain and the loss on the combination of the net written option (both time value and intrinsic value) and the equity security when the underlying equity price increases and decreases by the same percentage is not equivalent or symmetrical. That outcome is due to the fact that the purchased put and written call have different time values, and for a specific change in the underlying, the relative change in time value for each option will be different.

>> Example 22: Designation if Hedged Exposure Is Limited but Derivative Instrument Exposure Is Not

55-193 The following Cases illustrate the application of paragraph 815-20-25-100 to situations in which the hedged item or hedged forecasted transaction may have a risk exposure that is limited, but the derivative instrument that the entity desires to designate as a hedging instrument does not have comparable limits:

a. Fair value hedge (Case A)

b. Cash flow hedge (Case B).

55-194 For the purposes of both Cases A and B, it is assumed that the shortcut method may not be applied.

>>> Case A: Fair Value Hedge

55-195 Entity A issues 10-year fixed-rate debt that is callable at the end of the fifth year. It decides to convert the interest payments on the bond from fixed-rate to variable-rate by entering into a 10-year receive-fixed, pay-variable interest rate swap. The interest rate swap is not cancelable at the end of the fifth year. From Entity A's perspective, if interest rates increase, there is a gain on the debt (the liability's fair value decreases) and a loss on the swap (fair value either decreases as an asset or increases as a liability). If interest rates decrease, there is a loss on the debt (the liability's fair value increases) and a gain on the swap (fair value either increases as an asset or decreases as a liability). However, during the first five years, if interest rates decrease, the gain on the swap will exceed the loss on the debt because the debt's fair value change will consider the impact of the call feature, which is in the money when interest rates fall below the stated rate on the debt. Entity A wishes to designate the interest rate swap as the hedging instrument in a fair value hedge of interest rate risk of the fixed-rate debt. The conclusions for Case A and Case B are discussed in paragraph 815-20-55-197.

>>> Case B: Cash Flow Hedge

55-196 Entity B issues 10-year, variable-rate debt that reprices based on 6-month LIBOR. The interest rate on the debt is capped at 9 percent. Entity B decides to convert the interest payments on the debt from variable-rate to fixed-rate by entering into a receive-variable, pay-fixed interest rate swap. There is no cap on the variable rate leg of the interest rate swap. From Entity B's perspective, if interest rates decrease, there will be a cumulative reduction in the expected future cash outflows on the debt and a cumulative reduction in the expected future cash inflows on the swap. If interest rates increase, there will be a cumulative increase in the expected future cash outflows on the debt and a cumulative increase in the expected future cash inflows on the swap. However, if interest rates increase such that the variable rate on the swap would be greater than 9 percent, the cumulative increase in the expected future cash inflows on the swap will exceed the cumulative increase in the expected future cash outflows on the debt because of the interest rate cap on the debt, which is in the money if interest rates increase such that the variable rate on the debt would exceed 9 percent. Entity B wishes to designate the interest rate swap as the hedging instrument in a cash flow hedge of interest rate risk of the variable-rate debt.

>>> Analysis

55-197 In both Cases A and B, the entity must assess, based on an appropriate methodology, whether the changes in fair value or cash flows of the interest rate swap could be expected to be highly effective in offsetting changes in fair value or cash flows of the debt attributable to interest rate risk taking into account the impact of the embedded call option (Case A) or the impact of the interest rate cap (Case B). As required by paragraph 815-20-25-12(f), the effect of an embedded derivative of the same risk class must be considered in designating a hedge of an individual risk. Therefore, if the options in Cases A and B are expected to be out of the money based on a probability-weighted analysis of the range of possible changes in interest rates, then those options would be expected to have a minimal impact on changes in fair value or cash flows of the debt, and the hedging relationships could meet the requirement for an expectation of high effectiveness.

>> Example 23: Use of Shortcut Method for Cash Flow Hedge of Variable-Rate Operating Lease

55-198 This Example addresses the application of the shortcut method as discussed beginning in paragraph 815-20-25-102. Assume that an entity leases property under a lease agreement that provides for rental payments indexed to changes in interest rates and accounted for as an operating lease. The payments on the lease agreement are reset quarterly based on changes in three-month LIBOR. To hedge the variability in expected future cash flows attributable to interest rate risk, the entity enters into a pay-fixed, receive-variable interest rate swap based on three-month LIBOR and designates the swap as the hedging instrument in a cash flow hedge of the variability in the lease payments. Assume that the term, notional amounts, repricing dates, and maturity on the operating lease and the interest rate swap match, and the fair value of the interest rate swap at the inception of the hedge is zero. The contract in this Example is a lease agreement with an escalation clause whose rental payments are dependent on LIBOR-based interest rate levels; the contract is not a recognized interest-bearing **financial instrument** for accounting purposes. Thus, the shortcut method cannot be applied to the operating lease in the Example.

>> Example 24: No Continuation of the Shortcut Method Following a Purchase Business Combination

55-199 This Example addresses whether the shortcut method in paragraph 815-20-25-102 can be applied in the circumstances illustrated. This Example has the following assumptions:

a. Entity A acquires Entity B in a business combination. A business combination is accounted for as the acquisition of one entity by another entity. The acquiring entity, Entity A, records the assets acquired and liabilities assumed at fair value.

b. Entity A and Entity B both have adopted the Derivatives and Hedging Topic before the date of the business combination.

c. At the date of the business combination, Entity A and Entity B both have certain hedging relationships that have met the requirements as discussed beginning in paragraph 815-20-25-102 and that are being accounted for by the respective entities under the shortcut method of accounting.

d. At the date of the business combination, the fair value of the hedging swaps in Entity B's hedging relationships is other than zero.

55-200 Unless the applicable hedging relationships meet the requirements in paragraph 815-20-25-102 at the date of the business combination (which would be highly unlikely because the swap's fair value would rarely be zero at that date) and the combined entity chooses to designate the swaps and the hedged items as hedging relationships to be accounted for under the shortcut method, the acquiror cannot continue to use the shortcut method of accounting for the hedging relationships of the acquiree that were being accounted for by the acquiree under the shortcut method of accounting at the date of the business combination.

55-201 Entity A is acquiring the individual assets and liabilities of Entity B at the date of the business combination and accordingly any preexisting hedging relationships of old Entity B must be designated anew by the combined entity at the date of the business combination in accordance with the relevant requirements of this Subtopic.

55-202 In part, this Example entails a determination of whether the business combination results in a new inception date for the combined entity for hedging relationships entered into by the acquiree before the consummation of the business combination that remain ongoing at the date of the business combination. The concept of acquisition accounting follows the accounting for acquisitions of individual assets and liabilities. That is, the combined entity should account for the assets and liabilities acquired in the business combination consistent with how it would be required to account for those assets and liabilities if they were acquired individually in separate transactions. The acquisition method is based on the premise that in an acquisition, the acquired entity (Entity B) ceases to exist and only the acquiring entity (Entity A) survives. Thus, the postacquisition hedging relationship designated by Entity A is a new relationship that has a new inception date.

55-203 Even in the unlikely circumstance that the new hedging relationship qualifies for the shortcut method, there would be no continuation of the shortcut method of accounting that had been applied by the acquired entity.

>> Example 25: Hedge Effectiveness Horizon in a Fair Value Hedge

55-204 This Example illustrates the application of paragraph 815-20-25-118. Under the guidance in that paragraph, if a derivative instrument with a five-year term is designated as the hedging instrument in a fair value hedge of a financial asset that also has a five-year term, an entity may base its expectation that the hedging relationship will be highly effective in achieving offsetting changes in fair value for the risk being hedged by considering the possible changes in value occurring only over a shorter period than the life of the derivative instrument, such as over only the first three months of the derivative instrument's five-year life. For example, an entity may specify, in documenting its risk management strategy, that every three months it will do both of the following:

a. It will assess the effectiveness of the existing hedging relationship for the past three-month period.

b. It intends to consider possible changes in value of the hedging derivative and the hedged item over the next three months in deciding whether it has an expectation that the hedging relationship will continue to be highly effective at achieving offsetting changes in fair value.

>> Example 26: Defining the Risk Exposure for Hedging Relationships Involving an Option Contract as the Hedging Instrument

55-205 This Example illustrates the application of paragraph 815-20-25-124.

55-206 Entity XYZ, a U.S. dollar (USD) functional currency entity forecasts the purchase of goods with the payment denominated in pounds sterling (GBP). To hedge the foreign currency exposure from the forecasted purchase, Entity XYZ purchases an at-the-money call option on GBP. The notional amount of the option equals the forecasted value of goods to be purchased, and the option exercise date is the date the purchase consummates. At inception of the hedging relationship the strike price and the forward market exchange rate for GBP 1 are both USD 1.50. The time value component on the option is USD 0.15 per GBP. The foreign currency option in this Example could be effective as a hedging instrument only if effectiveness for that hedging relationship were based solely on either of the following:

a. Changes in the option’s intrinsic value

b. Changes in the option’s entire fair value.

55-207 As stated in paragraph 815-20-25-124, it is inappropriate to assert that only limited risk exposures are being hedged, such as exposures related only to currency-exchange-rate changes above USD 1.65 per GBP.

>> Example 27: Purchased Option Used in a Cash Flow Hedge

55-208 This Example illustrates the application of paragraph 815-20-25-126.

55-209 An entity forecasts that 1 year later it will purchase 1,000 ounces of gold at then current market prices for use in its operations. The entity wishes to protect itself against increases in the cost of gold above the current market price of $275 per ounce. The entity purchases a 1-year cash-settled at-the-money gold option on 1,000 ounces of gold, paying a premium of $10,000. If the price of gold is above $275 at the maturity (settlement) date, the counterparty will pay the entity 1,000 times the difference. If the price of gold is $275 or below at the maturity date, the contract expires worthless. The option cannot be exercised before its contractual maturity date. The entity designates the purchased option contract as a hedge of the variability in the purchase price (cash outflow) of the 1,000 ounces of gold for prices above $275 per ounce.

55-210 In assessing the effectiveness of the cash flow hedge, the entity would determine that because the change in the expected future pay-off amount of the purchased option completely offsets the change in the expected future cash flows on the purchase of 1,000 ounces of gold above $275 per ounce, the hedging relationship is expected to be highly effective under paragraph 815-20-25-75(b).

55-211 The entity would conclude there is no ineffectiveness to be recognized in earnings in this Example because all of the following conditions exist:

a. All the critical terms of the hedging derivative completely match the hedged forecasted transaction.

b. The strike price of the hedging instrument matches the specified level ($275) beyond which the entity's exposure is being hedged.

c. The hedging derivative's inflows at expiration completely offset the hedged transaction's outflows for any increase in the price of gold above $275 per ounce.

d. The hedging option cannot be exercised before its contractual maturity date.

>> Example 28: Effectiveness of a Combination of Options Involving One Written Option and Two Purchased Options

55-212 This Example illustrates the application of paragraph 815-20-25-131.

55-213 Entity JPN is a Japanese subsidiary of a U.S. entity. Entity JPN's functional currency is the Japanese yen (JPY). Entity JPN has forecasted inventory purchases to be paid in U.S. dollars (USD). As a result, Entity JPN is exposed to changes in the JPY-USD exchange rate: its functional currency cash outflows will increase (loss) if JPY weakens versus USD and decrease (gain) if JPY strengthens versus USD.

55-214 Entity JPN would like to hedge the foreign currency exposure related to the forecasted transaction by entering into a combination of foreign-currency-denominated option contracts designated as a single hedging instrument.

55-215 For purposes of this discussion, assume all of the following:

a. Entity JPN has met the qualifying criteria regarding forecasted transactions eligible for designation as hedged transactions pursuant to paragraph 815-20-25-15 and the options are entered into contemporaneously with the same counterparty and can be transferred independently of each other.

b. The combination of foreign currency option contracts meets all of the conditions in paragraphs 815-20-25-89 through 25-90 to be considered a net purchased option (that is, considered not to be a net written option subject to the requirements of paragraph 815-20-25-94).

55-216 Entity JPN employs the following hedging strategy:

a. The forecasted transaction is estimated at USD 150,000,000. The at-the-money forward rate is JPY 120 per USD 1.

b. Entity JPN's documented hedge objective is to offset the foreign exchange risk to the functional currency equivalent cash flows at levels above JPY 125/USD 1 and in the range from JPY 113/USD 1 to JPY 108/USD 1. In the range JPY 113/USD 1 to JPY 125/USD 1 and at levels below JPY 108/USD 1, Entity JPN chooses not to offset the foreign exchange risk to the functional currency equivalent cash flows.

c. To implement this hedge objective, Entity JPN enters into all three of the following option contracts and jointly designates them as the hedging instrument:

1. Option 1. One purchased option that gives Entity JPN the right to purchase USD 150,000,000 at an exchange rate of JPY 125/USD 1. Premium paid: USD 1,536,885.

2. Option 2. One sold (written) option that, if exercised, obligates Entity JPN to purchase USD 150,000,000 at an exchange rate of JPY 113/USD 1. Premium received: USD 1,536,885.

3. Option 3. One purchased option that gives Entity JPN the right to sell USD 150,000,000 at an exchange rate of JPY 108/USD 1. Premium paid: USD 737,705.

55-217 The time value of the combination of options is to be excluded from the assessment of effectiveness and, therefore, effectiveness is based only on changes in intrinsic value related to the combination of options.

55-218 The purpose of Option 1 is to protect Entity JPN when the JPY-USD exchange rate increases above JPY 125/USD 1. As the JPY-USD exchange rate increases, Entity JPN will be required to purchase the USD 150,000,000 inventory at a greater JPY-equivalent cost. As the JPY-USD exchange rate increases above JPY 125/USD 1, the intrinsic value of the option increases as the option is increasingly in the money. That increase in the option's intrinsic value is expected to offset the increase in the JPY-equivalent expenditure on the forecasted transaction.

55-219 Entity JPN also writes an option (Option 2) that obligates Entity JPN to purchase USD from the counterparty at an exchange rate of JPY

113/USD 1. The counterparty will exercise the option whenever the JPY-USD exchange rate is below JPY 113/USD 1. As the JPY-USD exchange rate decreases, Entity JPN will be required to purchase the USD 150,000,000 inventory at a lesser JPY-equivalent cost. As the JPY-USD exchange rate decreases below JPY 113/USD 1, Entity JPN's losses related to increases in the intrinsic value of the written option are expected to offset the decrease in the JPY-equivalent expenditure on the forecasted transaction.

55-220 Entity JPN also purchases an option to sell USD (Option 3) for a notional amount equal to the notional of the written option (Option 2) with a strike price of JPY 108/USD 1. Entity JPN will exercise Option 3 whenever the JPY-USD exchange rate is below JPY 108/USD 1. When the exchange rate is below JPY 108/USD 1, although Entity JPN will be obligated to make a payment in relation to Option 2, it will also receive a payment in relation to Option 3. As a result of purchasing Option 3, Entity JPN will be exposed to exchange rate fluctuations on Option 2 only when the exchange rate is between JPY 113/USD 1 and JPY 108/USD 1. Hence, with Options 2 and 3, Entity JPN has effectively limited its hedge offset to changes in cash flows on the forecasted item to levels between JPY 113/USD 1 and JPY 108/USD 1. Changes in the exchange rate below JPY 108/USD 1 result in no change in the intrinsic value of the combination of options because the change in Option 2 offsets the change in Option 3. However, when the exchange rate is below JPY 108/USD 1, the combination of options has an intrinsic value other than zero.

55-221 In summary, potential changes in intrinsic value related to this combination option hedge construct (Options 1, 2, and 3) would limit the hedge offset to corresponding changes in functional currency cash flows on the forecasted transaction only at levels above JPY 125/USD 1 and in the range JPY 108/USD 1 to JPY 113/USD 1, consistent with Entity JPN's documented hedge objective.

55-222 The cash flow hedging relationship in this Example involving a combination of options may be considered effective at offsetting the change in cash flows due to foreign currency exchange rate movements related to the forecasted transaction. Specifically, Entity JPN may assess the effectiveness of the hedge based only on changes in the underlying that cause a change in the intrinsic value of the combination of options. Thus, in that case, Entity JPN would assess effectiveness of the hedge only when the JPY-USD exchange rate is above JPY 125/USD 1 and between JPY 113/USD 1 and JPY 108/USD 1. Likewise, Entity JPN's assessment would exclude changes in the JPY-USD exchange rate between JPY 113/USD 1 and JPY 125/USD 1 and below JPY 108/USD 1.

55-223 The combination of options used by Entity JPN as a hedging instrument is deemed to be a net purchased option based on the provisions of this Subtopic. Therefore, the hedging relationship avoids being subject to the hedge effectiveness test for written options in paragraph 815-20-25-94.

55-224 In particular, as it relates to paragraph 815-20-25-89(a), the aggregate premium (that is, the time values) for the three options comprising the hedging instrument results in Entity JPN paying a net premium.

55-225 The evaluation of whether a net premium has been received under paragraph 815-20-25-89(a) must include consideration of only the time value components of the options designated as the hedging instrument. That evaluation must not include the intrinsic value, if any, of the options.

>> Example 29: Overall Cash Flows on a Group of Variable-Rate, Interest-Bearing Loans as Hedged Item

55-226 This Example illustrates application of the implementation guidance beginning in paragraph 815-20-55-33A on applying a first-payments-received technique in hedging variable nonbenchmark interest payments on a group of loans.

55-227 Entity A, a U.S. entity, makes prime-rate-based loans to its customers for which interest payments are due at the beginning of each month, based on the preceding month's beginning prime rate being applied to the average outstanding balance throughout the preceding month Entity A determines that it will always have at least $100 million of those prime-rate-based loans outstanding throughout the next 3 years, even though the composition of those loans in the rolling portfolio will likely change to some degree due to prepayments, loan sales, defaults, and additional lending. Replacement of loans within the portfolio may involve loans existing at the inception of the hedging relationship or loans originated after the inception of the hedging relationship.

55-228 Entity A wishes to hedge the variability in cash flows (resulting from changes in the prime interest rate) from its monthly interest receipts on $100 million principal of those prime-rate-based loans by entering into a 3-year interest rate swap that provides for monthly net settlements based on the entity receiving a fixed interest rate on a $100 million notional amount and paying a variable rate based on a specific prime rate index on a $100 million notional amount.

55-229 Based on the guidance beginning in paragraph 815-20-55-33A, Entity A may identify the hedged forecasted transactions in its cash flow hedge by designating the hedging relationships as hedging the risk of changes in the entity's first prime-rate-based interest payments received during each 4-week period that begins 1 week before each monthly due date for the next 3 years that, in the aggregate for each month, are interest payments on $100 million principal of its then-existing prime-rate-indexed variable-rate loans.

END OF DOCUMENT -

815-20-75 XBRL Elements

General Note: This section contains a list of XBRL elements that reference paragraphs in this Subtopic. For additional details regarding changes to the development version of the US GAAP Financial Reporting Taxonomy, refer to the FASB taxonomy review and comment system on the FASB web site.

XBRL Links to Codification

Derivative Asset, Notional Amount

Element Name: *DerivativeAssetNotionalAmount*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Derivative Financial Instruments, Assets [Member]

Element Name: *DerivativeFinancialInstrumentsAssetsMember*

This XBRL element references the following glossary term(s):

- Master Glossary > Derivative Instrument

Derivative Financial Instruments, Liabilities [Member]

Element Name: *DerivativeFinancialInstrumentsLiabilitiesMember*

This XBRL element references the following glossary term(s):

- Master Glossary > Derivative Instrument

Derivative Liability, Notional Amount

Element Name: *DerivativeLiabilityNotionalAmount*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Derivative, Nonmonetary Notional Amount

Element Name: *DerivativeNonmonetaryNotionalAmount*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Derivative, Notional Amount

Element Name: *DerivativeNotionalAmount*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Derivatives, Embedded Derivatives [Policy Text Block]

Element Name: *DerivativesEmbeddedDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > 50 Disclosure > General, 50-3

This XBRL element references the following glossary term(s):

- Master Glossary > Embedded Derivative

Derivatives, Methods of Accounting, Hedge Documentation [Policy Text Block]

Element Name: *DerivativesMethodsOfAccountingHedgeDocumentation*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 20 Hedging—General > 25 Recognition > General, 25-3

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > 50 Disclosure > General, 50-3

Description of Embedded Derivative

Element Name: *DescriptionOfEmbeddedDerivative*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 15 Embedded Derivatives > 25 Recognition > General, 25-1

This XBRL element references the following glossary term(s):

- Master Glossary > Embedded Derivative

Discussion of Hybrid Instruments and Embedded Derivatives [Text Block]

Element Name: *DiscussionOfHybridInstrumentsAndEmbeddedDerivativesTextBlock*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (1), (7))
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C
- 815 Derivatives and Hedging > 15 Embedded Derivatives > 25 Recognition > General, 25-1
- 815 Derivatives and Hedging > 15 Embedded Derivatives > 45 Other Presentation > General, 45-1
- 815 Derivatives and Hedging > 15 Embedded Derivatives > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 15 Embedded Derivatives > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 15 Embedded Derivatives > 50 Disclosure > General, 50-3
- 825 Financial Instruments > 10 Overall > 50 Disclosure > General, 50-10
- 825 Financial Instruments > 10 Overall > 50 Disclosure > General, 50-15
- 825 Financial Instruments > 10 Overall > 50 Disclosure > Fair Value Option, 50-28
- 825 Financial Instruments > 10 Overall > 50 Disclosure > Fair Value Option, 50-30 (a)

This XBRL element references the following glossary term(s):

- Master Glossary > Embedded Derivative
- Master Glossary > Hybrid Instrument

Fair Value Disclosure, Off-balance Sheet Risks, Description

Element Name: *FairValueDisclosureOffBalanceSheetRisksDescription*

This XBRL element references the following glossary term(s):

- Master Glossary > Financial Instrument

Fair Value Disclosure, Off-balance Sheet Risks, Methodology

Element Name: *FairValueDisclosureOffBalanceSheetRisksMethodology*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 270 Interim Reporting > 10 Overall > 60 Relationships > General, 60-1
- 825 Financial Instruments > 10 Overall > 50 Disclosure > General, 50-10 (b)

This XBRL element references the following glossary term(s):

- Master Glossary > Financial Instrument

Fair Value Disclosure, Off-balance Sheet Risks, Significant Assumptions

Element Name: *FairValueDisclosureOffBalanceSheetRisksSignificantAssumptions*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 820 Fair Value Measurement > 10 Overall > 50 Disclosure > General, 50-1
- 825 Financial Instruments > 10 Overall > 50 Disclosure > General, 50-10 (b)

This XBRL element references the following glossary term(s):

- Master Glossary > Financial Instrument

Hedge Designations Used for Foreign Currency Derivatives

Element Name: *HedgeDesignationsUsedForForeignCurrencyDerivatives*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 20 Hedging—General > 25 Recognition > General, 25-28

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

Increase (Decrease) in Fair Value of Derivative Instruments, Not Designated as Hedging Instruments

Element Name: *IncreaseDecreaseInFairValueOfUnhedgedDerivativeInstruments*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 20 Hedging—General > 35 Subsequent Measurement > General, 35-1 (a)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (e)

Investment Owned, Underlying Face Amount, at Market Value

Element Name: *InvestmentOwnedUnderlyingFaceAmountAtMarketValue*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 20 Hedging—General > 10 Objectives > General, 10-1

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 10 Objectives > General, 10-1 (a)

This XBRL element references the following glossary term(s):

- Master Glossary > Underlying

Nonmonetary Notional Amount of Price Risk Cash Flow Hedge Derivatives

Element Name: *NonmonetaryNotionalAmountOfPriceRiskCashFlowHedgeDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Nonmonetary Notional Amount of Price Risk Derivative Instruments Not Designated as Hedging Instruments

Element Name: *NonmonetaryNotionalAmountOfPriceRiskDerivativeInstrumentsNotDesignatedAsHedgingInstruments*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Nonmonetary Notional Amount of Price Risk Derivatives

Element Name: *NonmonetaryNotionalAmountOfPriceRiskDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Nonmonetary Notional Amount of Price Risk Fair Value Hedge Derivatives

Element Name: *NonmonetaryNotionalAmountOfPriceRiskFairValueHedgeDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Cash Flow Hedge Instruments

Element Name: *NotionalAmountOfCashFlowHedgeInstruments*

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Credit Risk Derivatives

Element Name: *NotionalAmountOfCreditRiskDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Derivative Instruments Designated as Net Investment Hedges

Element Name: *NotionalAmountOfDerivativeInstrumentsDesignatedAsNetInvestmentHedges*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Fair Value Hedge Instruments

Element Name: *NotionalAmountOfFairValueHedgeInstruments*

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Foreign Currency Cash Flow Hedge Derivatives

Element Name: *NotionalAmountOfForeignCurrencyCashFlowHedgeDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Foreign Currency Derivative Instruments Not Designated as Hedging Instruments

Element Name: *NotionalAmountOfForeignCurrencyDerivativeInstrumentsNotDesignatedAsHedgingInstruments*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Foreign Currency Derivative Purchase Contracts

Element Name: *NotionalAmountOfForeignCurrencyDerivativePurchaseContracts*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Foreign Currency Derivative Sale Contracts

Element Name: *NotionalAmountOfForeignCurrencyDerivativeSaleContracts*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Foreign Currency Derivatives

Element Name: *NotionalAmountOfForeignCurrencyDerivatives*

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Foreign Currency Fair Value Hedge Derivatives

Element Name: *NotionalAmountOfForeignCurrencyFairValueHedgeDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Interest Rate Cash Flow Hedge Derivatives

Element Name: *NotionalAmountOfInterestRateCashFlowHedgeDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Interest Rate Derivative Instruments Not Designated as Hedging Instruments

Element Name: *NotionalAmountOfInterestRateDerivativeInstrumentsNotDesignatedAsHedgingInstruments*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Interest Rate Derivatives

Element Name: *NotionalAmountOfInterestRateDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Interest Rate Fair Value Hedge Derivatives

Element Name: *NotionalAmountOfInterestRateFairValueHedgeDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Net Investment Hedging Instruments

Element Name: *NotionalAmountOfNetInvestmentHedgingInstruments*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Nonderivative Instruments Designated as Net Investment Hedges

Element Name: *NotionalAmountOfNonderivativeInstrumentsDesignatedAsNetInvestmentHedges*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Other Derivatives Not Designated as Hedging Instruments

Element Name: *NotionalAmountOfOtherDerivativesNotDesignatedAsHedgingInstruments*

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Price Risk Cash Flow Hedge Derivatives

Element Name: *NotionalAmountOfPriceRiskCashFlowHedgeDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Price Risk Derivative Instruments Not Designated as Hedging Instruments

Element Name: *NotionalAmountOfPriceRiskDerivativeInstrumentsNotDesignatedAsHedgingInstruments*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Price Risk Derivatives

Element Name: *NotionalAmountOfPriceRiskDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Price Risk Fair Value Hedge Derivatives

Element Name: *NotionalAmountOfPriceRiskFairValueHedgeDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Servicing Asset at Amortized Value, Fair Value (Revision Date: 2011-05-26)

Element Name: *ServicingAssetAtAmortizedValueFairValue*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 20 Hedging—General > 50 Disclosure > General, 50-1

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 860 Transfers and Servicing > 50 Servicing Assets and Liabilities > 50 Disclosure > General, 50-4 (b)

END OF DOCUMENT -

815-25-00 Status

General Note: The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

General

00-1 No updates have been made to this subtopic.

END OF DOCUMENT -

815-25-05 Overview and Background

General Note: The Overview and Background Section provides overview and background material for the guidance contained in the Subtopic. It does not provide the historical background or due process. It may contain certain material that users generally consider useful to understand the typical situations addressed by the standards. The Section does not summarize the accounting and reporting requirements.

General

05-1 This Subtopic provides incremental guidance on accounting for and financial reporting of **fair value hedges** established under the criteria in Subtopic 815-20.

END OF DOCUMENT -

Checkpoint Contents
Accounting, Audit & Corporate Finance Library
Standards and Regulations
FASB Codification
Codification
Broad Transactions
815 Derivatives and Hedging
815-25 Fair Value Hedges
815-25-15 Scope and Scope Exceptions

815-25-15 Scope and Scope Exceptions

General Note: The Scope and Scope Exceptions Section outlines the items (for example, the entities, transactions, instruments, or events) to which the guidance in the Subtopic does or does not apply. In some cases, the Section may contain definitional or other text to frame the scope.

General Note for Financial Instruments: Some of the items subject to the guidance in this Subtopic are **financial instruments**. For guidance on matters related broadly to all financial instruments, (including the fair value option, accounting for registration payment arrangements, and broad financial instrument disclosure requirements), see Topic 825. See Section 825-10-15 for guidance on the scope of the Financial Instruments Topic.

General

> Overall Guidance

15-1 This Subtopic follows the same Scope and Scope Exceptions as outlined in Subtopic 815-20, see Section 815-20-15.

END OF DOCUMENT -

Checkpoint Contents
Accounting, Audit & Corporate Finance Library
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815-25-20 Glossary

General Note: The Master Glossary contains all terms identified as glossary terms throughout the Codification. Clicking on any term in the Master Glossary will display where the term is used. The Master Glossary may contain identical terms with different definitions, some of which may not be appropriate for a particular Subtopic. For any particular Subtopic, users should only use the glossary terms included in the particular Subtopic Glossary Section (Section 20).

Benchmark Interest Rate

A widely recognized and quoted rate in an active financial market that is broadly indicative of the overall level of interest rates attributable to high-credit-quality obligors in that market. It is a rate that is widely used in a given financial market as an underlying basis for determining the interest rates of individual financial instruments and commonly referenced in interest-rate-related transactions.

In theory, the benchmark interest rate should be a risk-free rate (that is, has no risk of default). In some markets, government borrowing rates may serve as a benchmark. In other markets, the benchmark interest rate may be an interbank offered rate.

Cash Flow Hedge

A hedge of the exposure to variability in the cash flows of a recognized asset or liability, or of a forecasted transaction, that is attributable to a particular risk.

Derivative Instrument

Paragraphs 815-10-15-83 through 15-139 define the term *derivative instrument*.

Effective Notional Amount

The effective notional amount is the stated notional amount adjusted for any leverage factor.

Fair Value

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair Value Hedge

A hedge of the exposure to changes in the fair value of a recognized asset or liability, or of an unrecognized firm commitment, that are attributable to a particular risk.

Financial Instrument

Cash, evidence of an ownership interest in an entity, or a contract that both:

a. Imposes on one entity a contractual obligation either:

1. To deliver cash or another financial instrument to a second entity

2. To exchange other financial instruments on potentially unfavorable terms with the second entity.

b. Conveys to that second entity a contractual right either:

1. To receive cash or another financial instrument from the first entity

2. To exchange other financial instruments on potentially favorable terms with the first entity.

The use of the term financial instrument in this definition is recursive (because the term financial instrument is included in it), though it is not circular. The definition requires a chain of contractual obligations that ends with the delivery of cash or an ownership interest in an entity. Any number of obligations to deliver financial instruments can be links in a chain that qualifies a particular contract as a financial instrument.

Contractual rights and contractual obligations encompass both those that are conditioned on the occurrence of a specified event and those that are not. All contractual rights (contractual obligations) that are financial instruments meet the definition of asset (liability) set forth in FASB Concepts Statement No. 6, Elements of Financial Statements, although some may not be recognized as assets (liabilities) in financial statements—that is, they may be off-balance-sheet—because they fail to meet some other criterion for recognition.

For some financial instruments, the right is held by or the obligation is due from (or the obligation is owed to or by) a group of entities rather than a single entity.

Firm Commitment

An agreement with an unrelated party, binding on both parties and usually legally enforceable, with the following characteristics:

a. The agreement specifies all significant terms, including the quantity to be exchanged, the fixed price, and the timing of the transaction. The fixed price may be expressed as a specified amount of an entity's functional currency or of a foreign currency. It may also be expressed as a specified interest rate or specified effective yield. The binding provisions of an agreement are regarded to include those legal rights and obligations codified in the laws to which such an agreement is subject. A price that varies with the market price of the item that is the subject of the firm commitment cannot qualify as a fixed price. For example, a price that is specified in terms of ounces of gold would not be a fixed price if the market price of the item to be purchased or sold under the firm commitment varied with the price of gold.

b. The agreement includes a disincentive for nonperformance that is sufficiently large to make performance probable. In the legal jurisdiction that governs the agreement, the existence of statutory rights to pursue remedies for default equivalent to the damages suffered by the nondefaulting party, in and of itself, represents a sufficiently large disincentive for nonperformance to make performance probable for purposes of applying the definition of a firm commitment.

Interest Rate Risk

The risk of changes in a hedged item's fair value or cash flows attributable to changes in the designated benchmark interest rate.

London Interbank Offered Rate Swap Rate

The fixed rate on a single-currency, constant-notional interest rate swap that has its variable-rate leg referenced to the London Interbank Offered Rate (LIBOR) with no additional spread over LIBOR on that variable-rate leg. That fixed rate is the derived rate that would result in the swap having a zero fair value at inception because the present value of fixed cash flows, based on that rate, equate to the present value of the variable cash flows.

Notional Amount

A number of currency units, shares, bushels, pounds, or other units specified in a derivative instrument. Sometimes other names are used. For example, the notional amount is called a face amount in some contracts.

Readily Convertible to Cash

Assets that are readily convertible to cash have both of the following:

a. Interchangeable (fungible) units

b. Quoted prices available in an active market that can rapidly absorb the quantity held by the entity without significantly affecting the price.

(Based on paragraph 83(a) of FASB Concepts Statement No. 5, *Recognition and Measurement in Financial Statements of Business Enterprises*.)

Transaction

An external event involving transfer of something of value (future economic benefit) between two (or more) entities. (See FASB Concepts Statement No. 6, Elements of Financial Statements.)

Underlying

A specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, or other variable (including the occurrence or nonoccurrence of a specified event such as a scheduled payment under a contract). An underlying may be a price or rate of an asset or liability but is not the asset or liability itself. An underlying is a variable that, along with either a notional amount or a payment provision, determines the settlement of a derivative instrument.

Zero-Coupon Method

A swap valuation method that involves computing and summing the present value of each future net settlement that would be required by the contract terms if future spot interest rates match the forward rates implied by the current yield curve. The discount rates used are the spot interest rates implied by the current yield curve for hypothetical zero coupon bonds due on the date of each future net settlement on the swap.

END OF DOCUMENT -

815-25-25 Recognition

General Note: The Recognition Section provides guidance on the required criteria, timing, and location (within the financial statements) for recording a particular item in the financial statements. Disclosure is not recognition.

General

25-1 See Section 815-20-25 for the criteria under which an entity may designate a **derivative instrument** as hedging the exposure to changes in the **fair value** of an asset or a liability or an identified portion thereof (hedged item) that is attributable to a particular risk. Paragraph 815-10-05-5 states that references to an asset or a liability in this Topic include a firm commitment.

END OF DOCUMENT -

815-25-30 Initial Measurement

General Note: The Initial Measurement Section provides guidance on the criteria and amounts used to measure a particular item at the date of initial recognition.

General

30-1 [Section Not Used]

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815-25-35 Subsequent Measurement

General Note: The Subsequent Measurement Section provides guidance on an entity's subsequent measurement and subsequent recognition of an item. Situations that may result in subsequent changes to carrying amount include impairment, fair value adjustments, depreciation and amortization, and so forth.

General

> Changes in Fair Value in General

35-1 Gains and losses on a qualifying **fair value hedge** shall be accounted for as follows:

a. The gain or loss on the hedging instrument shall be recognized currently in earnings.

b. The gain or loss (that is, the change in **fair value**) on the hedged item attributable to the hedged risk shall adjust the carrying amount of the hedged item and be recognized currently in earnings.

35-2 If the fair value hedge is fully effective, the gain or loss on the hedging instrument, adjusted for the component, if any, of that gain or loss that is excluded from the assessment of effectiveness under the entity's defined risk management strategy for that particular hedging relationship (as discussed in paragraphs 815-20-25-81 through 25-83), would exactly offset the loss or gain on the hedged item attributable to the hedged risk. Any difference that does arise would be the effect of hedge ineffectiveness, which consequently is recognized currently in earnings.

35-3 The measurement of hedge ineffectiveness for a particular hedging relationship shall be consistent with the entity's risk management strategy and the method of assessing hedge effectiveness that was documented at the inception of the hedging relationship, as discussed in paragraph 815-20-25-3. Nevertheless, the amount of hedge ineffectiveness recognized in earnings is based on the extent to which exact offset is not achieved.

35-4 Although a hedging relationship must comply with an entity's established policy range of what is considered highly effective pursuant to paragraphs 815-20-25-75 through 25-85 for that relationship to qualify for hedge accounting, that compliance does not assure zero ineffectiveness. Any hedge ineffectiveness directly affects earnings because there will be no offsetting adjustment of a hedged item's carrying amount for the ineffective aspect of the gain or loss on the related hedging instrument.

35-5 In all instances, the actual measurement of hedge ineffectiveness to be recognized in earnings each reporting period is based on the extent to which exact offset is not achieved as specified in paragraph 815-25-35-2. That requirement applies even if a regression or other statistical analysis approach for both prospective considerations and retrospective evaluations of assessing effectiveness supports an expectation that the hedging relationship will be highly effective and demonstrates that it has been highly effective, respectively.

35-6 If a hedged item is otherwise measured at fair value with changes in fair value reported in other comprehensive income (such as an available-for-sale security), the adjustment of the hedged item's carrying amount discussed in paragraph 815-25-35-1(b) shall be recognized in earnings rather than in other comprehensive income to offset the gain or loss on the hedging instrument.

35-7 If an entity has designated and documented that it will measure effectiveness on an after-tax basis as permitted by paragraph 815-20-25-3(b)(2)(vi), the portion of the gain or loss on the hedging instrument that exceeded the loss or gain on the hedged item shall be included as an offset to the related tax effects in the period in which those tax effects are recognized.

> Changes in Fair Value of Hedged Item

35-8 The adjustment of the carrying amount of a hedged asset or liability required by paragraph 815-25-35-1(b) shall be accounted for in the same manner as other components of the carrying amount of that asset or liability. For example, an adjustment of the carrying amount of a hedged asset held for sale (such as inventory) would remain part of the carrying amount of that asset until the asset is sold, at which point the entire carrying amount of the hedged asset would be recognized as the cost of the item sold in determining earnings.

35-9 An adjustment of the carrying amount of a hedged interest-bearing **financial instrument** shall be amortized to earnings. Amortization shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

>> Impairment of Hedged Item

35-10 An asset or liability that has been designated as being hedged and accounted for pursuant to this Section remains subject to the applicable requirements in generally accepted accounting principles (GAAP) for assessing impairment for that type of asset or for recognizing an increased obligation for that type of liability. Those impairment requirements shall be applied after hedge accounting has been applied for the period and the carrying amount of the hedged asset or liability has been adjusted pursuant to paragraph 815-25-35-1(b). Because the hedging instrument is recognized separately as an asset or liability, its fair value or expected cash flows shall not be considered in applying those impairment requirements to the hedged asset or liability.

>>> Interaction with Loan Impairment

35-11 This Subtopic implicitly affects the measurement of impairment under Section 310-10-35 by requiring the present value of expected future cash flows to be discounted by the new effective rate based on the adjusted recorded investment in a hedged loan. Paragraph 310-10-35-31 requires that, when the recorded investment of a loan has been adjusted under fair value hedge accounting, the effective rate is the discount rate that equates the present value of the loan’s future cash flows with that adjusted recorded investment. That paragraph states that the adjustment under fair value hedge accounting of the loan’s carrying amount for changes in fair value attributable to the hedged risk under this Subtopic shall be considered to be an adjustment of the loan’s recorded investment. As discussed in that paragraph, the loan’s original effective interest rate becomes irrelevant once the recorded amount of the loan is adjusted for any changes in its fair value. Because paragraph 815-25-35-10 requires that the loan’s carrying amount be adjusted for hedge accounting before the impairment requirements of Subtopic 310-10 are applied, this Subtopic implicitly supports using the new effective rate and the adjusted recorded investment.

35-12 This guidance applies to all entities applying Subtopic 310-10 to financial assets that are hedged items in a fair value hedge, regardless whether those entities have delayed amortizing to earnings the adjustments of the loan’s carrying amount arising from fair value hedge accounting until the hedging relationship is dedesignated. The guidance on recalculating the effective rate is not intended to be applied to all other circumstances that result in an adjustment of a loan’s carrying amount.

>> Changes Involving Interest Rate Risk

35-13 In calculating the change in the hedged item’s fair value attributable to changes in the **benchmark interest rate** (see paragraph 815-20-25-12(f)(2)), the estimated cash flows used in calculating fair value shall be based on all of the contractual cash flows of the entire hedged item. Excluding some of the hedged item’s contractual cash flows (for example, the portion of the interest coupon in excess of the benchmark interest rate) from the calculation is not permitted—paragraph 815-20-25-12(a), which specifically permits the hedged item to be identified as either all or a specific portion of a recognized asset or liability or of an unrecognized **firm commitment** is not affected by this provision.

35-14 Amounts recorded in an entity's income statement as interest costs shall be reflected in the capitalization rate under Subtopic 835-20. Those amounts could include amortization of the adjustments of the carrying amount of the hedged liability, under paragraph 815-25-35-9, if an entity elects to begin amortization of those adjustments during the period in which interest is eligible for capitalization. The ineffective portion of the fair value hedge shall not be reflected in the capitalization rate.

>> Changes Involving Foreign Exchange Risk

35-15 Gains and losses on a qualifying foreign currency fair value hedge shall be accounted for as specified in Section 815-25-40 and paragraphs 815-25-35-1 through 35-10.

35-16 If a nonderivative instrument qualifies as a hedging instrument under paragraph 815-20-25-58, the gain or loss on the nonderivative hedging instrument attributable to foreign currency risk shall be the foreign currency transaction gain or loss as determined under Subtopic 830-20. The foreign currency transaction gain or loss on a hedging instrument shall be determined, consistent with paragraph 830-20-35-1, as the increase or decrease in functional currency cash flows attributable to the change in spot exchange rates between the functional currency and the currency in which the hedging instrument is denominated. That foreign currency transaction gain or loss shall be recognized currently in earnings along with the change in the carrying amount of the hedged firm commitment.

35-17 [Paragraph Not Used]

35-18 Remeasurement of hedged foreign-currency-denominated assets and liabilities is based on the guidance in Subtopic 830-20, which requires remeasurement based on spot exchange rates, regardless of whether a fair value hedging relationship exists.

> Entities that Do Not Report Earnings

35-19 An entity that does not report earnings as a separate caption in a statement of financial performance (for example, a not-for-profit entity [NFP] or a defined benefit pension plan) shall recognize the gain or loss on a hedging instrument as a change in net assets in the period of change unless the hedging instrument is designated as a hedge of the foreign currency exposure of a net investment in a foreign operation. In that circumstance, the provisions of paragraphs 815-20-25-66 and 815-35-35-1 through 35-2 shall be applied. Entities that do not report earnings shall recognize the changes in the carrying amount of the hedged item pursuant to paragraphs 815-25-35-1 through 35-4 in a fair value hedge as a change in net assets in the period of change.

END OF DOCUMENT -

815-25-40 Derecognition

General Note: The Derecognition Section provides guidance on determining whether and when an entity should remove an item from the financial statements. For example, the entity would derecognize an asset because it no longer has rights to the asset or it would derecognize a liability because it no longer has any obligation.

General

> Discontinuing Hedge Accounting

40-1 An entity shall discontinue prospectively the accounting specified in paragraphs 815-25-35-1 through 35-6 for an existing hedge if any one of the following occurs:

a. Any criterion in Section 815-20-25 is no longer met.

b. The **derivative instrument** expires or is sold, terminated, or exercised.

c. The entity removes the designation of the **fair value hedge**.

40-2 In those circumstances, the entity may elect to designate prospectively a new hedging relationship with a different hedging instrument or, in the circumstances described in (a) and (c) in the preceding paragraph, a different hedged item or a hedged **transaction** if the hedging relationship meets the criteria specified in Section 815-20-25 for a fair value hedge or a **cash flow hedge**.

>> Noncompliance with Effectiveness Criterion

40-3 In general, if a periodic assessment indicates noncompliance with the effectiveness criterion in paragraphs 815-20-25-75 through 25-80, an entity shall not recognize the adjustment of the carrying amount of the hedged item described in paragraphs 815-25-35-1 through 35-6 after the last date on which compliance with the effectiveness criterion was established.

40-4 However, if the event or change in circumstances that caused the hedging relationship to fail the effectiveness criterion can be identified, the entity shall recognize in earnings the changes in the hedged item's **fair value** attributable to the risk being hedged that occurred before that event or change in circumstances.

>> Hedged Item No Longer Meets Definition of Firm Commitment

40-5 If a fair value hedge of a **firm commitment** is discontinued because the hedged item no longer meets the definition of a firm commitment, the entity shall do both of the following:

a. Derecognize any asset or liability previously recognized pursuant to paragraph 815-25-35-1(b) (because of an adjustment to the carrying amount for the firm commitment)

b. Recognize a corresponding loss or gain currently in earnings.

40-6 A pattern of discontinuing hedge accounting and derecognizing firm commitments would call into question the firmness of future hedged firm commitments and the entity's accounting for future hedges of firm commitments.

END OF DOCUMENT -

815-25-50 Disclosure

General Note: The Disclosure Section provides guidance regarding the disclosure in the notes to financial statements. In some cases, disclosure may relate to disclosure on the face of the financial statements.

General

50-1 See Section 815-10-50 for overall guidance on disclosures. An entity's disclosures for every annual and interim reporting period for which a statement of financial position and a statement of financial performance is presented shall include both of the following for **derivative instruments**, as well as nonderivative instruments that may give rise to foreign currency transaction gains or losses under Subtopic 830-20, that have been designated and have qualified as fair value hedging instruments and for the related hedged items:

a. The net gain or loss recognized in earnings during the reporting period representing both of the following:

1. The amount of the hedges' ineffectiveness

2. The component of the derivative instruments' gain or loss, if any, excluded from the assessment of hedge effectiveness.

3. [Subparagraph Not Used]

b. The amount of net gain or loss recognized in earnings when a hedged **firm commitment** no longer qualifies as a **fair value hedge**.

50-2 For guidance on qualitative disclosures, see paragraph 815-10-50-5.

END OF DOCUMENT -

815-25-55 Implementation Guidance and Illustrations

General Note: The Implementation Guidance and Illustrations Section contains implementation guidance and illustrations that are an integral part of the Subtopic. The implementation guidance and illustrations do not address all possible variations. Users must consider carefully the actual facts and circumstances in relation to the requirements of the Subtopic.

General

> Illustrations

>> Example 1: Fair Value Hedge of Natural Gas Inventory with Futures Contracts

55-1 This Example illustrates the guidance in Sections 815-20-25, 815-20-35, and 815-25-35 for how an entity may assess hedge effectiveness and measure hedge ineffectiveness in a **fair value hedge** of natural gas inventory with futures contracts. Assume that the hedge satisfied all of the criteria for hedge accounting at inception.

55-2 Entity A has 20,000 million British thermal units of natural gas stored at its location in West Texas. To hedge the **fair value** exposure of the natural gas, Entity A sells the equivalent of 20,000 million British thermal units of natural gas futures contracts on a national mercantile exchange. The futures contracts prices are based on delivery of natural gas at the Henry Hub gas collection point in Louisiana.

55-3 The price of Entity A's natural gas inventory in West Texas and the price of the natural gas that is the **underlying** for the futures contracts it sold will differ as a result of regional factors (such as location, pipeline transmission costs, and supply and demand). Entity A therefore may not automatically assume that the hedge will be highly effective at achieving offsetting changes in fair value, and it cannot assess effectiveness by looking solely to the change in the price of natural gas delivered to the Henry Hub. The use of a hedging instrument with a different underlying basis than the item or **transaction** being hedged is generally referred to as a cross-hedge. The principles for cross-hedges illustrated in this Example also apply to hedges involving other risks. For example, the effectiveness of a hedge of **interest rate risk** in which one interest rate is used as a surrogate for another interest rate would be evaluated in the same way as the natural gas cross-hedge in this Example.

55-4 Both at inception of the hedge and on an ongoing basis, Entity A might assess the hedge's expected effectiveness based on the extent of correlation in recent years for periods similar to the spot prices term of the futures contracts between the spot prices of natural gas in West Texas and at the Henry Hub. If those prices have been and are expected to continue to be highly correlated, Entity A might reasonably expect the changes in the fair value of the futures contracts attributable to changes in the spot price of natural gas at the Henry Hub to be highly effective in offsetting the changes in the fair value of its natural gas inventory. In assessing effectiveness during the term of the hedge, Entity A must take into account actual changes in spot prices in West Texas and at the Henry Hub. The period of time over which correlation of prices should be assessed would be based on management's judgment in the particular circumstance.

55-5 Entity A may not assume that the change in the spot price of natural gas located at Henry Hub, Louisiana, is the same as the change in fair value of its West Texas inventory. The physical hedged item is natural gas in West Texas, not natural gas at the Henry Hub. In identifying the price risk that is being hedged, Entity A also may not assume that its natural gas in West Texas has a Louisiana natural gas component. Use of a price for natural gas located somewhere other than West Texas to assess the effectiveness of a fair value hedge of natural gas in West Texas would be inconsistent with this Subtopic and could result in an assumption that a hedge was highly effective when it was not. If the price of natural gas in West Texas is not readily available, Entity A might use a price for natural gas located elsewhere as a base for estimating the price of natural gas in West Texas. However, that base price must be adjusted to reflect the effects of factors, such as location, transmission costs, and supply and demand, that would cause the price of natural gas in West Texas to differ from the base price.

55-6 Consistent with Entity A's method of assessing whether the hedge is expected to be highly effective, the hedge would be ineffective to the extent that the actual change in the fair value of the futures contracts attributable to changes in the spot price of natural gas at the Henry Hub did not offset the actual change in the spot price of natural gas in West Texas per million British thermal units multiplied by 20,000.

55-7 That method excludes the change in the fair value of the futures contracts attributable to changes in the difference between the spot price and the forward price of natural gas at the Henry Hub in determining ineffectiveness. The excluded amount would be reported directly in earnings.

>> Example 2: Fair Value Hedge of Tire Inventory with a Forward Contract

55-8 This Example illustrates the guidance in Sections 815-20-25, 815-20-35, and 815-25-35 for how an entity may assess hedge effectiveness and measure hedge ineffectiveness in a fair value hedge of tire inventory with a forward contract. Assume that the hedge satisfied all of the criteria for hedge accounting at inception.

55-9 Entity B manufactures tires. The production of those tires incorporates a variety of physical components, of which rubber and steel are the most significant, as well as labor and overhead. Entity B hedges its exposure to changes in the fair value of its inventory of 8,000 steel-belted radial tires by entering into a forward contract to sell rubber at a fixed price.

55-10 Entity B decides to base its assessment of hedge effectiveness on changes in the fair value of the forward contract attributable to changes in the spot price of rubber. To determine whether the forward contract is expected to be highly effective at offsetting the change in fair value of the tire inventory, Entity B could estimate and compare such changes in the fair value of the forward contract and changes in the fair value of the tires (computed as the market price per tire multiplied by 8,000 tires) for different rubber and tire prices. Entity B also should consider the extent to which past changes in the spot prices of rubber and tires have been correlated. Because tires are a nonfinancial asset and rubber is only an ingredient in manufacturing them, Entity B may not assess hedge effectiveness by looking to the change in the fair value of only the rubber component of the steel-belted radial tires (see paragraph 815-20-25-12[e]). Both at inception of the hedge and during its term, Entity B must base its assessment of hedge effectiveness on changes in the market price of steel-belted radial tires and changes in the fair value of the forward contract attributable to changes in the spot price of rubber.

55-11 It is unlikely that this transaction would be highly effective in achieving offsetting changes in fair value. However, if Entity B concludes that the hedge will be highly effective and the hedge otherwise qualifies for hedge accounting, the ineffective part of the hedge would be measured consistent with Entity B's method of assessing whether the hedge is expected to be highly effective. Based on that method, the hedge would be ineffective to the extent that the actual changes in the following amounts did not offset:

a. The fair value of the forward contract attributable to the change in the spot price of rubber

b. The market price of steel-belted radials multiplied by the number of tires in inventory.

55-12 Because Entity B bases its assessment of effectiveness on changes in spot prices, the change in the fair value of the forward contract attributable to changes in the difference between the spot and forward price of rubber would be excluded from the measure of effectiveness and reported directly in earnings.

>> Example 3: Fair Value Hedge of Growing Wheat with Futures Contracts

55-13 This Example illustrates the guidance in Sections 815-20-25, 815-20-35, and 815-25-35 for how an entity may assess hedge effectiveness and measure hedge ineffectiveness in a fair value hedge of growing wheat with futures contracts. Assume that the hedge satisfied all of the criteria for hedge accounting at inception.

55-14 Entity C has a tract of land on which it is growing wheat. Historically, Entity C has harvested at least 40,000 bushels of wheat from that tract of land. Two months before its expected harvest, Entity C sells 2-month futures contracts for 40,000 bushels of wheat, which it wants to designate as a fair value hedge of its growing wheat, rather than as a **cash flow hedge** of the projected sale of the wheat after harvest.

55-15 Even though the futures contracts are for the same type of wheat that Entity C expects to harvest in two months, the futures contracts and hedged wheat have different bases because the futures contracts are based on fully grown, harvested wheat, while the hedged item is unharvested wheat with two months left in its growing cycle. Entity C therefore may not automatically assume that the hedge will be highly effective in achieving offsetting changes in fair value.

55-16 To determine whether the futures contracts are expected to be highly effective in providing offsetting changes in fair value for the growing wheat, Entity C would need to estimate and compare the fair value of its growing wheat and of the futures contracts for different levels of wheat prices. Entity C may not base its estimate of the value of its growing wheat solely on the current price of wheat because that price is for grown, harvested wheat. Entity C might, however, use the current price of harvested wheat together with other relevant factors, such as additional production and harvesting costs and the physical condition of the growing wheat, to estimate the current fair value of its growing wheat crop.

55-17 It is unlikely that wheat futures contracts would be highly effective in offsetting the changes in value of growing wheat. However, if Entity C concludes that the hedge qualifies as highly effective, it would use the same method for measuring actual hedge effectiveness that it uses initially and on an ongoing basis to assess whether the hedge is expected to be highly effective. The hedge would be ineffective to the extent that the actual changes in fair value of the futures contract and of the growing wheat crop did not offset.

>> Example 4: Fair Value Hedge of Equity Securities with Options

55-18 This Example illustrates the guidance in Sections 815-20-25, 815-20-35, and 815-25-35 for how an entity may assess hedge effectiveness and measure hedge ineffectiveness in a fair value hedge of equity securities with options. Assume that the hedge satisfied all of the criteria for hedge accounting at inception.

55-19 Entity D holds 10,000 shares of XYZ stock. It purchases put option contracts on 20,000 shares of XYZ stock with a strike price equal to the current price of the stock to hedge its exposure to changes in the fair value of its investment position attributable to changes in the price of XYZ stock. Entity D manages the position using a delta-neutral strategy. That is, it monitors the option's delta—the ratio of changes in the option's price to changes in the price of XYZ stock. As the delta ratio changes, Entity D buys or sells put options so that the next change in the fair value of all of the options held can be expected to counterbalance the next change in the value of its investment in XYZ stock. For put options, the delta ratio moves closer to one as the share price of the stock falls and moves closer to zero as the share price rises. The delta ratio also changes as the exercise period decreases, as interest rates change, and as expected volatility changes. Entity D designates the put options as a fair value hedge of its investment in XYZ stock.

55-20 Because Entity D plans to change the number of options that it holds to the extent necessary to maintain a delta-neutral position, it may not automatically assume that the hedge will be highly effective at achieving offsetting changes in fair value. Also, because the delta-neutral hedging strategy is based on expected changes in the option's fair value, Entity D may not assess effectiveness based on changes in the option's intrinsic value. Instead, Entity D would estimate both of the following amounts:

a. The gain or loss on the option position that would result from various decreases or increases in the market price of XYZ stock

b. The loss or gain on its investment in XYZ stock for the same market price changes.

55-21 To assess the effectiveness of the hedge both at inception and on an ongoing basis, Entity D could compare the respective gains and losses from different market price changes. The ongoing assessment of effectiveness also must consider the actual changes in the fair value of the put options held and of the investment in XYZ stock during the hedge period.

55-22 Consistent with Entity D's method of assessing effectiveness, the hedge would be ineffective to the extent that the actual realized and unrealized gains or losses from changes in the fair value of the options held is greater or less than the change in value of the investment in XYZ stock. The underlying for the put option contracts is the market price of XYZ stock. Therefore, if Entity D continually monitors the delta ratio and adjusts the number of options held accordingly, the changes in the fair value of the options and of the hedged item may almost completely offset, resulting in only a small amount of ineffectiveness to be recognized in earnings.

>> Example 5: Fair Value Hedge of U.S. Treasury Bond with Put Options

55-23 This Example illustrates the guidance in Sections 815-20-25, 815-20-35, and 815-25-35 for how an entity may assess hedge effectiveness and measure hedge ineffectiveness in a fair value hedge of a U.S. Treasury bond with put options. Assume that the hedge satisfied all of the criteria for hedge accounting at inception.

55-24 Entity E owns a U.S. Treasury bond and wants to protect itself against the fair value exposure to declines in the price of the bond. Entity E purchases an at-the-money put option on a U.S. Treasury security with the same terms (remaining maturity, **notional amount**, and interest rate) as the U.S. Treasury bond held and designates the option as a hedge of the fair value exposure of the U.S. Treasury bond. Entity E plans to hold the put option until it expires.

55-25 Because Entity E plans to hold the put option (a static hedge) rather than manage the position with a delta-neutral strategy, it could assess whether it expects the hedge to be highly effective at achieving offsetting changes in fair value by calculating and comparing the changes in the intrinsic value of the option and changes in the price (fair value) of the U.S. Treasury bond for different possible market prices. In assessing the expectation of effectiveness on an ongoing basis, Entity E also must consider the actual changes in the fair value of the U.S. Treasury bond and in the intrinsic value of the option during the hedge period.

55-26 However, because the pertinent critical terms of the option and the bond are the same in this Example, Entity E could expect the changes in value of the bond attributable to changes in interest rates and changes in the intrinsic value of the option to offset completely during the period that the option is in the money. That is, there will be no ineffectiveness because Entity E has chosen to exclude changes in the option's time value from the effectiveness test. Because of that choice, Entity E must recognize changes in the time value of the option directly in earnings.

>> Example 6: Fair Value Hedge of an Embedded Purchased Option with a Written Option

55-27 This Example illustrates the guidance in Sections 815-20-25, 815-20-35, and 815-25-35 for how an entity may assess hedge effectiveness and measure hedge ineffectiveness in a fair value hedge of an embedded purchased option with a written option. Assume that the hedge satisfied all of the criteria for hedge accounting at inception.

55-28 Entity F issues five-year, fixed-rate debt with an embedded (purchased) call option and, with a different counterparty, writes a call option to neutralize the call feature in the debt. The embedded call option and the written call option have the same **effective notional amount**, underlying fixed interest rate, and strike price. (The strike price of the option in the debt usually is referred to as the call price.) The embedded option also can be exercised at the same times as the written option. Entity F designates the written option as a fair value hedge of the embedded prepayment option component of the fixed-rate debt.

55-29 To assess whether the hedge is expected to be highly effective in achieving offsetting changes in fair value, Entity F could estimate and compare the changes in fair values of the two options for different market interest rates. Because this Subtopic does not permit **derivative instruments**, including embedded derivatives whether or not they are required to be accounted for separately, to be separated into components, Entity F can only designate a hedge of the entire change in fair value of the embedded purchased call option. The resulting changes in fair value will be included currently in earnings. Changes in the fair value of the written option also will be included currently in earnings; any ineffectiveness thus will be automatically reflected in earnings. (The hedge is likely to have some ineffectiveness because the premium for the written call option is unlikely to be the same as the premium for the embedded purchased call option.)

>> Example 7: Fair Value Hedge of a Commodity Inventory

55-30 The following Cases illustrate application of the guidance in Sections 815-20-25, 815-20-35, and 815-25-35 to a fair value hedge of a commodity inventory:

a. The terms of the hedging derivative have been negotiated to produce no ineffectiveness in the hedging relationship (Case A).

b. There is ineffectiveness in the hedging relationship (Case B).

55-31 To simplify the illustration and focus on basic concepts, the derivative instrument in Cases A and B is assumed to have no time value. In practice, a derivative instrument used for a fair value hedge of a commodity would have a time value that would change over the term of the hedging relationship. The changes in that time value would be recognized in earnings as they occur, either because they represent ineffectiveness or because they are excluded from the assessment of effectiveness (as discussed in paragraphs 815-20-25-81 through 25-83).

55-32 Other Examples in this Section illustrate accounting for the time value component of a derivative instrument.

55-33 For simplicity, commissions and most other transaction costs, initial margin, and income taxes are ignored unless otherwise stated. Assume that there are no changes in creditworthiness that would alter the effectiveness of the hedging relationship.

55-34 Cases A and B share all of the following assumptions:

a. Entity ABC decides to hedge the risk of changes during the period in the overall fair value of its entire inventory of Commodity A by entering into a derivative instrument, Derivative Z.

b. On the first day of Period 1, Entity ABC enters into Derivative Z and neither receives nor pays a premium (that is, the fair value at inception is zero).

c. Entity ABC designates the derivative instrument as a hedge of the changes in fair value of the inventory due to changes in the price of Commodity A during Period 1.

d. The hedging relationship qualifies for fair value hedge accounting. Entity ABC will assess effectiveness by comparing the entire change in fair value of Derivative Z with the change in the market price of the hedged commodity inventory.

>>> Case A: No Ineffectiveness in the Hedging Relationship

55-35 In this Case, Entity ABC expects no ineffectiveness because both of the following conditions exist:

a. The notional amount of Derivative Z matches the amount of the hedged inventory (that is, Derivative Z is based on the same number of bushels as the number of bushels of the commodity that Entity ABC designated as hedged).

b. The underlying of Derivative Z is the price of the same variety and grade of Commodity A as the inventory at the same location.

55-36 At inception of the hedge, Derivative Z has a fair value of zero and the hedged inventory has a carrying amount of $1,000,000 and a fair value of $1,100,000. On the last day of Period 1, the fair value of Derivative Z has increased by $25,000, and the fair value of the inventory has decreased by $25,000. The inventory is sold, and Derivative Z is settled on the last day of Period 1. The following table illustrates the accounting for the situation described in this Case.

	Debit (Credit)			
	Cash	Derivative	Inventory	Earnings
Period 1				
Recognize change in fair value of derivative		$ 25,000		$ (25,000)
Recognize change in fair value of inventory			$ (25,000)	25,000
Recognize revenue from sale	1,075,000			(1,075,000)
Recognize cost of sale of inventory			(975,000)	975,000
Recognize settlement of derivative	25,000	(25,000)		
Total	$ 1,100,000	$ -	$(1,000,000)	$ (100,000)

55-37 If Entity ABC had sold the hedged inventory at the inception of the hedge, its gross profit on that sale would have been $100,000. This Case illustrates that, by hedging the risk of changes in the overall fair value of its inventory, Entity ABC recognized the same gross profit at the end of the hedge period even though the fair value of its inventory decreased by $25,000.

>>> Case B: Ineffectiveness in the Hedging Relationship

55-38 No ineffectiveness was recognized in earnings in Case A because the gain on Derivative Z exactly offsets the loss on the inventory. However, in this Case, assume the terms of Derivative Z do not perfectly match the inventory and its fair value has increased by $22,500 as compared with the decline in fair value of the inventory of $25,000. Ineffectiveness of $2,500 has to be recognized in earnings. The following table illustrates the accounting for the situation described in this Case.

	Debit (Credit)			
	Cash	Derivative	Inventory	Earnings
Period 1				
Recognize change in fair value of derivative		$ 22,500		$ (22,500)
Recognize change in fair value of inventory			$ (25,000)	25,000
Recognize revenue from sale	$1,075,000			(1,075,000)
Recognize cost of sale of inventory			(975,000)	975,000
Recognize settlement of derivative	22,500	(22,500)		
Total	$1,097,500	$ -	$(1,000,000)	$ (97,500)

55-39 The difference between the effect on earnings in Case B and the effect on earnings in Case A is the $2,500 of hedge ineffectiveness.

>> Example 8: Fair Value Hedge of Fixed-Rate Interest-Bearing Debt

55-40 This Example demonstrates the guidance in Subtopic 815-20 and this Subtopic as applied to the mechanics of reporting an interest rate swap used as a fair value hedge of an interest-bearing liability. It is not intended to demonstrate how to compute the fair value of an interest rate swap or an interest-bearing liability. This Example has been simplified by assuming that the interest rate applicable to a payment due at any future date is the same as the rate for a payment due at any other date (that is, the yield curve is flat). Although that is an unrealistic assumption, it makes the amounts used easier to understand without detracting from the purpose of the Example. For simplicity, commissions and most other transaction costs, initial margin, and income taxes are ignored unless otherwise stated. Assume that there are no changes in creditworthiness that would alter the effectiveness of the hedging relationship.

55-41 The fair values of the interest rate swap in this Example are determined using the **zero-coupon method**. The zero-coupon method is not the only acceptable method. Explanations of other acceptable methods of determining the fair value of an interest rate swap can be obtained from various published sources. Fair values also may be available from dealers in interest rate swaps and other derivative instruments.

55-42 In this Example, the term and notional amount of the interest rate swap match the term and principal amount of the interest-bearing liability being hedged. The fixed and variable interest rates used to determine the net settlements on the interest rate swap match the current yield curve, and the sum of the present values of the expected net settlements is zero at inception. Thus, paragraphs 815-20-25-102 through 25-106 permit the reporting entity to assume that there will be no ineffectiveness. Assessment of effectiveness at one of the interest rate swap's repricing dates would confirm the validity of that assumption.

55-43 A shortcut method (see paragraphs 815-20-25-102 through 25-106) can be used to produce the same reporting results as the method illustrated in this Example. This shortcut is only appropriate for a fair value hedge of a fixed-rate asset or liability using an interest rate swap and only if the assumption of no ineffectiveness is appropriate. The steps in the shortcut method are as follows:

a. Determine the difference between the fixed rate to be received on the interest rate swap and the fixed rate to be paid on the bonds.

b. Combine that difference with the variable rate to be paid on the interest rate swap.

c. Compute and recognize interest expense using that combined rate and the fixed-rate liability's principal amount. (Amortization of any purchase premium or discount on the liability also must be considered, although that complication is not incorporated in this Example.)

d. Determine the fair value of the interest rate swap.

e. Adjust the carrying amount of the interest rate swap to its fair value and adjust the carrying amount of the liability by an offsetting amount.

55-44 Amounts determined using the shortcut method and the facts in this Example will match the amounts in paragraph 815-25-55-48 even though the shortcut does not involve explicitly amortizing the hedge accounting adjustments on the debt. That is, the quarterly adjustments of the debt and explicit amortization of previous adjustments will have the same net effect on earnings as the shortcut method.

55-45 A slightly different shortcut method for interest rate swaps used as cash flow hedges is illustrated in Example 6 (see paragraph 815-30-55-24).

55-46 On July 1, 20X1, Entity ABC borrows $1,000,000 to be repaid on June 30, 20X3. On that same date, Entity ABC also enters into a two-year receive-fixed, pay-variable interest rate swap. Entity ABC designates the interest rate swap as a hedge of the changes in the fair value of the fixed-rate debt attributable to changes in the designated **benchmark interest rate**. Entity ABC designates changes in **London Interbank Offered Rate (LIBOR) swap rates** as the benchmark interest rate in hedging interest rate risk. The terms of the interest rate swap and the debt are as follows.

	Interest Rate Swap	Fixed-Rate Debt
Trade date and borrowing date [(a)]	July 1, 20X1	July 1, 20X1
Termination date and maturity date	June 30, 20X3	June 30, 20X3
Notional amount and principal amount	$ 1,000,000	$ 1,000,000
Fixed interest rate [(a)]	6.41%	6.41%
Variable interest rate	3-month USD LIBOR	Not applicable
Settlement dates and interest payment dates [(a)]	End of each calendar quarter	End of each calendar quarter
Reset dates	End of each calendar quarter through March 31, 20X3	Not applicable

(a) These terms need not match for the assumption of no ineffectiveness to be appropriate. (See paragraphs 815-20-25-102 through 25-110.)

55-47 The USD LIBOR rates that are in effect at inception of the hedging relationship and at each of the quarterly reset dates are assumed to be as follows.

Reset Date	3-Month LIBOR Rate
7/1/X1	6.41%
9/30/X1	6.48%
12/31/X1	6.41%
3/31/X2	6.32%
6/30/X2	7.60%
9/30/X2	7.71%
12/31/X2	7.82%
3/31/X3	7.42%

55-48 The following table summarizes the fair values of the debt and the interest rate swap at each quarter end, the details of the changes in the fair values during each quarter (including accrual and payment of interest, the effect of changes in rates, and level-yield amortization of hedge accounting adjustments), the expense for each quarter, and the net cash payments for each quarter. The calculations of fair value of both the debt and the interest rate swap are made using LIBOR. (A discussion of the appropriate discount rate appears in paragraph 815-20-25-111.)

	Fixed-Rate Debt	Interest Rate Swap	Expense	Net Payment
July 1, 20X1	$ (1,000,000)	$ -		
Interest accrued	(16,025)	-	$ (16,025)	
Payments (receipts)	16,025	-		$ 16,025
Effect of change in rates	1,149	(1,149)	-	
September 30, 20X1	(998,851)	(1,149)	$ (16,025)	$ 16,025
Interest accrued	(16,025)	(19)	$ (16,044)	
Payments (receipts)	16,025	175		$ 16,200
Amortization of basis adjustments	(156)	-	(156)	
Effect of change in rates	(993)	993	-	
December 31, 20X1	(1,000,000)	-	$ (16,200)	$ 16,200
Interest accrued	(16,025)	-	$ (16,025)	
Payments (receipts)	16,025	-		$ 16,025
Amortization of basis adjustments	-	-	-	
Effect of change in rates	(1,074)	1,074	-	
March 31, 20X2	(1,001,074)	1,074	$ (16,025)	$ 16,025
Interest accrued	(16,025)	17	$ (16,008)	
Payments (receipts)	16,025	(225)		$ 15,800
Amortization of basis adjustments	208	-	208	
Effect of change in rates	12,221	(12,221)	-	
June 30, 20X2	(988,645)	(11,355)	$ (15,800)	$ 15,800
Interest accrued	(16,025)	(216)	$ (16,241)	
Payments (receipts)	16,025	2,975		$ 19,000
Amortization of basis adjustments	(2,759)	-	(2,759)	
Effect of change in rates	789	(789)	-	
September 30, 20X2	(990,615)	(9,385)	$ (19,000)	$ 19,000
Interest accrued	(16,025)	(181)	$ (16,206)	
Payments (receipts)	16,025	3,250		$ 19,275
Amortization of basis adjustments	(3,069)	-	(3,069)	
Effect of change in rates	532	(532)	-	
December 31, 20X2	(993,152)	(6,848)	$ (19,275)	$ 19,275
Interest accrued	(16,025)	(134)	$ (16,159)	
Payments (receipts)	16,025	3,525		$ 19,550
Amortization of basis adjustments	(3,391)	-	(3,391)	
Effect of change in rates	(978)	978	-	
March 31, 20X3	(997,521)	(2,479)	$ (19,550)	$ 19,550
Interest accrued	(16,025)	(46)	$ (16,071)	
Payments (receipts)	1,016,025	2,525		$ 1,018,550
Amortization of basis adjustments	(2,479)	-	(2,479)	
June 30, 20X3	$ -	$ -	$ (18,550)	$ 1,018,550

55-49 The preceding table demonstrates two important points that explain why the shortcut method described in paragraphs 815-25-55-43 through 55-45 produces the same results as the computation in the preceding table if there is no ineffectiveness in the hedging relationship:

a. In every quarter, the effect of changes in rates on the interest rate swap completely offsets the effect of changes in rates on the debt. That is as expected because there is no ineffectiveness.

b. In every quarter except the last when the principal is repaid, the expense equals the cash payment.

55-50 The following table illustrates the computation of interest expense using the shortcut method described in paragraphs 815-25-55-43 through 55-45. The results are the same as the results computed in the preceding table.

Quarter Ended	(a) Difference between Fixed Rates	(b) Variable Rate on Swap	(c) Sum (a) + (b)	(d) Debt's Principal Amount	(e) Interest Expense ([c] × [d]) ÷ 4
September 30, 20X1	0.00%	6.41%	6.41%	$ 1,000,000	$ 16,025
December 31, 20X1	0.00%	6.48%	6.48%	1,000,000	16,200
March 31, 20X2	0.00%	6.41%	6.41%	1,000,000	16,025
June 30, 20X2	0.00%	6.32%	6.32%	1,000,000	15,800
September 30, 20X2	0.00%	7.60%	7.60%	1,000,000	19,000
December 31, 20X2	0.00%	7.71%	7.71%	1,000,000	19,275
March 31, 20X3	0.00%	7.82%	7.82%	1,000,000	19,550
June 30, 20X3	0.00%	7.42%	7.42%	1,000,000	18,550

55-51 As stated in the introduction to this Example, a flat yield curve is assumed for simplicity. An upward-sloping yield curve would have made the computations more complex. Paragraph 815-25-55-47 would have shown different interest rates for each quarterly repricing date, and the present value of each future payment would have been computed using a different rate (as described in paragraph 815-25-55-41). However, the basic principles are the same. As long as there is no ineffectiveness in the hedging relationship, the shortcut method is appropriate.

55-52 In this Example of a fair value hedge of fixed-rate interest-bearing debt, it is assumed that Entity ABC elects to immediately begin amortizing the adjustments of the carrying amount of the fixed-rate debt while the hedge is still in place. If the change in fair value of the interest rate swap attributable to the passage of time is recognized as interest expense by Entity ABC, the amounts recorded as expenses in the table in paragraph 815-25-55-48 would be eligible for capitalization under Subtopic 835-20.

>> Example 9: Fair Value Hedge of the LIBOR Swap Rate in a $100,000 BBB-Quality 5-Year Fixed-Rate Noncallable Note

55-53 This Example illustrates one method that could be used pursuant to paragraph 815-20-25-12(f)(2) in determining the hedged item's change in fair value attributable to changes in the benchmark interest rate. Other methods could be used in determining the hedged item's change in fair value attributable to changes in the benchmark interest rate as long as those methods meet the criteria in that paragraph. For simplicity, commissions and most other transaction costs, initial margin, and income taxes are ignored unless otherwise stated. Assume that there are no changes in creditworthiness that would alter the effectiveness of the hedging relationship.

55-54 On January 1, 20X0, Entity GHI issues at par a $100,000 BBB-quality 5-year fixed-rate noncallable debt instrument with an annual 10 percent interest coupon. On that date, Entity GHI enters into a 5-year interest rate swap based on the LIBOR swap rate and designates it as the hedging instrument in a fair value hedge of the $100,000 liability. Under the terms of the interest rate swap, Entity GHI will receive fixed interest at 7 percent and pay variable interest at LIBOR. The variable leg of the interest rate swap resets each year on December 31 for the payments due the following year. This Example has been simplified by assuming that the interest rate applicable to a payment due at any future date is the same as the rate for a payment at any other date (that is, the yield curve is flat). During the hedge period, the gain or loss on the interest rate swap will be recorded in earnings. The Example assumes that immediately before the interest rate on the variable leg resets on December 31, 20X0, the LIBOR swap rate increased by 50 basis points to 7.50 percent, and the change in fair value of the interest rate swap for the period from January 1 to December 31, 20X0, is a loss in value of $1,675.

55-55 Under this method, the change in a hedged item's fair value attributable to changes in the benchmark interest rate for a specific period is determined as the difference between two present value calculations as of the end of the period that exclude or include, respectively, the effect of the changes in the benchmark interest rate during the period. The discount rates used for those present value calculations would be, respectively:

a. The discount rate equal to the market interest rate for that hedged item at the inception of the hedge adjusted (up or down) for changes in the benchmark rate (designated as the interest rate risk being hedged) from the inception of the hedge to the beginning date of the period for which the change in fair value is being calculated

b. The discount rate equal to the market interest rate for that hedged item at the inception of the hedge adjusted (up or down) for changes in the designated benchmark rate from the inception of the hedge to the ending date of the period for which the change in fair value is being calculated.

55-56 Both present value calculations are computed using the estimated future cash flows for the hedged item (which typically would be its remaining contractual cash flows).

55-57 This Subtopic does not provide specific guidance on the discount rate that must be used in the calculation. However, the method chosen by Entity GHI and described in this Example requires that the discount rate be based on the market interest rate for the hedged item at the inception of the hedging relationship.

55-58 In Entity GHI's quarterly assessments of hedge effectiveness for each of the first three quarters of year 20X0 in this Example, there was zero change in the hedged item's fair value attributable to changes in the benchmark interest rate because there was no change in the LIBOR swap rate. However, in the assessment for the fourth quarter 20X0, the discount rate for the beginning of the period is 10 percent (the hedged item's original market interest rate with an adjustment of zero), and the discount rate for the end of the period is 10.50 percent (the hedged item's original market interest rate adjusted for the change during the period in the LIBOR swap rate [+ 0.50 percent]).

December 31, 20X0

Calculate the present value using the beginning-of-period discount rate of 10 percent:

$10,000pmt, 10%i, 4n, PV =	$	31,699	(interest payments)
$100,000fv, 10%i, 4n, PV =	$	68,301	(principal payment)
Total present value	$	100,000	

55-59 Calculate the present value using the end-of-period discount rate of 10.50 percent (that is, the beginning-of-period discount rate adjusted for the change during the period in the LIBOR swap rate of 50 basis points).

\$10,000pmt, 10.50%i, 4n, PV =	\$31,359	(interest payments)
\$100,000fv, 10.50%i, 4n, PV =	\$67,073	(principal payment)
Total present value	\$98,432	

55-60 The change in fair value of the hedged item attributable to the change in the benchmark interest rate is \$100,000 – \$98,432 = \$1,568 (the fair value decrease in the liability is a gain on debt).

55-61 When the change in fair value of the hedged item (\$1,568 gain) attributable to the risk being hedged is compared with the change in fair value of the hedging instrument (\$1,675 loss), ineffectiveness of \$107 results. That ineffectiveness will be reported in earnings, because both changes in fair value are recorded in earnings.

>> Example 10: Fair Value Hedge of a Firm Commitment Denominated in a Foreign Currency with a Forward to Purchase a Different Foreign Currency

55-62 This Example illustrates application of the guidance in Sections 815-20-25, 815-20-35, and 815-25-35 to a fair value hedge of a **firm commitment** to purchase an asset for a price denominated in a foreign currency. In this Example, the hedging instrument and the firm commitment are denominated in different foreign currencies. Consequently, the hedge is not perfectly effective, and ineffectiveness is recognized immediately in earnings. (The entity in the Example could have designed a hedge with no ineffectiveness by using a hedging instrument denominated in the same foreign currency as the firm commitment with terms that match the appropriate terms in the firm commitment.) For simplicity, commissions and most other transaction costs, initial margin, and income taxes are ignored unless otherwise stated. Assume that there are no changes in creditworthiness that would alter the effectiveness of the hedging relationship.

55-63 Entity MNO's functional currency is the U.S. dollar (USD). On February 3, 20X7, Entity MNO enters into a firm commitment to purchase a machine for delivery on May 1, 20X7. The price of the machine will be 270,000 Dutch guilders (NLG 270,000). Also on February 3, 20X7, Entity MNO enters into a forward contract to purchase 240,000 Deutsche marks (DEM 240,000) on May 1, 20X7. Entity MNO will pay USD 0.6125 per DEM 1 (a total of USD 147,000), which is the current forward rate for an exchange on May 1, 20X7. Entity MNO designates the forward contract as a hedge of its risk of changes in the fair value of the firm commitment resulting from changes in the USD–NLG forward exchange rate.

55-64 Entity MNO will assess effectiveness by comparing the overall changes in the fair value of the forward contract to the changes in fair value in USD of the firm commitment due to changes in USD–NLG forward exchange rates. Entity MNO expects the forward contract to be highly effective as a hedge because all of the following conditions exist:

a. DEM 240,000 is approximately equal to NLG 270,000 at the May 1, 20X1, forward exchange rate in effect on February 3, 20X7.

b. Settlement of the forward contract and the firm commitment will occur on the same date.

c. In recent years, changes in the value in USD of DEM over three-month periods have been highly correlated with changes in the value in USD of NLG over those same periods.

55-65 Ineffectiveness will result from the difference between changes in the USD equivalent of DEM 240,000 (the notional amount of the forward contract) and changes in the USD equivalent of NLG 270,000 (the amount to be paid for the machine). The difference between the spot rate and the forward exchange rate is not excluded from the hedging relationship because changes in the fair value of the firm commitment are being measured using forward exchange rates. If the hedged item were a foreign-currency-denominated available-for-sale security instead of a firm commitment, Topic 830 would have required its carrying value to be measured using the spot exchange rate. Therefore, the spot-forward difference would have been recognized immediately in earnings either because it represented ineffectiveness or because it was excluded from the assessment of effectiveness.

55-66 The forward exchange rates in effect on certain key dates are assumed to be as follows.

Date	USD-DEM Forward Exchange Rate for Settlement on 5/1/X7	USD-NLG Forward Exchange Rate for Settlement on 5/1/X7
Inception of the hedge—2/3/X7	USD 0.6125 = DEM 1	USD 0.5454 = NLG 1
Quarter end—3/31/X7	USD 0.5983 = DEM 1	USD 0.5317 = NLG 1
Machine purchase—5/1/X7	USD 0.5777 = DEM 1	USD 0.5137 = NLG 1

55-67 The USD equivalent and changes in the USD equivalent of the forward contract and the firm commitment, the changes in fair value of the forward contract and the firm commitment, and the ineffectiveness of the hedge on those same key dates are shown in the following table. A 6 percent discount rate is used in this Example.

		2/3/X7		3/31/X7		5/1/X7
Forward contract						
USD-DEM forward exchange rate for settlement on May 1, 20X7	USD	0.61	USD	0.60	USD	0.58
Units of currency (DEM)		× 240,000		× 240,000		× 240,000
Forward price of DEM 240,000 in USD		147,000		143,592		138,648
Contract price in USD		(147,000)		(147,000)		(147,000)
Difference	USD	-	USD	(3,408.00)	USD	(8,352.00)
Fair value (present value of the difference)	USD	-	USD	(3,391.00)	USD	(8,352.00)
Change in fair value during the period			USD	(3,391.00)	USD	(4,961.00)
Firm commitment						
USD-NLG forward exchange rate for settlement on May 1, 20X7	USD	0.55	USD	0.53	USD	0.51
Units of currency (NLG)		× 270,000		× 270,000		× 270,000
Forward price of NLG 270,000 in USD		(147,258)		(143,559)		(138,699)
Initial forward price in USD		147,258		147,258		147,258
Difference	USD	-	USD	3,699.00	USD	8,559.00
Fair value (present value of the difference)	USD	-	USD	3,681.00	USD	8,559.00
Change in fair value during the period			USD	3,681.00	USD	4,878.00
Hedge ineffectiveness (difference between changes in fair values of the forward contract denominated in DEM and the firm commitment denominated in NLG)			USD	290.00	USD	(83.00)

55-68 This Subtopic requires that Entity MNO recognize immediately in earnings all changes in fair values of the forward contract. Because Entity MNO is hedging the risk of changes in fair value of the firm commitment attributable to changes in the forward exchange rates, this Subtopic also requires recognizing those changes immediately in earnings.

55-69 On May 1, 20X7, Entity MNO fulfills the firm commitment to purchase the machine and settles the forward contract. The entries illustrating fair value hedge accounting for the hedging relationship and the purchase of the machine are summarized in the following table.

	Debit (Credit)									
		Cash		Firm Commitment		Forward Contract		Machine		Earnings
March 31, 20X7										
Recognize change in fair value of firm commitment			USD	3,681					USD	(3,681)
Recognize change in fair value of forward contract					USD	(3,391)				3,391
										(290)
April 30, 20X7										
Recognize change in fair value of firm commitment				4,878						(4,878)
Recognize change in fair value of forward contract						(4,961)				4,961
										83
May 1, 20X7										
Recognize settlement of forward contract	USD	(8,352)				8,352				
Recognize purchase of machine		(138,699)		(8,559)			USD	147,258		
Total	USD	(147,051)	USD	-	USD	-	USD	147,258	USD	(207)

55-70 To simplify this Example and focus on the effects of the hedging relationship, other amounts that would be involved in the purchase of the machine by Entity MNO (for example, shipping costs and installation costs) have been ignored.

55-71 The effect of the hedge is to recognize the machine at its price in NLG (NLG 270,000) translated at the forward rate in effect at the inception of the hedge (USD 0.5454 per NLG 1).

>> Example 11: Fair Value Hedge of the LIBOR Swap Rate in a $100 Million A1-Quality 5-Year Fixed-Rate Noncallable Debt

55-72 This Example illustrates application of the guidance in Sections 815-20-25, 815-20-35, and 815-25-35 to a fair value hedge of the LIBOR swap rate in a $100 million A1-quality 5-year fixed-rate noncallable debt.

55-73 On April 3, 20X0, Global Tech issues at par a $100 million A1-quality 5-year fixed-rate noncallable debt instrument with an annual 8 percent interest coupon payable semiannually. On that date, Global Tech enters into a 5-year interest rate swap based on the LIBOR swap rate and designates it as the hedging instrument in a fair value hedge of the $100 million liability. Under the terms of the interest rate swap, Global Tech will receive a fixed interest rate at 8 percent and pay variable interest at LIBOR plus 78.5 basis points (current LIBOR 6.29 percent) on a notional amount of $101,970,000 (semiannual settlement and interest reset dates). A duration-weighted hedge ratio was used to calculate the notional amount of the interest rate swap necessary to offset the debt's fair value changes attributable to changes in the LIBOR swap rate.

55-74 This Example has the following assumptions:

a. PV01 debt = 4.14

b. PV01 interest rate swap = 4.06

c. Hedge ratio = PV01 debt / PV01 interest rate swap = 4.14/4.06 = 1.0197

d. Interest rate swap notional = 1.0197 x $100 million = $101,970,000.

55-75 The Example assumes that the LIBOR swap rate increased 100 basis points to 9 percent on June 30, 20X0. The change in fair value of the interest rate swap for the period from April 3 to June 30, 20X0, is a loss of $4,016,000. The change in fair value of the debt attributable to changes in the benchmark interest rate for the period April 3 to June 30, 20X0, is calculated as follows.

Period	Principal Balance	Coupon Rate	Cash Flow – Interest	Cash Flow - Principal	Present Value
0.5	$ 100,000,000	0.08	2,000,000	-	1,956,464
1.5	$ 100,000,000	0.08	4,000,000	-	3,744,429
2.5	$ 100,000,000	0.08	4,000,000	-	3,583,185
3.5	$ 100,000,000	0.08	4,000,000	-	3,428,885
4.5	$ 100,000,000	0.08	4,000,000	-	3,281,230
5.5	$ 100,000,000	0.08	4,000,000	-	3,139,933
6.5	$ 100,000,000	0.08	4,000,000	-	3,004,721
7.5	$ 100,000,000	0.08	4,000,000	-	2,875,331
8.5	$ 100,000,000	0.08	4,000,000	-	2,751,513
9.5	$ 100,000,000	0.08	4,000,000	100,000,000	68,458,689
Present value					96,224,380

55-76 As of June 30, 20X0, 9.5 periods remain and the cash flows are discounted at 9 percent, determined as the initial 8-percent yield plus a 100 basis point increase attributable to the 100 basis point increase in the LIBOR swap rate. The accrual for the first quarter interest was excluded. The following journal entries illustrate the interest rate swap and debt fair value changes, attributable to changes in the LIBOR swap rate, excluding accruals.

	Debit	Credit
Debt	$ 3,775,620	
Earnings		$ 3,775,620
Earnings	4,016,000	
Swap liability		4,016,000

55-77 The net earnings impact of the hedge was $240,380 due to some imprecision in the calculated hedge ratio.

>> Example 12: Fair Value Hedge of a Fixed-Rate Foreign-Currency-Denominated Loan in Which All of the Variability in the Functional-Currency-Equivalent Cash Flows Is Not Eliminated (Fixed to Variable Scenario)

55-78 This Example illustrates application of the guidance in Sections 815-20-25, 815-20-35, and 815-25-35 to a fair value hedge of a fixed-rate foreign-currency-denominated loan in which all of the variability in the functional-currency-equivalent cash flows is not eliminated.

55-79 Entity ABC's functional currency is the U.S. dollar (USD). On January 3, 200X, Entity ABC borrows 100 million fixed-rate Euro (EUR) at a yield to maturity of 5.68 percent. The loan has a term of 5 years and pays an annual coupon of 5.68 percent. This yield at inception is equivalent to Euribor plus 0.52 percent or (on a swapped basis) to USD LIBOR plus 0.536 percent.

55-80 Also on January 3, 200X, Entity ABC enters into a 5-year cross-currency swap in which it will receive fixed EUR at a rate of 5.68 percent on EUR 100 million and pay variable USD at USD LIBOR plus 0.536 percent on USD 102 million. There will be a final exchange of principal on maturity of the contract. Both the debt and the cross-currency swap will pay annual coupons on December 31. Entity ABC designates the cross-currency swap as a fair value hedge of the changes in the fair value of the loan due to both interest and exchange rates.

55-81 The spot foreign exchange rates for EUR/USD, LIBOR flat EUR swap rates, EUR/USD basis swap spreads and 1-year USD LIBOR on December 31 each year over the life of the hedge were as follows.

Years	0	1	2	3	4	5
Spot foreign exchange	1.0200	1.0723	1.0723	1.1273	1.1851	1.2458
EUR swap rate	5.160%	5.151%	5.040%	4.854%	4.480%	N/A
Basis swap spread	(0.02)%	(0.02)%	(0.02)%	(0.02)%	(0.02)%	N/A
1 year USD LIBOR	6.00%	5.50%	6.00%	6.50%	7.00%	N/A

55-82 The changes in fair value of the debt attributable to changes in both EUR interest rates and spot foreign exchange rates, and the values and changes in value (in USD) of the receive-fixed EUR, pay-variable USD swap, are shown in the following table.

	(in USD millions)						
A	Spot Foreign Exchange	1.0200	1.0723	1.0723	1.1273	1.1851	1.2458
B	Fair value of debt (in EUR)	(100.000)	(100.032)	(100.322)	(100.567)	(100.647)	-
C	Debt at spot (in USD) (A * B)	(102.000)	(107.265)	(107.575)	(113.366)	(119.274)	-
D	Cum. change on debt		(5.265)	(5.575)	(11.366)	(17.274)	-
E	*Change in period*		*(5.265)*	*(0.310)*	*(5.791)*	*(5.908)*	*17.274*
F	***EUR fixed to USD floating swap***	-	5.333	5.642	11.472	17.357	-
G	*Change in period*	-	*5.333*	*0.310*	*5.830*	*5.885*	*(17.357)*

55-83 As a fair value hedge, changes in the value of the debt and the cross-currency swap are recognized immediately in earnings. The income statement effect, including interest expense, is set out in the following table.

Years	0	1	2	3	4	5
Interest expense [(a)]		(6.667)	(6.157)	(6.667)	(7.177)	(7.687)
Change in value of debt (from E of preceding table)		(5.265)	(0.310)	(5.791)	(5.908)	17.274
Hedge gain or loss (from G of preceding table)		5.333	0.310	5.830	5.885	(17.357)
Net		(6.599)	(6.157)	(6.628)	(7.200)	(7.770)

(a) The interest expense is calculated based on USD LIBOR plus .536 percent on USD 102 million. The fixed EUR interest expense remeasured into the USD functional currency is adjusted by the net cash payment on the cross currency swap to reflect the variable U.S. interest rate (LIBOR + .536 percent) inherent in the cross currency swap.

>> Example 13: Definition of Firm Commitment

55-84 This Example illustrates a circumstance in which statutory remedies for default constitute a disincentive for nonperformance in applying the definition of a firm commitment. Entity A enters into an agreement to purchase 4,000 barrels of a common solvent from a chemical entity at $200 per barrel on June 1, 2000. The provisions of the agreement do not include a specific disincentive for nonperformance that is sufficiently large to make performance probable. However, the laws of the legal jurisdiction to which the agreement is subject provide a disincentive for nonperformance if Entity A does not take delivery of the barrels pursuant to the agreement. The solvent is not **readily convertible to cash**. Therefore, because the governing legal jurisdiction provides statutory rights to pursue remedies for default equivalent to the damages suffered, the agreement includes a disincentive for nonperformance that is sufficiently large to make performance probable for purposes of applying the definition of a firm commitment.

>> Example 14: Interaction with Loan Impairment

55-85 This Example illustrates the application of paragraph 815-25-35-11 involving the interaction of hedge accounting and loan impairment accounting.

55-86 Entity A formally documents a qualifying fair value hedge (for fair value changes attributable to changes in the designated benchmark interest rate) between a fixed-rate loan receivable from Entity B and an interest rate swap. The 5-year, fixed-rate loan to Entity B has a principal amount of $1,000,000 payable at maturity and interest payable annually at a 10 percent rate. One year after inception of the hedging relationship, the change in the hedged item's fair value attributable to changes in the LIBOR swap rate (the designated benchmark interest rate) is a gain of $16,022. (See row B in the table in paragraph 815-25-55-90, which presents calculations—at the end of the first year of the loan's term—of the net present value of contractual cash flows based on the loan's original effective interest rate adjusted for a 50 basis point decrease in the LIBOR swap rate.)

55-87 In addition, one year after inception of the hedging relationship, both of the following conditions exist:

a. The market interest rates for debtors of Entity B's original credit sector have decreased to 9.2 percent (50 basis points related to changes in the LIBOR swap rate and 30 basis points related to changes in sector spread).

b. There has been an adverse change to Entity B's creditworthiness.

55-88 Assume that the repayment of the loan is not dependent on the underlying collateral. In applying the requirements of Subtopic 310-10 to the loan, Entity A determines that the loan is impaired and that the present value of expected future cash flows discounted at the loan's effective interest rate at inception of the loan is $930,000. (See row C in the table in paragraph 815-25-55-90, which presents calculations—at the end of the first year of the loan's term—of the net present value of current estimates of expected future cash flows based on the loan's original effective interest rate.)

55-89 After adjusting the carrying amount of the hedged loan by $16,022 (pursuant to paragraph 815-25-35-1[b]) for the increase in the hedged item's fair value attributable to changes in the benchmark interest rate, Entity A should apply the guidance in Section 310-10-35 by doing both of the following:

a. Comparing the recorded investment of the loan after the effect of the fair value hedge, or $1,016,022, to the $944,901 present value of expected future cash flows discounted using the rate that reflects the rate of return implicit in the loan after adjusting the carrying amount of the hedged loan pursuant to paragraph 815-25-35-1(b) (that is, 9.5 percent)

b. Recognizing an impairment by creating a valuation allowance (with the offsetting entry charged to expense) for the difference of $71,121 ($1,016,022 – $944,901).

55-90 Following are calculations (at the end of the first year of the loan's term) of the net present value of the contractual cash flows and the creditor's best estimate of expected future cash flows based on the loan's original effective interest rate and the new implicit rate.

		Net Present Value at End	Assumed Cash Flow in Year			
	Rate	**of Year 1**	**2**	**3**	**4**	**5**
A. Original cash flows and original effective rate	10.0%	$ 1,000,000	$100,000	$100,000	$100,000	$ 1,100,000
B. Original cash flows and new implicit rate	9.5%	$ 1,016,022	$100,000	$100,000	$100,000	$ 1,100,000
C. Expected future cash flows and original effective rate	10.0%	$ 930,000	$ 93,000	$ 93,000	$ 93,000	$ 1,023,000
D. Expected future cash flows and new implicit rate	9.5%	$ 944,901	$ 93,000	$ 93,000	$ 93,000	$ 1,023,000

END OF DOCUMENT -

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815-25-75 XBRL Elements

General Note: This section contains a list of XBRL elements that reference paragraphs in this Subtopic. For additional details regarding changes to the development version of the US GAAP Financial Reporting Taxonomy, refer to the FASB taxonomy review and comment system on the FASB web site.

XBRL Links to Codification

Amortization Period of Deferred Gain (Loss) on Discontinuation of Fair Value Hedge (Revision Date: 2011-11-21)

Element Name: *AmortizationPeriodOfDeferredGainLossOnDiscontinuationOfFairValueHedge1*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 35 Subsequent Measurement > General, 35-9

Amortization Period of Deferred Gain (Loss) on Discontinuation of Foreign Currency Fair Value Hedge (Revision Date: 2011-11-21)

Element Name: *AmortizationPeriodOfDeferredGainLossOnDiscontinuationOfForeignCurrencyFairValueHedge1*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 35 Subsequent Measurement > General, 35-9

Amortization Period of Deferred Gain (Loss) on Discontinuation of Interest Rate Fair Value Hedge (Revision Date: 2011-11-21)

Element Name: *AmortizationPeriodOfDeferredGainLossOnDiscontinuationOfInterestRateFairValueHedge1*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 35 Subsequent Measurement > General, 35-9

Amortization Period of Deferred Gain (Loss) on Discontinuation of Price Risk Fair Value Hedge (Revision Date: 2011-11-21)

Element Name: *AmortizationPeriodOfDeferredGainLossOnDiscontinuationOfPriceRiskFairValueHedge1*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 35 Subsequent Measurement > General, 35-9

Change in Unrealized Gain (Loss) on Hedged Item in Fair Value Hedge

Element Name: *ChangeInUnrealizedGainLossOnHedgedItemInFairValueHedge*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1 (a) (1)

Change in Unrealized Gain (Loss) on Hedged Item in Foreign Currency Fair Value Hedge (Revision Date: 2011-12-01)

Element Name: *ChangeInUnrealizedGainLossOnHedgedItemInForeignCurrencyFairValueHedge1*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1 (a)

Deferred (Gain) Loss on Discontinuation of Fair Value Hedge (Revision Date: 2011-08-04)

Element Name: *DeferredGainLossOnDiscontinuationOfFairValueHedge*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 35 Subsequent Measurement > General, 35-9

Deferred Gain (Loss) on Discontinuation of Foreign Currency Fair Value Hedge

Element Name: *DeferredGainLossOnDiscontinuationOfForeignCurrencyFairValueHedge*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 35 Subsequent Measurement > General, 35-9

Deferred Gain (Loss) on Discontinuation of Interest Rate Fair Value Hedge

Element Name: *DeferredGainLossOnDiscontinuationOfInterestRateFairValueHedge*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 35 Subsequent Measurement > General, 35-9

Deferred Gain (Loss) on Discontinuation of Price Risk Fair Value Hedge

Element Name: *DeferredGainLossOnDiscontinuationOfPriceRiskFairValueHedge*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 35 Subsequent Measurement > General, 35-9

Derivative Asset, Notional Amount

Element Name: *DerivativeAssetNotionalAmount*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Derivative Financial Instruments, Assets [Member]

Element Name: *DerivativeFinancialInstrumentsAssetsMember*

This XBRL element references the following glossary term(s):

- Master Glossary > Derivative Instrument

Derivative Financial Instruments, Liabilities [Member]

Element Name: *DerivativeFinancialInstrumentsLiabilitiesMember*

This XBRL element references the following glossary term(s):

- Master Glossary > Derivative Instrument

Derivative Instruments and Hedging Activities Disclosure [Text Block]

Element Name: *DerivativeInstrumentsAndHedgingActivitiesDisclosureTextBlock*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n))
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-3
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- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4K
- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 45 Other Presentation > General, 45-1
- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 50 Disclosure > General, 50-2

Derivative Instruments, Gain (Loss) Recognized in Income, Ineffective Portion and Amount Excluded from Effectiveness Testing, Net

Element Name: *DerivativeInstrumentsGainLossRecognizedInIncomeIneffectivePortionAndAmountExcludedFromEffectivenessTestingNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1 (a) (1), (2)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (d)

Derivative Instruments, Gain (Loss) by Hedging Relationship, by Income Statement Location, by Derivative Instrument Risk [Table]

Element Name: *DerivativeInstrumentsGainLossByHedgingRelationshipByIncomeStatementLocationByDerivativeInstrumentRiskTable*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4D
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4E
- 815 Derivatives and Hedging > 10 Overall > 55 Implementation > General, 55-182

Derivative Instruments, Gain Recognized in Income, Ineffective Portion and Amount Excluded from Effectiveness Testing

Element Name: *DerivativeInstrumentsGainRecognizedInIncomeIneffectivePortionAndAmountExcludedFromEffectivenessTesting*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1 (a)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (d)

Derivative Instruments, Loss Recognized in Income, Ineffective Portion and Amount Excluded from Effectiveness Testing

Element Name: *DerivativeInstrumentsLossRecognizedInIncomeIneffectivePortionAndAmountExcludedFromEffectivenessTesting*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (d)

Derivative Liability, Notional Amount

Element Name: *DerivativeLiabilityNotionalAmount*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Derivative [Table]

Element Name: *DerivativeTable*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (2))
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-5
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-8
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- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C

Derivative, Net Hedge Ineffectiveness Gain (Loss)

Element Name: *DerivativeNetHedgeIneffectivenessGainLoss*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1 (a) (1)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (d) (1)

Derivative, Nonmonetary Notional Amount

Element Name: *DerivativeNonmonetaryNotionalAmount*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Derivative, Notional Amount

Element Name: *DerivativeNotionalAmount*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Derivatives, Methods of Accounting, Hedging Derivatives [Policy Text Block]

Element Name: *DerivativesMethodsOfAccountingHedgingDerivatives*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n))
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C
- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 50 Disclosure > General, 50-1

Description of Accounting Method Used for Credit Risk Derivatives

Element Name: *DescriptionOfAccountingMethodUsedForCreditRiskDerivatives*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1 (a)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (1), (3), (7))
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C

Description of Accounting Method Used for Interest Rate Derivatives

Element Name: *DescriptionOfAccountingMethodUsedForInterestRateDerivatives*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1 (a)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (1), (3), (7))
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A

Description of Accounting Method Used for Price Risk Derivatives

Element Name: *DescriptionOfAccountingMethodUsedForPriceRiskDerivatives*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (1), (3), (7))
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A

Description of Components of Gain (Loss) Excluded from Assessment of Credit Risk Hedge Effectiveness

Element Name: *DescriptionOfComponentsOfGainLossExcludedFromAssessmentOfCreditRiskHedgeEffectiveness*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1 (a) (2)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (d) (2)

Description of Components of Gain (Loss) Excluded from Assessment of Fair Value Hedge Effectiveness

Element Name: *DescriptionOfComponentsOfGainLossExcludedFromAssessmentOfFairValueHedgeEffectiveness*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1 (a) (2)

Description of Components of Gain (Loss) Excluded from Assessment of Foreign Currency Fair Value Hedge Effectiveness

Element Name: *DescriptionOfComponentsOfGainLossExcludedFromAssessmentOfForeignCurrencyFairValueHedgeEffectiveness*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1 (a) (2)

Description of Components of Gain (Loss) Excluded from Assessment of Price Risk Fair Value Hedge Effectiveness

Element Name: *DescriptionOfComponentsOfGainLossExcludedFromAssessmentOfPriceRiskFairValueHedgeEffectiveness*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1 (a) (2)

Description of Fair Value Hedge Activity

Element Name: *DescriptionOfFairValueHedgeActivity*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A

Description of Foreign Currency Fair Value Hedge Accounting Method

Element Name: *DescriptionOfForeignCurrencyFairValueHedgeAccountingMethod*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1 (a) (3)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (1), (3), (7))
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4D (a) (2), (b)

Description of Hedged Firm Commitment Not Qualifying as Foreign Currency Fair Value Hedge

Element Name: *DescriptionOfHedgedFirmCommitmentNotQualifyingAsForeignCurrencyFairValueHedge*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1 (b)

Description of Hedged Firm Commitment Not Qualifying as Interest Rate Fair Value Hedge

Element Name: *DescriptionOfHedgedFirmCommitmentNotQualifyingAsInterestRateFairValueHedge*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1 (b)

Description of Hedged Firm Commitment Not Qualifying as Price Risk Fair Value Hedge

Element Name: *DescriptionOfHedgedFirmCommitmentNotQualifyingAsPriceRiskFairValueHedge*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1 (b)

Discussion of Effect of Fair Value Hedges on Results of Operations

Element Name: *DiscussionOfEffectOfFairValueHedgesOnResultsOfOperations*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-2

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C

Fair Value Disclosure, Off-balance Sheet Risks, Description

Element Name: *FairValueDisclosureOffBalanceSheetRisksDescription*

This XBRL element references the following glossary term(s):

- Master Glossary > Financial Instrument

Fair Value Disclosure, Off-balance Sheet Risks, Methodology

Element Name: *FairValueDisclosureOffBalanceSheetRisksMethodology*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 270 Interim Reporting > 10 Overall > 60 Relationships > General, 60-1
- 825 Financial Instruments > 10 Overall > 50 Disclosure > General, 50-10 (b)

This XBRL element references the following glossary term(s):

- Master Glossary > Financial Instrument

Fair Value Disclosure, Off-balance Sheet Risks, Significant Assumptions

Element Name: *FairValueDisclosureOffBalanceSheetRisksSignificantAssumptions*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 820 Fair Value Measurement > 10 Overall > 50 Disclosure > General, 50-1
- 825 Financial Instruments > 10 Overall > 50 Disclosure > General, 50-10 (b)

This XBRL element references the following glossary term(s):

- Master Glossary > Financial Instrument

Gain (Loss) from Components Excluded from Assessment of Fair Value Hedge Effectiveness, Net

Element Name: *GainLossFromComponentsExcludedFromAssessmentOfFairValueHedgeEffectivenessNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1 (a) (2)

Gain (Loss) from Hedged Firm Commitment Not Qualifying as Fair Value Hedge, Net

Element Name: *GainLossFromHedgedFirmCommitmentNotQualifyingAsFairValueHedgeNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1 (b)

Gain (Loss) from Hedged Firm Commitment Not Qualifying as Foreign Currency Fair Value Hedge, Net

Element Name: *GainLossFromHedgedFirmCommitmentNotQualifyingAsForeignCurrencyFairValueHedgeNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1 (b)

Gain (Loss) from Hedged Firm Commitment Not Qualifying as Interest Rate Fair Value Hedge, Net

Element Name: *GainLossFromHedgedFirmCommitmentNotQualifyingAsInterestRateFairValueHedgeNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1 (b)

Gain (Loss) from Hedged Firm Commitment Not Qualifying as Price Risk Fair Value Hedge, Net

Element Name: *GainLossFromHedgedFirmCommitmentNotQualifyingAsPriceRiskFairValueHedgeNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1 (b)

Gain (Loss) on Components Excluded from Assessment of Credit Risk Hedge Effectiveness

Element Name: *GainLossOnComponentsExcludedFromAssessmentOfCreditRiskHedgeEffectiveness*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1 (a) (2)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (d) (2)

Gain (Loss) on Components Excluded from Assessment of Foreign Currency Fair Value Hedge Effectiveness

Element Name: *GainLossOnComponentsExcludedFromAssessmentOfForeignCurrencyFairValueHedgeEffectiveness*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1 (a) (2)

Gain (Loss) on Components Excluded from Assessment of Interest Rate Fair Value Hedge Effectiveness

Element Name: *GainLossOnComponentsExcludedFromAssessmentOfInterestRateFairValueHedgeEffectiveness*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1 (a) (2)

Gain (Loss) on Components Excluded from Assessment of Price Risk Fair Value Hedge Effectiveness

Element Name: *GainLossOnComponentsExcludedFromAssessmentOfPriceRiskFairValueHedgeEffectiveness*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1 (a) (2)

Gain (Loss) on Components Excluded from Assessment of Price Risk Hedge Effectiveness

Element Name: *GainLossOnComponentsExcludedFromAssessmentOfPriceRiskHedgeEffectiveness*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1 (a) (2)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (d) (2)

Gain (Loss) on Credit Risk Hedge Ineffectiveness

Element Name: *GainLossOnCreditRiskHedgeIneffectiveness*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1 (a) (1)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (d) (1)

Gain (Loss) on Fair Value Hedge Ineffectiveness, Net

Element Name: *GainLossOnFairValueHedgeIneffectivenessNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1 (a) (1)

Gain (Loss) on Foreign Currency Derivatives Recorded in Earnings, Net

Element Name: *GainLossOnForeignCurrencyDerivativesRecordedInEarningsNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4D (a) (2)

Gain (Loss) on Foreign Currency Fair Value Hedge Ineffectiveness

Element Name: *GainLossOnForeignCurrencyFairValueHedgeIneffectiveness*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1 (a) (1)

Gain (Loss) on Interest Rate Fair Value Hedge Ineffectiveness

Element Name: *GainLossOnInterestRateFairValueHedgeIneffectiveness*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1 (a) (1)

Gain (Loss) on Price Risk Derivatives, Net

Element Name: *GainLossOnPriceRiskDerivativesNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A (b)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C

Gain (Loss) on Price Risk Fair Value Hedge Ineffectiveness

Element Name: *GainLossOnPriceRiskFairValueHedgeIneffectiveness*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1 (a) (1)

Gain (Loss) on Price Risk Hedge Ineffectiveness

Element Name: *GainLossOnPriceRiskHedgeIneffectiveness*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1 (a) (1)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (d) (1)

Gain from Components Excluded from Assessment of Fair Value Hedge Effectiveness

Element Name: *GainFromComponentsExcludedFromAssessmentOfFairValueHedgeEffectiveness*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1 (a) (2)

Gain from Hedged Firm Commitment Not Qualifying as Fair Value Hedge

Element Name: *GainFromHedgedFirmCommitmentNotQualifyingAsFairValueHedge*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1 (b)

Gain on Fair Value Hedge Ineffectiveness

Element Name: *GainOnFairValueHedgeIneffectiveness*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1 (a) (1)

General Discussion of Derivative Instruments and Hedging Activities

Element Name: *GeneralDiscussionOfDerivativeInstrumentsAndHedgingActivities*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-5
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A
- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 45 Other Presentation > General, 45-1
- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 50 Disclosure > General, 50-1

Investment Owned, Underlying Face Amount, at Market Value

Element Name: *InvestmentOwnedUnderlyingFaceAmountAtMarketValue*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 10 Objectives > General, 10-1 (a)
- 815 Derivatives and Hedging > 20 Hedging—General > 10 Objectives > General, 10-1

This XBRL element references the following glossary term(s):

- Master Glossary > Underlying

Loss from Components Excluded from Assessment of Fair Value Hedge Effectiveness

Element Name: *LossFromComponentsExcludedFromAssessmentOfFairValueHedgeEffectiveness*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1 (a) (2)

Loss from Hedged Firm Commitment Not Qualifying as Fair Value Hedge

Element Name: *LossFromHedgedFirmCommitmentNotQualifyingAsFairValueHedge*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1 (b)

Loss on Fair Value Hedge Ineffectiveness

Element Name: *LossOnFairValueHedgeIneffectiveness*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1 (a) (1)

Nonmonetary Notional Amount of Price Risk Cash Flow Hedge Derivatives

Element Name: *NonmonetaryNotionalAmountOfPriceRiskCashFlowHedgeDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Nonmonetary Notional Amount of Price Risk Derivative Instruments Not Designated as Hedging Instruments

Element Name: *NonmonetaryNotionalAmountOfPriceRiskDerivativeInstrumentsNotDesignatedAsHedgingInstruments*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Nonmonetary Notional Amount of Price Risk Derivatives

Element Name: *NonmonetaryNotionalAmountOfPriceRiskDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Nonmonetary Notional Amount of Price Risk Fair Value Hedge Derivatives

Element Name: *NonmonetaryNotionalAmountOfPriceRiskFairValueHedgeDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Cash Flow Hedge Instruments

Element Name: *NotionalAmountOfCashFlowHedgeInstruments*

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Credit Risk Derivatives

Element Name: *NotionalAmountOfCreditRiskDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Derivative Instruments Designated as Net Investment Hedges

Element Name: *NotionalAmountOfDerivativeInstrumentsDesignatedAsNetInvestmentHedges*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Fair Value Hedge Instruments

Element Name: *NotionalAmountOfFairValueHedgeInstruments*

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Foreign Currency Cash Flow Hedge Derivatives

Element Name: *NotionalAmountOfForeignCurrencyCashFlowHedgeDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Foreign Currency Derivative Instruments Not Designated as Hedging Instruments

Element Name: *NotionalAmountOfForeignCurrencyDerivativeInstrumentsNotDesignatedAsHedgingInstruments*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Foreign Currency Derivative Purchase Contracts

Element Name: *NotionalAmountOfForeignCurrencyDerivativePurchaseContracts*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Foreign Currency Derivative Sale Contracts

Element Name: *NotionalAmountOfForeignCurrencyDerivativeSaleContracts*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Foreign Currency Derivatives

Element Name: *NotionalAmountOfForeignCurrencyDerivatives*

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Foreign Currency Fair Value Hedge Derivatives

Element Name: *NotionalAmountOfForeignCurrencyFairValueHedgeDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Interest Rate Cash Flow Hedge Derivatives

Element Name: *NotionalAmountOfInterestRateCashFlowHedgeDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Interest Rate Derivative Instruments Not Designated as Hedging Instruments

Element Name: *NotionalAmountOfInterestRateDerivativeInstrumentsNotDesignatedAsHedgingInstruments*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Interest Rate Derivatives

Element Name: *NotionalAmountOfInterestRateDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Interest Rate Fair Value Hedge Derivatives

Element Name: *NotionalAmountOfInterestRateFairValueHedgeDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Net Investment Hedging Instruments

Element Name: *NotionalAmountOfNetInvestmentHedgingInstruments*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Nonderivative Instruments Designated as Net Investment Hedges

Element Name: *NotionalAmountOfNonderivativeInstrumentsDesignatedAsNetInvestmentHedges*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Other Derivatives Not Designated as Hedging Instruments

Element Name: *NotionalAmountOfOtherDerivativesNotDesignatedAsHedgingInstruments*

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Price Risk Cash Flow Hedge Derivatives

Element Name: *NotionalAmountOfPriceRiskCashFlowHedgeDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Price Risk Derivative Instruments Not Designated as Hedging Instruments

Element Name: *NotionalAmountOfPriceRiskDerivativeInstrumentsNotDesignatedAsHedgingInstruments*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Price Risk Derivatives

Element Name: *NotionalAmountOfPriceRiskDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Price Risk Fair Value Hedge Derivatives

Element Name: *NotionalAmountOfPriceRiskFairValueHedgeDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Schedule of Derivative Instruments [Table Text Block]

Element Name: *ScheduleOfDerivativeInstrumentsTextBlock*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (2))
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-5
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-8
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C

END OF DOCUMENT -

815-30-00 Status

Click here to link to 815-30-S00.

General Note: The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

General

00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
Credit Risk	Amended	Accounting Standards Update No. 2010-08	02/02/2010
Intrinsic Value	Added	Accounting Standards Update No. 2010-08	02/02/2010
Time Value	Added	Accounting Standards Update No. 2010-08	02/02/2010
815-30-35-3	Amended	Accounting Standards Update No. 2010-08	02/02/2010
815-30-50-2	Amended	Accounting Standards Update No. 2011-05	06/16/2011

END OF DOCUMENT -

815-30-05 Overview and Background

General Note: The Overview and Background Section provides overview and background material for the guidance contained in the Subtopic. It does not provide the historical background or due process. It may contain certain material that users generally consider useful to understand the typical situations addressed by the standards. The Section does not summarize the accounting and reporting requirements.

General

05-1 This Subtopic provides incremental guidance on accounting for and financial reporting of **cash flow hedges** established under the criteria in Subtopic 815-20.

END OF DOCUMENT -

815-30-15 Scope and Scope Exceptions

General Note: The Scope and Scope Exceptions Section outlines the items (for example, the entities, transactions, instruments, or events) to which the guidance in the Subtopic does or does not apply. In some cases, the Section may contain definitional or other text to frame the scope.

General Note for Financial Instruments: Some of the items subject to the guidance in this Subtopic are **financial instruments**. For guidance on matters related broadly to all financial instruments, (including the fair value option, accounting for registration payment arrangements, and broad financial instrument disclosure requirements), see Topic 825. See Section 825-10-15 for guidance on the scope of the Financial Instruments Topic.

General

> Overall Guidance

15-1 This Subtopic follows the same Scope and Scope Exceptions as outlined in Subtopic 815-20, see Section 815-20-15, with specific exceptions noted below.

> Entities

15-2 The guidance in this Subtopic does not apply to the following entities:

a. Entities that do not report earnings. Those entities are not permitted to use **cash flow hedge** accounting because they do not report earnings separately.

15-3 Consistent with the provisions of Topic 958, this Subtopic does not prescribe how a not-for-profit entity (NFP) should determine the components of an operating measure, if one is presented. For guidance on the application of this Subtopic by not-for-profit health care entities, see Subtopic 954-815.

END OF DOCUMENT -

815-30-20 Glossary

General Note: The Master Glossary contains all terms identified as glossary terms throughout the Codification. Clicking on any term in the Master Glossary will display where the term is used. The Master Glossary may contain identical terms with different definitions, some of which may not be appropriate for a particular Subtopic. For any particular Subtopic, users should only use the glossary terms included in the particular Subtopic Glossary Section (Section 20).

Benchmark Interest Rate

A widely recognized and quoted rate in an active financial market that is broadly indicative of the overall level of interest rates attributable to high-credit-quality obligors in that market. It is a rate that is widely used in a given financial market as an underlying basis for determining the interest rates of individual financial instruments and commonly referenced in interest-rate-related transactions.

In theory, the benchmark interest rate should be a risk-free rate (that is, has no risk of default). In some markets, government borrowing rates may serve as a benchmark. In other markets, the benchmark interest rate may be an interbank offered rate.

Cash Flow Hedge

A hedge of the exposure to variability in the cash flows of a recognized asset or liability, or of a forecasted transaction, that is attributable to a particular risk.

Comprehensive Income

The change in equity (net assets) of a business entity during a period from transactions and other events and circumstances from nonowner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners.

Note: The following definition is Pending Content; see Transition Guidance in 220-10-65-1

The change in equity (net assets) of a business entity during a period from transactions and other events and circumstances from nonowner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Comprehensive income comprises both of the following:

a. All components of net income

b. All components of other comprehensive income.

Credit Risk

For purposes of a hedged item in a fair value hedge, credit risk is the risk of changes in the hedged item's fair value attributable to both of the following:

a. Changes in the obligor’s creditworthiness

b. Changes in the spread over the benchmark interest rate with respect to the hedged item’s credit sector at inception of the hedge.

For purposes of a hedged transaction in a cash flow hedge, credit risk is the risk of changes in the hedged transaction's cash flows attributable to all of the following:

a. Default

b. Changes in the obligor's creditworthiness

c. Changes in the spread over the benchmark interest rate with respect to the related financial asset's or liability's credit sector at inception of the hedge.

Derivative Instrument

Paragraphs 815-10-15-83 through 15-139 define the term *derivative instrument*.

Fair Value

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair Value Hedge

A hedge of the exposure to changes in the fair value of a recognized asset or liability, or of an unrecognized firm commitment, that are attributable to a particular risk.

Financial Instrument

Cash, evidence of an ownership interest in an entity, or a contract that both:

a. Imposes on one entity a contractual obligation either:

1. To deliver cash or another financial instrument to a second entity

2. To exchange other financial instruments on potentially unfavorable terms with the second entity.

b. Conveys to that second entity a contractual right either:

1. To receive cash or another financial instrument from the first entity

2. To exchange other financial instruments on potentially favorable terms with the first entity.

The use of the term financial instrument in this definition is recursive (because the term financial instrument is included in it), though it is not circular. The definition requires a chain of contractual obligations that ends with the delivery of cash or an ownership interest in an entity. Any number of obligations to deliver financial instruments can be links in a chain that qualifies a particular contract as a financial instrument.

Contractual rights and contractual obligations encompass both those that are conditioned on the occurrence of a specified event and those that are not. All contractual rights (contractual obligations) that are financial instruments meet the definition of asset (liability) set forth in FASB Concepts Statement No. 6, Elements of Financial Statements, although some may not be recognized as assets (liabilities) in financial statements—that is, they may be off-balance-sheet—because they fail to meet some other criterion for recognition.

For some financial instruments, the right is held by or the obligation is due from (or the obligation is owed to or by) a group of entities rather than a single entity.

Forecasted Transaction

A transaction that is expected to occur for which there is no firm commitment. Because no transaction or event has yet occurred and the transaction or event when it occurs will be at the prevailing market price, a forecasted transaction does not give an entity any present rights to future benefits or a present obligation for future sacrifices.

Foreign Exchange Risk

The risk of changes in a hedged item's fair value or functional-currency-equivalent cash flows attributable to changes in the related foreign currency exchange rates.

Interest Rate Risk

The risk of changes in a hedged item's fair value or cash flows attributable to changes in the designated benchmark interest rate.

Internal Derivative

A foreign currency derivative instrument that has been entered into with another member of a consolidated group (such as a treasury center).

Intrinsic Value

The amount by which the fair value of the underlying stock exceeds the exercise price of an option. For example, an option with an exercise price of $20 on a stock whose current market price is $25 has an intrinsic value of $5. (A nonvested share may be described as an option on that share with an exercise price of zero. Thus, the fair value of a share is the same as the intrinsic value of such an option on that share.)

London Interbank Offered Rate Swap Rate

The fixed rate on a single-currency, constant-notional interest rate swap that has its variable-rate leg referenced to the London Interbank Offered Rate (LIBOR) with no additional spread over LIBOR on that variable-rate leg. That fixed rate is the derived rate that would result in the swap having a zero fair value at inception because the present value of fixed cash flows, based on that rate, equate to the present value of the variable cash flows.

Notional Amount

A number of currency units, shares, bushels, pounds, or other units specified in a derivative instrument. Sometimes other names are used. For example, the notional amount is called a face amount in some contracts.

Other Comprehensive Income

Revenues, expenses, gains, and losses that under generally accepted accounting principles (GAAP) are included in comprehensive income but excluded from net income.

Time Value

The portion of the fair value of an option that exceeds its intrinsic value. For example, a call option with an exercise price of $20 on a stock whose current market price is $25 has intrinsic value of $5. If the fair value of that option is $7, the time value of the option is $2 ($7 – $5).

Transaction

An external event involving transfer of something of value (future economic benefit) between two (or more) entities. (See FASB Concepts Statement No. 6, Elements of Financial Statements.)

Underlying

A specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, or other variable (including the occurrence or nonoccurrence of a specified event such as a scheduled payment under a contract). An underlying may be a price or rate of an asset or liability but is not the asset or liability itself. An underlying is a variable that, along with either a notional amount or a payment provision, determines the settlement of a derivative instrument.

Zero-Coupon Method

A swap valuation method that involves computing and summing the present value of each future net settlement that would be required by the contract terms if future spot interest rates match the forward rates implied by the current yield curve. The discount rates used are the spot interest rates implied by the current yield curve for hypothetical zero coupon bonds due on the date of each future net settlement on the swap.

END OF DOCUMENT -

815-30-25 Recognition

General Note: The Recognition Section provides guidance on the required criteria, timing, and location (within the financial statements) for recording a particular item in the financial statements. Disclosure is not recognition.

General

25-1 See Section 815-20-25 for the criteria under which an entity may designate a **derivative instrument** as hedging the exposure to variability in expected future cash flows that is attributable to a particular risk.

END OF DOCUMENT -

815-30-35 Subsequent Measurement

General Note: The Subsequent Measurement Section provides guidance on an entity's subsequent measurement and subsequent recognition of an item. Situations that may result in subsequent changes to carrying amount include impairment, fair value adjustments, depreciation and amortization, and so forth.

General

35-1 The guidance is this Section is organized as follows:

a. Subsequent recognition and measurement of gains and losses on hedging instrument

b. Reclassifications from accumulated other comprehensive income into earnings

c. Hedging relationship's timing that involves uncertainty within a range

d. Alterations or terminations of offsetting third-party **derivative instruments**.

> Subsequent Recognition and Measurement of Gains and Losses on Hedging Instrument

35-2 In all instances, the actual measurement of **cash flow hedge** ineffectiveness to be recognized in earnings each reporting period is based on the extent to which exact offset is not achieved as specified in the following paragraph. That requirement applies even if a regression or other statistical analysis approach for both prospective considerations and retrospective evaluations of assessing effectiveness supports an expectation that the hedging relationship will be highly effective and demonstrates that it has been highly effective, respectively.

35-3 The effective portion of the gain or loss on a derivative instrument designated as a cash flow hedge is reported in other comprehensive income, and the ineffective portion is reported in earnings. More specifically, a qualifying cash flow hedge shall be accounted for as follows:

a. If an entity's defined risk management strategy for a particular hedging relationship excludes a specific component of the gain or loss, or related cash flows, on the hedging derivative from the assessment of hedge effectiveness (as discussed in paragraphs 815-20-25-81 through 25-83), that excluded component of the gain or loss shall be recognized currently in earnings. For example, if the effectiveness of a hedging relationship with an option is assessed based on changes in the option's **intrinsic value**, the changes in the option's **time value** would be recognized in earnings.

b. Accumulated other comprehensive income associated with the hedged **transaction** shall be adjusted to a balance that reflects the lesser of the following (in absolute amounts):

1. The cumulative gain or loss on the derivative instrument from inception of the hedge less both of the following:

i. The excluded component discussed in (a)

ii. The derivative instrument's gains or losses previously reclassified from accumulated other comprehensive income into earnings pursuant to paragraphs 815-30-35-38 through 35-41.

2. The portion of the cumulative gain or loss on the derivative instrument necessary to offset the cumulative change in expected future cash flows on the hedged transaction from inception of the hedge less the derivative instrument's gains or losses previously reclassified from

accumulated other comprehensive income into earnings pursuant to paragraphs 815-30-35-38 through 35-41.

That adjustment of accumulated other comprehensive income shall incorporate recognition in other comprehensive income of part or all of the gain or loss on the hedging derivative, as necessary. If hedge accounting has not been applied to a cash flow hedging relationship in a previous effectiveness assessment period because the entity's retrospective evaluation indicated that the relationship had not been highly effective in achieving offsetting changes in cash flows in that period, the cumulative gain or loss on the derivative referenced in (b) would exclude the gains or losses occurring during that period. Similarly, the cumulative change in expected future cash flows on the hedged transaction would exclude the changes related to that period when hedge accounting has not been applied. That situation may arise if the entity had previously determined, for example, under a regression analysis or other appropriate statistical analysis approach used for prospective assessments of hedge effectiveness, that there was an expectation in which the hedging relationship would be highly effective in future periods. Consequently, the hedging relationship continued even though hedge accounting was not permitted for a specific previous effectiveness assessment period.

c. A gain or loss shall be recognized in earnings, as necessary, for any remaining gain or loss on the hedging derivative or to adjust other comprehensive income to the balance specified in (b).

d. If a non-option-based contract is the hedging instrument in a cash flow hedge of the variability of the functional-currency-equivalent cash flows for a recognized foreign-currency-denominated asset or liability that is remeasured at spot exchange rates under paragraph 830-20-35-1, an amount that will both offset the related transaction gain or loss arising from that remeasurement and adjust earnings for that period's allocable portion of the initial spot-forward difference associated with the hedging instrument (cost to the purchaser or income to the seller of the hedging instrument) shall be reclassified each period from other comprehensive income to earnings if the assessment of effectiveness and measurement of ineffectiveness are based on total changes in the non-option-based instrument's cash flows.

e. If an option contract is used as the hedging instrument in a cash flow hedge of the variability of the functional-currency-equivalent cash flows for a recognized foreign-currency-denominated asset or liability that is remeasured at spot exchange rates under paragraph 830-20-35-1 to provide only one-sided offset against the hedged **foreign exchange risk**, an amount shall be reclassified each period to or from other comprehensive income with respect to the changes in the **underlying** that result in a change in the hedging option's intrinsic value.

f. If the assessment of effectiveness and measurement of ineffectiveness are based on total changes in the option's cash flows (that is, the assessment will include the hedging instrument's entire change in **fair value**—its entire gain or loss), an amount that adjusts earnings for the amortization of the cost of the option on a rational basis shall be reclassified each period from other comprehensive income to earnings. This guidance is limited to foreign currency hedging relationships because of their unique attributes. That accounting guidance is an exception for foreign currency hedging relationships.

35-4 The adjustment of accumulated other comprehensive income required by (b) in the preceding paragraph shall incorporate recognition in other comprehensive income of part or all of the gain or loss on the hedging derivative, as necessary.

35-5 If an entity has designated and documented that it will measure effectiveness of a cash flow hedge of foreign currency risk on an after-tax basis as permitted by paragraph 815-20-25-3(b)(2)(vi), the portion of the gain or loss on the hedging instrument that exceeded the loss or gain on the hedged item shall be included as an offset to the related tax effects in the period in which those tax effects are recognized.

35-6 Remeasurement of the hedged foreign-currency-denominated assets and liabilities is based on the guidance in Topic 830, which requires remeasurement based on spot exchange rates, regardless of whether a cash flow hedging relationship exists.

35-7 Examples 1 through 4 (see paragraphs 815-30-55-1A through 55-19) illustrate assessing hedge effectiveness and measuring hedge ineffectiveness. Examples 7 (see paragraph 815-30-55-34) and 10 (see paragraph 815-30-55-63) illustrate the application of paragraph 815-30-35-3.

35-8 The remainder of this guidance addresses the following matters:

a. Application to single cash flow hedge of a forecasted sale or purchase on credit for foreign exchange risk

b. Hedge ineffectiveness in certain cash flow hedges involving **interest rate risk**

c. Hedging relationship in which hedge effectiveness is based on an option's terminal value.

>> Application to Single Cash Flow Hedge of a Forecasted Sale or Purchase on Credit for Foreign Exchange Risk

35-9 For a single cash flow hedge that encompasses the variability of functional-currency-equivalent cash flows attributable to foreign exchange risk related to the settlement of a foreign-currency-denominated receivable or payable resulting from a forecasted sale or purchase on credit, the guidance in paragraph 815-30-35-3 is applied as follows:

a. The effective portion of the gain or loss on the derivative instrument is reported in other comprehensive income during the period before the forecasted purchase or sale.

b. The functional currency interest rate implicit in the hedging relationship as a result of entering into the forward contract is used to determine the amount of cost or income to be ascribed to each period of the hedging relationship. The cash flow hedging model for recognized foreign-currency-denominated assets and liabilities requires use of the interest method at the inception of the hedging relationship to determine the amount of cost or income to be ascribed to each relevant period of the hedging relationship. However, for simplicity, in hedging relationships in which the hedged item is a short-term non-interest-bearing account receivable or account payable, the amount of cost or income to be ascribed each period can also be determined using a pro rata method based on the number of days or months of the hedging relationship. In addition, in a short-term single cash flow hedging relationship that encompasses the variability of functional-currency-equivalent cash flows attributable to foreign exchange risk related to the settlement of a foreign-currency-denominated receivable or payable resulting from a forecasted sale or purchase on credit, the amount of cost or income to be ascribed each period can also be determined using a pro rata method or a method that uses two foreign currency forward exchange rates. The first foreign currency forward exchange rate would be based on the maturity date of the forecasted purchase or sale transaction. The second foreign currency forward exchange rate would be based on the settlement date of the resulting account receivable or account payable.

c. For forecasted sales on credit, the amount of cost or income ascribed to each forecasted period is reclassified from other comprehensive income to earnings on the date of the sale. For forecasted purchases on credit, the amount of cost or income ascribed to each forecasted period is reclassified from other comprehensive income to earnings in the same period or periods during which the asset acquired affects earnings. The reclassification from other comprehensive income to earnings of the amount of cost or income ascribed to each forecasted period is based on the guidance in paragraphs 815-30-35-38 through 35-41.

d. The income or cost ascribed to each period encompassed within the periods of the recognized foreign-currency-denominated receivable or payable is reclassified from other comprehensive income to earnings at the end of each reporting period.

Example 18 (see paragraph 815-30-55-106) illustrates such a transaction.

>> Hedge Ineffectiveness in Certain Cash Flow Hedges Involving Interest Rate Risk

35-10 This guidance addresses the following three methods of assessing ineffectiveness of certain cash flow hedges:

a. Change-in-variable-cash-flows method

b. Hypothetical-derivative method

c. Change-in-fair-value method.

35-11 Those three methods relate to calculating the ineffectiveness of a cash flow hedge that involves any of the following:

a. A receive-variable, pay-fixed interest rate swap designated as a hedge of the variable interest payments on an existing floating-rate liability

b. A receive-fixed, pay-variable interest rate swap designated as a hedge of the variable interest receipts on an existing variable-rate asset

c. Cash flow hedges of the variability of future interest payments on interest-bearing assets to be acquired or interest-bearing liabilities to be incurred (such as the rollover of an entity's short-term debt as described in Example 9 [see paragraph 815-30-55-52]).

35-12 Depending on the interest rate index (or indexes) involved and the expected effectiveness of the hedging interest rate swap, the hedging relationships covered by this guidance encompass either of the following:

a. Hedges of interest rate risk (pursuant to paragraph 815-20-25-15[j][2]), for example, a hedging relationship that does not qualify for the shortcut method that involves an interest rate swap with its variable-rate index based on the **London Interbank Offered Rate (LIBOR) swap rate** (a **benchmark interest rate**) designated as a hedge of a variable-rate asset or liability with an interest-rate index also based on the LIBOR swap rate

b. Hedges of the risk of overall changes in the hedged cash flows related to the asset or liability (pursuant to paragraph 815-20-25-15[j][1]), for example, a hedging relationship involving an interest-rate swap with its variable-rate index based on a bank's prime rate designated as a hedge of a variable-rate asset or liability with an interest-rate index also based on the same prime rate. That hedging relationship may not qualify for the shortcut method because the shortcut method applies only to hedges of interest rate risk, and the designated variable-rate index giving rise to variability in cash flows is not a benchmark interest rate.

35-13 If, at the inception of the hedge, the fair value of the interest rate swap designated as the hedging instrument is zero or is somewhat near zero, any of the three methods in paragraph 815-30-35-10 may be applied.

35-14 In contrast, if, at the inception of the hedge, the fair value of the interest rate swap is not somewhat near zero, the change-in-variable-cash-flows method shall not be applied because that method does not require entities to recognize in income currently the ineffectiveness related to the interest element of the change in fair value of a hedging instrument that incorporates a financing element; instead, either the hypothetical-derivative method or the change-in-fair-value method shall be applied. Those latter two methods require entities to recognize in income currently the ineffectiveness related to the interest element of the change in fair value of a hedging instrument that incorporates a financing element that is not somewhat near zero, such as if the interest rate swap has been structured to be significantly in the money at the inception of the hedging relationship.

35-15 Under all three methods, an entity shall consider the risk of default by counterparties that are obligors with respect to the hedging instrument (the interest rate swap) or hedged transaction, pursuant to the guidance in paragraphs 815-20-25-122 and 815-20-25-16(a), respectively. An underlying assumption in this guidance is that the likelihood of the obligor not defaulting is assessed as being probable.

>>> Change-in-Variable-Cash-Flows Method

35-16 The change-in-variable-cash-flows method measures hedge ineffectiveness based on a comparison of the following items:

a. The variable leg of the interest rate swap

b. The hedged variable-rate cash flows on the asset or liability.

35-17 As noted in paragraph 815-30-35-14, the change-in-variable-cash-flows method shall not be used in certain circumstances.

35-18 The change-in-variable-cash-flows method is consistent with the cash flow hedge objective of effectively offsetting the changes in the hedged cash flows attributable to the hedged risk. The method is based on the premise that only the floating-rate component of the interest rate swap provides the cash flow hedge, and any change in the interest rate swap's fair value attributable to the fixed-rate leg is not relevant to the variability of the hedged interest payments (receipts) on the floating-rate liability (asset).

35-19 Under this method, the interest rate swap designated as the hedging instrument would be recorded at fair value on the balance sheet. The calculation of ineffectiveness involves a comparison of the following amounts:

a. The present value of the cumulative change in the expected future cash flows on the variable leg of the interest rate swap

b. The present value of the cumulative change in the expected future interest cash flows on the variable-rate asset or liability.

35-20 Because the focus of a cash flow hedge is on whether the hedging relationship achieves offsetting changes in cash flows, if the variability of the hedged cash flows of the variable-rate asset or liability is based solely on changes in a variable-rate index, the present value of the cumulative changes in expected future cash flows on both the variable-rate leg of the interest rate swap and the variable-rate asset or liability shall be calculated using the discount rates applicable to determining the fair value of the interest rate swap.

35-21 If hedge ineffectiveness exists, accumulated other comprehensive income shall be adjusted to a balance that reflects the difference between the overall change in fair value of the interest rate swap since the inception of the hedging relationship and the amount of ineffectiveness that shall be recorded in earnings.

35-22 The change-in-variable-cash-flows method will result in no ineffectiveness being recognized in earnings if all of the following conditions are met:

a. The variable-rate leg of the interest rate swap and the hedged variable cash flows of the asset or liability are based on the same interest rate index (for example, three-month LIBOR).

b. The interest rate reset dates applicable to the variable-rate leg of the interest rate swap and to the hedged variable cash flows of the asset or liability are the same.

c. The hedging relationship does not contain any other basis differences (for example, ineffectiveness could be created if the variable leg of the interest rate swap contains a cap and the variable-rate asset or liability does not).

d. The likelihood of the obligor not defaulting is assessed as being probable.

35-23 However, ineffectiveness would be expected to result if any basis differences existed. For example, ineffectiveness would be expected to result from either of the following conditions, among others:

a. A difference in the indexes used to determine cash flows on the variable leg of the interest rate swap (for example, the three-month U.S. Treasury rate) and the hedged variable cash flows of the asset or liability (for example, three-month LIBOR)

b. A mismatch between the interest rate reset dates applicable to the variable leg of the interest rate swap and the hedged variable cash flows of the hedged asset or liability.

35-24 Example 15 (see paragraph 815-30-55-91) illustrates the application of the change-in-variable-cash-flows method.

>>> Hypothetical-Derivative Method

35-25 The hypothetical-derivative method measures hedge ineffectiveness based on a comparison of the following amounts:

a. The change in fair value of the actual interest rate swap designated as the hedging instrument

b. The change in fair value of a hypothetical interest rate swap having terms that identically match the critical terms of the floating-rate asset or liability, including all of the following:

1. The same **notional amount**

2. The same repricing dates

3. The same index (that is, the index on which the hypothetical interest rate swap's variable rate is based matches the index on which the asset or liability's variable rate is based)

4. Mirror image caps and floors

5. A zero fair value at the inception of the hedging relationship.

35-26 Essentially, the hypothetical derivative would need to satisfy all of the applicable conditions in paragraphs 815-20-25-104 and 815-20-25-106 necessary to qualify for use of the shortcut method except the criterion in paragraph 815-20-25-104(f) and the criterion in paragraph 815-20-25-104(e). Thus, the hypothetical interest rate swap would be expected to perfectly offset the hedged cash flows. Because the requirements of paragraph 815-20-25-104(e) were developed with an emphasis on fair value hedging relationships, they do not fit the more general principle that the hypothetical derivative in a cash flow hedging relationship should be expected to perfectly offset the hedged cash flows.

35-27 The change in the fair value of the perfect hypothetical interest rate swap can be regarded as a proxy for the present value of the cumulative change in expected future cash flows on the hedged transaction as described in paragraph 815-30-35-3(b)(2).

35-28 Under the hypothetical-derivative method, the entity shall do both of the following:

a. The actual interest rate swap shall be recorded at fair value on the balance sheet.

b. Accumulated other comprehensive income shall be adjusted to a balance that reflects the lesser of the following amounts:

1. The cumulative change in the fair value of the actual interest rate swap

2. The cumulative change in the fair value of a perfect hypothetical interest rate swap.

35-29 The determination of the fair value of both the perfect hypothetical interest rate swap and the actual interest rate swap shall use discount rates based on the relevant interest rate swap curves. The amount of ineffectiveness, if any, recorded in earnings would be equal to the excess of the cumulative change in the fair value of the actual interest rate swap over the cumulative change in the fair value of the perfect hypothetical interest rate swap.

35-30 Paragraph 815-30-35-3(b) indicates that hedge ineffectiveness in a cash flow hedge occurs only if the cumulative gain or loss on the derivative hedging instrument exceeds the cumulative change in the expected future cash flows on the hedged transaction.

>>> Change-in-Fair-Value Method

35-31 The change-in-fair-value method measures hedge ineffectiveness based on a calculation that compares the following amounts:

a. The present value of the cumulative change in expected variable future interest cash flows that are designated as the hedged transactions

b. The cumulative change in the fair value of the interest rate swap designated as the hedging instrument.

35-32 The discount rates applicable to determining the fair value of the interest rate swap designated as the hedging instrument shall also be applied to the computation of present values of the cumulative changes in the hedged cash flows.

>> Hedging Relationship in Which Hedge Effectiveness Is Based on an Option's Terminal Value

35-33 If an entity concludes under paragraph 815-20-25-129 that the hedging relationship may be considered to be perfectly effective, the entity shall simply record all changes in the hedging option's fair value (including changes in the option's time value) in other comprehensive income. If the four conditions in that paragraph are not met, the entity shall determine whether ineffectiveness must be recognized in earnings by comparing the following amounts:

a. The change in fair value of the actual hedging instrument

b. The change in fair value of a perfectly effective hypothetical hedging instrument. That hypothetical hedging instrument shall have terms that meet the four conditions listed in paragraph 815-20-25-129.

35-34 The change in fair value of the hypothetical hedging instrument can be regarded as a proxy for the present value of the cumulative change in expected future cash flows on the hedged transaction(s) as described in paragraph 815-30-35-3(b)(2).

35-35 If ineffectiveness is required to be recognized, accumulated other comprehensive income would be adjusted to a balance that reflects the lesser of either the cumulative change in the fair value of the actual hedging instrument or the cumulative change in the fair value of the hypothetical hedging instrument. (Consistent with paragraph 815-30-35-3[b][1], that comparison excludes the effect of the hedging instrument's gains or losses previously reclassified from accumulated other comprehensive income into earnings pursuant to paragraphs 815-30-35-38 through 35-41.) The amount of ineffectiveness, if any, recorded in earnings would be equal to the excess of the cumulative change in the fair value of the actual hedging instrument over the cumulative change in the fair value of the hypothetical hedging instrument. Paragraph 815-30-35-3(b) indicates that hedge ineffectiveness in a cash flow hedge occurs only if the cumulative gain or loss on the hedging instrument exceeds the cumulative change in the expected future cash flows on the hedged transactions.

35-36 The portion of the gain or loss that is reported in accumulated other comprehensive income would be reclassified out of other comprehensive income consistent with the provisions in paragraphs 815-30-35-38 through 35-41. For example, the fair value of a single cap at the inception of a hedging relationship of interest rate risk on variable-rate debt with quarterly interest payments over the next two years for which the entity determines that the relationship will not result in any ineffectiveness should be allocated to the respective caplets within the single cap on a fair value basis at the inception of the hedging relationship. The change in each respective allocated fair value amount should be reclassified out of accumulated other comprehensive income into earnings when each of the hedged **forecasted transactions** (the eight interest payments) affects earnings. Because the amount in accumulated other comprehensive income is a net amount composed of both derivative instrument gains and derivative instrument losses, the change in the respective allocated fair value amount for an individual caplet that is reclassified out of accumulated other comprehensive income into earnings may possibly be greater than the net amount in accumulated other comprehensive income.

35-37 This guidance has no effect on the accounting for fair value hedging relationships. In addition, in determining the accounting for seemingly similar cash flow hedging relationships, it would be inappropriate to analogize to this guidance.

> Reclassifications from Accumulated Other Comprehensive Income into Earnings

35-38 Amounts in accumulated other comprehensive income shall be reclassified into earnings in the same period or periods during which the hedged forecasted transaction affects earnings (for example, when a forecasted sale actually occurs).

35-39 If the hedged transaction results in the acquisition of an asset or the incurrence of a liability, the gains and losses in accumulated other comprehensive income shall be reclassified into earnings in the same period or periods during which the asset acquired or liability incurred affects earnings (such as in the periods that depreciation expense, interest expense, or cost of sales is recognized).

35-40 However, if an entity expects at any time that continued reporting of a loss in accumulated other comprehensive income would lead to recognizing a net loss on the combination of the hedging instrument and the hedged transaction (and related asset acquired or liability incurred) in one or more future periods, a loss shall be reclassified immediately into earnings for the amount that is not expected to be recovered.

35-41 For example, a loss shall be reported in earnings for a derivative instrument that is designated as hedging the forecasted purchase of inventory to the extent that the cost basis of the inventory plus the related amount reported in accumulated other comprehensive income exceeds the amount expected to be recovered through sales of that inventory. (Impairment guidance is provided in the following paragraph and paragraph 815-30-35-43.)

>> Interaction with Impairment Principles

35-42 Existing requirements in generally accepted accounting principles (GAAP) for assessing asset impairment or recognizing an increased obligation apply to an asset or liability that gives rise to variable cash flows (such as a variable-rate **financial instrument**) for which the variable cash flows (the forecasted transactions) have been designated as being hedged and accounted for pursuant to paragraphs 815-30-35-3 and 815-30-35-38 through 35-41. Those impairment requirements shall be applied each period after hedge accounting has been applied for the period, pursuant to those paragraphs. The fair value or expected cash flows of a hedging instrument shall not be considered in applying those requirements. The gain or loss on the hedging instrument in accumulated other comprehensive income shall, however, be accounted for as discussed in paragraphs 815-30-35-38 through 35-41.

35-43 If, under existing requirements in GAAP, an impairment loss is recognized on an asset or an additional obligation is recognized on a liability to which a hedged forecasted transaction relates, any offsetting net gain related to that transaction in accumulated other comprehensive income shall be reclassified immediately into earnings. Similarly, if a recovery is recognized on the asset or liability to which the forecasted transaction relates, any offsetting net loss that has been accumulated in other comprehensive income shall be reclassified immediately into earnings.

>> Gains or Losses from Cash Flow Hedges of Debt That Is Extinguished

35-44 If the reclassification to earnings of the amount in accumulated comprehensive income resulting from a cash flow hedge of debt is required under this Subsection when that debt is extinguished, the amount reclassified from accumulated comprehensive income to earnings shall be excluded from extinguishment gain or loss. Paragraph 225-20-45-1 provides guidance on whether the income statement effects of events or transactions may be presented as extraordinary items.

>> Forecasted Interest Payment Capitalized as a Cost of an Asset Under Construction

35-45 If the variable-rate interest on a specific borrowing is associated with an asset under construction and capitalized as a cost of that asset, the amounts in accumulated other comprehensive income related to a cash flow hedge of the variability of that interest shall be reclassified into earnings over the depreciable life of the constructed asset, because that depreciable life coincides with the amortization period for the capitalized interest cost on the debt.

> Hedging Relationship's Timing Involves Uncertainty Within a Range

35-46 For forecasted transactions whose timing involves some uncertainty within a range, paragraph 815-20-25-16(c) states that, as long as it remains probable that the forecasted transaction will occur by the end of the originally specified time period, cash flow hedge accounting for that hedging relationship shall continue.

35-47 [Paragraph Not Used]

END OF DOCUMENT -

815-30-40 Derecognition

General Note: The Derecognition Section provides guidance on determining whether and when an entity should remove an item from the financial statements. For example, the entity would derecognize an asset because it no longer has rights to the asset or it would derecognize a liability because it no longer has any obligation.

General

> Discontinuing Hedge Accounting

40-1 An entity shall discontinue prospectively the accounting specified in paragraphs 815-30-35-3 and 815-30-35-38 through 35-41 for an existing hedge if any one of the following occurs:

a. Any criterion in Section 815-30-25 is no longer met.

b. The **derivative instrument** expires or is sold, terminated, or exercised.

c. The entity removes the designation of the **cash flow hedge**.

40-2 In those circumstances, the net gain or loss shall remain in accumulated other comprehensive income and be reclassified into earnings as specified in paragraphs 815-30-35-38 through 35-41. Example 16 (see paragraph 815-30-55-94) illustrates the application of paragraph 815-30-35-3 if a hedging relationship is terminated.

40-3 Furthermore, the entity may elect to designate prospectively a new hedging relationship with a different hedging instrument or, in the circumstances described in paragraph 815-30-40-1(a) and 815-30-40-1(c), a different hedged **transaction** or a hedged item if the hedging relationship meets the applicable criteria for a cash flow hedge or a **fair value hedge**.

40-4 The net derivative instrument gain or loss related to a discontinued cash flow hedge shall continue to be reported in accumulated other comprehensive income unless it is probable that the **forecasted transaction** will not occur by the end of the originally specified time period (as documented at the inception of the hedging relationship) or within an additional two-month period of time thereafter, except as indicated in the following sentence. In rare cases, the existence of extenuating circumstances that are related to the nature of the forecasted transaction and are outside the control or influence of the reporting entity may cause the forecasted transaction to be probable of occurring on a date that is beyond the additional two-month period of time, in which case the net derivative instrument gain or loss related to the discontinued cash flow hedge shall continue to be reported in accumulated other comprehensive income until it is reclassified into earnings pursuant to paragraphs 815-30-35-38 through 35-41.

40-5 If it is probable that the hedged forecasted transaction will not occur either by the end of the originally specified time period or within the additional two-month period of time and the hedged forecasted transaction also does not qualify for the exception described in the preceding paragraph, that derivative instrument gain or loss reported in accumulated other comprehensive income shall be reclassified into earnings immediately. A pattern of determining that hedged forecasted transactions probably will not occur would call into question both an entity's ability to accurately predict forecasted transactions and the propriety of using hedge accounting in the future for similar forecasted transactions.

40-6 Derivative instrument gains and losses that had initially been reported in other comprehensive income as a result of a cash flow hedge and then reclassified to earnings (because the entity subsequently concluded that it was probable that the forecasted transaction would not occur within the originally specified time period or the additional period of time described in paragraph 815-30-40-4) shall not later be reclassified out of earnings and back into accumulated other comprehensive income due to a reassessment of probabilities.

> Alterations or Terminations of Offsetting Third-Party Derivative Instruments

40-7 Paragraph 815-20-25-62 provides guidance on **internal derivatives** as hedging instruments in cash flow hedges of foreign exchange risk. Paragraph 815-20-25-63 states that, if an issuing affiliate alters or terminates any offsetting third-party derivative instrument (which should be rare), the hedging affiliate prospectively shall cease hedge accounting for the internal derivatives that are offset by that third-party derivative instrument.

END OF DOCUMENT -

815-30-45 Other Presentation Matters

Click here to link to 815-30-S45.

General Note: The Other Presentation Matters Section provides guidance on other presentation matters not addressed in the Recognition, Initial Measurement, Subsequent Measurement, and Derecognition Sections. Other presentation matters may include items such as current or long-term balance sheet classification, cash flow presentation, earnings per share matters, and so forth. The FASB Codification also contains Presentation Topics, which provide guidance for general presentation and display items. See those Topics for general guidance.

General

> Other Comprehensive Income

45-1 An entity shall display as a separate classification within other comprehensive income the net gain or loss on **derivative instrument**s designated and qualifying as cash flow hedging instruments that are reported in comprehensive income pursuant to paragraphs 815-20-25-65 and 815-30-35-3.

45-2 To measure the amount of other comprehensive income to be reclassified into earnings in the coming 12 months if multiple cash flow exposures are designated as the hedged items for a single derivative instrument, the total amount reported in other comprehensive income (as determined in accordance with paragraph 815-30-35-3(b)) for the hedging relationship first shall be allocated to each of the forecasted transactions (hedged items) within the hedging relationship.

45-3 The allocation method used shall be applied consistently and shall consider any cumulative gain or loss on the derivative instrument that has been recognized in earnings as hedge ineffectiveness. After the amount reported in other comprehensive income has been allocated to each of the forecasted transactions within the hedging relationship, the entity shall sum those estimated amounts to be reclassified into earnings in the coming 12 months.

END OF DOCUMENT -

815-30-50 Disclosure

General Note: The Disclosure Section provides guidance regarding the disclosure in the notes to financial statements. In some cases, disclosure may relate to disclosure on the face of the financial statements.

General

50-1 See Section 815-10-50 for overall guidance on disclosures. An entity's disclosures for every annual and interim reporting period for which a statement of financial position and a statement of financial performance is presented shall include all of the following for **derivative instruments** that have been designated and have qualified as cash flow hedging instruments and for the related hedged **transactions**:

a. [Subparagraph Not Used]

b. A description of the transactions or other events that will result in the reclassification into earnings of gains and losses that are reported in accumulated other comprehensive income

c. The estimated net amount of the existing gains or losses that are reported in accumulated other comprehensive income at the reporting date that is expected to be reclassified into earnings within the next 12 months

d. The maximum length of time over which the entity is hedging its exposure to the variability in future cash flows for **forecasted transactions** excluding those forecasted transactions related to the payment of variable interest on existing **financial instruments**

e. The amount of gains and losses reclassified into earnings as a result of the discontinuance of **cash flow hedges** because it is probable that the original forecasted transactions will not occur by the end of the originally specified time period or within the additional period of time discussed in paragraphs 815-30-40-4 through 40-5.

50-2 As part of the disclosures of accumulated other comprehensive income, pursuant to paragraph 220-10-45-14, an entity shall separately disclose all of the following:

a. The beginning and ending accumulated derivative instrument gain or loss

b. The related net change associated with current period hedging transactions

c. The net amount of any reclassification into earnings.

Pending Content:

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As part of the disclosures of accumulated other comprehensive income, pursuant to paragraphs 220-10-45-14 through 45-14A, an entity shall separately disclose all of the following:

a. The beginning and ending accumulated derivative instrument gain or loss

b. The related net change associated with current period hedging transactions

c. The net amount of any reclassification into earnings.

50-3 For guidance on qualitative disclosures, see paragraph 815-10-50-5.

> Disclosed Amount to Be Reclassified into Earnings

50-4 The amount required to be disclosed under paragraph 815-30-50-1(c) (the estimated net amount of the existing gains or losses that are reported in accumulated other comprehensive income at the reporting date that is expected to be reclassified into earnings within the next 12 months) could be greater than or less than the net amount reported in accumulated other comprehensive income. See paragraphs 815-30-45-2 through 45-3 for related guidance.

50-5 [Paragraph Not Used]

50-6 [Paragraph Not Used]

END OF DOCUMENT -

815-30-55 Implementation Guidance and Illustrations

General Note: The Implementation Guidance and Illustrations Section contains implementation guidance and illustrations that are an integral part of the Subtopic. The implementation guidance and illustrations do not address all possible variations. Users must consider carefully the actual facts and circumstances in relation to the requirements of the Subtopic.

General

> Implementation Guidance

>> Relationship of Swap to Hedged Forecasted Transactions

55-1 Paragraph 815-30-45-2 provides guidance on measuring the amount of other comprehensive income to be reclassified into earnings in the coming 12 months if multiple cash flow exposures are designated as the hedged items for a single derivative instrument. If interest rate or commodity swaps are used for cash flow hedges, in effect a single derivative is being used to hedge multiple hedged forecasted transactions because a swap involves multiple cash flows (like a series of forward contracts). For instance, a five-year interest rate swap may be designated as the hedging instrument to hedge the variability in cash flows for each of the resets in a five-year variable-rate borrowing. The fair value of a swap may be the net of both positive discounted cash flows (that is, the right to receive future payments) and negative discounted cash flows (that is, the obligation to make future payments). This could happen, for example, if nearby forward rates were below the fixed rate on the swap and far-term forward rates were above the fixed rate on the swap, in which case an entity could have an expectation of having to make cash outflows on the swap for nearby exposures and to receive cash inflows on the swap for the far-term exposures.

> Illustrations

>> Example 1: Effectiveness of Cash Flow Hedge of a Forecasted Purchase of Inventory with a Forward Contract

55-1A This Example illustrates the application of the guidance in Subtopic 815-20 and this Subtopic to assessing effectiveness and measuring ineffectiveness for a **cash flow hedge** of a forecasted purchase of inventory with a forward contract. Assume that the hedge satisfied all of the criteria for hedge accounting at inception.

55-2 Entity G forecasts the purchase of 500,000 pounds of Brazilian coffee for U.S. dollars in 6 months. It wants to hedge the cash flow exposure associated with changes in the U.S. dollar price of Brazilian coffee. Rather than acquire a **derivative instrument** based on Brazilian coffee, Entity G enters into a 6-month forward contract to purchase 500,000 pounds of Colombian coffee for U.S. dollars and designates the forward contract as a cash flow hedge of its forecasted purchase of Brazilian coffee. All other terms of the forward contract and the forecasted purchase, such as delivery locations, are the same.

55-3 Entity G bases its assessment of hedge effectiveness and measure of ineffectiveness on changes in forward prices, with the resulting gain or loss discounted to reflect the time value of money. Because of the difference in the bases of the **forecasted transaction** (Brazilian coffee) and forward contract (Colombian coffee), Entity G may not assume that the hedge will automatically be highly effective in achieving offsetting cash flows. Both at inception and on an ongoing basis, Entity G could assess the effectiveness of the hedge by comparing changes in the expected cash flows from the

Colombian coffee forward contract with the expected net change in cash outflows for purchasing the Brazilian coffee for different market prices. (A simpler method that should produce the same results would consider the expected future correlation of the prices of Brazilian and Colombian coffee, based on the correlation of those prices over past six-month periods.)

55-4 In assessing hedge effectiveness on an ongoing basis, Entity G also must consider the extent of offset between the change in expected cash flows on its Colombian coffee forward contract and the expected net change in expected cash flows for the forecasted purchase of Brazilian coffee. Both changes would be measured on a cumulative basis for actual changes in the forward price of the respective coffees during the hedge period.

55-5 See Topic 820 (including paragraph 820-10-55-13) for a discussion of expected cash flows.

55-6 Because the only difference between the forward contract and forecasted purchase relates to the type of coffee (Colombian versus Brazilian), Entity G could consider the changes in the cash flows on a forward contract for Brazilian coffee to be a measure of perfectly offsetting changes in cash flows for its forecasted purchase of Brazilian coffee. For example, for given changes in the U.S. dollar prices of six-month and three-month Brazilian and Colombian contracts, Entity G could compute the effect of a change in the price of coffee on the expected cash flows of its forward contract on Colombian coffee and of a forward contract for Brazilian coffee as follows.

	Estimate of Change in Cash Flows			
	Hedging Instrument: Forward Contract on Colombian Coffee		*Estimate of Forecasted Transaction:* Forward Contract on Brazilian Coffee	
Forward price of Colombian and Brazilian coffee:				
At hedge inception—6-month price	$	2.54	$	2.43
3 months later—3-month price		2.63		2.53
Cumulative change in price—gain	$	0.09	$	0.10
× 500,000 pounds of coffee		× 500,000		× 500,000
Estimate of change in cash flows	$	45,000	$	50,000

55-7 See Topic 820 (including paragraph 820-10-55-13) for a discussion of expected cash flows.

55-8 Using the amounts in paragraph 815-30-55-6, Entity G could evaluate effectiveness 3 months into the hedge by comparing the $45,000 change on its Colombian coffee contract with what would have been a perfectly offsetting change in cash flow for its forecasted purchase—the $50,000 change on an otherwise identical forward contract for Brazilian coffee. The hedge would be ineffective to the extent that there was a difference between the changes in the present value of the expected cash flows on the following forward contracts:

a. Entity G's Colombian coffee forward contract

b. A comparable forward contract for Brazilian coffee (the equivalent of the present value of $5,000 in the numerical example).

>> Example 2: Effectiveness of Cash Flow Hedge with a Basis Swap

55-9 This Example illustrates the application of the guidance in Subtopic 815-20 and this Subtopic to assessing effectiveness and measuring ineffectiveness for a cash flow hedge with a basis swap. Assume that the hedge satisfied all of the criteria for hedge accounting at inception.

55-10 Entity H has a 5-year, $100,000 variable-rate asset and a 7-year, $150,000 variable-rate liability. The interest on the asset is payable by the counterparty at the end of each month based on the prime rate as of the first of the month. The interest on the liability is payable by Entity H at the end of each month based on **London Interbank Offered Rate (LIBOR)** as of the tenth day of the month (the liability's anniversary date). Entity H enters into a 5-year interest rate swap to pay interest at the prime rate and receive interest at LIBOR at the end of each month based on a **notional amount** of $100,000. Both rates are determined as of the first of the month. Entity H designates the interest rate swap as a hedge of 5 years of interest receipts on the $100,000 variable-rate asset and the first 5 years of interest payments on $100,000 of the variable-rate liability. The hedged risk is the risk of overall changes in the interest payments received on the asset and paid on the liability, and not interest rate risk. Assume the likelihood of credit default and the likelihood of principal prepayments each is remote.

55-11 Entity H may not automatically assume that the hedge always will be highly effective at achieving offsetting changes in cash flows because the reset date on the receive leg of the interest rate swap differs from the reset date on the corresponding variable-rate liability. Both at hedge inception and on an ongoing basis, Entity H's assessment of expected effectiveness could be based on the extent to which changes in LIBOR have occurred during comparable 10-day periods in the past. Entity H's ongoing assessment of expected effectiveness and measurement of actual ineffectiveness would be on a cumulative basis and would incorporate the actual interest rate changes to date. The hedge would be ineffective to the extent that the cumulative change in cash flows on the prime leg of the interest rate swap did not offset the cumulative change in expected cash flows on the asset, and the cumulative change in cash flows on the LIBOR leg of the interest rate swap did not offset the change in expected cash flows on the hedged portion of the liability. The terms of the interest rate swap, the asset, and the portion of the liability that is hedged are the same, with the exception of the reset dates on the liability and the receive leg of the interest rate swap. Thus, the hedge will only be ineffective to the extent that LIBOR has changed between the first of the month (the reset date for the interest rate swap) and the tenth of the month (the reset date for the liability).

55-12 See Topic 820 (including paragraph 820-10-55-13) for a discussion of expected cash flows.

>> Example 3: Effectiveness of Cash Flow Hedge of Forecasted Sale with a Forward Contract

55-13 This Example illustrates the application of the guidance in Subtopic 815-20 and this Subtopic to assessing effectiveness and measuring ineffectiveness for a cash flow hedge of a forecasted sale with a forward contract. Assume that the hedge satisfied all of the criteria for hedge accounting at inception.

55-14 Entity I, a U.S. dollar (USD) functional currency entity, forecasts the sale of 10,000 units in French francs (FRF) of its principal product in 6 months to French customers for FRF 500,000. Entity I wants to hedge the cash flow exposure of the French franc sale related to changes in the USD-FRF exchange rate. It enters into a 6-month forward contract to exchange the FRF 500,000 it expects to receive in the forecasted sale for the USD equivalent specified in the forward contract and designates the forward contract as a cash flow hedge of the forecasted sale.

55-15 Entity I chooses to assess hedge effectiveness at inception and during the term of the hedge based on the following amounts:

a. Changes in the **fair value** of the forward contract attributable to changes in the USD-FRF spot rate

b. Changes in the present value of the current USD equivalent of the forecasted receipt of FRF 500,000.

55-16 Because the critical terms of the forward contract and the forecasted transaction are the same, presumably there would be no ineffectiveness unless there is a reduction in the expected sales proceeds from the forecasted sales. Because Entity I is assessing effectiveness based on spot rates, it would exclude the change in the fair value of the forward contract attributable to changes in the difference between the forward rate and spot rate from the measure of hedge ineffectiveness and report it directly in earnings.

>> Example 4: Attempted Hedge of a Forecasted Sale with a Written Call Option

55-17 This Example illustrates the application of the guidance in Subtopic 815-20 and this Subtopic to an attempted hedge of a forecasted sale with a written call option.

55-18 Entity J forecasts the sale in 9 months of 100 units of product with a current market price of $95 per unit. Entity J's objective is to sell the upside potential associated with the forecasted sale by writing a call option for a premium. Entity J plans to use the premium from the call option as an offset to decreases in future cash inflows from the forecasted sale that will occur if the market price of the product decreases below $95. Accordingly, Entity J sells an at-the-money call option on 100 units of product with a strike price of $95 for a premium. The premium represents only the time value of the option. The option is exercisable at any time within nine months.

55-19 Entity J’s objective of using the premium from the written call option as an offset to any decrease in future cash inflows does not meet the notion of effectiveness in this Subtopic. Future changes in the market price of the entity's product will not affect the premium that Entity J received, which is all related to time value in this example and thus is the maximum amount by which Entity J can benefit. That is, Entity J cannot expect the cash flows on the option to increase so that, at different price levels, a decrease in cash flows from the forecasted sale would be offset by an increase in cash flows on the option.

>> Example 5: Cash Flow Hedge of the Forecasted Sale of a Commodity Inventory

55-20 This Example illustrates the application of the guidance in Subtopic 815-20 and this Subtopic to the accounting for a cash flow hedge of a forecasted sale of a commodity. The terms of the hedging derivative have been negotiated to match the terms of the forecasted transaction. Thus, there is no ineffectiveness. Assume that there is no time value in the derivative instrument. Entity ABC has chosen to hedge the variability of the cash flows from the forecasted sale of the commodity instead of the changes in its fair value. For simplicity, commissions and most other transaction costs, initial margin, and income taxes are ignored unless otherwise stated. Assume that there are no changes in creditworthiness that would alter the effectiveness of the hedging relationship.

55-21 Entity ABC decides to hedge the risk of changes in its cash flows relating to a forecasted sale of 100,000 bushels of Commodity A by entering into a derivative instrument, Derivative Z. Entity ABC expects to sell the 100,000 bushels of Commodity A on the last day of Period 1. On the first day of Period 1, Entity ABC enters into Derivative Z and designates it as a cash flow hedge of the forecasted sale. Entity ABC neither pays nor receives a premium on Derivative Z (that is, its fair value is zero). The hedging relationship qualifies for cash flow hedge accounting. Entity ABC expects that there will be no ineffectiveness from the hedge because all of the following conditions exist:

a. The notional amount of Derivative Z is 100,000 bushels and the forecasted sale is for 100,000 bushels.

b. The **underlying** of Derivative Z is the price of the same variety and grade of Commodity A that Entity ABC expects to sell (assuming delivery to Entity ABC's selling point).

c. The settlement date of Derivative Z is the last day of Period 1 and the forecasted sale is expected to occur on the last day of Period 1.

55-22 At inception of the hedge, the expected sales price of 100,000 bushels of Commodity A is $1,100,000. On the last day of Period 1, the fair value of Derivative Z has increased by $25,000, and the expected sales price of 100,000 bushels of Commodity A has decreased by $25,000. Both the sale of 100,000 bushels of Commodity A and the settlement of Derivative Z occur on the last day of Period 1. The following table illustrates the accounting, including the net impact on earnings and other comprehensive income, for the situation described.

	Debit (Credit)			
	Cash	Derivative	Other Comprehensive Income	Earnings
Recognize change in fair value of derivative		$ 25,000	$ (25,000)	
Recognize revenue from sale	$ 1,075,000			$(1,075,000)
Recognize settlement of derivative	25,000	(25,000)		
Reclassify change in fair value of derivative to earnings			25,000	(25,000)
Total	$ 1,100,000	$ -	$ -	$(1,100,000)

55-23 At the inception of the hedge, Entity ABC anticipated that it would receive $1,100,000 from the sale of 100,000 bushels of Commodity A. This Example illustrates that by hedging the risk of changes in its cash flows relating to the forecasted sale of 100,000 bushels of Commodity A, Entity ABC still received a total of $1,100,000 in cash flows even though the sales price of Commodity A declined during the period.

>> Example 6: Cash Flow Hedge of Variable-Rate Interest-Bearing Asset

55-24 This Example demonstrates the mechanics of accounting for an interest rate swap used as a cash flow hedge of variable interest receipts in accordance with the guidance in Subtopic 815-20 and this Subtopic. It is not intended to demonstrate how to compute the fair value of an interest rate swap. As in Example 8 (see paragraph 815-25-55-40), the **zero-coupon method** is used to determine the fair values. (Unlike in that Example, the yield curve in this Example is assumed to be upward sloping, that is, interest rates are higher for payments due further into the future.) In this Example, the term, notional amount, and repricing date of the interest rate swap match the term, repricing date, and principal amount of the interest-bearing asset on which the hedged interest receipts are due. The swap terms are at the market (as described in paragraphs 815-20-25-104, 815-20-25-106, and 815-20-25-109 through 25-110), so it has a zero value at inception. Thus, the reporting entity is permitted to assume that there will be no ineffectiveness.

55-25 As discussed beginning in paragraph 815-20-25-102, a shortcut method can be used to produce the same reporting results as the method illustrated in this Example. This shortcut is only appropriate if the assumption of no ineffectiveness applies for an interest rate swap used as a cash flow hedge of interest receipts on a variable-rate asset (or interest payments on a variable-rate liability). The steps in the shortcut method are as follows:

a. Determine the difference between the variable rate to be paid on the interest rate swap and the variable rate to be received on the bonds.

b. Combine that difference with the fixed rate to be received on the interest rate swap.

c. Compute and recognize interest income using that combined rate and the variable-rate asset’s principal amount. (Amortization of any purchase premium or discount on the asset must also be considered, although that complication is not incorporated in this Example.)

d. Determine the fair value of the interest rate swap.

e. Adjust the carrying amount of the interest rate swap to its fair value and adjust other comprehensive income by an offsetting amount.

A slightly different shortcut method for interest rate swaps used as **fair value hedges** is illustrated in Example 8 (see paragraph 815-25-55-40).

55-26 For simplicity, commissions and most other transaction costs, initial margin, and income taxes are ignored unless otherwise states. Assume that there are no changes in creditworthiness that would alter the effectiveness of the hedging relationship.

55-27 On July 1, 20X1, Entity XYZ invests $10,000,000 in variable-rate corporate bonds that pay interest quarterly at a rate equal to the 3-month USD LIBOR rate plus 2.25 percent. The $10,000,000 principal will be repaid on June 30, 20X3.

55-28 Also on July 1, 20X1, Entity XYZ enters into a two-year receive-fixed, pay-variable interest rate swap and designates it as a cash flow hedge of the variable-rate interest receipts on the corporate bonds. The risk designated as being hedged is the risk of changes in cash flows attributable to changes in the designated **benchmark interest rate**. Entity XYZ designates changes in LIBOR swap rates as the benchmark interest rate in hedging **interest rate risk**. The terms of the interest rate swap and the corporate bonds are shown in the following table.

	Interest Rate Swap	Corporate Bonds
Trade date and borrowing date [(a)]	July 1, 20X1	July 1, 20X1
Termination date	June 30, 20X3	June 30, 20X3
Notional amount	$10,000,000	$10,000,000
Fixed interest rate	6.65%	Not applicable
Variable interest rate [(b)]	3-month USD LIBOR	3-month USD LIBOR + 2.25%
Settlement dates and interest payment dates [(a)]	End of each calendar quarter	End of each calendar quarter
Reset dates	End of each calendar quarter through March 31, 20X3	End of each calendar quarter through March 31, 20X3

(a) These terms need not match for the assumption of no ineffectiveness to be appropriate. (See paragraphs 815-20-25-102 through 25-110.)

(b) Only the interest rate basis (for example, LIBOR) must match. The spread over LIBOR does not invalidate the assumption of no ineffectiveness.

55-29 Because the conditions described in paragraphs 815-20-25-104 and 815-20-25-106 are met, Entity XYZ is permitted to assume that there is no ineffectiveness in the hedging relationship and to recognize in other comprehensive income the entire change in the fair value of the interest rate swap.

55-30 The three-month USD LIBOR rates in effect at the inception of the hedging relationship and at each of the quarterly reset dates are assumed to be as follows.

Reset Date	3-Month LIBOR Rate
7/1/X1	5.56%
9/30/X1	5.63%
12/31/X1	5.56%
3/31/X2	5.47%
6/30/X2	6.75%
9/30/X2	6.86%
12/31/X2	6.97%
3/31/X3	6.57%

55-31 Entity XYZ must reclassify to earnings the amount in accumulated other comprehensive income as each interest receipt affects earnings. In determining the amounts to reclassify each quarter, it is important to recognize that the interest rate swap does not hedge the bonds. Instead, it hedges the eight variable interest payments to be received. That is, each of the eight quarterly settlements on the swap is associated with an interest payment to be received on the bonds. Under the zero-coupon method discussed in paragraph 815-30-55-24, the present value of each quarterly settlement is computed separately. Because each payment occurs at a different point on the yield curve, a different interest rate must be used to determine its present value. As each individual interest receipt on the bonds is recognized in earnings, the fair value of the related quarterly settlement on the swap is reclassified to earnings. The fair values and changes in fair values of the interest rate swap and the effects on earnings and other comprehensive income for each quarter are as follows.

	Swap Debit (Credit)	Other Comprehensive Income Debit (Credit)	Earnings Debit (Credit)	Cash Debit (Credit)
July 1, 20X1	$ -			
Interest accrued	-			
Payment (receipt)	(27,250)			$ 27,250
Effect of change in rates	52,100	$ (52,100)		
Reclassification to earnings		27,250	$ (27,250)	
September 30, 20X1	24,850	(24,850)	$ (27,250)	$ 27,250
Interest accrued	330	(330)		
Payment (receipt)	(25,500)			$ 25,500
Effect of change in rates	74,120	(74,120)		
Reclassification to earnings		25,500	$ (25,500)	
December 31, 20X1	73,800	(73,800)	$ (25,500)	$ 25,500
Interest accrued	1,210	(1,210)		
Payment receipt	(27,250)			$ 27,250
Effect of change in rates	38,150	(38,150)		
Reclassification to earnings		27,250	$ (27,250)	
March 31, 20X2	85,910	(85,910)	$ (27,250)	$ 27,250
Interest accrued	1,380	(1,380)		
Payment (receipt)	(29,500)			$ 29,500
Effect of change in rates	(100,610)	100,610		
Reclassification to earnings		29,500	$ (29,500)	
June 30, 20X2	(42,820)	42,820	$ (29,500)	$ 29,500
Interest accrued	(870)	870		
Payment (receipt)	2,500			$ (2,500)
Effect of change in rates	8,030	(8,030)		
Reclassification to earnings		(2,500)	$ 2,500	
September 30, 20X2	(33,160)	33,160	$ 2,500	$ (2,500)
Interest accrued	(670)	670		
Payment (receipt)	5,250			$ (5,250)
Effect of change in rates	6,730	(6,730)		
Reclassification to earnings		(5,250)	$ 5,250	
December 31, 20X2	(21,850)	21,850	$ 5,250	$ (5,250)
Interest accrued	(440)	440		
Payment (receipt)	8,000			$ (8,000)
Effect of change in rates	16,250	(16,250)		
Reclassification to earnings		(8,000)	$ 8,000	
March 31, 20X3	1,960	(1,960)	$ 8,000	$ (8,000)
Interest accrued	40	(40)		
Payment (receipt)	(2,000)			$ 2,000
Reclassification to earnings		2,000	$ (2,000)	
June 30, 20X3	$ -	$ -	$ (2,000)	$ 2,000

55-32 The preceding table shows that, in each quarter, the net cash receipt or payment on the swap equals the income or expense to be recorded. The net effect on earnings of the interest on the bonds and the reclassification of gains or losses on the interest rate swap is shown in the following table.

	Earnings		
For the Quarter Ending	Interest on Bonds	Gains (Losses) Reclassified from Other Comprehensive Income	Net Effect
9/30/X1	$ 195,250	$ 27,250	$ 222,500
12/31/X1	197,000	25,500	222,500
3/31/X2	195,250	27,250	222,500
6/30/X2	193,000	29,500	222,500
9/30/X2	225,000	(2,500)	222,500
12/31/X2	227,750	(5,250)	222,500
3/31/X3	230,500	(8,000)	222,500
6/30/X3	220,500	2,000	222,500
Totals	$ 1,684,250	$ 95,750	$ 1,780,000

55-33 In this Example, the shortcut method described in paragraph 815-30-55-25 works as follows. The difference between the variable rate on the interest rate swap and the variable rate on the asset is a net receipt of 2.25 percent. That rate combined with the 6.65 percent fixed rate received on the interest rate swap is 8.9 percent. The computed interest income is $890,000 per year or $222,500 per quarter, which is the same as the amount in the table in the preceding paragraph.

>> Example 7: Derivative Instrument's Gain or Loss in a Cash Flow Hedge—Effectiveness Based on the Entire Change in Fair Value

55-34 This Example has been designed to illustrate application of the guidance for cash flow hedges described in paragraph 815-30-35-3. At the beginning of Period 1, Entity XYZ enters into a qualifying cash flow hedge of a **transaction** forecasted to occur early in Period 6. Entity XYZ's documented policy is to assess hedge effectiveness by comparing the changes in present value of the expected future cash flows on the forecasted transaction to all of the hedging derivative's gain or loss (that is, no time value component will be excluded as discussed in paragraphs 815-20-25-81 through 25-83). In this hedging relationship, Entity XYZ has designated changes in cash flows related to the forecasted transaction attributable to any cause as the hedged risk. For simplicity, commissions and most other transaction costs, initial margin, and income taxes are ignored unless otherwise stated. Assume that there are no changes in creditworthiness that would alter the effectiveness of the hedging relationship.

55-35 The following includes the assumptions for this Example and details the steps necessary to account for a cash flow hedge that is not perfectly effective.

	Fair Value of Derivative Increase (Decrease)		Present Value of Expected Future Cash Flows on Hedged Transaction Increase (Decrease)			
	(A)	(B)	(C)	(D)	(E)	(F)
Period	Change during the Period	Cumulative Change	Change during the Period	Cumulative Change	Lesser of the Two Cumulative Changes	Adjustment to Other Comprehensive Income
1	$ 100	$ 100	$ (96)	$ (96)	$ 96	$ 96
2	94	194	(101)	(197)	194	98
3	(162)	32	160	(37)	32	(162)
4	(101)	(69)	103	66	(66)	(98)
5	30	(39)	(32)	34	(34)	32

Step 1: Determine the change in fair value of the derivative instrument and the change in present value of the cash flows on the hedged transaction (columns A and C).

Step 2: Determine the cumulative changes in fair value of the derivative instrument and the cumulative changes in present value of the cash flows on the hedged transaction (columns B and D).

Step 3: Determine the lesser of the absolute values of the two amounts in Step 2 (column E).

Step 4: Determine the change during the period in the lesser of the absolute values (column F).

Step 5: Adjust the derivative instrument to reflect its change in fair value and adjust other comprehensive income by the amount determined in Step 4. Balance the entry, if necessary, with an adjustment to earnings.

55-36 The following are the entries required to account for the cash flow hedge.

		Debit (Credit)		
Period	Description	Derivative	Earnings	Other Comprehensive Income
1	Adjust derivative to fair value and other comprehensive income by the calculated amount	$ 100	$ (4)	$ (96)
2	Adjust derivative to fair value and other comprehensive income by the calculated amount	94	4	(98)
3	Adjust derivative to fair value and other comprehensive income by the calculated amount	(162)	-	162
4	Adjust derivative to fair value and other comprehensive income by the calculated amount	(101)	3	98
5	Adjust derivative to fair value and other comprehensive income by the calculated amount	30	2	(32)

55-37 The following table reconciles the beginning and ending balances in accumulated other comprehensive income.

Accumulated Other Comprehensive Income—Debit (Credit)

Period	Beginning Balance	Change in Fair Value	Reclassification	Ending Balance
1	$ -	$ (96)	$ -	$ (96)
2	(96)	(94)	(4)	(194)
3	(194)	162	-	(32)
4	(32)	98	-	66
5	66	(30)	(2)	34

55-38 The reclassification column relates to reclassifications between earnings and other comprehensive income. In Period 2, the $(4) in that column relates to the prior period's derivative instrument gain that was previously recognized in earnings. That amount is reclassified to other comprehensive income in Period 2 because the cumulative gain on the derivative instrument is less than the amount necessary to offset the cumulative change in the present value of expected future cash flows on the hedged transaction. In Period 5, the $(2) in the reclassification column relates to the derivative instrument loss that was recognized in other comprehensive income in a prior period. At the end of Period 4, the derivative instrument's cumulative loss of $69 was greater in absolute terms than the $66 increase in the present value of expected future cash flows on the hedged transaction. That $3 excess had been recognized in earnings during Period 4. In Period 5, the value of the derivative instrument increased (and reduced the cumulative loss) by $30. The present value of the expected cash flows on the hedged transaction decreased (and reduced the cumulative increase) by $32. The gain on the derivative instrument in Period 5 was $2 smaller, in absolute terms, than the decrease in the present value of the expected cash flows on the hedged transaction. Consequently, the entire gain on the derivative instrument is recognized in other comprehensive income. In addition, in absolute terms, the $3 cumulative excess of the loss on the derivative instrument over the increase in the present value of the expected cash flows on the hedged transaction (which had previously been recognized in earnings) increased to $5. As a result, $2 is reclassified from other comprehensive income to earnings so that the $5 cumulative excess has been recognized in earnings.

55-39 See Topic 820 (including paragraph 820-10-55-13) for a discussion of expected cash flows.

>> Example 8: Designation And Discontinuance of a Cash Flow Hedge of the Forecasted Purchase of Inventory

55-40 This Example illustrates the effect on earnings and other comprehensive income of discontinuing a cash flow hedge by dedesignating the hedging derivative under paragraph 815-30-40-1(c) before the variability of the cash flows from the hedged forecasted transaction has been eliminated. It also discusses the effect that the location of a physical asset has on the effectiveness of a hedging relationship. For simplicity, commissions and most other transaction costs, initial margin, and income taxes are ignored unless otherwise stated. Assume that there are no changes in creditworthiness that would alter the effectiveness of the hedging relationship.

55-41 On February 3, 20X1, Entity JKL forecasts the purchase of 100,000 bushels of corn on May 20, 20X1. It expects to sell finished products produced from the corn on May 31, 20X1. On February 3, 20X1, Entity JKL enters into 20 futures contracts, each for the purchase of 5,000 bushels of corn on May 20, 20X1 (100,000 in total), and immediately designates those contracts as a hedge of the forecasted purchase of corn.

55-42 Entity JKL chooses to assess effectiveness by comparing the entire change in fair value of the futures contracts to changes in the cash flows on the forecasted transaction. Entity JKL estimates its cash flows on the forecasted transaction based on the futures price of corn adjusted for the difference between the cost of corn delivered to Chicago and the cost of corn delivered to Minneapolis. Entity JKL does not choose to use a tailing strategy (as described in paragraph 815-20-25-121). Entity JKL expects changes in fair value of the futures contracts to be highly effective at offsetting changes in the expected cash outflows for the forecasted purchase of corn because both of the following conditions exist:

a. The futures contracts are for the same variety and grade of corn that Entity JKL plans to purchase.

b. On May 20, 20X1, the futures price for delivery on May 20, 20X1 will be equal to the spot price (because futures prices and spot prices converge as the delivery date approaches).

However, the hedge may not be perfectly effective.

55-43 Entity JKL will purchase corn for delivery to its production facilities in Minneapolis, but the price of the futures contracts is based on delivery of corn to Chicago. If the difference between the price of corn delivered to Chicago and the price of corn delivered to Minneapolis changes during the period of the hedge, the effect of that change will be included currently in earnings according to the provisions of paragraph 815-30-35-3.

55-44 On February 3, 20X1, the futures price of corn for delivery to Chicago on May 20, 20X1, is $2.6875 per bushel resulting in a total price of $268,750 for 100,000 bushels.

55-45 On May 1, 20X1, Entity JKL dedesignates the related futures contracts and closes them out by entering into offsetting contracts on the same exchange. As of that date, Entity JKL had recognized in accumulated other comprehensive income gains on the futures contracts of $26,250. Entity JKL still plans to purchase 100,000 bushels of corn on May 20, 20X1. Consequently, the gains that occurred before dedesignation will remain in other comprehensive income until the finished product is sold. If Entity JKL had not closed out the futures contracts when it dedesignated them, any further gains or losses would have been recognized in earnings.

55-46 On May 20, 20X1, Entity JKL purchases 100,000 bushels of corn, and on May 31, 20X1, Entity JKL sells the finished product.

55-47 The futures prices of corn that are in effect on key dates are assumed to be as follows.

Date	Futures Price per Bushel for Delivery to Chicago on May 20, 20X1	Futures Price Adjusted for Delivery to Minneapolis on May 20, 20X1
Inception of hedging relationship—February 3, 20X1	$ 2.6875	$ 2.7375
End of quarter—March 31, 20X1	3.1000	3.1500
Discontinue hedge—May 1, 20X1	2.9500	3.0000
Purchase of corn—May 20, 20X1	2.8500	2.9000

55-48 The changes in fair value of the futures contracts between inception (February 3, 20X1) and discontinuation (May 1, 20X1) of the hedge are as follows.

	February 3–March 31, 20X1	April 1– May 1, 20X1
Futures price at beginning of period	$ 2.6875	$ 3.1000
Futures price at end of period	3.1000	2.9500
Change in price per bushel	0.4125	(0.1500)
Bushels under contract (20 contracts @ 5,000 bushels each)	× 100,000	× 100,000
Change in fair value—gain (loss)	$ 41,250	$ (15,000)

55-49 The following table displays the entries to recognize the effects of all of the following:

a. Entering into futures contracts as a hedge of the forecasted purchase of corn

b. Dedesignating and closing out the futures contracts

c. Completing the forecasted purchase of corn

d. Selling the finished products produced from the corn.

Because the difference in prices between corn delivered to Chicago and corn delivered to Minneapolis ($.05 per bushel, as illustrated in paragraph 815-30-55-47) did not change during the period of the hedge, no ineffectiveness is recognized in earnings. If that difference had changed, the resulting ineffectiveness would have been recognized immediately in earnings.

	Debit (Credit)			
	Cash	Inventory	Other Comprehensive Income	Earnings
March 31, 20X1 (end of quarter)				
Recognize change in fair value of futures contracts	$ 41,250		$ (41,250)	
May 1, 20X1 (discontinue hedge)				
Recognize change in fair value of futures contracts	(15,000)		15,000	
May 20, 20X1				
Recognize purchase of corn	(290,000)	$290,000		
May 31, 20X1				
Recognize cost of sale of product		(290,000)		$290,000
Reclassify changes in fair value of futures contracts to earnings			26,250	(26,250)
Total	$(263,750)	$ -	$ -	$263,750

55-50 To simplify this Example and focus on the effects of the hedging relationship, the margin account with the clearinghouse and certain amounts that would be involved in a sale of Entity JKL's inventory (for example, additional costs of production, selling costs, and sales revenue) have been ignored.

55-51 The effect of the hedging strategy is that the cost of the corn recognized in earnings when the finished product was sold was $263,750. If the hedging relationship had not been discontinued early, the cost recognized in earnings would have been $273,750, which was the futures price of the corn, adjusted for delivery to Minneapolis, at the inception of the hedge. Without the strategy, Entity JKL would have recognized $290,000, which was the price of corn delivered to Minneapolis at the time it was purchased.

>> Example 9: Changes in a Cash Flow Hedge of Forecasted Interest Payments with an

Interest Rate Swap

55-52 The following Cases describe the effects on earnings and other comprehensive income of certain changes in a cash flow hedging relationship:

a. The variability of the hedged interest payments is eliminated before the hedging derivative expires (Case A).

b. The interest rate index that is the basis for the hedged interest payments is changed to a different index before the hedging derivative expires (Case B).

55-53 Cases A and B share the following assumptions. For simplicity, commissions and most other transaction costs, initial margin, and income taxes are ignored unless otherwise stated. Assume that there are no changes in creditworthiness that would alter the effectiveness of the hedging relationship.

55-54 Entity MNO enters into an interest rate swap (Swap 1) and designates it as a hedge of the variable quarterly interest payments on Entity MNO's 5-year $5 million borrowing program, initially expected to be accomplished by a series of $5 million notes with 90-day terms. Entity MNO plans to continue issuing new 90-day notes over the next 5 years as each outstanding note matures. The interest on each note will be determined based on LIBOR at the time each note is issued. Swap 1 requires a settlement every 90 days, and the variable interest rate is reset immediately following each payment. Entity MNO pays a fixed rate of interest (6.5 percent) and receives interest at LIBOR. Entity MNO neither pays nor receives a premium at the inception of Swap 1. The notional amount of the contract is $5 million, and it expires in 5 years.

55-55 Because Swap 1 and the hedged forecasted interest payments are based on the same notional amount, have the same reset dates, and are based on the same benchmark interest rate designated under paragraph 815-20-25-15(j), Entity MNO may conclude that there will be no ineffectiveness in the hedging relationship (absent a default by the interest rate swap counterparty).

55-56 This paragraph explains why the guidance in Example 4, Case B (see paragraph 815-20-55-97) does not conflict with the guidance in this Example. In the cash flow hedge in this Example, had the hedged forecasted transaction been narrowly limited to the interest payments on specific future debt issuances rather than on the five-year borrowing program, the failure to engage in future debt issuances would cause the related derivative instrument net gain or loss in other comprehensive income to be immediately reclassified into earnings pursuant to paragraphs 815-30-40-4 through 40-5 because it would have been probable that the hedged forecasted transactions would not occur. Furthermore, that failure, if part of a pattern of having hedged forecasted transactions cease being probable of occurring, would call into question both an entity's ability to accurately predict forecasted transactions and the propriety of using hedge accounting in the future for similar forecasted transactions, pursuant to paragraph 815-30-40-5. In contrast, in Example 4, Case B (see paragraph 815-20-55-97), the hedged quarterly interest payments were directly linked to Entity B's existing LIBOR-indexed floating-rate assets. When those existing assets are later prepaid or sold, the future quarterly interest payments on those specific assets are no longer probable of occurring (that is, no longer probable of being received by Entity B). Consequently, the hedging relationships for those future quarterly interest payments fail to meet the criterion in paragraph 815-20-25-15(b) and must be discontinued under paragraph 815-30-40-1. Because it is probable that the hedged quarterly interest payments that were directly linked to assets that were prepaid or sold will not occur, the related derivative instrument net gain or loss in other comprehensive income must be immediately reclassified into earnings pursuant to paragraphs 815-30-40-4 through 40-5.

>>> Case A: Variability of Hedged Forecasted Transactions Is Eliminated

55-57 At the end of the second year of the 5-year hedging relationship, Entity MNO discontinues its practice of issuing 90-day notes. Instead, Entity MNO issues a 3-year, $5 million note with a fixed rate of interest (7.25 percent). Because the interest rate on the three-year note is fixed, the variability of the future interest payments has been eliminated. Thus, Swap 1 no longer qualifies for cash flow hedge accounting. However, the net gain or loss on Swap 1 in accumulated other comprehensive income is not reclassified to earnings immediately. Immediate reclassification is required (and permitted) only if it becomes probable that the hedged transactions (future interest payments) will not occur. The variability of the payments has been eliminated, but it still is probable that they will occur. Thus, those gains or losses will continue to be reclassified from accumulated other comprehensive income to earnings as the interest payments affect earnings (as required by paragraphs 815-30-35-38 through 35-41). If the term of the fixed rate note had been longer than three years, the amounts in accumulated other comprehensive income still would have been reclassified into earnings over the next three years, which was the term of the designated hedging relationship.

55-58 Rather than liquidate the pay-fixed, receive-variable Swap 1, Entity MNO enters into a pay-floating, receive-fixed interest rate swap (Swap 2) with a 3-year term and a notional amount of $5 million. Entity MNO neither pays nor receives a premium. Like Swap 1, Swap 2 requires a settlement every 90 days and reprices immediately following each settlement. The relationship between 90-day interest rates and longer term rates has changed since Entity MNO entered into Swap 1 (that is, the shape of the yield curve is different). As a result, Swap 2 has different terms and its settlements do not exactly offset the settlements on Swap 1. Under the terms of Swap 2, Entity MNO will receive a fixed rate of 7.25 percent and pay interest at LIBOR.

55-59 The two swaps are not designated as hedging instruments and are reported at fair value. The changes in fair value are reported immediately in earnings and offset each other to a significant degree.

>>> Case B: Basis of Hedged Forecasted Transactions Is Changed

55-60 At the end of the second year of the 5-year hedging relationship, Entity MNO discontinues its practice of issuing 90-day notes and issues a 3-year, $5 million note with a rate of interest that adjusts every 90 days to the prime rate quoted on that day. Swap 1 is no longer effective as a cash flow hedge because the receive-variable rate on the swap is LIBOR, and the prime rate and LIBOR are expected to change differently. Thus, the cash flows from the swap will not effectively offset changes in cash flows from the three-year note.

55-61 The net gain or loss on Swap 1 in accumulated other comprehensive income as of the date Entity MNO issues the three-year note is not reclassified into earnings immediately. Immediate reclassification would be required only if it becomes probable that the hedged transactions (future interest payments) will not occur. The expected amounts of those payments have changed (because they will be based on prime instead of LIBOR, as originally expected), but it still is probable that the payments will occur. Thus, those gains or losses will continue to be reclassified to earnings as the interest payments affect earnings.

55-62 Rather than liquidate Swap 1 and obtain a separate derivative instrument to hedge the variability of the prime-rate-based interest payments, Entity MNO enters into a pay-LIBOR, receive-prime basis swap. The basis swap has a $5 million notional amount and a 3-year term and requires a settlement every 90 days. Entity MNO designates Swap 1 and the basis swap in combination as the hedging instrument in a cash flow hedge of the variable interest payments on the three-year note. On the three-year note, Entity MNO pays interest at prime. On the basis swap, Entity MNO receives interest at prime and pays interest at LIBOR. On Swap 1, Entity MNO receives interest at LIBOR and pays interest at 6.5 percent. Together, the cash flows from the two derivative instruments are effective at offsetting changes in the interest payments on the three-year note. Changes in fair values of the two swaps are recognized in other comprehensive income and are reclassified to earnings when the hedged forecasted transactions (the variable interest payments) affect earnings (as required by paragraphs 815-30-35-38 through 35-41).

>> Example 10: Accounting for a Derivative Instrument's Gain or Loss in a Cash Flow Hedge—Effectiveness Based on Changes in Intrinsic Value

55-63 This Example illustrates application of the accounting guidance for cash flow hedges described in paragraph 815-30-35-3. At the beginning of Period 1, Entity XYZ purchases for $9.25 an at-the-money call option on 1 unit of Commodity X with a strike price of $125.00 to hedge a purchase of 1 unit of that commodity projected to occur early in Period 5. Entity XYZ's documented policy is to assess hedge effectiveness by comparing changes in cash flows on the hedged transaction (based on changes in the spot price) with changes in the option contract’s intrinsic value. Because the hedging instrument is a purchased call option, its intrinsic value cannot be less than zero. If the price of the commodity is less than the option’s strike price, the option is out-of-the-money. Its intrinsic value cannot decrease further regardless of how far the commodity price falls, and the intrinsic value will not increase until the commodity price increases to exceed the strike price. Thus, changes in cash flows from the option due to changes in its intrinsic value will offset changes in cash flows on the forecasted purchase only when the option is in the money or at the money. That phenomenon is demonstrated in Period 3 in the following table when the commodity price declines by $1.25. Because the commodity price is $.75 below the option’s strike price, the option’s intrinsic value declines by only $.50 (to zero). The effect reverses in Period 4 when the commodity price increases by $6.50 and the option’s intrinsic value increases by $5.75. For simplicity, commissions and most other transaction costs, initial margin, and income taxes are ignored unless otherwise stated. Assume that there are no changes in creditworthiness that would alter the effectiveness of the hedging relationship.

	Period 1	Period 2	Period 3	Period 4
Assumptions				
Ending market price of Commodity X	$127.25	$125.50	$124.25	$130.75
Ending fair value of option:				
Time value	$ 7.50	$ 5.50	$ 3.00	$ -
Intrinsic value	2.25	0.50	-	5.75
Total	$ 9.75	$ 6.00	$ 3.00	$ 5.75
Change in time value	$ (1.75)	$ (2.00)	$ (2.50)	$ (3.00)
Change in intrinsic value	2.25	(1.75)	(0.50)	5.75
Total current-period gain (loss) on derivative	$ 0.50	$ (3.75)	$ (3.00)	$ 2.75
Gain (loss) on derivative, adjusted to remove the component excluded from effectiveness test:				
For the current period	$ 2.25	$ (1.75)	$ (0.50)	$ 5.75
Cumulative	2.25	0.50	-	5.75
Change in expected future cash flows on hedged transaction:				
For the current period	(2.25)	1.75	1.25	(6.50)
Cumulative	(2.25)	(0.50)	0.75	(5.75)
Balance to be reflected in accumulated other comprehensive income (paragraph 815-30-35-3[b])				
Lesser (in absolute amounts) of derivative's cumulative gain (loss) or amount necessary to offset the cumulative change in expected future cash flows on hedged transaction	$ 2.25	$ 0.50	$ -	$ 5.75

55-64 The following are the entries required to account for the cash flow hedge. The steps involved in determining the amounts are the same as in Example 7 (see paragraph 815-30-55-35).

		Debit (Credit)		
Period	**Description**	**Derivative**	**Earnings**	**Other Comprehensive Income**
1	Adjust derivative to fair value and other comprehensive income by the calculated amount	$ 0.50	$ 1.75	$ (2.25)
2	Adjust derivative to fair value and other comprehensive income by the calculated amount	(3.75)	2.00	1.75
3	Adjust derivative to fair value and other comprehensive income by the calculated amount	(3.00)	2.50	0.50
4	Adjust derivative to fair value and other comprehensive income by the calculated amount	2.75	3.00	(5.75)

55-65 The following table reconciles the beginning and ending balances in accumulated other comprehensive income.

	Accumulated Other Comprehensive Income—Debit (Credit)		
Period	**Beginning Balance**	**Change in Intrinsic Value**	**Ending Balance**
1	$ -	$ (2.25)	$ (2.25)
2	(2.25)	1.75	(0.50)
3	(0.50)	0.50	-
4	-	(5.75)	(5.75)

55-66 The amount reflected in earnings relates to the component excluded from the effectiveness test, that is, the time value component. No reclassifications between other comprehensive income and earnings of the type illustrated in Example 7 (see paragraph 815-30-55-35) are required because no hedge ineffectiveness is illustrated in this Example. (The change in cash flows from the hedged transaction was not fully offset in Period 3. However, that is not considered ineffectiveness. As described in paragraph 815-20-25-76, a purchased call option is considered effective if it provides one-sided offset.)

>> Example 11: Cash Flow Hedge of the Foreign Currency Exposure in a Royalty Arrangement

55-67 This Example illustrates the application of the guidance in Subtopic 815-20 and this Subtopic to a hedging relationship involving a single hedging derivative and three separate forecasted transactions. The three transactions occur on three separate dates, but the payment on receivables related to all three occurs on the same date. The settlement of the hedging derivative will occur on the date the receivable is paid. For simplicity, commissions and most other transaction costs, initial margin, and income taxes are ignored unless otherwise stated. Assume that there are no changes in creditworthiness that would alter the effectiveness of the hedging relationship.

55-68 Entity DEF's functional currency is the U.S. dollar (USD). Entity ZYX's functional currency is the Deutsche mark (DEM). Effective January 1, 20X1, Entity DEF enters into a royalty agreement with Entity ZYX that gives Entity ZYX the right to use Entity DEF's technology in manufacturing Product X. On April 30, 20X1, Entity ZYX will pay Entity DEF a royalty of DEM 1 million for each unit of Product X sold by that date. Entity DEF expects Entity ZYX to sell one unit of Product X on January 31, one on February 28, and one on March 31. The forecasted royalty is probable because Entity ZYX has identified a demand for Product X and no other supplier has the capacity to fill that demand.

55-69 Also on January 1, 20X1, Entity DEF enters into a forward contract to sell DEM 3 million on April 30, 20X1, for a price equal to the forward price of USD 0.6057 per DEM. Entity DEF designates the forward contract as a hedge of the risk of changes in its functional-currency-equivalent cash flows attributable to changes in the DEM-USD exchange rates related to the forecasted receipt of DEM 3 million from the royalty agreement. The spot price and forward price of DEM at January 1, 20X1, and the USD equivalent of DEM 3 million at those prices are assumed to be as follows.

Prices at January 1, 20X1	USD per DEM	USD Equivalent of DEM 3 Million
Spot price	USD 0.6019	USD 1,805,700
4-month forward price	0.6057	1,817,100

55-70 Entity DEF will exclude from its assessment of effectiveness the portion of the fair value of the forward contract attributable to the spot-forward difference (the difference between the spot exchange rate and the forward exchange rate). That is, Entity DEF will recognize changes in that portion of the derivative instrument's fair value in earnings but will not consider those changes to represent ineffectiveness. Entity DEF will estimate the cash flows on the forecasted transactions based on the current spot exchange rate and will discount that amount. Thus, Entity DEF will assess effectiveness by comparing the following amounts:

a. Changes in the fair value of the forward contract attributable to changes in the USD spot price of DEM

b. Changes in the present value of the forecasted cash flows based on the current spot exchange rate.

55-71 Those two changes will exactly offset because the currency and the notional amount of the forward contract match the currency and the total of the expected foreign currency amounts of the forecasted transactions. Thus, if Entity DEF dedesignates a proportion of the forward contract each time a royalty is earned (as described in the following paragraph), the hedging relationship will meet the highly effective criterion.

55-72 As each royalty is earned, Entity DEF recognizes a receivable and royalty income. The forecasted transaction (the earning of royalty income) has occurred. The receivable is an asset, not a forecasted transaction, and would separately be eligible to be designated as a fair value hedge of **foreign exchange risk** or continue to be eligible as a cash flow hedge of foreign exchange risk. Consequently, if the variability of the functional currency cash flows related to the royalty receivable is not being hedged, Entity DEF will dedesignate a proportion of the hedging instrument in the original hedge relationship with respect to the proportion of the forward contract corresponding to the earned royalty. As the royalty is recognized in earnings and each proportion of the derivative instrument is dedesignated, the related derivative instrument gain or loss in accumulated other comprehensive income is reclassified into earnings. After that date, any gain or loss on the dedesignated proportion of the derivative instrument and any transaction loss or gain on the royalty receivable will be recognized in earnings and may substantially offset each other.

55-73 Subtopic 830-20 requires immediate recognition in earnings of any foreign currency transaction gain or loss on a foreign-currency-denominated receivable that is not designated as a hedging instrument. Therefore, the effect of changes in spot prices on the royalty receivable must be recognized immediately in earnings.

55-74 The spot prices and forward prices for settlement on April 30, 20X1, in effect at inception of the hedge (January 1, 20X1) and at the end of each month between inception and April 30, 20X1, are assumed to be as follows.

	USD per DEM	
	Spot Price	Forward Price for Settlement on 4/30/X1
January 1	USD 0.6019	USD 0.6057
January 31	0.5970	0.6000
February 28	0.5909	0.5926
March 31	0.5847	0.5855
April 30	0.5729	0.5729

55-75 The changes in fair value of the forward contract that are recognized each month in earnings and other comprehensive income are shown in the following table. The fair value of the forward is the present value of the difference between the USD to be received on the forward (USD 1,817,100) and the USD equivalent of DEM 3 million based on the current forward rate. A 6 percent discount rate is used in this Example.

	Debit (Credit)		
	Forward Contract	Earnings	Other Comprehensive Income
Fair value on January 1	$ -		
Period ended January 31:			
Change in spot-forward difference	2,364	$ (2,364)	
Change in fair value of dedesignated proportion	-	-	
Change in fair value of designated proportion	14,482		$ (14,482)
Reclassification of gain	-	(4,827)	4,827
Fair value on January 31	16,846		
Period ended February 28:			
Change in spot-forward difference	3,873	(3,873)	
Change in fair value of dedesignated proportion	6,063	(6,063)	
Change in fair value of designated proportion	12,127		(12,127)
Reclassification of gain	-	(10,891)	10,891
Fair value on February 28	38,909		
Period ended March 31:			
Change in spot-forward difference	2,718	(2,718)	
Change in fair value of dedesignated proportion	12,448	(12,448)	
Change in fair value of designated proportion	6,223		(6,223)
Reclassification of gain	-	(17,114)	17,114
Fair value on March 31	60,298		
Period ended April 30:			
Change in spot-forward difference	2,445	(2,445)	
Change in fair value of dedesignated proportion	35,657	(35,657)	
Change in fair value of designated proportion	-		-
Fair value on April 30	$ 98,400		
Cumulative effect		$ (98,400)	-

55-76 The effect on earnings of the royalty agreement and hedging relationship illustrated in this Example is summarized by month in the following table.

	Amounts Recognized in Earnings Related to					
	Receivable		Forward Contract			
Period Ended	USD Equivalent of DEM 1 Million Royalty	Foreign Currency Transaction Gain (Loss)	Amount Attributable to the Dedesignated Proportion	Reclassifications from Other Comprehensive Income	Amount Attributable to the Difference between the Spot and Forward rates	Total Amount Reported in Earnings
January 31	$ 597,000	$ -	$ -	$ 4,827	$ 2,364	$ 604,191
February 28	590,900	(6,100)	6,063	10,891	3,873	605,627
March 31	584,700	(12,400)	12,458	17,104	2,718	604,580
April 30	-	(35,400)	35,657	-	2,445	2,702
	$ 1,772,600	$ (53,900)	$ 54,178	$ 38,822	$ 11,400	$ 1,817,100
				$ 98,400		

>> Example 12: Reporting Cash Flow Hedges in Comprehensive Income and Accumulated Other Comprehensive Income

55-77 This Example illustrates application of the guidance in this Subtopic to reporting cash flow hedges in **comprehensive income** and accumulated other comprehensive income. For simplicity, commissions and most other transaction costs, initial margin, and income taxes are ignored unless otherwise stated. Assume that there are no changes in creditworthiness that would alter the effectiveness of the hedging relationship.

55-78 Entity TUV's cash flow hedge transactions through the end of 20X4 include all of the following:

a. It continually purchases pork belly futures contracts to hedge its anticipated purchases of pork belly inventory.

b. In 20X2, it entered into a Deutsche mark (DEM) forward exchange contract to hedge the foreign currency risk associated with the expected purchase of a pork belly processing machine with a five-year life that it bought from a vendor in Germany at the end of 20X2.

c. In 20X2, it entered into a 10-year interest rate swap concurrent with the issuance of 10-year variable rate debt (cash flow hedge of future variable interest payments).

d. In January 20X4, it entered into a two-year French franc (FRF) forward exchange contract to hedge a forecasted export sale (denominated in FRF, expected to occur in December 20X5) of hot dogs to a large customer in France. In June 20X4, it closed the forward contract, but the forecasted transaction is still expected to occur.

55-79 The following table reconciles the beginning and ending accumulated other comprehensive income balances for 20X4. It supports the comprehensive income display and disclosures that are required under Topic 220. It is assumed that there are no other amounts in accumulated other comprehensive income. The after-tax amounts assume a 30 percent effective tax rate.

	Other Comprehensive Income—Debit (Credit)			
	Accumulated Other Comprehensive Income as of 1/1/X4	Changes in Fair Value Recognized in 20X4	Reclassification Adjustments	Accumulated Other Comprehensive Income as of 12/31/X4
Derivatives designated as hedges of:				
Inventory purchases	$ 230	$ 85	$ (270)	$ 45
Equipment purchase	120		(30)	90
Variable interest rate payments	(40)	10	5	(25)
Export sale	-	(50)	-	(50)
Before-tax totals	$ 310	$ 45	$ (295)	$ 60
After-tax totals	$ 217	$ 32	$ (207)	$ 42

55-80 The following tables illustrate an acceptable method, under the provisions of Topic 220, of reporting the transactions described by this Example in earnings, comprehensive income, and shareholders' equity.

Effect of Selected Items on Earnings and Comprehensive Income
Year Ended December 31, 20X4

	Debit (Credit)	
Effect on earnings before taxes:		
Cost of goods sold	$ 270	
Depreciation	30	
Interest	(5)	
Total	295	
Income tax effect	(88) (a)	
Effect on earnings after taxes		$ 207
Other comprehensive income, net of tax:		
Cash flow hedges:		
Net derivative losses, net of tax effect of $13	32	
Reclassification adjustments, net of tax effect of $88	(207)	
Net change		(175)
Effect on total comprehensive income		$ 32

(a) This Example assumes that it is appropriate under the circumstances, in accordance with Topic 740, to recognize the related income tax benefit in the current year.

Effect of Selected Items on Shareholders' Equity
Year Ended December 31, 20X4
Debit (Credit)

Accumulated other comprehensive income:	
Balance on December 31, 20X3	$ 217
Net change during the year related to cash flow hedges	(175)
Balance on December 31, 20X4	$ 42

>> Example 13: Cash Flow Hedge of a Fixed-Rate Foreign-Currency-Denominated Loan Eliminating Variability in the Functional-Currency-Equivalent Cash Flows (Fixed–to–Fixed Scenario)

55-81 This Example illustrates the application of the guidance in Subtopic 815-20 and this Subtopic to accounting for a cash flow hedge of a fixed-rate foreign-currency-denominated loan in which all of the variability in the functional-currency-equivalent cash flows are eliminated by the effect of the hedge.

55-82 On July 1, 1999, Entity DEF, a U.S. dollar (USD) functional currency entity, issues a zero-coupon debt instrument with a notional amount of FC 154,766.79 for FC 96,098.00. The interest rate implicit in the debt is 10 percent. The debt will mature on June 30, 2004. Entity DEF enters into a forward contract to buy FC 154,766.79 in 5 years at the forward rate of 1.090148194 (USD 168,718.74) and designates the forward contract as a hedge of the variability of the USD functional currency equivalent cash flows on the debt. Because the currency, notional amount, and maturity of the debt and the forward contract match, the entity concludes that no ineffectiveness will result. The USD interest rate implicit in the forward contract is 11.028 percent. The market data, period end balances, and journal entries from cash flow hedge accounting are as follows.

Period	Spot Rate USD/Functional Currency	Forward Rate USD/Functional Currency	Forward Rate Difference	Foreign Currency Present Value	USD Spot Amounts	USD Debt (@11.028%)	Fair Value Forward USD
0	1.040604383	1.090148194	0	$ 96,098.00	$ 100,000.00	$100,000.00	$ -
1	1.1	1.184985966	0.094837771	105,707.80	116,278.58	111,028.04	9,327.97
2	1.1	1.163142906	0.072994712	116,278.58	127,906.44	123,272.25	8,041.09
3	1.1	1.141702484	0.051554290	127,906.44	140,697.08	136,866.76	6,360.72
4	1.1	1.120657277	0.030509083	140,697.08	154,766.79	151,960.48	4,215.89
5	1.1	1.1	0.009851806	154,766.79	170,243.47	168,718.74	1,524.73

		Cash	Forward	Debt	Other Comprehensive Income	Interest Expense	Transaction Loss
7/1/99	Borrow money	$ 100,000.00		$(100,000.00)			
6/30/00	Accrue interest on debt			(10,570.78)		$ 10,570.78	
6/30/00	Mark debt to spot			(5,707.80)			$ (5,707.80)
6/30/00	Mark forward to fair value		$ 9,327.97		$ (4,077.43)	457.26	(5,707.80)
6/30/00	Balances	100,000.00	9,327.97	(116,278.58)	(4,077.43)	11,028.04	-
6/30/01	Accrue interest on debt			(11,627.86)		11,627.86	
6/30/01	Mark forward to fair value		(1,286.88)		670.53	616.35	
6/30/01	Balances	100,000.00	8,041.08	(127,906.44)	(3,406.90)	23,272.25	
6/30/02	Accrue interest on debt			(12,790.64)		12,790.64	-
6/30/02	Mark forward to fair value		(1,680.37)		876.50	803.87	
6/30/02	Balances	100,000.00	6,360.71	(140,697.08)	(2,530.40)	36,866.76	
6/30/03	Accrue interest on debt			(14,069.71)		14,069.71	
6/30/03	Mark forward to fair value		(2,144.84)		1,120.83	1,024.01	
6/30/03	Balances	100,000.00	4,215.88	(154,766.79)	(1,409.57)	51,960.48	
6/30/04	Accrue interest on debt			(15,476.68)		15,476.68	
6/30/04	Mark forward to fair value		(2,691.15)		1,409.57	1,281.58	
6/30/04	Balances	$ 100,000.00	$ 1,524.72	$(170,243.47)	$ -	$ 68,718.74	$ -

55-83 Following are journal entries at inception of the loan and at the end of the first year.

7/1/99	Debit	Credit
Cash	$ 100,000.00	
Functional currency debt at spot		$ 100,000.00
To record FC borrowing in USD.		

6/30/00	Debit	Credit
Interest expense	$ 10,570.78	
Debt		$ 10,570.78
To accrue interest. Period end spot rate used for simplicity.		
Transaction loss	$ 5,707.80	
Debt		$ 5,707.80
To record a transaction loss on the debt.		
Derivative asset	$ 9,327.97	
Othe comprehensive Income		$ 9,327.97
To record a derivative instrument at fair value and record effective portion in other comprehensive income.		
Other comprehensive income	$ 5,250.54	
Interest expense	457.26	
Earnings		$ 5,707.80
To reclassify an amount out of accumulated other comprehensive income to do both of the following: a. To increase interest expense to the USD yield of 11.028 percent b. To offset the transaction loss on the debt.		

55-84 Journal entries for the remaining four years are not displayed.

55-85 This Example would also be relevant for a non-interest-bearing foreign-currency-denominated receivable or payable instrument. An amount based on the rate implicit in the forward contract would be reported in earnings each period. Given the short maturities of many receivables and payables, the amount reported in earnings each period may be small.

>> Example 14: Reclassifying Amounts from a Cash Flow Hedge of a Forecasted Foreign-Currency-Denominated Intra-Entity Sale

55-86 This Example illustrates the application of paragraphs 815-20-25-30 and 815-20-25-39 through 25-41.This Example has the following assumptions:

a. Parent A is a multinational corporation that has the U.S. dollar (USD) as its functional currency.

b. Parent A has the following two subsidiaries:

1. Subsidiary B, which has the Euro (EUR) as its functional currency

2. Subsidiary C, which has the Japanese yen (JPY) as its functional currency.

c. Subsidiary B manufactures a product and has a forecasted sale of the product to Subsidiary C that will be transacted in JPY.

55-87 Eventually, Subsidiary C will sell the product to an unrelated third party in JPY. Subsidiary B enters into a forward contract with an unrelated third party to hedge the cash flow exposure of its forecasted intra-entity sale in JPY to changes in the EUR-JPY exchange rate.

55-88 The transaction in this Example meets the hedge criteria of paragraphs 815-20-25-30 and 815-20-25-39 through 25-41, which permits a derivative instrument to be designated as a hedge of the foreign currency exposure of variability in the functional-currency-equivalent cash flows associated with a forecasted intra-entity foreign-currency-denominated transaction if certain criteria are met. Specifically, the operating unit having the foreign currency exposure (Subsidiary B) is a party to the hedging instrument; the hedged transaction is denominated in JPY, which is a currency other than Subsidiary B's functional currency; and all other applicable criteria in Section 815-20-25 are satisfied.

55-89 Subsidiary B measures the derivative instrument at fair value and records the effective portion of the gain or loss on the derivative instrument in accumulated other comprehensive income, with the ineffective portion, if any, recorded in current earnings. In the consolidated financial statements, the amount in other comprehensive income representing the effective portion of the gain or loss on a derivative instrument designated in a cash flow hedge of a forecasted foreign-currency-denominated intra-entity sale should be reclassified into earnings in the period that the revenue from the sale of the manufactured product to an unrelated third party is recognized. The reclassification into earnings in the consolidated financial statements should occur when the forecasted sale affects the earnings of Parent A. Because the consolidated earnings of Parent A will not be affected until the sale of the product by Subsidiary C to the unrelated third party occurs, the reclassification of the amount of derivative gain or loss from other comprehensive income into earnings in the consolidated financial statements should occur upon the sale by Subsidiary C to an unrelated third party.

55-90 This guidance is relevant only with respect to the consolidated financial statements. In Subsidiary B's separate entity financial statements, the reclassification of the amount of the derivative instrument gain or loss from other comprehensive income into earnings should occur in the period the forecasted intra-entity sale is recorded because Subsidiary B's earnings are affected by the change in the EUR-JPY exchange rate when the sale to Subsidiary C occurs.

>> Example 15: Change-in-Variable-Cash-Flows Method

55-91 This Example demonstrates the application of the change-in-variable-cash-flows method discussed in paragraph 815-30-35-16 to a hedging relationship.

55-92 An entity designates a receive-variable, pay-fixed interest rate swap with a zero fair value as a hedge of variable interest rate payments on a debt instrument. The variable leg of the interest rate swap is based on the three-month U.S. Treasury rate, and the variable cash flows of the debt are based on three-month LIBOR. Assume that the overall change in fair value of the interest rate swap from inception of the hedge is $16,300, the present value of the cumulative change in the cash flow on the variable leg of the interest rate swap is a gain (increased cash inflow) of $16,596, and the present value of the cumulative change in the expected future interest cash flows on the variable-rate liability due to changes in the cash flows expected for the remainder of the hedge term is a loss (increased cash outflow) of $16,396. (The cumulative changes in expected future cash flows on both the variable leg of the interest rate swap and the variable-rate debt are discounted using the rates applicable to determining the fair value of the derivative instrument.)

55-93 The entity would report in earnings a gain of $200 as ineffectiveness, representing the amount by which the present value of the cumulative change in the cash flows on the variable leg of the interest rate swap exceeds the present value of the cumulative change in the expected cash flows on the variable-rate debt. The interest rate swap would be recorded at fair value on the balance sheet (asset of $16,300), and the balance in accumulated other comprehensive income would be adjusted to a credit of $16,100. In accordance with the requirements of paragraph 815-30-35-3(b), there is no reported ineffectiveness when the present value of the cumulative change in the future expected cash flows on the variable-rate debt exceeds the present value of the cumulative change in the future cash flows on the variable leg of the interest rate swap.

>> Example 16: Impact on Accumulated Other Comprehensive Income of Issuing Debt with a Term that Is Shorter than Originally Forecasted

55-94 This Example illustrates the effect on accumulated other comprehensive income of issuing debt with a term that is shorter than originally forecasted.

55-95 Entity A expects to borrow $100 million over a 10-year period beginning in 6 months. Entity A initially plans to issue $100 million of 10-year fixed-rate debt at or near par at the then-current market interest rate; consequently, Entity A will be exposed to variability in cash flows in the future quarterly interest payments on the debt due to changes in **credit risk** and interest rate risk that occur during this 6-month period before issuance. To hedge the risk of changes in these 40 quarterly interest payments attributable to changes in the benchmark interest rate for the 6-month period, Entity A does all of the following:

a. It enters into a derivative instrument (for example, a forward-starting interest rate swap).

b. It documents that it is hedging the variability in the 40 future quarterly interest payments, attributable to changes in the benchmark interest rate, over the next 10 years related to its 10-year $100 million borrowing program that begins in 6 months.

c. It documents that it will assess the effectiveness of the hedging relationship semimonthly.

55-96 Six months after inception of the hedging relationship, Entity A issues debt. However, due to market conditions, Entity A decides in the week before issuance that it will issue $100 million of fixed-rate debt with a 5-year maturity and quarterly interest payments.

55-97 When Entity A decides that the term of the debt to be issued will differ from the term of the debt originally expected to be issued, Entity A should not immediately reclassify into earnings the entire net gain or loss in accumulated other comprehensive income related to the derivative instrument. Instead, Entity A must first apply the requirements of paragraph 815-30-35-3 using its originally documented hedging strategy and the newly revised best estimate of the cash flows. That paragraph requires recognition of cumulative ineffectiveness for overhedges. This could result in Entity A reporting a significant amount of ineffectiveness in income (in essence a catch-up adjustment) in the period that a change is made in the expected future cash flows on the hedged forecasted transaction from the inception of the hedge. That is, the final measurement under paragraph 815-30-35-3(b)(2) should be based on the most recent best estimate of the hedged forecasted transaction as of the date that a cash flow hedge is discontinued prospectively.

55-98 Entity A's strategy is a cash flow hedge of 40 individual probable quarterly interest payments. A cash flow hedge of future interest payments is a hedge of a series of forecasted transactions; consequently, Entity A must first determine the likelihood of whether and when each forecasted transaction in the series will occur. If at any time during the hedging relationship Entity A determines that it is no longer probable that any of the forecasted transactions in the series will occur by the date (or within the time period) originally specified, it must terminate the original hedging relationship for each of those specific nonprobable forecasted transactions (even if the forecasted transaction will occur within an additional two-month period of time after that originally specified date). At the time that Entity A decides that the term of the fixed-rate debt to be issued will be changed from 10 years to 5 years, the impact of that decision on the cumulative change in the hedged future interest payments from the inception of the hedge will be reflected in the application of paragraph 815-30-35-3(b). When Entity A performs its semimonthly assessment of effectiveness for the half-month period immediately preceding the issuance of the debt, it could also possibly conclude that the hedging relationship is no longer considered highly effective under paragraph 815-20-25-75 because the actual variability in the hedged interest payments for Years 1–5 is now based on the 5-year borrowing rate—not on 10-year rates as expected at the inception of the hedge when the entity selected the hedging derivative. In that circumstance, the hedging relationship is terminated, and the requirements of paragraph 815-30-35-3 must be applied. After the hedging relationship is terminated, Entity A must determine whether it is probable that any or all of those specific nonprobable forecasted transactions will not occur by the date (or within the time period) originally specified or within an additional two-month period of time thereafter (see paragraphs 815-30-40-4 through 40-5).

55-99 When Entity A originally documented the hedging relationship, it was hedging 40 forecasted transactions (forecasted quarterly interest payments) that would begin in 6 months' time and continue over a 10-year period. In this Example, Entity A terminates the hedging relationship no later than on the date it issues the 5-year debt (because the variability of the first 20 hedged payments ceases on that date) and must determine the amount, if any, to be reclassified into earnings from accumulated other comprehensive income related to the net derivative gain or loss of the terminated cash flow hedge. Because Entity A issued a 5-year debt instrument, Entity A would determine that it is probable that the first 20 forecasted transactions would occur because they are now contractual obligations. Entity A must determine that it is not probable that any of the last 20 forecasted transactions will not occur to continue reporting the net derivative gain or loss related to these forecasted transactions in accumulated other comprehensive income. At issue is whether it is probable that the five-year debt will not be replaced by new borrowings that will involve the quarterly payment of interest. Provided that the entity determines that it is not probable that any of the original 40 forecasted transactions will not occur, Entity A must apply paragraph 815-30-35-3 and continue to report an amount in accumulated other comprehensive income based on the most recent best estimate of the hedged forecasted transactions related to all 40 forecasted transactions and reclassify an appropriate amount into earnings when each hedged forecasted transaction affects earnings. If Entity A determines that it is probable that any of those forecasted transactions will not occur either by the end of the date (or within the time period) originally specified or within an additional two-month period of time thereafter (see paragraphs 815-30-40-4 through 40-5), Entity A should reclassify into earnings from accumulated other comprehensive income the amount of the net derivative instrument gain or loss related to those specific nonoccuring forecasted transactions. That amount should be equivalent to the portion of the present value of the derivative instrument's cash flows intended to offset the changes in the original forecasted transactions for which Entity A has determined it is probable that they will not occur by the date (or within the time period) originally specified or within an additional two-month period of time thereafter. Thus, the nonoccurrence of one of the hedged forecasted transactions described in this Example could potentially jeopardize Entity A's ability to use cash flow hedge accounting in the future for the situation described.

>> Example 17: Discontinuation of a Cash Flow Hedge

55-100 The following Cases illustrate the application of paragraphs 815-30-40-4 through 40-5 to changes in timing of a forecasted transaction in relation to an originally specified time period:

a. Transactions to occur within two months of end of originally specified time period (Case A)

b. Transactions not to occur within two months of end of originally specified time period (Case B).

55-101 Cases A and B share the following assumptions. On January 1, an entity enters into a cash flow hedge of the forecasted sale of the first 100 units of a specified product during the 3-month period from February 1 to April 30. Gains and losses on the hedging instrument are accumulated in other comprehensive income and reclassified into earnings as sales occur. However, as of March 10, only 60 units of the product have been sold and the entity determines that it is probable that the sale of the remaining 40 units will not occur by April 30. As a result, the entity must discontinue cash flow hedge accounting under the originally designated hedging relationship as of March 10 (pursuant to paragraph 815-30-40-1[a]).

>>> Case A: Transactions to Occur Within Two Months of End of Originally Specified Time Period

55-102 In this Case, the entity determines that it is probable that the sale of the remaining 40 units will occur by June 20. Based on this new information, the entity is permitted to designate a new cash flow hedge under which subsequent derivative instrument gains and losses would receive cash flow hedge accounting. This Example focuses on the derivative instrument gains and losses that have been accumulated in other comprehensive income at March 10 with respect to the remaining 40 unsold units. The derivative instrument gains or losses accumulated in other comprehensive income related to the sale of the remaining 40 units should not be reclassified into earnings as of March 10 because the entity determined on that date that it is at least reasonably possible that the forecasted transactions will occur within the two-month period following April 30 (the end of the originally specified time period).

>>> Case B: Transactions Not to Occur Within Two Months of End of Originally Specified Time Period

55-103 In this Case, the entity determined on March 10 that it is probable that the sale of the remaining 40 units will not occur by June 30 but it was reasonably possible that the sale would occur in July or August.

55-104 In that circumstance, the derivative instrument gains or losses accumulated in other comprehensive income related to the sale of the remaining 40 units must be reclassified into earnings as of March 10 because the entity would have determined on that date that it is probable that the forecasted transactions will not occur by the end of the originally specified time period (that is, April 30) nor within the allowable additional two-month period of time (ending on June 30).

55-105 Furthermore, the example indicates no extenuating circumstances that could justify applying the exception related to a forecasted transaction that is probable of occurring on a date beyond the additional two-month period of time.

>> Example 18: Cash Flow Hedge of Forecasted Sale or Purchase on Credit

55-106 This Example illustrates the application of paragraphs 815-30-35-9 and 815-20-25-34 through 25-36, which permit an entity to designate a single cash flow hedge that encompasses the variability of functional-currency-equivalent cash flows attributable to foreign exchange risk related to the settlement of a foreign-currency-denominated receivable or payable resulting from a forecasted sale or purchase on credit.

55-107 This Example has the following assumptions:

a. Entity A, a U.S. dollar (USD) functional currency entity, forecasts the purchase of inventory on credit for FC 100,000 in 182 days with settlement of the payable in 227 days. The purchase will occur July 15 on credit; the resulting payable will settle August 29.

b. Entity A enters into a forward contract to purchase FC 100,000 in 227 days at the forward rate of USD .6614 = FC 1.

c. Entity A designates a single cash flow hedge that encompasses the variability of functional-currency-equivalent cash flows attributable to foreign exchange risk related to the settlement of the foreign-currency-denominated payable resulting from the forecasted purchase on credit.

d. Entity A measures effectiveness based on forward rates.

55-108 Exchange rates are as follows.

Period	Spot	8/29 Forward	7/15 Forward
1/14	0.6575	0.6614	0.6605
3/31	0.6757	0.6793	
6/30	0.6689	0.6734	
7/15	0.6761	0.6767	
8/29	0.6798	0.6798	

55-109 Entity A would record the following journal entries.

	Debit (Credit)					
	Cash	Inventory	Forward Contract	Accounts Payable	Earnings	Accum. Other Comprehensive Income
Inception 1/14	—	—	—	—	—	—
March 31 entry (76 days):						
Mark forward to fair value			$ 1,703			$ (1,703)
June 30 entry (91 days):						
Mark forward to fair value			(526)			526
July 15 entries (15 days):						
Inventory purchase		$ 67,610		$(67,610)		
August 29 entries (45 days):						
Mark forward to fair value			663			(663)
Functional currency transaction loss on payable				(370)	$ 370	
Adjustment for paragraph 815-30-35-3(d) through (f)—offset the functional currency transaction loss					(370)	370
Adjustment for paragraph 815-30-35-3(d) through (f)—effect of hedge (based on implicit interest rate; see paragraph 815-30-55-112)					78	(78)
Settlement of payable	$(67,980)			67,980		
Settlement of forward	1,840		(1,840)			
	$(66,140)	$ 67,610	$ -	$ -	$ 78	$ (1,548)

55-110 Upon sale of the inventory, Entity A would record cost of goods sold of $67,610 and reclassify $1,548 from other comprehensive income to earnings to achieve a net cost of goods sold of $66,062. The effect of the hedge would result in a net cost to Entity A of $66,140 for the purchase of the inventory.

55-111 The amount of the adjustment under paragraph 815-30-35-3(d) is that amount needed to ensure that a net amount in earnings reflects the effect of the hedge through each reporting period up to and including the final settlement of the payable.

55-112 The amount of cost or income to be ascribed to each period is calculated as follows.

Daily interest rate implicit in the hedging relationship as a result of the forward contract: $65,750 PV, $66,140 FV, 227n, i = 0.0026053%

1/14	$65,750	
3/31	65,880	$130
6/30	66,036	156
7/15	66,062	26
8/29	66,140	78
		$390

Method using two foreign currency forward exchange rates:

From 1/14 to 7/15	
7/15 Forward Rate .6605	
$66,050 – $65,750 =	$ 300
From 7/16 to 8/29	
8/29 Forward Rate .6614	
$66,140 – $66,050 =	90
	$ 390

Pro rata method:

From 1/14 to 7/15:	
$390 × 182/227 =	$ 313
From 7/16 to 8/29:	
$390 × 45/227 =	77
	$ 390

>> Example 19: Hedge Accounting in the Consolidated Financial Statements Applied to Internal Derivatives that Are Offset on a Net Basis by Third-Party Contracts

55-113 This Example illustrates the application of paragraphs 815-20-25-61 through 25-63, specifically, the mechanism for offsetting risks assumed by a treasury center using **internal derivatives** on a net basis with third-party contracts. This Example does not demonstrate the computation of fair values and as such makes certain simplifying assumptions.

55-114 Entity XYZ is a U.S. entity with the U.S. dollar (USD) as both its functional currency and its reporting currency. Entity XYZ has three subsidiaries: Subsidiary A is located in Germany and has the Euro (EUR) as its functional currency, Subsidiary B is located in Japan and has the Japanese yen (JPY) as its functional currency, and Subsidiary C is located in the United Kingdom and has the pound sterling (GBP) as its functional currency. Entity XYZ uses its Treasury Center to manage foreign exchange risk on a centralized basis. Foreign exchange risk assumed by Subsidiaries A, B, and C through transactions with external third parties is transferred to the Treasury Center via internal contracts. The Treasury Center then offsets that exposure to foreign currency risk via third-party contracts. To the extent possible, the Treasury Center offsets exposure to each individual currency on a net basis with third-party contracts.

55-115 On January 1, Subsidiaries A, B, and C decide that various foreign-currency-denominated forecasted transactions with external third parties for purchases and sales of various goods are probable. Also on January 1, Subsidiaries A, B, and C enter into internal foreign currency forward contracts with the Treasury Center to hedge the foreign exchange risk of those transactions with respect to their individual functional currencies. The Treasury Center has the same functional currency as the parent entity (USD).

55-116 Subsidiaries A, B, and C have the following foreign currency exposures and enter into the following internal contracts with the Treasury Center.

				Internal Contracts with Treasury Center	
Subsidiary	**Functional Currency**	**Forecasted Exposures**	**Expected Transaction Date**	**Currency Received**	**Currency Paid**
A (German)	EUR	JPY payable 12,000	Jun 1	JPY 12,000	EUR 115 [(a)]
		GBP receivable 50	Jun 1	EUR 80 [(a)]	GBP 50
B (Japanese)	JPY	USD payable 100	Jun 15	USD 100	JPY 10,160 [(a)]
		EUR receivable 100	Jun 15	JPY 10,432 [(a)]	EUR 100
C (UK)	GBP	USD receivable 330	Jun 30	GBP 201 [(a)]	USD 330

(a) Computed based on forward exchange rates as of January 1.

55-117 Subsidiaries A, B, and C designate the internal contracts with the Treasury Center as cash flow hedges of their foreign currency forecasted purchases and sales. Those internal contracts may be designated as hedging instruments in the consolidated financial statements if the requirements of this Subtopic are met. From the subsidiaries' perspectives, the requirements of paragraph 815-20-25-61 for foreign currency cash flow hedge accounting are satisfied as follows:

a. From the perspective of the hedging affiliate, the hedging relationship must meet the requirements of paragraphs 815-20-25-30 and 815-20-25-39 through 25-41 for cash flow hedge accounting. Subsidiaries A, B, and C meet those requirements. In each hedging relationship, the forecasted transaction being hedged is denominated in a currency other than the subsidiary's functional currency, and the individual subsidiary that has the foreign currency exposure relative to its functional currency is a party to the hedging instrument. In addition, the criteria in Section 815-30-25 are met. Specifically, each subsidiary prepares formal documentation of the hedging relationships, including the date on which the forecasted transactions are expected to occur and the amount of foreign currency being hedged. The forecasted transactions being hedged are specifically identified, are probable of occurring, and are transactions with external third parties that create cash flow exposure that would affect reported earnings. Each subsidiary also documents its expectation of high effectiveness based on the internal derivatives designated as hedging instruments.

b. The affiliate that issues the hedge must offset the internal derivative either individually or on a net basis. The Treasury Center determines that it will offset the exposure arising from the internal derivatives with Subsidiaries A, B, and C on a net basis with third-party contracts. Each currency for which a net exposure exists at the Treasury Center is offset by a third-party contract based on that currency.

55-118 To determine the net currency exposure arising from the internal contracts with Subsidiaries A, B, and C, the Treasury Center performs the following analysis.

Subsidiary Perspective—Internal Contracts with the Treasury Center

		Currency Received (Currency Paid)			
Subsidiary	**Contract with Treasure Center**	**EUR**	**JPY**	**GBP**	**USD**
A (German)	Internal Contract 1	(115)	12,000		
	Internal Contract 2	80		(50)	
B (Japanese)	Internal Contract 3		(10,160)		100
	Internal Contract 4	(100)	10,432		
C (UK)	Internal Contract 5			201	(330)
Net exposure		**(135)**	**12,272**	**151**	**(230)**

Treasury Center Perspective—Internal Contracts with the Subsidiaries

Subsidiary	Contract with Treasury Center	Currency Received (Currency Paid) EUR	JPY	GBP	USD
A (German)	Internal Contract 1	115	(12,000)		
	Internal Contract 2	(80)		50	
B (Japanese)	Internal Contract 3		10,160		(100)
	Internal Contract 4	100	(10,432)		
C (UK)	Internal Contract 5			(201)	330
Net exposure		**135**	**(12,272)**	**(151)**	**230**

55-119 For Subsidiaries A, B, and C to designate the internal contracts as hedging instruments in the consolidated financial statements, the Treasury Center must meet certain required criteria outlined in paragraphs 815-20-25-62 through 25-63 in determining how it will offset exposure arising from multiple internal derivatives that it has issued. Based on a determination that those requirements are satisfied (see the following paragraph, the Treasury Center determines the net exposure in each currency with respect to USD (its functional currency). The Treasury Center determines that it will enter into the following three third-party foreign currency forward contracts. The Treasury Center enters into the contracts on January 1. The contracts mature on June 30.

Treasury Center's Contracts with Unrelated Third Parties

	Currency Bought (Currency Sold) EUR	JPY	BP	USD
Third-Party Contract 1	(135)			138 [(a)]
Third-Party Contract 2		12,272		(121) [(a)]
Third-Party Contract 3			151	(247) [(a)]
Net exposure	**(135)**	**12,272**	**151**	**(230)**

(a) Computed based on forward exchange rates as of January 1.

55-120 From the Treasury Center's perspective, the required criteria in paragraphs 815-20-25-62 through 25-63 are satisfied as follows:

a. The issuing affiliate enters into a derivative instrument with an unrelated third party to offset, on a net basis for each foreign currency, the foreign exchange risk arising from multiple internal derivatives, and the derivative instrument with the unrelated third party generates equal or closely approximating gains and losses when compared with the aggregate or net losses and gains generated by the derivative instruments issued to affiliates. The Treasury Center enters into third-party derivative instruments to offset the exposure of each foreign currency on a net basis. The Treasury Center offsets 100 percent of the net exposure to each currency; that is, the Treasury Center does not selectively keep any portion of that exposure. In this Example, the Treasury Center's third-party contracts generate losses that are equal to the losses on internal contracts designated as hedging instruments by Subsidiaries A, B, and C (see analysis beginning in the following paragraph).

b. Internal derivatives that are not designated as hedging instruments and all nonderivative instruments are excluded from the determination of the foreign currency exposure on a net basis that is offset by the third-party derivative instrument. The Treasury Center does not include in the determination of net exposure any internal derivatives not designated as hedging instruments or any nonderivative instruments.

c. Foreign currency exposure that is offset by a single net third-party contract arises from internal derivatives that involve the same currency and that mature within the same 31-day period. The offsetting net third-party derivative instrument related to that group of contracts must offset the aggregate or net exposure to that currency, must mature within the same 31-day period, and must be entered into within 3 business days after the designation of the internal derivatives as hedging instruments. The Treasury Center's third-party net contracts involve the same currency (that is, not a tandem currency) as the net exposure arising from the internal derivatives issued to Subsidiaries A, B, and C. The Treasury Center's third-party derivative instruments mature within the same 31-day period as the internal contracts that involve currencies that are offset on a net basis. In this Example, for simplicity, all internal contracts and third-party derivative instruments are entered into on the same date.

d. The issuing affiliate tracks the exposure that it acquires from each hedging affiliate and maintains documentation supporting linkage of each derivative instrument and the offsetting aggregate or net derivative instrument with an unrelated third party. The Treasury Center maintains documentation supporting linkage of third-party contracts and internal contracts throughout the hedge period.

e. The issuing affiliate does not alter or terminate the offsetting derivative instrument with an unrelated third party unless the hedging affiliate initiates that action. If the issuing affiliate does alter or terminate the offsetting third-party derivative (which should be rare), the hedging affiliate must prospectively cease hedge accounting for the internal derivatives that are offset by that third-party derivative. Based on Entity XYZ's policy, the Treasury Center may not alter or terminate the offsetting derivative instrument with an unrelated third party unless the hedging affiliate initiates that action.

f. If an internal derivative that is included in determining the foreign currency exposure on a net basis is modified or dedesignated as a hedging instrument, compliance must be reassessed. For simplicity, this Example does not involve a modification or dedesignation of an internal derivative.

55-121 At the end of the quarter, each subsidiary determines the functional currency gains and losses for each contract with the Treasury Center.

Subsidiary	Contract with Treasury Center	Beginning of Period Functional Currency Amount Receive (Pay) (a)	End of Period Functional Currency Amount Receive (Pay) (a)	Functional Currency Gain (Loss) (b)	US Dollar Gain (Loss) (c)
A (German)	Internal Contract 1	(115)	(115)	-	-
	Internal Contract 2	80	83	(3)	(3)
B (Japanese)	Internal Contract 3	(10,160)	(10,738)	578	5
	Internal Contract 4	10,432	10,421	11	-
C (UK)	Internal Contract 5	201	204	(3)	(5)
				Net USD Gain (Loss)	**(3)**

(a) Computed based on forward exchange rates as of January 1 and March 31.
(b) For simplicity, functional currency gains or losses are not discounted in this Example.
(c) Functional currency gains and losses converted to USD based on current spot rates.

55-122 At the end of the quarter, the Treasury Center determines its gains or losses on third-party contracts.

Contracts with Third Parties	Beginning of Period USD Amount Receive (Pay) (a)	End of Period USD Amount Receive (Pay) (a)	USD Gain (Loss) (b)
Third-Party Contract 1	138	131	7
Third-Party Contract 2	(121)	(114)	(7)
Third-Party Contract 3	(247)	(244)	(3)
		Net USD Gain (Loss)	**(3)**

(a) Computed based on forward exchange rates as of January 1 and March 31.
(b) For simplicity, gains or losses are not discounted in this Example.

55-123 Journal Entries at March 31 (Note: All journal entries are in USD.)

Subsidiaries' Journal Entries

German Subsidiary A

There is no entry for Contract 1 because the USD gain or loss is zero.

Other comprehensive income	$ 3	
Derivative liability		$ 3
To record the loss on Internal Contract 2.		

Japanese Subsidiary B

Derivative asset	$ 5	
Other comprehensive income		$ 5
To record the gain on Contract 3.		

There is no entry for Internal Contract 4 because the USD gain or loss is zero.

UK Subsidiary C

Other comprehensive income	$ 5	
Derivative liability		$ 5
To record the loss on Internal Contract 5.		

Treasury Center's Journal Entries

Journal Entries for Internal Contracts with Subsidiaries

There is no entry for Internal Contract 1 because the USD gain or loss is zero.

Derivative asset	$ 3	
Earnings		$ 3
To record the gain on Internal Contract 2 with German Subsidiary A.		
Earnings	5	
Derivative liability		5
To record the loss on Internal Contract 3 with Japanese Subsidiary B.		

There is no entry for Internal Contract 4 because the USD gain or loss is zero.

Derivative asset	5	
Earnings		5
To record the gain on Internal Contract 5 with UK Subsidiary C.		

Journal Entries for Third-Party Contracts

Derivative asset	$ 7	
Earnings		$ 7
To record the gain on Third-Party Contract 1.		
Earnings	7	
Derivative liability		7
To record the loss on Third-Party Contract 2.		
Earnings	3	
Derivative liability		3
To record the loss on Third-Party Contract 3.		

Results in Consolidation

Derivative asset	$ 7	
Other comprehensive income	3	
Derivative liability		$ 10

55-124 In consolidation, the amounts in the balance sheets of Subsidiaries A, B, and C reflecting derivative instrument assets and derivative instrument liabilities arising from internal derivatives acquired from the Treasury Center eliminate against the Treasury Center's derivative instrument liabilities and derivative instrument assets arising from internal derivatives issued to the subsidiaries. The amount reflected in consolidated other comprehensive income reflects the net entry to other comprehensive income of Subsidiaries A, B, and C. The Treasury Center's gross derivative instrument asset and gross derivative instrument liability arising from third-party contracts are also reflected in the consolidated balance sheet. Based on the assumptions in this Example, the Treasury Center's net loss on third-party derivative instruments used to offset the exposure, on a net basis, of internal contracts with Subsidiaries A, B, and C equals the net loss on internal contracts with the subsidiaries. Therefore, within the Treasury Center, the gains on internal contracts issued to Subsidiaries A, B, and C, and the losses on third-party contracts are equal and offsetting. However, if the Treasury Center's net gain or loss on third-party contracts does not equal the net gain or loss on internal derivatives designated as hedging instruments by affiliates, the difference must be recognized as ineffectiveness in consolidated earnings.

55-125 The reclassification of amounts out of consolidated other comprehensive income is based on Subsidiaries A, B, and C's internal contracts with the Treasury Center. That is, the reclassification of amounts out of consolidated other comprehensive income into earnings is based on the timing and amounts of the individual subsidiaries' forecasted transactions. In this Example, at June 30, the forecasted transactions at Subsidiaries A, B, and C have been consummated and the net debit amount in consolidated other comprehensive income of 3 has been reversed.

>> Example 20: Amounts Reclassified into Earnings for Purchased Option Used in a Cash Flow Hedge

55-126 This Example illustrates when the portion of the hedging instrument's gain or loss that is reported in accumulated other comprehensive income should be reclassified out of accumulated other comprehensive income into earnings under paragraph 815-30-35-36.

55-127 An entity forecasts that 1 year later it will purchase 1,000 ounces of gold at then current market prices for use in its operations. The entity wishes to protect itself against increases in the cost of gold above the current market price of $275 per ounce. The entity purchases a 1-year cash-settled at-the-money gold option on 1,000 ounces of gold, paying a premium of $10,000. If the price of gold is above $275 at the maturity (settlement) date, the counterparty will pay the entity 1,000 times the difference. If the price of gold is $275 or below at the maturity date, the contract expires worthless. The option cannot be exercised before its contractual maturity date. The entity designates the purchased option contract as a hedge of the variability in the purchase price (cash outflow) of the 1,000 ounces of gold for prices above $275 per ounce. The entity would reclassify the purchased option’s gain or loss that is reported in accumulated other comprehensive income in earnings when the cost of the gold affects earnings (such as being included in cost of goods sold).

>> Example 21: Effect on Accumulated Other Comprehensive Income from Issuing Debt at a Date that Is Not the Same as Originally Forecasted

55-128 The following Cases illustrate the application of paragraph 815-30-40-5 in determining whether an entity should immediately reclassify into earnings the entire net gain or loss related to the derivative instrument in accumulated other comprehensive income when issuing debt at a date that is not the same as originally forecasted:

a. Amounts are not reclassified immediately into earnings (Case A).

b. Amounts are reclassified immediately into earnings (Case B).

>>> Case A: Amounts Are Not Reclassified Immediately into Earnings

55-129 This Case has the following assumptions:

a. Entity A expects to borrow $100 million over a 10-year period beginning in 6 months.

b. Entity A initially plans to issue $100 million of 10-year fixed-rate debt at or near par at the then-current market interest rate.

c. Entity A will be exposed to variability in cash flows for the future quarterly interest payments on the debt due to changes in credit risk and interest rate risk that occur during this six-month period before issuance.

d. To hedge the risk of changes in these 40 quarterly interest payments attributable to changes in the benchmark interest rate for the 6-month period, Entity A does both of the following:

1. Enters into a derivative instrument (for example, a forward-starting interest rate swap)

2. Documents that it is hedging the variability in the 40 future quarterly interest payments, attributable to changes in the benchmark interest rate, over the next 10 years related to its 10-year $100 million borrowing program that begins in 6 months.

e. Entity A documents that it will assess the effectiveness of the hedging relationship semimonthly.

f. Six months after inception of the hedging relationship, Entity A decides to delay the issuance of the 10-year debt for 3 months.

55-130 When Entity A decides to delay the issuance of the 10-year debt for 3 months, Entity A should not immediately reclassify into earnings the entire net gain or loss in accumulated other comprehensive income related to the derivative instrument. Entity A's strategy is a cash flow hedge of 40 individual probable quarterly interest payments. A cash flow hedge of future interest payments is a hedge of a series of forecasted transactions; consequently, Entity A must first determine the likelihood of whether and when each forecasted transaction in the series will occur. If at any time during the hedging relationship Entity A determines that it is no longer probable that any of the forecasted transactions in the series will occur by the date (or within the time period) originally specified, it must terminate the original hedging relationship for each of those specific nonprobable forecasted transactions—even if the forecasted transaction will occur within an additional two-month period of time after that originally specified date. Entity A need not terminate the original hedging relationship for those specific forecasted transactions that remain probable of occurring by the date or within the time period originally specified. After the hedging relationship is terminated, Entity A must determine whether it is probable that any or all of those specific nonprobable forecasted transactions will not occur either by the date (or within the time period) originally specified or within an additional two-month period of time thereafter (see paragraphs 815-30-40-4 through 40-5). Entity A should reclassify into earnings from accumulated other comprehensive income the amount of the net derivative instrument gain or loss related to those specific nonprobable forecasted transactions for which it is probable they will not occur. That amount should be equivalent to the present value of the derivative instrument's cash flows intended to offset the changes in the original forecasted transactions for which Entity A has determined it is probable that they will not occur by the date (or within the time period) originally specified or within an additional two-month period of time thereafter.

55-131 In this Case, when Entity A originally documented the hedging relationship, it was hedging 40 forecasted transactions (forecasted interest payments) that would begin in 6 months' time and continue over a 10-year period. Because Entity A did not issue the debt instrument as originally documented, Entity A would determine that it is probable that the first forecasted transaction will not occur at the time forecasted; consequently, Entity A must terminate the original hedging relationship with respect to that first forecasted transaction. However, Entity A would also determine that it is probable that the other 39 forecasted transactions will occur at the time forecasted. After the hedging relationship is terminated for the specific nonprobable first forecasted transaction, Entity A must determine whether it is probable that specific nonprobable first forecasted transaction will not occur by the forecasted date or within an additional two-month period of time thereafter. In this Case, Entity A determines that it is probable that the first hedged quarterly interest payment will not occur within two months of its specified date. The amount reclassified into earnings from accumulated other comprehensive income is the portion of the interest rate swap's net gain or loss equivalent to the present value of the cash flows from the interest rate swap intended to offset the changes in the first forecasted transaction that is probable not to occur.

>>> Case B: Amounts Are Reclassified Immediately into Earnings

55-132 This Case has the following assumptions:

a. Entity B expects to issue $100 million of 10-year, 9 percent debt in 6 months.

b. Because the debt will have a fixed interest rate of 9 percent, Entity B will not be exposed to variability in the future quarterly interest payments at 9 percent, but it will be exposed to variability in the cash flows received as proceeds on the debt due to changes in credit risk and interest rate risk that occur during the 6-month period before issuance.

c. To hedge the risk of changes in the total proceeds attributable to changes in the benchmark interest rate, Entity B does both of the following:

1. Enters into a derivative instrument (for example, a short position in U.S. Treasury note futures contracts)

2. Documents that it is hedging the variability in the cash proceeds attributable to changes in the benchmark interest rate to be received from the 9 percent fixed-rate debt it will issue in 6 months.

d. Because Entity B plans to issue $100 million of 10-year, 9 percent debt regardless of the then-current interest rate environment, the effect of increases or decreases in interest rates will be reflected in issuing the debt at a discount or a premium, respectively.

e. Six months after inception of the hedging relationship, Entity B decides to delay the issuance of the debt for three months.

55-133 This strategy is a cash flow hedge of the variability in proceeds attributable to changes in the benchmark interest rate to be received from the issuance of debt in six months. A cash flow hedge of the proceeds attributable to changes in the benchmark interest rate is a hedge of a single forecasted transaction specified to occur in six months; consequently, when the single forecasted transaction is no longer probable of occurring by the date (or within the time period) originally specified, Entity B must terminate the hedging relationship. After the hedging relationship is terminated, Entity B must determine whether it is probable that the specific nonprobable forecasted transaction will not occur by the date (or within the time period) originally specified or within an additional two-month period of time thereafter. Because Entity B decided to delay the issuance of the debt for a three-month period of time, Entity B concludes that it is probable that the forecasted transaction will not occur by the date (or within the time period) originally specified or within an additional two-month period of time thereafter. Consequently, Entity B should immediately reclassify into earnings the entire net gain or loss related to the derivative instrument in accumulated other comprehensive income. Given the guidance in paragraph 815-30-40-5, the nonoccurrence of the hedged forecasted transactions described in this Case could potentially jeopardize Entity B's ability to use cash flow hedge accounting in the future for the situation described.

END OF DOCUMENT -

Checkpoint Contents
Accounting, Audit & Corporate Finance Library
Standards and Regulations
FASB Codification
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Broad Transactions
815 Derivatives and Hedging
815-30 Cash Flow Hedges
815-30-75 XBRL Elements

815-30-75 XBRL Elements

Click here to link to 815-30-S75.

General Note: This section contains a list of XBRL elements that reference paragraphs in this Subtopic. For additional details regarding changes to the development version of the US GAAP Financial Reporting Taxonomy, refer to the FASB taxonomy review and comment system on the FASB web site.

XBRL Links to Codification

Accumulated Other Comprehensive Income (Loss), Cumulative Changes in Net Gain (Loss) from Cash Flow Hedges, Effect Net of Tax (Revision Date: 2011-08-17)

Element Name: *AccumulatedOtherComprehensiveIncomeLossCumulativeChangesInNetGainLossFromCashFlowHedgesEffectNetOfTax*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 50 Disclosure > General, 50-2

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 220 Comprehensive Income > 10 Overall > 45 Other Presentation > General, 45-11
- 220 Comprehensive Income > 10 Overall > 45 Other Presentation > General, 45-14
- 220 Comprehensive Income > 10 Overall > 45 Other Presentation > General, 45-10A (d)
- 220 Comprehensive Income > 10 Overall > 45 Other Presentation > General, 45-14A

Cash Flow Hedge Gain (Loss) Reclassified to Cost of Sales, Net

Element Name: *CashFlowHedgeGainLossReclassifiedToCostOfSalesNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 50 Disclosure > General, 50-2 (c)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (c)

Cash Flow Hedge Gain (Loss) Reclassified to Earnings, Net

Element Name: *CashFlowHedgeGainLossReclassifiedToEarningsNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 50 Disclosure > General, 50-2 (c)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (c)

Cash Flow Hedge Gain (Loss) Reclassified to Interest Expense, Net

Element Name: *CashFlowHedgeGainLossReclassifiedToInterestExpenseNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 50 Disclosure > General, 50-2 (c)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (c)

Cash Flow Hedge Gain (Loss) Reclassified to Investment Income, Net

Element Name: *CashFlowHedgeGainLossReclassifiedToInvestmentIncomeNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 50 Disclosure > General, 50-2 (c)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (c)

Cash Flow Hedge Gain (Loss) Reclassified to Other Expense, Net

Element Name: *CashFlowHedgeGainLossReclassifiedToOtherExpenseNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 50 Disclosure > General, 50-2 (c)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (c)

Cash Flow Hedge Gain (Loss) Reclassified to Other Income, Net

Element Name: *CashFlowHedgeGainLossReclassifiedToOtherIncomeNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 50 Disclosure > General, 50-2 (c)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (c)

Cash Flow Hedge Gain (Loss) Reclassified to Revenue, Net

Element Name: *CashFlowHedgeGainLossReclassifiedToRevenueNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 50 Disclosure > General, 50-2 (c)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (c)

Cash Flow Hedge Gain (Loss) to be Reclassified within Twelve Months

Element Name: *CashFlowHedgeGainLossToBeReclassifiedWithinTwelveMonths*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 50 Disclosure > General, 50-1 (c)

Comprehensive Income (Loss), Net of Tax, Attributable to Parent (Revision Date: 2011-08-17)

Element Name: *ComprehensiveIncomeNetOfTax*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 220 Comprehensive Income > 10 Overall > 45 Other Presentation > General, 45-5

This XBRL element references the following glossary term(s):

- Master Glossary > Comprehensive Income
- Master Glossary > Net Income
- Master Glossary > Other Comprehensive Income

Derivative Asset, Notional Amount

Element Name: *DerivativeAssetNotionalAmount*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Derivative Financial Instruments, Assets [Member]

Element Name: *DerivativeFinancialInstrumentsAssetsMember*

This XBRL element references the following glossary term(s):

- Master Glossary > Derivative Instrument

Derivative Financial Instruments, Liabilities [Member]

Element Name: *DerivativeFinancialInstrumentsLiabilitiesMember*

This XBRL element references the following glossary term(s):

- Master Glossary > Derivative Instrument

Derivative Instruments and Hedging Activities Disclosure [Text Block]

Element Name: *DerivativeInstrumentsAndHedgingActivitiesDisclosureTextBlock*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 45 Other Presentation > General, 45-1
- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 50 Disclosure > General, 50-2

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n))
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-3
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-5
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4D

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4E
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4H
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4J
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4K
- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1

Derivative Liability, Notional Amount

Element Name: *DerivativeLiabilityNotionalAmount*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Derivative, Nonmonetary Notional Amount

Element Name: *DerivativeNonmonetaryNotionalAmount*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Derivative, Notional Amount

Element Name: *DerivativeNotionalAmount*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Derivatives, Methods of Accounting, Hedging Derivatives [Policy Text Block]

Element Name: *DerivativesMethodsOfAccountingHedgingDerivatives*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 50 Disclosure > General, 50-1

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n))
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C
- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1

Description of Cash Flow Hedge Activity

Element Name: *DescriptionOfCashFlowHedgeActivity*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 50 Disclosure > General, 50-1

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-5
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A

Description of Reclassification of Cash Flow Hedge Gain (Loss)

Element Name: *DescriptionOfReclassificationOfCashFlowHedgeGainLoss*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 50 Disclosure > General, 50-1 (b)

Description of Reclassification of Foreign Currency Cash Flow Hedge Gain (Loss)

Element Name: *DescriptionOfReclassificationOfForeignCurrencyCashFlowHedgeGainLoss*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 50 Disclosure > General, 50-1 (b)

Description of Reclassification of Interest Rate Cash Flow Hedge Gain (Loss)

Element Name: *DescriptionOfReclassificationOfInterestRateCashFlowHedgeGainLoss*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 50 Disclosure > General, 50-1 (b)

Description of Reclassification of Price Risk Cash Flow Hedge Gain (Loss)

Element Name: *DescriptionOfReclassificationOfPriceRiskCashFlowHedgeGainLoss*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 50 Disclosure > General, 50-1 (b)

Fair Value Disclosure, Off-balance Sheet Risks, Description

Element Name: *FairValueDisclosureOffBalanceSheetRisksDescription*

This XBRL element references the following glossary term(s):

- Master Glossary > Financial Instrument

Fair Value Disclosure, Off-balance Sheet Risks, Methodology

Element Name: *FairValueDisclosureOffBalanceSheetRisksMethodology*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 270 Interim Reporting > 10 Overall > 60 Relationships > General, 60-1
- 825 Financial Instruments > 10 Overall > 50 Disclosure > General, 50-10 (b)

This XBRL element references the following glossary term(s):

- Master Glossary > Financial Instrument

Fair Value Disclosure, Off-balance Sheet Risks, Significant Assumptions

Element Name: *FairValueDisclosureOffBalanceSheetRisksSignificantAssumptions*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 820 Fair Value Measurement > 10 Overall > 50 Disclosure > General, 50-1

- 825 Financial Instruments > 10 Overall > 50 Disclosure > General, 50-10 (b)

This XBRL element references the following glossary term(s):

- Master Glossary > Financial Instrument

Foreign Currency Cash Flow Hedge Gain (Loss) to be Reclassified During Next 12 Months

Element Name: *ForeignCurrencyCashFlowHedgeGainLossToBeReclassifiedDuringNext12Months*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 50 Disclosure > General, 50-1 (c)

Gain (Loss) on Discontinuation of Cash Flow Hedge Due to Forecasted Transaction Probable of Not Occurring, Net

Element Name: *GainLossOnDiscontinuationOfCashFlowHedgeDueToForecastedTransactionProbableOfNotOccurringNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 50 Disclosure > General, 50-1 (e)

Gain (Loss) on Discontinuation of Foreign Currency Cash Flow Hedge Due to Forecasted Transaction Probable of Not Occurring, Net

Element Name: *GainLossOnDiscontinuationOfForeignCurrencyCashFlowHedgeDueToForecastedTransactionProbableOfNotOccurringNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 50 Disclosure > General, 50-1 (e)

Gain (Loss) on Discontinuation of Interest Rate Cash Flow Hedge Due to Forecasted Transaction Probable of Not Occurring, Net

Element Name: *GainLossOnDiscontinuationOfInterestRateCashFlowHedgeDueToForecastedTransactionProbableOfNotOccurringNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 50 Disclosure > General, 50-1 (e)

Gain (Loss) on Discontinuation of Price Risk Cash Flow Hedge Due to Forecasted Transaction Probable of Not Occurring, Net

Element Name: *GainLossOnDiscontinuationOfPriceRiskCashFlowHedgeDueToForecastedTransactionProbableOfNotOccurringNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 50 Disclosure > General, 50-1 (e)

Gain on Discontinuation of Cash Flow Hedge Due to Forecasted Transaction Probable of Not Occurring

Element Name: *GainOnDiscontinuationOfCashFlowHedgeDueToForecastedTransactionProbableOfNotOccurring*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 50 Disclosure > General, 50-1 (e)

General Discussion of Derivative Instruments and Hedging Activities

Element Name: *GeneralDiscussionOfDerivativeInstrumentsAndHedgingActivities*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 45 Other Presentation > General, 45-1
- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 50 Disclosure > General, 50-1

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-5
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A
- 815 Derivatives and Hedging > 25 Fair Value Hedges > 50 Disclosure > General, 50-1

Interest Rate Cash Flow Hedge Gain (Loss) to be Reclassified During Next 12 Months, Net

Element Name: *InterestRateCashFlowHedgeGainLossToBeReclassifiedDuringNext12MonthsNet*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 50 Disclosure > General, 50-1 (c)

Investment Owned, Underlying Face Amount, at Market Value

Element Name: *InvestmentOwnedUnderlyingFaceAmountAtMarketValue*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 10 Objectives > General, 10-1 (a)
- 815 Derivatives and Hedging > 20 Hedging—General > 10 Objectives > General, 10-1

This XBRL element references the following glossary term(s):

- Master Glossary > Underlying

Loss on Discontinuation of Cash Flow Hedge Due to Forecasted Transaction Probable of Not Occurring

Element Name: *LossOnDiscontinuationOfCashFlowHedgeDueToForecastedTransactionProbableOfNotOccurring*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 50 Disclosure > General, 50-1 (e)

Maximum Length of Time Hedged in Cash Flow Hedge (Revision Date: 2011-11-21)

Element Name: *MaximumLengthOfTimeHedgedInCashFlowHedge1*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 50 Disclosure > General, 50-1 (d)

Maximum Length of Time Hedged in Interest Rate Cash Flow Hedge (Revision Date: 2011-11-21)

Element Name: *MaximumLengthOfTimeHedgedInInterestRateCashFlowHedge1*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 50 Disclosure > General, 50-1 (d)

Maximum Length of Time Hedged in Price Risk Cash Flow Hedge (Revision Date: 2011-11-21)

Element Name: *MaximumLengthOfTimeHedgedInPriceRiskCashFlowHedge1*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 50 Disclosure > General, 50-1 (d)

Maximum Length of Time, Foreign Currency Cash Flow Hedge (Revision Date: 2012-02-18)

Element Name: *MaximumLengthOfTimeForeignCurrencyCashFlowHedge*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 50 Disclosure > General, 50-1 (d)

Nonmonetary Notional Amount of Price Risk Cash Flow Hedge Derivatives

Element Name: *NonmonetaryNotionalAmountOfPriceRiskCashFlowHedgeDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Nonmonetary Notional Amount of Price Risk Derivative Instruments Not Designated as Hedging Instruments

Element Name: *NonmonetaryNotionalAmountOfPriceRiskDerivativeInstrumentsNotDesignatedAsHedgingInstruments*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Nonmonetary Notional Amount of Price Risk Derivatives

Element Name: *NonmonetaryNotionalAmountOfPriceRiskDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Nonmonetary Notional Amount of Price Risk Fair Value Hedge Derivatives

Element Name: *NonmonetaryNotionalAmountOfPriceRiskFairValueHedgeDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Cash Flow Hedge Instruments

Element Name: *NotionalAmountOfCashFlowHedgeInstruments*

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Credit Risk Derivatives

Element Name: *NotionalAmountOfCreditRiskDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Derivative Instruments Designated as Net Investment Hedges

Element Name: *NotionalAmountOfDerivativeInstrumentsDesignatedAsNetInvestmentHedges*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Fair Value Hedge Instruments

Element Name: *NotionalAmountOfFairValueHedgeInstruments*

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Foreign Currency Cash Flow Hedge Derivatives

Element Name: *NotionalAmountOfForeignCurrencyCashFlowHedgeDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Foreign Currency Derivative Instruments Not Designated as Hedging Instruments

Element Name: *NotionalAmountOfForeignCurrencyDerivativeInstrumentsNotDesignatedAsHedgingInstruments*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Foreign Currency Derivative Purchase Contracts

Element Name: *NotionalAmountOfForeignCurrencyDerivativePurchaseContracts*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Foreign Currency Derivative Sale Contracts

Element Name: *NotionalAmountOfForeignCurrencyDerivativeSaleContracts*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Foreign Currency Derivatives

Element Name: *NotionalAmountOfForeignCurrencyDerivatives*

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Foreign Currency Fair Value Hedge Derivatives

Element Name: *NotionalAmountOfForeignCurrencyFairValueHedgeDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Interest Rate Cash Flow Hedge Derivatives

Element Name: *NotionalAmountOfInterestRateCashFlowHedgeDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Interest Rate Derivative Instruments Not Designated as Hedging Instruments

Element Name: *NotionalAmountOfInterestRateDerivativeInstrumentsNotDesignatedAsHedgingInstruments*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Interest Rate Derivatives

Element Name: *NotionalAmountOfInterestRateDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Interest Rate Fair Value Hedge Derivatives

Element Name: *NotionalAmountOfInterestRateFairValueHedgeDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Net Investment Hedging Instruments

Element Name: *NotionalAmountOfNetInvestmentHedgingInstruments*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Nonderivative Instruments Designated as Net Investment Hedges

Element Name: *NotionalAmountOfNonderivativeInstrumentsDesignatedAsNetInvestmentHedges*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Other Derivatives Not Designated as Hedging Instruments

Element Name: *NotionalAmountOfOtherDerivativesNotDesignatedAsHedgingInstruments*

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Price Risk Cash Flow Hedge Derivatives

Element Name: *NotionalAmountOfPriceRiskCashFlowHedgeDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Price Risk Derivative Instruments Not Designated as Hedging Instruments

Element Name: *NotionalAmountOfPriceRiskDerivativeInstrumentsNotDesignatedAsHedgingInstruments*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Price Risk Derivatives

Element Name: *NotionalAmountOfPriceRiskDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Price Risk Fair Value Hedge Derivatives

Element Name: *NotionalAmountOfPriceRiskFairValueHedgeDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Other Comprehensive Income (Loss), Unrealized Gain (Loss) on Derivatives Arising During Period, Net of Tax (Revision Date: 2011-08-17)

Element Name: *OtherComprehensiveIncomeUnrealizedGainLossOnDerivativesArisingDuringPeriodNetOfTax*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 45 Other Presentation > General, 45-1

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 220 Comprehensive Income > 10 Overall > 45 Other Presentation > General, 45-11
- 220 Comprehensive Income > 10 Overall > 45 Other Presentation > General, 45-10A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (b)

Other Comprehensive Income (Loss), Unrealized Gain (Loss) on Derivatives Arising During Period, before Tax (Revision Date: 2011-08-17)

Element Name: *OtherComprehensiveIncomeUnrealizedGainLossOnDerivativesArisingDuringPeriodBeforeTax*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 45 Other Presentation > General, 45-1

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 220 Comprehensive Income > 10 Overall > 45 Other Presentation > General, 45-11
- 220 Comprehensive Income > 10 Overall > 45 Other Presentation > General, 45-10A (d)

Price Risk Cash Flow Hedge Unrealized Gain (Loss) to be Reclassified During Next 12 Months

Element Name: *PriceRiskCashFlowHedgeUnrealizedGainLossToBeReclassifiedDuringNext12Months*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 50 Disclosure > General, 50-1 (c)

Unrealized Loss on Price Risk Cash Flow Derivatives, before Tax

Element Name: *UnrealizedLossOnPriceRiskCashFlowDerivativesBeforeTax*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 30 Cash Flow Hedges > 45 Other Presentation > General, 45-1

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C (b)

END OF DOCUMENT -

815-35-00 Status

General Note: The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

General

00-1 No updates have been made to this subtopic.

END OF DOCUMENT -

815-35-05 Overview and Background

General Note: The Overview and Background Section provides overview and background material for the guidance contained in the Subtopic. It does not provide the historical background or due process. It may contain certain material that users generally consider useful to understand the typical situations addressed by the standards. The Section does not summarize the accounting and reporting requirements.

General

05-1 This Subtopic provides incremental guidance on accounting for and financial reporting of hedges of a net investment in a foreign operation established under the criteria in Subtopic 815-20.

END OF DOCUMENT -

815-35-15 Scope and Scope Exceptions

General Note: The Scope and Scope Exceptions Section outlines the items (for example, the entities, transactions, instruments, or events) to which the guidance in the Subtopic does or does not apply. In some cases, the Section may contain definitional or other text to frame the scope.

General Note for Financial Instruments: Some of the items subject to the guidance in this Subtopic are **financial instruments**. For guidance on matters related broadly to all financial instruments, (including the fair value option, accounting for registration payment arrangements, and broad financial instrument disclosure requirements), see Topic 825. See Section 825-10-15 for guidance on the scope of the Financial Instruments Topic.

General

> Overall Guidance

15-1 This Subtopic follows the same Scope and Scope Exceptions as outlined in Subtopic 815-20, see Section 815-20-15.

END OF DOCUMENT -

815-35-20 Glossary

General Note: The Master Glossary contains all terms identified as glossary terms throughout the Codification. Clicking on any term in the Master Glossary will display where the term is used. The Master Glossary may contain identical terms with different definitions, some of which may not be appropriate for a particular Subtopic. For any particular Subtopic, users should only use the glossary terms included in the particular Subtopic Glossary Section (Section 20).

Derivative Instrument

Paragraphs 815-10-15-83 through 15-139 define the term *derivative instrument*.

Fair Value

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair Value Hedge

A hedge of the exposure to changes in the fair value of a recognized asset or liability, or of an unrecognized firm commitment, that are attributable to a particular risk.

Notional Amount

A number of currency units, shares, bushels, pounds, or other units specified in a derivative instrument. Sometimes other names are used. For example, the notional amount is called a face amount in some contracts.

Underlying

A specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, or other variable (including the occurrence or nonoccurrence of a specified event such as a scheduled payment under a contract). An underlying may be a price or rate of an asset or liability but is not the asset or liability itself. An underlying is a variable that, along with either a notional amount or a payment provision, determines the settlement of a derivative instrument.

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Checkpoint Contents
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815-35-25 Recognition

General Note: The Recognition Section provides guidance on the required criteria, timing, and location (within the financial statements) for recording a particular item in the financial statements. Disclosure is not recognition.

General

25-1 See Section 815-20-25 for the criteria under which an entity may designate a net investment hedge.

END OF DOCUMENT -

815-35-35 Subsequent Measurement

General Note: The Subsequent Measurement Section provides guidance on an entity's subsequent measurement and subsequent recognition of an item. Situations that may result in subsequent changes to carrying amount include impairment, fair value adjustments, depreciation and amortization, and so forth.

General

> Overall

35-1 The gain or loss on a hedging **derivative instrument** (or the foreign currency transaction gain or loss on the nonderivative hedging instrument) that is designated as, and is effective as, an economic hedge of the net investment in a foreign operation shall be reported in the same manner as a translation adjustment (that is, reported in the cumulative translation adjustment section of other comprehensive income) to the extent it is effective as a hedge.

35-2 The hedged net investment shall be accounted for consistent with Topic 830. The provisions of Subtopic 815-25 for recognizing the gain or loss on assets designated as being hedged in a **fair value hedge** do not apply to the hedge of a net investment in a foreign operation.

35-3 If an entity has designated and documented that it will measure effectiveness on an after-tax basis as permitted by paragraph 815-20-25-3(b)(2)(vi), the portion of the gain or loss on the hedging instrument that exceeded the loss or gain on the hedged item shall be included as an offset to the related tax effects in the period in which those tax effects are recognized.

> Measuring Hedge Ineffectiveness

35-4 If a derivative instrument is used as the hedging instrument, an entity may measure the amount of ineffectiveness in a net investment hedge using either a method based on changes in spot exchange rates (as specified in paragraphs 815-35-35-5 through 35-15) or a method based on changes in forward exchange rates (as specified in paragraphs 815-35-35-16 through 35-26). This guidance can also be applied to purchased options used as hedging instruments in a net investment hedge. However, an entity shall consistently use the same method for all its net investment hedges in which the hedging instrument is a derivative instrument; use of the spot method for some net investment hedges and the forward method for other net investment hedges is not permitted.

>> Method Based on Changes in Spot Exchange Rates

>>> Hedging Instrument Is a Derivative Instrument

35-5 The change in the **fair value** of the derivative instrument attributable to changes in the difference between the forward rate and spot rate would be excluded from the measure of hedge ineffectiveness and that difference would be reported directly in earnings if all of the following conditions are met:

a. The **notional amount** of the derivative instrument designated as a hedge of a net investment in a foreign operation matches (that is, equals) the portion of the net investment designated as being hedged.

b. The derivative instrument's underlying exchange rate is the exchange rate between the functional currency of the hedged net investment and the investor’s functional currency.

c. The hedging derivative instrument is a cross-currency interest rate swap as permitted by paragraph 815-20-25-67.

35-6 The interest accrual (periodic cash settlement) components of qualifying receive-variable-rate, pay-variable-rate and receive-fixed rate, pay-fixed-rate cross-currency interest rate swaps shall also be reported directly in earnings.

35-7 The effective portion of the change in fair value shall be reported in the same manner as a translation adjustment (that is, reported in the cumulative translation adjustment section of other comprehensive income). The effective portion that would be reported in the cumulative translation adjustment section of other comprehensive income shall be determined by looking to changes in spot exchange rates.

35-8 The spot-to-spot changes in value reported in the cumulative translation adjustment section of other comprehensive income shall not be discounted.

35-9 The guidance in the following paragraph shall be applied if any of the following conditions exist:

a. The notional amount of the derivative instrument does not match the portion of the net investment designated as being hedged.

b. The derivative instrument's underlying exchange rate is not the exchange rate between the functional currency of the hedged net investment and the investor’s functional currency.

c. The hedging derivative instrument is a cross-currency interest rate swap as permitted by paragraph 815-20-25-67 in which both legs are not based on comparable interest rate curves (for example, pay foreign currency based on the three-month London Interbank Offered Rate [LIBOR], receive functional currency based on three-month commercial paper rates).

35-10 If any of the conditions in the preceding paragraph exist, the effective portion that would be reported in the cumulative translation adjustment section of other comprehensive income of a hypothetical derivative instrument that does not incorporate those differences shall be compared to the change in fair value of the actual derivative instrument to determine the hedging ineffectiveness. Any difference shall be recognized in earnings.

35-11 The hypothetical derivative instrument shall also have a maturity and repricing and payment frequencies for any interim payments that match the maturity and repricing and payment frequencies for any interim payments of the actual derivative instrument designated as the hedging instrument in the net investment hedge.

>>> Hedging Instrument Is Not a Derivative Instrument

35-12 The translation gain or loss determined under Subtopic 830-30 by reference to the spot exchange rate between the transaction currency of the debt and the functional currency of the investor (after tax effects, if appropriate) shall be reported in the same manner as the translation adjustment associated with the hedged net investment (that is, reported in the cumulative translation adjustment section of other comprehensive income) if both of the following conditions are met:

a. The notional amount of the nonderivative instrument matches the portion of the net investment designated as being hedged.

b. The nonderivative instrument is denominated in the functional currency of the hedged net investment.

In that circumstance, no hedge ineffectiveness would be recognized in earnings.

35-13 Recognition of hedge ineffectiveness in earnings is required if either of the following conditions is met:

a. The notional amount of the nonderivative instrument does not match the portion of the net investment designated as being hedged.

b. The nonderivative instrument is denominated in a currency other than the functional currency of the hedged net investment.

35-14 Ineffectiveness shall be recognized in earnings by comparing the following two values:

a. The foreign currency transaction gain or loss based on the spot rate change (after tax effects, if appropriate) of that nonderivative instrument

b. The transaction gain or loss based on the spot rate change (after tax effects, if appropriate) that would result from the appropriate hypothetical nonderivative instrument that does not incorporate those differences. The hypothetical nonderivative instrument shall also have a maturity that matches the maturity of the actual nonderivative instrument designated as the net investment hedge.

35-15 Any difference between the spot rate change of the hypothetical nonderivative instrument and the actual hedging nonderivative instrument shall be recognized in earnings. That is, ineffectiveness shall be recognized in earnings for both overhedges and underhedges.

>> Method Based on Changes in Forward Exchange Rates

35-16 If the notional amount of the derivative instrument designated as a hedge of a net investment in a foreign operation matches (that is, equals) the portion of the net investment designated as being hedged and the derivative instrument's **underlying** relates solely to the foreign exchange rate between the functional currency of the hedged net investment and the investor's functional currency, all changes in fair value of the derivative instrument shall be reported in the same manner as a translation adjustment (that is, reported in the cumulative translation adjustment section of other comprehensive income).

35-17 In that circumstance, no hedge ineffectiveness would be recognized in earnings for either of the following:

a. The time value component of purchased options

b. The interest accrual/periodic cash settlement components of qualifying receive-variable-rate, pay-variable-rate and receive-fixed-rate, pay-fixed-rate cross-currency interest rate swaps.

35-18 However, recognition of hedge ineffectiveness in earnings is required if any of the following conditions exist:

a. The notional amount of the derivative instrument does not match the portion of the net investment designated as being hedged.

b. The derivative instrument's underlying exchange rate is not the exchange rate between the functional currency of the hedged net investment and the investor's functional currency.

c. The hedging derivative instrument is a cross-currency interest rate swap meeting the criteria of paragraph 815-20-25-67 in which both legs are not based on comparable interest rate curves (for example, pay foreign currency based on three-month LIBOR, receive functional currency based on three-month commercial paper rates).

35-19 The measurement of hedge ineffectiveness due to such differences between the hedging derivative instrument and the hedged net investment is as follows:

a. Different notional amounts. If the notional amount of the derivative instrument designated as a hedge of the net investment does not match the portion of the net investment designated as being hedged, the amount of hedge ineffectiveness required to be recognized in earnings shall be measured by comparing the following two values:

1. The change in fair value of the actual derivative instrument designated as the hedging instrument

2. The change in fair value of a hypothetical derivative instrument that has a notional amount that matches the portion of the net investment being hedged and a maturity that matches the maturity of the actual derivative instrument designated as the net investment hedge. See paragraph 815-35-35-26 for situations in which the hedge of a net investment in a foreign operation is hedging foreign currency risk on an after-tax basis, as permitted by paragraph 815-20-25-3(b)(2)(vi).

b. Different currencies. If the derivative instrument designated as the hedging instrument has an underlying foreign exchange rate that is not the exchange rate between the functional currency of the hedged net investment and the investor's functional currency (a tandem currency hedge), the amount of hedge ineffectiveness required to be recognized in earnings shall be measured by comparing the following two values:

1. The change in fair value of the actual cross-currency hedging instrument

2. The change in fair value of a hypothetical derivative instrument that has as its underlying the foreign exchange rate between the functional currency of the hedged net investment and the investor's functional currency and a maturity and repricing and payment frequencies for any interim payments that match the maturity and repricing and payment frequencies for any interim payments of the actual derivative instrument designated as the net investment hedge.

c. Multiple underlyings. In accordance with paragraph 815-20-25-67(a), the only derivative instruments with multiple underlyings permitted to be designated as a hedge of a net investment are receive-variable-rate, pay-variable-rate cross-currency interest rate swaps that meet certain criteria. Paragraph 815-20-25-67(b) also permits receive-fixed-rate, pay-fixed-rate cross-currency interest rate swaps to be designated as a hedge of a net investment.

35-20 If a receive-variable-rate, pay-variable-rate cross-currency interest rate swap is designated as the hedging instrument in a net investment hedge, the amount of hedge ineffectiveness required to be recognized in earnings shall be measured by comparing the following two values:

a. The change in fair value of the actual cross-currency interest rate swap designated as the hedging instrument

b. The change in fair value of a hypothetical receive-variable-rate, pay-variable-rate cross-currency interest rate swap in which the interest rates are based on the same currencies contained in the hypothetical swap and both legs of the hypothetical swap have the same repricing intervals and dates.

35-21 If a receive-fixed-rate, pay-fixed-rate cross-currency interest rate swap is designated as the hedging instrument in a net investment hedge, the amount of hedge ineffectiveness required to be recognized in earnings shall be measured by comparing the following two values:

a. The change in fair value of the actual cross-currency interest rate swap designated as the hedging instrument

b. The change in fair value of a hypothetical receive-fixed-rate, pay-fixed-rate cross-currency interest rate swap in which the interest rates are based on the same currencies contained in the hypothetical swap. The hypothetical derivative instrument shall also have a maturity that matches the maturity of the actual cross-currency interest rate swap designated as the net investment hedge.

35-22 If any such differences exist between the hedging derivative instrument and the hedged net investment, changes in value of the hypothetical derivative instrument shall be recorded in the cumulative translation adjustment section of other comprehensive income. Any difference between the change in fair value of the hypothetical derivative instrument and the actual hedging derivative instrument shall be recognized in earnings.

35-23 Ineffectiveness in a net investment hedge shall be recognized in earnings for both overhedges and underhedges—specifically:

a. If the change in the fair value of the actual derivative instrument designated as the hedging instrument exceeds the change in fair value of the hypothetical derivative instrument, the difference represents an overhedge that shall be recognized in earnings.

b. If the change in fair value of the actual derivative instrument designated as the hedging instrument is smaller than the change in fair value of the hypothetical derivative instrument, the difference represents an underhedge that shall be recognized in earnings.

35-24 The recognition of hedge ineffectiveness for an underhedge of an entity's net investment in a foreign operation deliberately differs from the accounting for cash flow hedges in Subtopic 815-30.

35-25 If ineffectiveness must be recognized in earnings because the hedging instrument involves multiple differences (that is, different notional amounts, currencies, and underlyings), the amount of ineffectiveness can be determined by a single comparison to the appropriate hypothetical derivative instrument that does not incorporate those differences.

35-26 Paragraph 815-20-25-3(b)(2)(vi) permits hedging foreign currency risk on an after-tax basis, provided that the documentation of the hedge at its inception indicated that the assessment of effectiveness, including the calculation of ineffectiveness, will be on an after-tax basis (rather than on a pretax basis). If an entity has elected to hedge foreign currency risk on an after-tax basis, it shall adjust the notional amount of its derivative instrument appropriately to reflect the effect of tax rates. In that case, the hypothetical derivative instrument used to measure ineffectiveness shall have a notional amount that has been appropriately adjusted (pursuant to the documentation at inception) to reflect the effect of the after-tax approach.

> Redesignation

35-27 If an entity documents that the effectiveness of its hedge of the net investment in a foreign operation will be assessed based on the beginning balance of its net investment and the entity's net investment changes during the year, the entity shall consider the need to redesignate the hedging relationship (to indicate what the hedging instrument is and what numerical portion of the current net investment is the hedged portion) whenever financial statements or earnings are reported, and at least every three months. An entity is not required to redesignate the hedging relationship more frequently even when a significant transaction (for example, a dividend) occurs during the interim period. Example 1 (see paragraph 815-35-55-1) illustrates the application of this guidance.

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815-35-50 Disclosure

General Note: The Disclosure Section provides guidance regarding the disclosure in the notes to financial statements. In some cases, disclosure may relate to disclosure on the face of the financial statements.

General

50-1 [Paragraph Not Used]

50-2 For guidance on qualitative disclosures, see paragraph 815-10-50-5. The quantitative disclosures about derivative instruments may be more useful, and less likely to be perceived to be out of context or otherwise misunderstood, if similar information is disclosed about other financial instruments or nonfinancial assets and liabilities to which the derivative instruments are related by activity. Accordingly, in those situations, an entity is encouraged, but not required, to present a more complete picture of its activities by disclosing that information.

END OF DOCUMENT -

815-35-55 Implementation Guidance and Illustrations

General Note: The Implementation Guidance and Illustrations Section contains implementation guidance and illustrations that are an integral part of the Subtopic. The implementation guidance and illustrations do not address all possible variations. Users must consider carefully the actual facts and circumstances in relation to the requirements of the Subtopic.

General

> Illustrations

>> Example 1: Frequency of Designation of Hedged Net Investment

55-1 This Example illustrates the application of paragraph 815-35-35-27. Assume that an entity enters into a foreign currency forward contract that has a **notional amount** equal to the beginning balance of its investment in a foreign operation (for example, 100,000 foreign currency units [FC]). This foreign currency forward contract is immediately designated as a hedge of the entire beginning balance of the net investment at the inception of the hedge. As the net investment changes, the entity would periodically assess the original hedging relationship and decide whether it needs to remove (that is, dedesignate) that original relationship and designate a new hedging relationship for the following assessment period. The following presents one method of such redesignation in those circumstances in which the entity chooses not to obtain a new **derivative instrument**:

a. If the net investment had increased (for example, to FC 120,000), the entire forward contract would be designated prospectively as hedging only a portion of the beginning balance of the net investment in that foreign operation. The hedged portion would be the ratio of the net investment at the inception of the hedge to the net investment at the beginning of the new assessment period (for example, five-sixths of the FC 120,000).

b. If the net investment had decreased (for example, to FC 90,000), only a proportion of the forward contract would be designated prospectively as hedging the entire beginning balance of the net investment in that foreign operation. The proportion of the forward contract designated prospectively as the hedging instrument would be the ratio of the net investment at the beginning of the new assessment period to the net investment at the inception of the hedge (for example, nine-tenths of the forward contract). The proportion of the forward contract not designated prospectively as the hedging instrument in the net investment hedge could be designated as a hedging instrument in a different hedging relationship or simply reported at **fair value** with its gain or loss after the dedesignation date recognized currently in earnings pursuant to paragraph 815-20-35-1(a).

END OF DOCUMENT -

815-35-75 XBRL Elements

General Note: This section contains a list of XBRL elements that reference paragraphs in this Subtopic. For additional details regarding changes to the development version of the US GAAP Financial Reporting Taxonomy, refer to the FASB taxonomy review and comment system on the FASB web site.

XBRL Links to Codification

Derivative Asset, Notional Amount

Element Name: *DerivativeAssetNotionalAmount*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Derivative Financial Instruments, Assets [Member]

Element Name: *DerivativeFinancialInstrumentsAssetsMember*

This XBRL element references the following glossary term(s):

- Master Glossary > Derivative Instrument

Derivative Financial Instruments, Liabilities [Member]

Element Name: *DerivativeFinancialInstrumentsLiabilitiesMember*

This XBRL element references the following glossary term(s):

- Master Glossary > Derivative Instrument

Derivative Liability, Notional Amount

Element Name: *DerivativeLiabilityNotionalAmount*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Derivative, Nonmonetary Notional Amount

Element Name: *DerivativeNonmonetaryNotionalAmount*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Derivative, Notional Amount

Element Name: *DerivativeNotionalAmount*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Investment Owned, Underlying Face Amount, at Market Value

Element Name: *InvestmentOwnedUnderlyingFaceAmountAtMarketValue*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 10 Objectives > General, 10-1 (a)
- 815 Derivatives and Hedging > 20 Hedging—General > 10 Objectives > General, 10-1

This XBRL element references the following glossary term(s):

- Master Glossary > Underlying

Nonmonetary Notional Amount of Price Risk Cash Flow Hedge Derivatives

Element Name: *NonmonetaryNotionalAmountOfPriceRiskCashFlowHedgeDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Nonmonetary Notional Amount of Price Risk Derivative Instruments Not Designated as Hedging Instruments

Element Name: *NonmonetaryNotionalAmountOfPriceRiskDerivativeInstrumentsNotDesignatedAsHedgingInstruments*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Nonmonetary Notional Amount of Price Risk Derivatives

Element Name: *NonmonetaryNotionalAmountOfPriceRiskDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Nonmonetary Notional Amount of Price Risk Fair Value Hedge Derivatives

Element Name: *NonmonetaryNotionalAmountOfPriceRiskFairValueHedgeDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Cash Flow Hedge Instruments

Element Name: *NotionalAmountOfCashFlowHedgeInstruments*

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Credit Risk Derivatives

Element Name: *NotionalAmountOfCreditRiskDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Derivative Instruments Designated as Net Investment Hedges

Element Name: *NotionalAmountOfDerivativeInstrumentsDesignatedAsNetInvestmentHedges*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Fair Value Hedge Instruments

Element Name: *NotionalAmountOfFairValueHedgeInstruments*

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Foreign Currency Cash Flow Hedge Derivatives

Element Name: *NotionalAmountOfForeignCurrencyCashFlowHedgeDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Foreign Currency Derivative Instruments Not Designated as Hedging Instruments

Element Name: *NotionalAmountOfForeignCurrencyDerivativeInstrumentsNotDesignatedAsHedgingInstruments*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Foreign Currency Derivative Purchase Contracts

Element Name: *NotionalAmountOfForeignCurrencyDerivativePurchaseContracts*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Foreign Currency Derivative Sale Contracts

Element Name: *NotionalAmountOfForeignCurrencyDerivativeSaleContracts*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Foreign Currency Derivatives

Element Name: *NotionalAmountOfForeignCurrencyDerivatives*

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Foreign Currency Fair Value Hedge Derivatives

Element Name: *NotionalAmountOfForeignCurrencyFairValueHedgeDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Interest Rate Cash Flow Hedge Derivatives

Element Name: *NotionalAmountOfInterestRateCashFlowHedgeDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Interest Rate Derivative Instruments Not Designated as Hedging Instruments

Element Name: *NotionalAmountOfInterestRateDerivativeInstrumentsNotDesignatedAsHedgingInstruments*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Interest Rate Derivatives

Element Name: *NotionalAmountOfInterestRateDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Interest Rate Fair Value Hedge Derivatives

Element Name: *NotionalAmountOfInterestRateFairValueHedgeDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Net Investment Hedging Instruments

Element Name: *NotionalAmountOfNetInvestmentHedgingInstruments*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Nonderivative Instruments Designated as Net Investment Hedges

Element Name: *NotionalAmountOfNonderivativeInstrumentsDesignatedAsNetInvestmentHedges*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Other Derivatives Not Designated as Hedging Instruments

Element Name: *NotionalAmountOfOtherDerivativesNotDesignatedAsHedgingInstruments*

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Price Risk Cash Flow Hedge Derivatives

Element Name: *NotionalAmountOfPriceRiskCashFlowHedgeDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Price Risk Derivative Instruments Not Designated as Hedging Instruments

Element Name: *NotionalAmountOfPriceRiskDerivativeInstrumentsNotDesignatedAsHedgingInstruments*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Price Risk Derivatives

Element Name: *NotionalAmountOfPriceRiskDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Price Risk Fair Value Hedge Derivatives

Element Name: *NotionalAmountOfPriceRiskFairValueHedgeDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

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815-40-00 Status

General Note: The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

General

00-1 No updates have been made to this subtopic.

END OF DOCUMENT -

815-40-05 Overview and Background

General Note: The Overview and Background Section provides overview and background material for the guidance contained in the Subtopic. It does not provide the historical background or due process. It may contain certain material that users generally consider useful to understand the typical situations addressed by the standards. The Section does not summarize the accounting and reporting requirements.

General

05-1 For a number of business reasons, an entity may enter into contracts that are indexed to, and sometimes settled in, its own stock. This Subtopic provides guidance on accounting for such contracts. Examples of these contracts include put and call options (both written and purchased) and forward contracts (for both sales and purchases). These contracts may be settled using a variety of settlement methods, or the issuing entity or counterparty may have a choice of settlement methods. The contracts may be either freestanding or embedded in another **financial instrument**.

END OF DOCUMENT -

815-40-15 Scope and Scope Exceptions

General Note: The Scope and Scope Exceptions Section outlines the items (for example, the entities, transactions, instruments, or events) to which the guidance in the Subtopic does or does not apply. In some cases, the Section may contain definitional or other text to frame the scope.

General Note for Financial Instruments: Some of the items subject to the guidance in this Subtopic are **financial instruments**. For guidance on matters related broadly to all financial instruments, (including the fair value option, accounting for registration payment arrangements, and broad financial instrument disclosure requirements), see Topic 825. See Section 825-10-15 for guidance on the scope of the Financial Instruments Topic.

General

> Entities

15-1 The guidance in this Subtopic applies to all entities.

> Instruments

15-2 The guidance in this Subtopic applies to freestanding contracts that are indexed to, and potentially settled in, an entity's own stock. Paragraph 815-40-55-1 provides related implementation guidance.

15-3 The guidance in this Subtopic does not apply to any of the following:

a. Either the **derivative instrument** component or the **financial instrument** if the derivative instrument component is embedded in and not detachable from the financial instrument

b. Contracts that are issued to compensate employees

c. Contracts that are issued to acquire goods or services from nonemployees when performance has not yet occurred

d. A written put option and a purchased call option embedded in the shares of a noncontrolling interest of a consolidated subsidiary if the arrangement is accounted for as a financing under the guidance beginning in paragraph 480-10-55-53

e. Financial instruments that are within the scope of Topic 480 (see paragraph 815-40-15-12).

15-4 Item (a) in the preceding paragraph does not negate the applicability of this Subtopic (as further discussed in paragraphs 815-40-25-39 through 25-40) in analyzing the embedded feature under paragraphs 815-15-25-1(c) and 815-15-25-14 as though it were a freestanding instrument.

> Evaluating Whether an Instrument Is Considered Indexed to an Entity's Own Stock

15-5 The guidance in this paragraph through paragraph 815-40-15-8 applies to any freestanding financial instrument or embedded feature that has all the characteristics of a derivative instrument (see the guidance beginning in paragraph 815-10-15-83). That guidance applies for the purpose of determining whether that instrument or embedded feature qualifies for the first part of the scope exception in paragraph 815-10-15-74(a). That guidance does not address the second part of the scope exception in paragraph 815-10-15-74(a). The guidance also applies to any freestanding financial instrument that is potentially settled in an entity’s own stock, regardless of whether the instrument has all the characteristics of a derivative instrument for purposes of determining whether the instrument is within the scope of this Subtopic.

15-5A The guidance in this paragraph through paragraph 815-40-15-8 does not apply to share-based payment awards within the scope of Topic 718 for purposes of determining whether instruments are classified as liability awards or equity awards under that Topic. Equity-linked financial instruments issued to investors for purposes of establishing a market-based measure of the grant-date fair value of employee stock options are not within the scope of Topic 718 themselves. Consequently, the guidance in this paragraph through paragraph 815-40-15-8 applies to such market-based employee stock option valuation instruments for purposes of making the determinations described in the preceding paragraph.

15-5B The guidance in paragraphs 815-40-15-5 through 15-8 shall be applied to the appropriate unit of accounting, as determined under other applicable U.S. generally accepted accounting principles. For example, if an entity issues two freestanding financial instruments and concludes that those two instruments are required to be accounted for separately, then the guidance in paragraphs 815-40-15-5 through 15-8 shall be applied separately to each instrument. In contrast, if an entity issues two freestanding financial instruments and concludes that those two instruments are required to be linked and accounted for on a combined basis as a single financial instrument (for example, pursuant to the guidance in paragraph 815-10-15-8), then the guidance in paragraphs 815-40-15-5 through 15-8 shall be applied to the combined financial instrument.

15-5C Freestanding financial instruments (and embedded features) for which the payoff to the counterparty is based, in whole or in part, on the stock of a consolidated subsidiary are not precluded from being considered indexed to the entity’s own stock in the consolidated financial statements of the parent if the subsidiary is a substantive entity. If the subsidiary is not a substantive entity, the instrument or embedded feature shall not be considered indexed to the entity’s own stock. If the subsidiary is considered to be a substantive entity, the guidance beginning in paragraph 815-40-15-5 shall be applied to determine whether the freestanding financial instrument (or an embedded feature) is indexed to the entity’s own stock and shall be considered in conjunction with other applicable GAAP (for example, this Subtopic) in determining the classification of the freestanding financial instrument (or an embedded feature) in the financial statements of the entity. The guidance in this paragraph applies to those instruments (and embedded features) in the consolidated financial statements of the parent, whether the instrument was entered into by the parent or the subsidiary. The guidance in this paragraph does not affect the accounting for instruments (or embedded features) that would not otherwise qualify for the scope exception in paragraph 815-10-15-74(a). For example, freestanding instruments that are classified as liabilities (or assets) under Topic 480 and put and call options embedded in a noncontrolling interest that is accounted for as a financing arrangement under Topic 480 are not affected by this guidance. For guidance on presentation of an equity-classified instrument (including an embedded feature that is separately recorded in equity under applicable GAAP) within the scope of the guidance in this paragraph, see paragraph 810-10-45-17A.

15-6 The guidance in this paragraph applies to both the issuer and the holder of the instrument. Outstanding instruments within the scope of the guidance in paragraphs 815-40-15-5 through 15-8 shall always be considered issued for accounting purposes, except as discussed in the next sentence. Lock-up options shall not be considered issued for accounting purposes unless and until the options become exercisable.

15-7 An entity shall evaluate whether an equity-linked financial instrument (or embedded feature), as discussed in paragraphs 815-40-15-5 through 15-8 is considered indexed to its own stock within the meaning of this Subtopic and paragraph 815-10-15-74(a) using the following two-step approach:

a. Evaluate the instrument's contingent exercise provisions, if any.

b. Evaluate the instrument's settlement provisions.

>> Evaluation of Contingent Exercise Provisions (Step 1)

15-7A An **exercise contingency** shall not preclude an instrument (or embedded feature) from being considered indexed to an entity's own stock provided that it is not based on either of the following:

a. An observable market, other than the market for the issuer's stock (if applicable)

b. An observable index, other than an index calculated or measured solely by reference to the issuer's own operations (for example, sales revenue of the issuer; earnings before interest, taxes, depreciation, and amortization of the issuer; net income of the issuer; or total equity of the issuer).

If the evaluation of Step 1 (this paragraph) does not preclude an instrument from being considered indexed to the entity's own stock, the analysis shall proceed to Step 2 (see paragraph 815-40-15-7C).

15-7B If an instrument's strike price or the number of shares used to calculate the settlement amount would be adjusted upon the occurrence of an exercise contingency, the exercise contingency shall be evaluated under Step 1 (see the preceding paragraph) and the potential adjustment to the instrument's settlement amount shall be evaluated under Step 2 (see the guidance beginning in the following paragraph).

>> Evaluation of Settlement Provisions (Step 2)

15-7C An instrument (or embedded feature) shall be considered indexed to an entity's own stock if its settlement amount will equal the difference between the following:

a. The fair value of a fixed number of the entity's equity shares

b. A fixed monetary amount or a fixed amount of a debt instrument issued by the entity.

For example, an issued share option that gives the counterparty a right to buy a fixed number of the entity's shares for a fixed price or for a fixed stated principal amount of a bond issued by the entity shall be considered indexed to the entity's own stock.

15-7D An instrument's strike price or the number of shares used to calculate the settlement amount are not fixed if its terms provide for any potential adjustment, regardless of the probability of such adjustment(s) or whether such adjustments are in the entity's control. If the instrument's strike price or the number of shares used to calculate the settlement amount are not fixed, the instrument (or embedded feature) shall still be considered indexed to an entity's own stock if the only variables that could affect the settlement amount would be inputs to the fair value of a fixed-for-fixed forward or option on equity shares.

15-7E A fixed-for-fixed forward or option on equity shares has a settlement amount that is equal to the difference between the price of a fixed number of equity shares and a fixed strike price. The fair value inputs of a fixed-for-fixed forward or option on equity shares may include the entity's stock price and additional variables, including all of the following:

a. Strike price of the instrument

b. Term of the instrument

c. Expected dividends or other dilutive activities

d. Stock borrow cost

e. Interest rates

f. Stock price volatility

g. The entity's credit spread

h. The ability to maintain a standard hedge position in the underlying shares.

Determinations and adjustments related to the settlement amount (including the determination of the ability to maintain a standard hedge position) shall be commercially reasonable.

15-7F An instrument (or embedded feature) shall not be considered indexed to the entity's own stock if its settlement amount is affected by variables that are extraneous to the pricing of a fixed-for-fixed option or forward contract on equity shares. An instrument (or embedded feature) shall not be considered indexed to the entity's own stock if either:

a. The instrument's settlement calculation incorporates variables other than those used to determine the fair value of a fixed-for-fixed forward or option on equity shares.

b. The instrument contains a feature (such as a leverage factor) that increases exposure to the additional variables listed in the preceding paragraph in a manner that is inconsistent with a fixed-for-fixed forward or option on equity shares.

15-7G Standard pricing models for equity-linked financial instruments contain certain implicit assumptions. One such assumption is that the stock price exposure inherent in those instruments can be hedged by entering into an offsetting position in the underlying equity shares. For example, the Black-Scholes-Merton option-pricing model assumes that the underlying shares can be sold short without transaction costs and that stock price changes will be continuous. Accordingly, for purposes of applying Step 2, fair value inputs include adjustments to neutralize the effects of events that can cause stock price discontinuities. For example, a merger announcement may cause an immediate jump (up or down) in the price of shares underlying an equity-linked option contract. A holder of that instrument would not be able to continuously adjust its hedge position in the underlying shares due to the discontinuous stock price change. As a result, changes in the fair value of an equity-linked instrument and changes in the fair value of an offsetting hedge position in the underlying shares will differ, creating a gain or loss for the instrument holder as a result of the merger announcement. Therefore, inclusion of provisions that adjust the terms of the instrument to offset the net gain or loss resulting from a merger announcement or similar event do not preclude an equity-linked instrument (or embedded feature) from being considered indexed to an entity's own stock.

15-7H Some equity-linked financial instruments contain provisions that provide an entity with the ability to unilaterally modify the terms of the instrument at any time, provided that such modification benefits the counterparty. For example, the terms of a convertible debt instrument may explicitly permit the issuer to reduce the conversion price at any time to induce conversion of the instrument.] For purposes of applying Step 2, such provisions do not affect the determination of whether an instrument (or embedded feature) is considered indexed to an entity's own stock.

>>> Strike Price Denominated in a Foreign Currency

15-7I The issuer of an equity-linked financial instrument incurs an exposure to changes in currency exchange rates if the instrument's strike price is denominated in a currency other than the functional currency of the issuer. An equity-linked financial instrument (or embedded feature) shall not be considered indexed to the entity's own stock if the strike price is denominated in a currency other than the issuer's functional currency (including a conversion option embedded in a convertible debt instrument that is denominated in a currency other than the issuer's functional currency). The determination of whether an equity-linked financial instrument is indexed to an entity's own stock is not affected by the currency (or currencies) in which the underlying shares trade.

15-8 Examples 2–21 (see paragraphs 815-40-55-26 through 55-48) illustrate the application of the guidance in paragraphs 815-40-15-5 through 15-7. These examples do not address whether an instrument (or embedded feature) is classified in equity (or would be classified in equity if freestanding). These examples also do not address whether the instrument is within the scope of Topic 480 or whether the instrument would be subject to the two-class method under Topic 260.

> Other Considerations

>> Derivative Instruments and Embedded Derivatives

15-9 For guidance on the interaction of this Subtopic and Subtopic 815-10, see paragraphs 815-10-15-74 through 15-78. For guidance on the interaction of this Subtopic and Subtopic 815-15, see paragraph 815-15-25-15.

>> Guarantees

15-10 Topic 460 provides an exception from its initial recognition and initial measurement requirements, but not its disclosure provisions, for a guarantee for which the guarantor's obligation would be reported as an equity item (rather than a liability) under generally accepted accounting principles (GAAP).

15-11 If a contract under this Subtopic is required to be accounted for as a liability under this Subtopic and also meets the definition of a guarantee under Topic 460 (for example, a **physically settled** written put option), both this Subtopic and that Topic are consistent with respect to requiring the issuer to account for the contract at **fair value** at the initial measurement date. In that situation, the guarantee would also be subject to the disclosure requirements of Topic 460.

>> Distinguishing Liabilities from Equity

15-12 Paragraph 480-10-15-5 explains that Topic 480 does not apply to a feature embedded in a financial instrument that is not a derivative instrument in its entirety (for example, a written put option embedded in a nonderivative host contract) in analyzing the embedded feature as though it were a separate instrument as required by paragraph 815-15-25-1(c). Therefore, this Subtopic applies in evaluating those embedded features under Subtopic 815-15.

15-13 [Paragraph Not Used]

END OF DOCUMENT -

815-40-20 Glossary

General Note: The Master Glossary contains all terms identified as glossary terms throughout the Codification. Clicking on any term in the Master Glossary will display where the term is used. The Master Glossary may contain identical terms with different definitions, some of which may not be appropriate for a particular Subtopic. For any particular Subtopic, users should only use the glossary terms included in the particular Subtopic Glossary Section (Section 20).

Derivative Instrument

Paragraphs 815-10-15-83 through 15-139 define the term *derivative instrument*.

Embedded Derivative

Implicit or explicit terms that affect some or all of the cash flows or the value of other exchanges required by a contract in a manner similar to a derivative instrument.

Equity Restructuring

A nonreciprocal transaction between an entity and its shareholders that causes the per-share fair value of the shares underlying an option or similar award to change, such as a stock dividend, stock split, spinoff, rights offering, or recapitalization through a large, nonrecurring cash dividend.

Exercise Contingency

A provision that entitles the entity (or the counterparty) to exercise an equity-linked financial instrument (or embedded feature) based on changes in an **underlying**, including the occurrence (or nonoccurrence) of a specified event. Provisions that accelerate the timing of the entity's (or the counterparty's) ability to exercise an instrument and provisions that extend the length of time that an instrument is exercisable are examples of exercise contingencies.

Fair Value

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial Instrument

Cash, evidence of an ownership interest in an entity, or a contract that both:

- a. Imposes on one entity a contractual obligation either:
    1. To deliver cash or another financial instrument to a second entity
    2. To exchange other financial instruments on potentially unfavorable terms with the second entity.
- b. Conveys to that second entity a contractual right either:
    1. To receive cash or another financial instrument from the first entity

2. To exchange other financial instruments on potentially favorable terms with the first entity.

The use of the term financial instrument in this definition is recursive (because the term financial instrument is included in it), though it is not circular. The definition requires a chain of contractual obligations that ends with the delivery of cash or an ownership interest in an entity. Any number of obligations to deliver financial instruments can be links in a chain that qualifies a particular contract as a financial instrument.

Contractual rights and contractual obligations encompass both those that are conditioned on the occurrence of a specified event and those that are not. All contractual rights (contractual obligations) that are financial instruments meet the definition of asset (liability) set forth in FASB Concepts Statement No. 6, Elements of Financial Statements, although some may not be recognized as assets (liabilities) in financial statements—that is, they may be off-balance-sheet—because they fail to meet some other criterion for recognition.

For some financial instruments, the right is held by or the obligation is due from (or the obligation is owed to or by) a group of entities rather than a single entity.

Freestanding Contract

A freestanding contract is entered into either:

a. Separate and apart from any of the entity's other financial instruments or equity transactions

b. In conjunction with some other transaction and is legally detachable and separately exercisable.

Make-Whole Provision

A cash payment to a counterparty if the shares initially delivered upon settlement are subsequently sold by the counterparty and the sales proceeds are insufficient to provide the counterparty with full return of the amount due. While the exact terms of such provisions vary, they generally are intended to reimburse the counterparty for any losses it incurs or to transfer to the entity any gains the counterparty recognizes on the difference between the following:

a. The settlement date value

b. The value received by the counterparty in subsequent sales of the securities within a specified time after the settlement date.

Net Cash Settlement

The party with a loss delivers to the party with a gain a cash payment equal to the gain, and no shares are exchanged.

Net Share Settlement

The party with a loss delivers to the party with a gain shares with a current fair value equal to the gain.

Notional Amount

A number of currency units, shares, bushels, pounds, or other units specified in a derivative instrument. Sometimes other names are used. For example, the notional amount is called a face amount in some contracts.

Physical Settlement

The party designated in the contract as the buyer delivers the full stated amount of cash to the seller, and the seller delivers the full stated number of shares to the buyer.

Standard Antidilution Provisions

Standard antidilution provisions are those that result in adjustments to the conversion ratio in the event of an **equity restructuring** transaction that are designed to maintain the value of the conversion option.

Top-Off Provision

See **Make-Whole Provision**.

Transaction

An external event involving transfer of something of value (future economic benefit) between two (or more) entities. (See FASB Concepts Statement No. 6, Elements of Financial Statements.)

Underlying

A specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, or other variable (including the occurrence or nonoccurrence of a specified event such as a scheduled payment under a contract). An underlying may be a price or rate of an asset or liability but is not the asset or liability itself. An underlying is a variable that, along with either a notional amount or a payment provision, determines the settlement of a derivative instrument.

END OF DOCUMENT -

815-40-25 Recognition

General Note: The Recognition Section provides guidance on the required criteria, timing, and location (within the financial statements) for recording a particular item in the financial statements. Disclosure is not recognition.

General Note for Fair Value Option: Some of the items subject to the guidance in this Subtopic may qualify for application of the Fair Value Option Subsections of Subtopic 825-10. Those Subsections (see paragraph 825-10-05-5) address circumstances in which entities may choose, at specified election dates, to measure eligible items at fair value (the fair value option). See Section 825-10-15 for guidance on the scope of the Fair Value Option Subsections of the Financial Instruments Topic.

General

25-1 The initial balance sheet classification of contracts within the scope of this Subtopic generally is based on the concept that:

a. Contracts that require **net cash settlement** are assets or liabilities.

b. Contracts that require settlement in shares are equity instruments.

25-2 Further, an entity shall observe both of the following:

a. If the contract provides the counterparty with a choice of net cash settlement or settlement in shares, this Subtopic assumes net cash settlement.

b. If the contract provides the entity with a choice of net cash settlement or settlement in shares, this Subtopic assumes settlement in shares.

25-3 Except as noted in the last sentence of this paragraph, the approach discussed in the preceding two paragraphs does not apply if settlement alternatives do not have the same economic value attached to them or if one of the settlement alternatives is fixed or contains caps or floors. In those situations, the accounting for the instrument (or combination of instruments) shall be based on the economic substance of the **transaction**. For example, if a **freestanding contract**, issued together with another instrument, requires that the entity provide to the holder a fixed or guaranteed return such that the instruments are, in substance, debt, the entity shall account for both instruments as liabilities, regardless of the settlement terms of the freestanding contract. However, this Subtopic does apply to contracts that have settlement alternatives with different economic values if the reason for the difference is a limit on the number of shares that must be delivered by the entity pursuant to a **net share settlement** alternative.

25-4 Accordingly, unless the economic substance indicates otherwise:

a. Contracts shall be initially classified as either assets or liabilities in both of the following situations:

1. Contracts that require net cash settlement (including a requirement to net cash settle the contract if an event occurs and if that event is outside the control of the entity)

2. Contracts that give the counterparty a choice of net cash settlement or settlement in shares (**physical settlement** or net share settlement).

b. Contracts shall be initially classified as equity in both of the following situations:

1. Contracts that require physical settlement or net share settlement

2. Contracts that give the entity a choice of net cash settlement or settlement in its own shares (physical settlement or net share settlement), assuming that all the criteria set forth in paragraphs 815-40-25-7 through 25-35 and 815-40-55-2 through 55-6 have been met.

25-5 Paragraph 815-20-55-33 explains that **derivative instruments** that are indexed to an entity's own stock and recorded as assets or liabilities can be hedging instruments.

25-6 The remainder of this Section addresses the following matters:

a. Additional conditions necessary for equity classification

b. Settlement alternatives that differ in gain and loss positions

c. Application of additional criteria to conventional convertible debt and other hybrid instruments

d. Effect of a registration payment arrangement.

> Additional Conditions Necessary for Equity Classification

25-7 Contracts that include any provision that could require net cash settlement cannot be accounted for as equity of the entity (that is, asset or liability classification is required for those contracts), except in those limited circumstances in which holders of the underlying shares also would receive cash (as discussed in the following two paragraphs and paragraphs 815-40-55-2 through 55-6).

25-8 Generally, if an event that is not within the entity's control could require net cash settlement, then the contract shall be classified as an asset or a liability. However, if the net cash settlement requirement can only be triggered in circumstances in which the holders of the shares underlying the contract also would receive cash, equity classification is not precluded.

25-9 This Subtopic does not allow for an evaluation of the likelihood that an event would trigger cash settlement (whether net cash or physical), except that if the payment of cash is only required upon the final liquidation of the entity, then that potential outcome need not be considered when applying the guidance in this Subtopic.

25-10 Because any contract provision that could require net cash settlement precludes accounting for a contract as equity of the entity (except for those circumstances in which the holders of the underlying shares would receive cash, as discussed in the preceding two paragraphs and paragraphs 815-40-55-2 through 55-6), all of the following conditions must be met for a contract to be classified as equity:

a. Settlement permitted in unregistered shares. The contract permits the entity to settle in unregistered shares.

b. Entity has sufficient authorized and unissued shares. The entity has sufficient authorized and unissued shares available to settle the contract after considering all other commitments that may require the issuance of stock during the maximum period the derivative instrument could remain outstanding.

c. Contract contains an explicit share limit. The contract contains an explicit limit on the number of shares to be delivered in a share settlement.

d. No required cash payment if entity fails to timely file. There are no required cash payments to the counterparty in the event the entity fails to make timely filings with the Securities and Exchanges Commission (SEC).

e. No cash-settled **top-off** or **make-whole provisions**. There are no cash settled top-off or make-whole provisions.

f. No counterparty rights rank higher than shareholder rights. There are no provisions in the contract that indicate that the counterparty has rights that rank higher than those of a shareholder of the stock underlying the contract.

g. No collateral required. There is no requirement in the contract to post collateral at any point or for any reason.

Paragraphs 815-40-25-39 through 25-42 explain the application of these criteria to conventional convertible debt and other hybrid instruments.

>> Settlement Permitted in Unregistered Shares

25-11 The events or actions necessary to deliver registered shares are not controlled by an entity and, therefore, except under the circumstances described in paragraph 815-40-25-16, if the contract permits the entity to net share or physically settle the contract only by delivering registered shares, it is assumed that the entity will be required to net cash settle the contract. As a result, the contract shall be classified as an asset or a liability.

25-12 Delivery of unregistered shares in a private placement to the counterparty is within the control of an entity, as long as a failed registration statement (that is, a registration statement that was filed with the SEC and subsequently withdrawn) has not occurred within six months before the classification assessment date. If a failed registration statement has occurred within six months of the classification assessment date, whether an entity can deliver unregistered shares to the counterparty in a net share or physical settlement is a legal determination.

25-13 Accordingly, the contract shall be classified as a permanent equity instrument assuming all of the following conditions exist:

a. A failed registration statement does not preclude delivery of unregistered shares.

b. The contract permits an entity to net share settle the contract by delivery of unregistered shares.

c. The other conditions in this Subtopic are met.

25-14 If both the following conditions are met, then net cash settlement is assumed if the entity is unable to deliver registered shares (because it is unlikely that nonperformance would be an acceptable alternative):

a. A derivative instrument requires physical or net share settlement by delivery of registered shares and does not specify any circumstances under which net cash settlement would be permitted or required.

b. The derivative instrument does not specify how the contract would be settled in the event that the entity is unable to deliver registered shares.

25-15 Consequently, the derivative instrument shall be classified as an asset or a liability because share settlement is not within the entity's control.

25-16 If a derivative instrument involves the delivery of shares at settlement that are registered as of the inception of the derivative instrument and there are no further timely filing or registration requirements, the requirement that share delivery be within the control of the entity is met, notwithstanding the guidance in paragraph 815-40-25-11.

>>> Valuation of Unregistered Shares

25-17 A contract may specify that the value of the unregistered shares to be privately placed under share settlement is to be determined by the counterparty using commercially reasonable means. That valuation is used to determine the number of unregistered shares that must be delivered to the counterparty. The term *commercially reasonable means* is sufficiently objective from a legal perspective to prevent a counterparty from producing an unrealistic value that would then compel an entity to net cash settle the contract. Similarly, a contractual requirement to determine the **fair value** of unregistered shares by obtaining market quotations is sufficiently objective and would not suggest that the settlement alternatives have different economic values.

>>> Uneconomic Settlement Alternatives

25-18 If a settlement alternative includes a penalty that would be avoided by an entity under other settlement alternatives, the uneconomic settlement alternative shall be disregarded in classifying the contract. In the case of delivery of unregistered shares, a discount from the value of the corresponding registered shares that is a reasonable estimate of the difference in fair values between registered and unregistered shares (that is, the discount reflects the fair value of the restricted shares determined using commercially reasonable means) is not considered a penalty.

>> Entity Has Sufficient Authorized and Unissued Shares

25-19 If an entity could be required to obtain shareholder approval to increase the entity's authorized shares to net share or physically settle a contract, share settlement is not controlled by the entity.

25-20 Accordingly, an entity shall evaluate whether a sufficient number of authorized and unissued shares exists at the classification assessment date to control settlement by delivering shares. In that evaluation, an entity shall compare both of the following amounts:

a. The number of currently authorized but unissued shares, less the maximum number of shares that could be required to be delivered during the contract period under existing commitments, including any of the following:

1. Outstanding convertible debt that is convertible during the contract period

2. Outstanding stock options that are or will become exercisable during the contract period

3. Other derivative financial instruments indexed to, and potentially settled in, an entity's own stock.

b. The maximum number of shares that could be required to be delivered under share settlement (either net share or physical) of the contract.

25-21 When evaluating whether there are sufficient authorized and unissued shares available to settle a contract, an entity shall consider the maximum number of shares that could be required to be delivered under a registration payment arrangement to be an existing share commitment, regardless of whether the instrument being evaluated is subject to that registration payment arrangement.

25-22 If the amount in paragraph 815-40-25-20(a) exceeds the amount in paragraph 815-40-25-20(b) and the other conditions in this Subtopic are met, share settlement is within the control of the entity and the contract shall be classified as a permanent equity instrument. Otherwise, share settlement is not within the control of the entity and asset or liability classification is required.

25-23 For purposes of this calculation, if a contract permits both (a) net share and (b) physical settlement by delivery of shares at the entity's option (both alternatives permit equity classification if the other conditions in this Section are met), the alternative that results in the lesser number of maximum shares shall be included in this calculation.

25-24 If a contract is classified as either an asset or a liability because the counterparty has the option to require settlement of the contract in cash, then the maximum number of shares that the counterparty could require to be delivered upon settlement of the contract (whether physical or net share) shall be assumed for purposes of this calculation.

25-25 [Paragraph Not Used]

>> Contract Contains an Explicit Share Limit

25-26 For certain contracts, the number of shares that could be required to be delivered upon net share settlement is essentially indeterminate. If the number of shares that could be required to be delivered to net share settle the contract is indeterminate, an entity will be unable to conclude that it has sufficient available authorized and unissued shares and, therefore, net share settlement is not within the control of the entity.

25-27 If a contract limits or caps the number of shares to be delivered upon expiration of the contract to a fixed number, that fixed maximum number can be compared to the available authorized and unissued shares (the available number after considering the maximum number of shares that could be required to be delivered during the contract period under existing commitments as addressed in paragraph 815-40-25-20 and including top-off or make-whole provisions as discussed in paragraph 815-40-25-30) to determine if net share settlement is within the control of the entity. A contract termination trigger alone (for example, a provision that requires that the contract will be terminated and settled if the stock price falls below a specified price) does not satisfy this requirement because, in that circumstance, the maximum number of shares deliverable under the contract is not known with certainty unless there is a stated maximum number of shares.

25-28 This paragraph addresses a contract structure that caps the number of shares that must be delivered upon net share settlement but would also provide that any contract valued in excess of that capped amount may be delivered to the counterparty in cash or by delivery of shares (at the entity's option) when authorized, unissued shares become available. The structure requires the entity to use its best efforts to authorize sufficient shares to satisfy the obligation. Under the structure, the number of shares specified in the cap is less than the entity's authorized, unissued shares less the number of shares that are part of other commitments (see paragraph 815-40-25-20). Use of the entity's best efforts to obtain sufficient authorized shares to settle the contract is within the entity's control. If the contract provides that the number of shares required to settle the excess obligation is fixed on the date that net share settlement of the contract occurs, the excess shares need not be considered when determining whether the entity has sufficient, authorized, unissued shares to net share settle the contract pursuant to paragraph 815-40-25-20. However, the contract may provide that the number of shares that must be delivered to settle the excess obligation is equal to a dollar amount that is fixed on the date of net share settlement (which may or may not increase based on a stated interest rate on the obligation) and that the number of shares to be delivered will be based on the market value of the stock at the date the excess amount is settled. In that case, the excess obligation represents stock-settled debt and shall preclude equity classification of the contract (or, if partial net share settlement is permitted under the contract pursuant to paragraph 815-40-35-11, precludes equity classification of the portion represented by the excess obligation).

>> No Required Cash Payment if Entity Fails to Timely File

25-29 The ability to make timely SEC filings is not within the control of the entity. Accordingly, if a contract permits share settlement but requires net cash settlement in the event that the entity does not make timely filings with the SEC, that contract shall be classified as an asset or a liability.

>> No Cash-Settled Top-Off or Make-Whole Provision

25-30 A top-off or make-whole provision would not preclude equity classification if both of the following conditions exist:

a. The provision can be net share settled.

b. The maximum number of shares that could be required to be delivered under the contract (including any top-off or make-whole provisions) is both:

1. Fixed

2. Less than the number of available authorized shares (authorized and unissued shares less the maximum number of shares that could be required to be delivered during the contract period under existing commitments as discussed in paragraph 815-40-25-20).

If those conditions are not met, equity classification is precluded.

>> No Counterparty Rights Rank Higher than Shareholder Rights

25-31 To be classified as equity, a contract cannot give the counterparty any of the rights of a creditor in the event of the entity's bankruptcy. Because a breach of the contract by the entity is within its control, the fact that the counterparty would have normal contract remedies in the event of such a breach does not preclude equity classification. As a result, a contract cannot be classified as equity if the counterparty's claim in bankruptcy would receive higher priority than the claims of the holders of the stock underlying the contract.

25-32 Generally, based on existing law, a net share settled derivative instrument that an entity has a right to settle in shares even upon termination could be net share settled in bankruptcy. If the derivative instrument is not net share settled, the claim of the counterparty would not have priority over those of the holders of the underlying stock, even if the contract specified cash settlement in the event of bankruptcy. In federal bankruptcy proceedings, a debtor cannot be compelled to affirm an existing contract that would require it to pay cash to acquire its shares (which could be the case, for example, with a physically settled forward purchase or written put). As a result, even if the contract requires that the entity (debtor) pay cash to settle the contract, the entity could not be required to do so in bankruptcy. Because of the complexity of federal bankruptcy law and related case law, and because of the differences in state laws affecting derivative instruments, it is not possible to address all of the legal issues associated with the status of the contract and the claims of the counterparty in the event of bankruptcy.

25-33 A contract provision requiring net cash settlement in the event of bankruptcy does not preclude equity classification if it can be demonstrated that, notwithstanding the contract provisions, the counterparty's claims in bankruptcy proceedings in respect of the entity could be net share settled or would rank no higher than the claims of the holders of the stock underlying the contract.

25-34 Determination of the status of a claim in bankruptcy is a legal determination.

>> No Collateral Required

25-35 A requirement to post collateral of any kind (other than the entity's shares underlying the contract, but limited to the maximum number of shares that could be delivered under the contract) under any circumstances is inconsistent with the concept of equity and, therefore, precludes equity classification of the contract.

> Settlement Alternatives Differ in Gain and Loss Positions

25-36 This guidance addresses two circumstances in which settlement alternatives differ in gain and loss positions:

a. Net cash payment required in loss position

b. Net-stock alternative in loss position.

>> Net Cash Payment Required in Loss Position

25-37 A contract indexed to, and potentially settled in, an entity's own stock, with multiple settlement alternatives that require the entity to pay net cash when the contract is in a loss position but receive (a) net stock or (b) either net cash or net stock at the entity's option when the contract is in a gain position shall be accounted for as an asset or a liability.

>> Net-Stock Alternative in Loss Position

25-38 A contract indexed to, and potentially settled in, an entity's own stock, within the scope of this Subtopic and with multiple settlement alternatives that require the entity to receive net cash when the contract is in a gain position but pay (a) net stock or (b) either net cash or net stock at the entity's option when the contract is in a loss position shall be accounted for as an equity instrument. This guidance does not apply to a contract that is predominantly a purchased option in which the amount of cash that could be received when the contract is in a gain position is significantly larger than the amount that could be paid when the contract is in a loss position because, for example, there is a small contractual limit on the amount of the loss. Those contracts shall be accounted for as assets or liabilities.

> Application of Additional Criteria to Conventional Convertible Debt and Other Hybrid Instruments

25-39 For purposes of evaluating under paragraph 815-15-25-1 whether an **embedded derivative** indexed to an entity's own stock would be classified in stockholders' equity if freestanding, the requirements of paragraphs 815-40-25-7 through 25-35 and 815-40-55-2 through 55-6 do not apply if the hybrid contract is a conventional convertible debt instrument in which the holder may only realize the value of the conversion option by exercising the option and receiving the entire proceeds in a fixed number of shares or the equivalent amount of cash (at the discretion of the issuer).

25-40 However, the requirements of paragraphs 815-40-25-7 through 25-35 and 815-40-55-2 through 55-6 do apply if an issuer is evaluating whether any other embedded derivative is an equity instrument and thereby excluded from the scope of Subtopic 815-10.

25-41 Instruments that provide the holder with an option to convert into a fixed number of shares (or equivalent amount of cash at the discretion of the issuer) for which the ability to exercise the option is based on the passage of time or a contingent event shall be considered conventional for purposes of applying this Subtopic. **Standard antidilution provisions** contained in an instrument do not preclude a conclusion that the instrument is convertible into a fixed number of shares.

25-42 Convertible preferred stock with a mandatory redemption date may qualify for the exception included in paragraph 815-40-25-39 if the economic characteristics indicate that the instrument is more akin to debt than equity. An entity shall consider the guidance in paragraph 815-15-25-17 in assessing whether the instrument is more akin to debt or equity. That paragraph explains that, if the preferred stock is more akin to equity than debt, an equity conversion feature would be clearly and closely related to that host instrument.

> Effect of a Registration Payment Arrangement

25-43 Subtopic 825-20 requires that an entity recognize and measure a registration payment arrangement (see paragraph 825-20-15-3) as a separate unit of account from the **financial instrument(s)** subject to that arrangement. Accordingly, under that Subtopic (see paragraphs 825-20-25-2 and 825-20-30-2), a financial instrument that is both within the scope of this Subtopic and subject to a registration payment arrangement shall be recognized and measured in accordance with this Subtopic without regard to the contingent obligation to transfer consideration pursuant to the registration payment arrangement.

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815-40-30 Initial Measurement

815-40-30 Initial Measurement

General Note: The Initial Measurement Section provides guidance on the criteria and amounts used to measure a particular item at the date of initial recognition.

General

30-1 All contracts within the scope of this Subtopic shall be initially measured at **fair value**.

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815-40-35 Subsequent Measurement

General Note: The Subsequent Measurement Section provides guidance on an entity's subsequent measurement and subsequent recognition of an item. Situations that may result in subsequent changes to carrying amount include impairment, fair value adjustments, depreciation and amortization, and so forth.

General

> Overall

35-1 All contracts shall be subsequently accounted for based on the current classification and the assumed or required settlement method in Section 815-40-25 as follows.

>> Equity Instruments—Permanent Equity

35-2 Contracts that are initially classified as equity under Section 815-40-25 shall be accounted for in permanent equity as long as those contracts continue to be classified as equity. Subsequent changes in **fair value** shall not be recognized as long as the contracts continue to be classified as equity. Both of the following shall be reported in permanent equity:

a. Contracts that require that the entity deliver shares as part of a **physical settlement** or a **net share settlement**

b. Contracts that give the entity a choice of either of the following:

1. **Net cash settlement** or settlement in shares (including net share settlement and physical settlement that requires that the entity deliver shares)

2. Either net share settlement or physical settlement that requires that the entity deliver cash.

35-3 [Paragraph Not Used]

>> Assets or Liabilities

35-4 All other contracts classified as assets or liabilities under Section 815-40-25 shall be measured subsequently at fair value, with changes in fair value reported in earnings and disclosed in the financial statements as long as the contracts remain classified as assets or liabilities.

> Settlement Assumptions

35-5 Net share settlement should be assumed for contracts that are classified under Section 815-40-25 as equity instruments that provide the entity with a choice of either of the following:

a. Net share settlement

b. Physical settlement that may require that the entity deliver cash.

35-6 Physical settlement should be assumed for contracts that are classified under Section 815-40-25 as equity instruments that provide the counterparty with a choice of either of the following:

a. Net share settlement

b. Physical settlement that may require that the entity deliver cash.

35-7 [Paragraph Not Used]

> Reclassification of Contracts

35-8 The classification of a contract shall be reassessed at each balance sheet date. If the classification required under this Subtopic changes as a result of events during the period (if, for example, as a result of voluntary issuances of stock the number of authorized but unissued shares is insufficient to satisfy the maximum number of shares that could be required to net share settle the contract [see discussion in paragraph 815-40-25-20]), the contract shall be reclassified as of the date of the event that caused the reclassification. There is no limit on the number of times a contract may be reclassified.

35-9 If a contract is reclassified from permanent or temporary equity to an asset or a liability, the change in fair value of the contract during the period the contract was classified as equity shall be accounted for as an adjustment to stockholders' equity. The contract subsequently shall be marked to fair value through earnings.

35-10 If a contract is reclassified from an asset or a liability to equity, gains or losses recorded to account for the contract at fair value during the period that the contract was classified as an asset or a liability shall not be reversed.

35-11 If a contract permits partial net share settlement and the total **notional amount** of the contract no longer can be classified as permanent equity, any portion of the contract that could be net share settled as of that balance sheet date shall remain classified in permanent equity. That is, a portion of the contract shall be classified as permanent equity and a portion of the contract shall be classified as an asset, a liability, or temporary equity, as appropriate.

35-12 If an entity has more than one contract subject to this Subtopic, and partial reclassification is required, there may be different methods that could be used to determine which contracts, or portions of contracts, shall be reclassified. Methods that would comply with this Section could include any of the following:

a. Partial reclassification of all contracts on a proportionate basis

b. Reclassification of contracts with the earliest inception date first

c. Reclassification of contracts with the earliest maturity date first

d. Reclassification of contracts with the latest inception or maturity date first

e. Reclassification of contracts with the latest maturity date first.

35-13 The method of reclassification shall be systematic, rational, and consistently applied.

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815-40-40 Derecognition

General Note: The Derecognition Section provides guidance on determining whether and when an entity should remove an item from the financial statements. For example, the entity would derecognize an asset because it no longer has rights to the asset or it would derecognize a liability because it no longer has any obligation.

General

40-1 If contracts classified as permanent equity are ultimately settled in a manner that requires that the entity deliver cash, the amount of cash paid or received shall be reported as a reduction of, or an addition to, contributed capital.

40-2 If contracts classified as assets or liabilities are ultimately settled in shares, any gains or losses on those contracts shall continue to be included in earnings.

END OF DOCUMENT -

815-40-50 Disclosure

Click here to link to 815-40-S50.

General Note: The Disclosure Section provides guidance regarding the disclosure in the notes to financial statements. In some cases, disclosure may relate to disclosure on the face of the financial statements.

General

50-1 Changes in the **fair value** of all contracts classified as assets or liabilities shall be disclosed in the financial statements as long as the contracts remain classified as assets or liabilities.

50-2 Some contracts that are classified as assets or liabilities meet the definition of a **derivative instrument** under the provisions of Subtopic 815-10. The related disclosures that are required by Sections 815-10-50, 815-25-50, 815-30-50, and 815-35-50 also are required for those contracts.

> Reclassifications and Related Accounting Policy Disclosures

50-3 Contracts within the scope of this Subtopic may be required to be reclassified into (or out of) equity during the life of the instrument (in whole or in part) pursuant to the provisions of paragraphs 815-40-35-8 through 35-13. An issuer shall disclose contract reclassifications (including partial reclassifications), the reason for the reclassification, and the effect on the issuer's financial statements.

50-4 The determination of how to partially reclassify contracts subject to this Subtopic is an accounting policy decision that shall be disclosed pursuant to Topic 235.

> Interaction with Disclosures About Capital Structure

50-5 The disclosures required by Section 505-10-50 apply to all contracts within the scope of this Subtopic as follows:

a. In the case of an option or forward contract indexed to the issuer's equity, the pertinent information to be disclosed under Section 505-10-50 about the contract includes all of the following:

1. The forward rate
2. The option strike price
3. The number of issuer's shares to which the contract is indexed
4. The settlement date or dates of the contract
5. The issuer's accounting for the contract (that is, as an asset, liability, or equity).

b. If the terms of the contract provide settlement alternatives, those settlement alternatives shall be disclosed under Section 505-10-50, including both of the following:

1. Who controls the settlement alternatives

2. The maximum number of shares that could be required to be issued to net share settle a contract, if applicable. Paragraph 505-10-50-3 requires additional disclosures for actual issuances and settlements that occurred during the accounting period.

c. If a contract does not have a fixed or determinable maximum number of shares that may be required to be issued, the fact that a potentially infinite number of shares could be required to be issued to settle the contract shall be disclosed under Section 505-10-50.

d. A contract's current fair value for each settlement alternative (denominated, as relevant, in monetary amounts or quantities of shares) and how changes in the price of the issuer's equity instruments affect those settlement amounts (for example, the issuer is obligated to issue an additional X shares or pay an additional Y dollars in cash for each $1 decrease in stock price) shall be disclosed under Section 505-10-50. (For some issuers, a tabular format may provide the most concise and informative presentation of these data.)

e. The disclosures required by paragraph 505-10-50-11 shall be made for any equity instrument in the scope of this Subtopic that is (or would be if the issuer were a public entity) classified as temporary equity. (That paragraph applies to redeemable stock issued by nonpublic entities, regardless of whether the private entity chooses to classify those securities as temporary equity.)

END OF DOCUMENT -

815-40-55 Implementation Guidance and Illustrations

General Note: The Implementation Guidance and Illustrations Section contains implementation guidance and illustrations that are an integral part of the Subtopic. The implementation guidance and illustrations do not address all possible variations. Users must consider carefully the actual facts and circumstances in relation to the requirements of the Subtopic.

General

> Implementation Guidance

>> Scope Application

55-1 Both of the following are within the scope of this Subtopic based on the criteria in paragraph 815-40-15-2:

a. Security price guarantees or other **financial instruments** indexed to, or otherwise based on, the price of the entity's stock that are issued in connection with a purchase business combination and that are accounted for as contingent consideration

b. Contracts issued to acquire goods or services from nonemployees when performance has occurred.

>> Additional Conditions for Equity Classification—Net Cash Settlement and Consideration to Holders of Underlying Shares

55-2 An event that causes a change in control of an entity is not within the entity's control and, therefore, if a contract requires **net cash settlement** upon a change in control, the contract generally must be classified as an asset or a liability.

55-3 However, if a change-in-control provision requires that the counterparty receive, or permits the counterparty to deliver upon settlement, the same form of consideration (for example, cash, debt, or other assets) as holders of the shares underlying the contract, permanent equity classification would not be precluded as a result of the change-in-control provision. In that circumstance, if the holders of the shares underlying the contract were to receive cash in the **transaction** causing the change in control, the counterparty to the contract could also receive cash based on the value of its position under the contract.

55-4 If, instead of cash, holders of the shares underlying the contract receive other forms of consideration (for example, debt), the counterparty also must receive debt (cash in an amount equal to the **fair value** of the debt would not be considered the same form of consideration as debt).

55-5 Similarly, a change-in-control provision could specify that if all stockholders receive stock of an acquiring entity upon a change in control, the contract will be indexed to the shares of the purchaser (or issuer in a business combination accounted for as a pooling of interests) specified in the business combination agreement, without affecting classification of the contract.

55-6 In the event of nationalization, cash compensation would be the consideration for the expropriated assets and, as a result, a counterparty to the contract could receive only cash, as is the case for a holder of the stock underlying the contract. Because the contract counterparty would receive the same form of consideration as a stockholder, a contract provision requiring net cash settlement in the event of nationalization does not preclude equity classification of the contract.

>> Application of this Subtopic to Specific Instruments

55-7 The following guidance reflects the application of this Subtopic to certain freestanding derivative financial instruments that are indexed to, and potentially settled in, an entity's own stock, specifically:

a. Embedded written put options and forward purchase contracts

b. Forward sale contracts, written call options or warrants, and purchased put options

c. Purchased call options

d. Detachable stock purchase warrants

e. Put warrants.

>>> Embedded Written Put Options and Forward Purchase Contracts

55-8 Paragraph 815-40-15-3(e) explains that financial instruments that are within the scope of Topic 480 are not subject to any of the provisions of this Subtopic. See paragraph 480-10-55-63 for a table for freestanding written put options and forward purchase contracts that are accounted for under Topic 480. The guidance that follows applies to embedded derivatives analyzed under paragraph 815-15-25-1(c).

55-9 The entity (the buyer) agrees to buy from the seller shares at a specified price at some future date. The contract may be settled by **physical settlement**, **net share settlement**, or net cash settlement, or the issuing entity or the counterparty may have a choice of settlement methods. Application of this Subtopic to purchased call options is discussed in paragraph 815-40-55-14.

55-10 The guidance in the following table includes shareholder rights (sometimes referred to as SHARP rights) issued by the entity to shareholders that give the shareholders the right to put a specified number of common shares to the entity for cash.

55-11 The guidance in this Subtopic would be applied as follows.

	One Settlement Method			Entity Choice			Counterparty Choice		
	Physical [a]	Net Share	Net Cash	Net Share or Physical[a]	Net Share or Net Cash	Net Cash or Physical[a]	Net Share or Physical[a]	Net Share or Net Cash	Net Cash or Physical[a]
(1) Initial Classification:									
Equity [b]	x	x		x	x	x	x		
Asset or Liability			x					x	x
(2) Initial Measurement, Subsequent Classification and Measurement:									
Fair value, permanent equity–no changes in fair value[b]		x		x[c]	x[c]				
Fair value, transfer to temporary equity an amount equal to cash redemption amount [b][d]	x					x[e]	x[e]		
Fair value, asset or liability– adjusted for changes in fair falue [f]			x					x[g]	x[g]

(a) Physical settlement of the contract requires that the entity deliver cash to the holder in exchange for the shares.
(b) Equity or temporary equity classification is only appropriate if the conditions in Section 815-40-25 do not require asset or liability classification of the contract.
(c) If the contracts are ultimately physically settled by the entity, requiring that the entity deliver cash, or are ultimately settled in net cash, the amount of cash paid or received should be reported as a reduction of, or as an addition to, contributed capital.
(d) Classification and measurement guidance within temporary equity applies only to public entities.
(e) If the contracts are ultimately settled in net cash or net shares, the amount reported in temporary equity should be transferred and reported as an addition to permanent equity.
(f) Subsequent changes in fair value should be reported in earnings and disclosed in the financial statements.
(g) If the contracts are ultimately settled in shares, any gains or losses on those contracts should continue to be included in earnings.

Note: In all cases above, the contracts must be reassessed at each reporting period in order to determine whether or not the contract must be reclassified.

55-12 See paragraph 480-10-55-63 for a table for freestanding written put options and forward purchase contracts that are accounted for under Topic 480. This table applies to **embedded derivatives** analyzed under paragraph 815-15-25-1(c).

>>> Forward Sale Contracts, Written Call Options or Warrants, and Purchased Put Options

55-13 The issuing entity (the seller) agrees to sell shares of its stock to the buyer of the contract at a specified price at some future date. The contract may be settled by physical settlement, net share settlement, or net cash settlement, or the issuing entity or counterparty may have a choice of settlement methods. The guidance in this Subtopic would be applied as follows.

	One Settlement Method			Entity Choice			Counterparty Choice		
	Physical [a]	Net Share	Net Cash	Net Share or Physical[a]	Net Share or Net Cash	Net Cash or Physical[a]	Net Share or Physical[a]	Net Share or Net Cash	Net Cash or Physical[a]
(1) Initial Classification:									
Equity [b]	x	x		x	x	x	x		
Asset or Liability			x					x	x
(2) Initial Measurement, Subsequent Classification and Measurement:									
Fair value, permanent equity–no changes in fair value[b]	x	x		x	x[c]	x[c]	x		
Fair value, asset or liability– adjusted for changes in fair value [d]			x					x[e]	x[e]

(a) Physical settlement of the contract requires that the entity deliver shares to the holder in exchange for cash.
(b) Equity or temporary equity classification is only appropriate if the conditions in Section 815-40-25 do not require asset or liability classification of the contract.
(c) If the contracts are ultimately settled in net cash, the amount of cash paid or received should be reported as a reduction of, or an addition to, contributed capital.
(d) Subsequent changes in fair value should be reported in earnings and disclosed in the financial statements.
(e) If the contracts are ultimately settled in shares, any gains or losses on those contracts should continue to be included in earnings.

Note: In all cases above, the contracts must be reassessed at each reporting period in order to determine whether or not the contract must be reclassified.

>>> Purchased Call Options

55-14 The entity (the buyer) purchases call options that provide it with the right, but not the obligation, to buy from the seller, shares of the entity's stock at a specified price. If the options are exercised, the contract may be settled by physical settlement, net share settlement, or net cash settlement, or the issuing entity or the counterparty may have a choice of settlement methods. The entity should follow the preceding table in accounting for purchased call options.

>>> Detachable Stock Purchase Warrants

55-15 An entity issues senior subordinated notes with a detachable warrant that gives the holder both the right to purchase 6,250 shares of the entity's stock for $75 per share and the right (that is, a put) to require that the entity repurchase all or any portion of the warrant for at least $2,010 per share at a date several months after the maturity of the notes in about 7 years. The proceeds should be allocated between the debt liability and the warrant based on their relative fair values, and the resulting discount should be amortized in accordance with Subtopic 835-30. The warrants should be considered, in substance, debt and accounted for as a liability because the settlement alternatives for the warrants do not have the same economic value attached to them and they provide the holder with a guaranteed return in cash that is significantly in excess of the value of the share-settlement alternative on the issuance date.

>>> Put Warrants

55-16 Put warrants are frequently issued concurrently with debt securities of the entity, are detachable from the debt, and may be exercisable only under specified conditions. The put feature of the instrument may expire under varying circumstances, for example, with the passage of time or if the entity has a public stock offering. Under Subtopic 470-20, a portion of the proceeds from the issuance of debt with detachable warrants must be allocated to those warrants.

55-17 Put warrants are instruments with characteristics of both warrants and put options. The holder of the instrument is entitled to do any of the following:

a. Exercise the warrant feature to acquire the common stock of the entity at a specified price

b. Exercise the put option feature to put the instrument back to the entity for a cash payment

c. Exercise both the warrant feature to acquire the common stock and the put option feature to put that stock back to the entity for a cash payment.

55-18 Because the contract gives the counterparty the choice of cash settlement or settlement in shares, entities should report the proceeds from the issuance of put warrants as liabilities and subsequently measure the put warrants at fair value with changes in fair value reported in earnings as required by Topic 480. That is, a put warrant that embodies an obligation to repurchase the issuer's equity shares, or is indexed to such an obligation, and that requires or may require a transfer of assets is within the scope of that Topic and therefore is to be recognized as a liability.

> Illustrations

>> Example 1: Evaluating Whether an Instrument Involving a Contingency Is Considered Indexed to an Entity's Own Stock

55-19 [Paragraph Not Used]

55-20 [Paragraph Not Used]

55-21 [Paragraph Not Used]

55-22 [Paragraph Not Used]

55-23 [Paragraph Not Used]

55-24 [Paragraph Not Used]

55-25 [Paragraph Not Used]

>> Example 2: Variability Involving Completion of an Initial Public Offering

55-26 This Example illustrates the application of the guidance beginning in paragraph 815-40-15-5. Entity A issues warrants that permit the holder to buy 100 shares of its common stock for $10 per share. The warrants have 10-year terms; however, they only become exercisable if Entity A completes an initial public offering. The warrants are considered indexed to Entity A's own stock based on the following evaluation:

a. Step 1. The **exercise contingency** (that is, the initial public offering) is not an observable market or an observable index, so the evaluation of Step 1 does not preclude the warrants from being considered indexed to the entity's own stock. Proceed to Step 2.

b. Upon exercise, the settlement amount would equal the difference between the fair value of a fixed number of the entity's equity shares (100 shares) and a fixed strike price ($10 per share).

>> Example 3: Variability Involving Sales Volume

55-27 This Example illustrates the application of the guidance beginning in paragraph 815-40-15-5. Entity A issues warrants that permit the holder to buy 100 shares of its common stock for $10 per share. The warrants have 10-year terms; however, they only become exercisable after Entity A accumulates $100 million in sales to third parties. The warrants are considered indexed to Entity A's own stock based on the following evaluation:

a. Step 1. The exercise contingency (that is, the accumulation of $100 million in sales to third parties) is an observable index. However, it can only be calculated or measured by reference to Entity A's sales, so the evaluation of Step 1 does not preclude the warrants from being considered indexed to the entity's own stock. Proceed to Step 2.

b. Step 2. Upon exercise, the settlement amount would equal the difference between the fair value of a fixed number of the entity's equity shares (100 shares) and a fixed strike price ($10 per share).

>> Example 4: Variability Involving Stock Index

55-28 This Example illustrates the application of the guidance beginning in paragraph 815-40-15-5. Entity A issues warrants that permit the holder to buy 100 shares of its common stock for $10 per share. The warrants have 10-year terms; however, they only become exercisable if the Standard & Poor's S&P 500 Index increases 500 points within any given calendar year during that 10-year period. The warrants are not considered indexed to Entity A's own stock based on the following evaluation:

a. Step 1. The exercise contingency (that is, the increase of 500 points in Standard & Poor's S&P 500 Index) is based on an observable index that is not measured solely by reference to the issuer's own operations.

b. Step 2. It is not necessary to evaluate Step 2.

>> Example 5: Variability Involving a Commodity Price

55-29 This Example illustrates the application of the guidance beginning in paragraph 815-40-15-5. Entity A issues warrants that permit the holder to buy 100 shares of its common stock in exchange for one ounce of gold. [The warrants have 10-year terms; however, they only become exercisable if Entity A completes an initial public offering. The warrants are not considered indexed to Entity A's own stock based on the following evaluation:

a. Step 1. The exercise contingency (that is, the initial public offering) is not an observable market or an observable index, so the evaluation of Step 1 does not preclude the warrants from being considered indexed to the entity's own stock. Proceed to Step 2.

b. Step 2. The settlement amount would not equal the difference between the fair value of a fixed number of the entity's equity shares (100 shares) and a fixed strike price. Although the number of shares that would be issued at settlement is fixed, the strike price varies based on the price of one ounce of gold. The price of gold is not an input to the fair value of a fixed-for-fixed option on equity shares.

>> Example 6: Variability Involving Merger Announcement

55-30 This Example illustrates the application of the guidance beginning in paragraph 815-40-15-5. Entity A issues warrants that permit the holder to buy 100 shares of its common stock for $10 per share. The warrants have 10-year terms and are exercisable at any time. However, the terms of the warrants specify that if there is an announcement of a merger involving Entity A, the strike price of the warrants will be adjusted to offset the effect of the merger announcement on the net change in the fair value of the warrants and of an offsetting hedge position in the underlying shares. The strike price adjustment must be determined using commercially reasonable means based on an assumption that the counterparty has entered into a hedge position in the underlying shares to offset the share price exposure from the warrants. That strike price adjustment is not affected by the counterparty's actual hedging position (for example, the strike price adjustment does not differ in circumstances when the counterparty is over-hedged or under-hedged). The warrants are considered indexed to Entity A's own stock based on the following evaluation:

a. Step 1. The instruments do not contain an exercise contingency. Proceed to Step 2.

b. Step 2. The settlement amount would equal the difference between the fair value of a fixed number of the entity's equity shares (100 shares) and a fixed strike price ($10 per share), unless there is a merger announcement. If there is a merger announcement, the settlement amount would be adjusted to offset the effect of the merger announcement on the fair value of the warrants. In that circumstance, the only variables that could affect the settlement amount would be inputs to the fair value of a fixed-for-fixed option on equity shares. For further discussion, see paragraphs 815-40-15-7E and 815-40-15-7G.

>> Example 7: Variability Involving Revenue Target

55-31 This Example illustrates the application of the guidance beginning in paragraph 815-40-15-5. Entity A issues warrants that permit the holder to buy 100 shares of its common stock for an initial price of $10 per share. The warrants have 10-year terms and are exercisable at any time. However, the terms of the warrants specify that the strike price is reduced by $0.50 after any year in which Entity A does not achieve revenues of at least $100 million. The warrants are not considered indexed to Entity A's own stock based on the following evaluation:

a. Step 1. The instruments do not contain an exercise contingency. Proceed to Step 2.

b. Step 2. The settlement amount would not equal the difference between the fair value of a fixed number of the entity's equity shares (100 shares) and a fixed strike price. Although the number of shares that would be issued at settlement is fixed, the strike price would be adjusted after any year in which Entity A does not achieve revenues of at least $100 million.] The amount of an entity's annual revenues is not an input to the fair value of a fixed-for-fixed option on equity shares.

>> Example 8: Variability Involving Stock Price Cap

55-32 This Example illustrates the application of the guidance beginning in paragraph 815-40-15-5. Entity A purchases net-settled call options that permit it to buy 100 shares of its common stock for $10 per share. However, the maximum appreciation on the call options is capped when Entity A's stock price reaches $15 per share (that is, the counterparty's maximum obligation is $500 [($15 − $10) x 100 shares]). The call options have 10-year terms and are exercisable at any time. The call options are considered indexed to Entity A's own stock based on the following evaluation:

a. Step 1. The instruments do not contain an exercise contingency. Proceed to Step 2.

b. Step 2. The settlement amount would equal the difference between the fair value of a fixed number of the entity's equity shares (100 shares) and a fixed strike price when Entity A's stock price is between the $10 stated exercise price and the $15 price cap. However, whenever Entity A's stock price exceeds $15, the strike price of the call options increases and decreases in amounts equal to the corresponding increases and decreases in Entity A's stock price, such that the intrinsic value of each call option always equals $5. Because the only variable that can affect the settlement amount is the entity's stock price, which is an input to the fair value of a fixed-for-fixed option contract, the call options are considered indexed to the entity's own stock.

>> Example 9: Variability Involving Future Equity Offerings and Issuance of Equity-Linked Financial Instruments

55-33 This Example illustrates the application of the guidance beginning in paragraph 815-40-15-5. Entity A issues warrants that permit the holder to buy 100 shares of its common stock for $10 per share. The warrants have 10-year terms and are exercisable at any time. However, the terms of the warrants specify both of the following:

a. If the entity sells shares of its common stock for an amount less than $10 per share, the strike price of the warrants is reduced to equal the issuance price of those shares.

b. If the entity issues an equity-linked financial instrument with a strike price below $10 per share, the strike price of the warrants is reduced to equal the strike price of the newly issued equity-linked financial instrument.

55-34 The warrants are not considered indexed to Entity A's own stock based on the following evaluation:

a. Step 1. The instruments do not contain an exercise contingency. Proceed to Step 2.

b. Step 2. The settlement amount would not equal the difference between the fair value of a fixed number of the entity's equity shares and a fixed strike price. The strike price would be adjusted if Entity A sells shares of its common stock for an amount less than $10 per share or if Entity A issues an equity-linked financial instrument with a strike price below $10 per share. Consequently, the settlement amount of the warrants can be affected by future equity offerings undertaken by Entity A at the then-current market price of the related shares or by the contractual terms of other equity-linked financial instruments issued in a subsequent period. The occurrence of a sale of common stock by the entity at market is not an input to the fair value of a fixed-for-fixed option on equity shares. Similarly, the occurrence of a sale of an equity-linked financial instrument is not an input to the fair value of a fixed-for-fixed option on equity shares, if the transaction was priced at market.

>> Example 10: Variability Involving Regulatory Approval

55-35 This Example illustrates the application of the guidance beginning in paragraph 815-40-15-5. Entity A issues warrants that permit the holder to buy 100 shares of its common stock for $10 per share. The warrants have 10-year terms and are exercisable at any time. However, the terms of the warrants specify that if Entity A does not obtain regulatory approval of a particular drug compound within 5 years, the holder can surrender the warrants to Entity A for $2 per warrant (settleable in shares). The contingently puttable warrants are not considered indexed to Entity A's own stock based on the following evaluation:

a. Step 1. The instruments do not contain an exercise contingency. Proceed to Step 2.

b. Step 2. The settlement amount would equal the difference between the fair value of a fixed number of the entity's equity shares (100 shares) and a fixed strike price ($10 per share), unless regulatory approval of a particular drug compound is not obtained within 5 years. If that approval is not obtained within the allotted time period, the holder could elect to surrender the warrants to Entity A in exchange for $2 per warrant. The contingent obligation to settle the warrants by transferring consideration with a fixed monetary value if regulatory approval of a particular drug compound is not obtained within a specified time period does not represent an input to the fair value of a fixed-for-fixed option on equity shares. A freestanding equity-linked instrument that provides for a fixed payoff upon the occurrence of a contingent event which is not based on the issuer's share price is not indexed to an entity's own stock.

>> Example 11: Variability Involving a Currency Other Than the Entity’s Functional Currency

55-36 This Example illustrates the application of the guidance beginning in paragraph 815-40-15-5. Entity A, whose functional currency is U.S. dollars (USD), issues warrants with a strike price denominated in Canadian dollars (CAD). The warrants permit the holder to buy 100 shares of its common stock for CAD 10 per share. Entity A's shares trade on an exchange on which trades are denominated in CAD. The warrants have 10-year terms and are exercisable at any time. The warrants are not considered indexed to Entity A's own stock based on the following evaluation:

a. Step 1. The instruments do not contain an exercise contingency. Proceed to Step 2.

b. Step 2. The strike price of the warrants is denominated in a currency other than the entity's functional currency, so the warrants are not considered indexed to the entity's own stock.

>> Example 12: Variability Involving Dividend Distributions

55-37 This Example illustrates the application of the guidance beginning in paragraph 815-40-15-5. Entity A enters into a forward contract to sell 100 shares of its common stock for $10 per share in 1 year. Historically, Entity A has paid a dividend of $0.10 per quarter on its common shares. Under the terms of the forward contract, if dividends per common share differ from $0.10 during any 3-month period, the strike price of the forward contract will be adjusted to offset the effect of the dividend differential (actual dividend versus $0.10) on the fair value of the instrument. Additionally, the terms of the forward contract provide for an adjustment to the strike price, using commercially reasonable means, to offset the effect of any increased cost of borrowing Entity A's shares in the stock loan market on the fair value of the instrument. The forward contract is considered indexed to Entity A's own stock based on the following evaluation:

a. Step 1. The instrument does not contain an exercise contingency. Proceed to Step 2.

b. Step 2. The only circumstances in which the settlement amount will not equal the difference between the fair value of 100 shares and $1,000 ($10 per share) are if dividends per common share differ from $0.10 during any 3-month period or if there is an increased cost of borrowing Entity A's shares in the stock loan market. The adjustments to the strike price resulting from those events are intended to offset their effects on the instrument's fair value. In those circumstances, the only variables that could affect the settlement amount (dividends and stock borrow cost) would be inputs to the fair value of a fixed-for-fixed forward contract on equity shares.

>> Example 13: Variability Involving Average Stock Price

55-38 This Example illustrates the application of the guidance beginning in paragraph 815-40-15-5. Entity A enters into a net-settleable forward contract to sell 100 shares of its common stock in 1 year for an amount equal to $10 per share plus interest calculated at a variable interest rate (Federal Funds rate plus a fixed spread). The share price used to determine the settlement amount is based on the volume-weighted average daily market price of Entity A's common stock for the 30-day period before the settlement date. The forward contract is considered indexed to Entity A's own stock based on the following evaluation:

a. Step 1. The instrument does not contain an exercise contingency. Proceed to Step 2.

b. Step 2. The settlement amount will not equal the difference between the fair value of a fixed number of the entity's equity shares (100 shares) and a fixed strike price. However, the only variables that cause the settlement amount to differ from a fixed-for-fixed settlement amount are the 30-day volume-weighted average daily market price of Entity A's common stock and an interest rate index. The pricing inputs of a fixed-for-fixed forward contract include the entity's stock price and interest rates. Additionally, the floating interest rate feature does not introduce a leverage factor or otherwise increase the effects of interest rate changes on the instrument's fair value.

>> Example 14: Variability Involving Interest Rate Index

55-39 This Example illustrates the application of the guidance beginning in paragraph 815-40-15-5. Entity A enters into a forward contract to sell 100 shares of its common stock in 1 year for an amount equal to $10 per share plus interest calculated at a variable interest rate that varies inversely with changes in the London Interbank Offered Rate (LIBOR) (similar to an "inverse floater," as described in paragraphs 815-15-55-170 through 55-172). The forward contract is not considered indexed to Entity A's own stock based on the following evaluation:

a. Step 1. The instrument does not contain an exercise contingency. Proceed to Step 2.

b. Step 2. The settlement amount will not equal the difference between the fair value of a fixed number of the entity's equity shares (100 shares) and a fixed strike price. Although the number of shares that would be issued at settlement is fixed, the strike price varies inversely with changes in an interest rate index. The inverse floating interest rate feature increases the effects of interest rate changes on the instrument's fair value (that is, the feature increases the instrument's fair value exposure to interest rate changes) when compared to the exposure to interest rate changes of a fixed-for-fixed forward contract.

>> Example 15: Variability Involving Stock Price Cap and Floor

55-40 This Example illustrates the application of the guidance beginning in paragraph 815-40-15-5. Entity A enters into a net-settled forward contract to sell 100 shares of its common stock in 1 year for $1,000. However, the maximum amount payable to the counterparty at maturity is capped when Entity A's stock price is greater than or equal to $15 per share (that is, Entity A's maximum obligation is $500 [($15 − $10) x 100 shares]). Additionally, the maximum amount receivable from the counterparty at maturity is capped when Entity A's stock price is less than or equal to $5 per share (that is, the counterparty's maximum obligation is $500 [($5 − $10) x 100 shares]). The forward contract is considered indexed to Entity A's own stock based on the following evaluation:

a. Step 1. The instrument does not contain an exercise contingency. Proceed to Step 2.

b. Step 2. The settlement amount would equal the difference between the fair value of a fixed number of the entity's equity shares (100 shares) and a fixed strike price ($1,000) when Entity A's stock price is between $5 and $15. However, whenever Entity A's stock price is greater than or equal to $15 at maturity, the amount payable to the counterparty always equals $500. Additionally, whenever Entity A's stock price is less than or equal to $5 at maturity, the amount receivable from the counterparty always equals $500. Because the only variable that can affect the settlement amount is the entity's stock price, which is an input to the fair value of a fixed-for-fixed forward contract, the instrument is considered indexed to the entity's own stock.

>> Example 16: Variability Involving Cap on Shares Issued

55-41 This Example illustrates the application of the guidance beginning in paragraph 815-40-15-5. Entity A enters into a forward contract to sell a variable number of its common shares in 1 year for $1,000. If Entity A's stock price is equal to or less than $10 at maturity, Entity A will issue 100 shares of its common stock to the counterparty. If Entity A's stock price is greater than $10 but equal to or less than $12 at maturity, Entity A will issue a variable number of its common shares worth $1,000. Finally, if the share price is greater than $12 at maturity, Entity A will issue 83.33 shares of its common stock. The forward contract is considered indexed to Entity A's own stock based on the following evaluation:

a. Step 1. The instrument does not contain an exercise contingency. Proceed to Step 2.

b. Step 2. The settlement amount will not equal the difference between the fair value of a fixed number of the entity's equity shares and a fixed strike price ($1,000). Although the strike price to be received at settlement is fixed, the number of shares to be issued to the counterparty varies based on the entity's stock price on the settlement date. Because the only variable that can affect the settlement amount is the entity's stock price, which is an input to the fair value of a fixed-for-fixed forward contract on equity shares, the instrument is considered indexed to the entity's own stock.

>> Example 17: Variability Involving Various Underlyings

55-42 This Example illustrates the application of the guidance beginning in paragraph 815-40-15-5. Entity A enters into a forward contract to sell 100 shares of its common stock for $10 per share in 1 year. Under the terms of the forward contract, the strike price of the forward contract would be adjusted to offset the resulting dilution (except for issuances and repurchases that occur upon settlement of outstanding option or forward contracts on equity shares) if Entity A does any of the following:

a. Distributes a stock dividend or ordinary cash dividend

b. Executes a stock split, spinoff, rights offering, or recapitalization through a large, nonrecurring cash dividend

c. Issues shares for an amount below the then-current market price

d. Repurchases shares for an amount above the then-current market price.

The term in item (d) adjusts for the dilution to the forward contract counterparty resulting from the occurrence of specified dilutive events. The adjustment to the strike price of the forward contract is based on a mathematical calculation that determines the direct effect that the occurrence of such dilutive events should have on the price of the underlying shares; it does not adjust for the actual change in the market price of the underlying shares upon the occurrence of those events, which may increase or decrease for other reasons.

55-43 The forward contract is considered indexed to Entity A's own stock based on the following evaluation:

a. Step 1. The instrument does not contain an exercise contingency. Proceed to Step 2.

b. Step 2. The only circumstances in which the settlement amount will not equal the difference between the fair value of 100 shares and $1,000 ($10 per share) are upon the occurrence of any of the following:

1. The distribution of a stock dividend or ordinary cash dividend
2. The execution of a stock split, spinoff, rights offering, or recapitalization through a large, nonrecurring cash dividend
3. The issuance of shares for an amount below the then-current market price
4. The repurchase of shares for an amount above the then-current market price.

An implicit assumption in standard pricing models for equity-linked financial instruments is that such events will not occur (or that the strike price of the instrument will be adjusted to offset the dilution caused by such events). Therefore, the only variables that could affect the settlement amount in this example would be inputs to the fair value of a fixed-for-fixed option on equity shares.

>> Example 18: Variability Involving Forward Contract Settled in a Currency Other Than the Entity’s Functional Currency

55-44 This Example illustrates the application of the guidance beginning in paragraph 815-40-15-5. Entity A, whose functional currency is US$, enters into a forward contract that requires Entity A to sell 100 shares of its common stock for 120 euros per share in 1 year. The forward contract is not considered indexed to Entity A's own stock based on the following evaluation:

a. Step 1. The instrument does not contain an exercise contingency. Proceed to Step 2.

b. Step 2. The strike price of the forward contract is denominated in a currency other than the entity's functional currency, so the forward contract is not considered indexed to the entity's own stock.

>> Example 19: Variability Involving Contingently Convertible Debt with a Market Price Trigger, Parity Provision, and Merger Provision

55-45 This Example illustrates the application of the guidance beginning in paragraph 815-40-15-5. Entity A issues a contingently convertible debt instrument with a par value of $1,000 that is convertible into 100 shares of its common stock. The convertible debt instrument has a 10-year term and is convertible at any time after any of the following events occurs:

a. Entity A's stock price exceeds $13 per share (market price trigger).

b. The convertible debt instrument trades for an amount that is less than 98 percent of its if-converted value (parity provision).

c. There is an announcement of a merger involving Entity A.

55-46 The terms of the convertible debt instrument also include a make-whole provision. Under that provision, if Entity A is acquired for cash before a specified date, the holder of the convertible debt instrument can convert into a number of shares equal to the sum of the fixed conversion ratio (100 shares per bond) and the make-whole shares. The number of make-whole shares is determined by reference to a table with axes of stock price and time. That table was designed such that the aggregate fair value of the shares deliverable (that is, the fair value of 100 shares per bond plus the make-whole shares) would be expected to approximate the fair value of the convertible debt instrument at the settlement date, assuming no change in relevant pricing inputs (other than stock price and time) since the instrument's inception. The embedded conversion option is considered indexed to Entity A's own stock based on the following evaluation:

a. Step 1. The market price trigger and parity provision exercise contingencies are based on observable markets; however, those contingencies relate solely to the market prices of the entity's own stock and its own convertible debt. Also, the merger announcement exercise contingency is not an observable market or an index. Therefore, Step 1 does not preclude the warrants from being considered indexed to the entity's own stock. Proceed to Step 2.

b. Step 2. An acquisition for cash before the specified date is the only circumstance in which the settlement amount will not equal the difference between the fair value of 100 shares and a fixed strike price ($1,000 fixed par value of the debt). The settlement amount if Entity A is acquired for cash before the specified date is equal to the sum of the fixed conversion ratio (100 shares per bond) and the make-whole shares. The number of make-whole shares is determined based on a table with axes of stock price and time, which would both be inputs in a fair value measurement of a fixed-for-fixed option on equity shares.

>> Example 20: Variability Involving Functional Currency Debt Convertible to a Stock That Trades in a Currency Other Than the Entity's Functional Currency

55-47 This Example illustrates the application of the guidance beginning in paragraph 815-40-15-5. Entity A, whose functional currency is the Chinese yuan (CNY), issues a debt instrument denominated in CNY with a par value of CNY 1,000 that is convertible into 100 shares of its common stock. Entity A's shares only trade on an exchange in which trades are denominated in US$. Those shares do not trade on an exchange (or other established marketplace) in which trades are denominated in CNY. The convertible debt instrument has a 10-year term and is convertible at any time. The embedded conversion option is considered indexed to Entity A's own stock based on the following evaluation:

a. Step 1. The embedded conversion option does not contain an exercise contingency. Proceed to Step 2.

b. Step 2. Upon exercise of the embedded conversion option, the settlement amount would equal the difference between the fair value of a fixed number of the entity's equity shares (100 shares) and a fixed strike price denominated in its functional currency (CNY 1,000 fixed par value of the debt). The determination of whether the embedded conversion option is indexed to the entity's own stock is not affected by the currency (or currencies) in which the underlying shares trade.

>> Example 21: Variability Involving Securities Issued to Establish a Market-Based Measure of Employee Stock Option Value

55-48 This Example illustrates the application of the guidance beginning in paragraph 815-40-15-5. Entity A issues a security to investors for purposes of establishing a market-based measure of the grant-date fair value of a grant of employee stock options. Under the terms of that market-based employee stock option valuation instrument, Entity A is obligated to make variable quarterly payments to the investors that are a function of the net intrinsic value received by a pool of Entity A's employees, based on actual stock option exercises by those employees each period. The market-based employee stock option valuation instrument has a 10-year term, consistent with the contractual term of the underlying employee stock options. The market-based employee stock option valuation instrument is not considered indexed to Entity A's own stock based on the following evaluation:

a. Step 1. The analysis of the exercise contingency (or contingencies) depends on the particular terms and features of the instrument. However, as indicated in Step 2 below, a market-based employee stock option valuation instrument would not be considered indexed to the entity's own stock.

b. Step 2. The settlement amount will not equal the difference between the fair value of a fixed number of the entity's equity shares and a fixed strike price. The instrument provides for variable quarterly payments to investors that are based on actual employee stock option exercises for the period. Because a variable that affects the instrument's settlement amount is employee stock option exercise behavior, which is not an input to the fair value of a fixed-for-fixed option or forward contract on equity shares, the instrument is not considered indexed to the entity's own stock.

END OF DOCUMENT -

815-40-75 XBRL Elements

General Note: This section contains a list of XBRL elements that reference paragraphs in this Subtopic. For additional details regarding changes to the development version of the US GAAP Financial Reporting Taxonomy, refer to the FASB taxonomy review and comment system on the FASB web site.

XBRL Links to Codification

Derivative Asset, Notional Amount

Element Name: *DerivativeAssetNotionalAmount*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Derivative Financial Instruments, Assets [Member]

Element Name: *DerivativeFinancialInstrumentsAssetsMember*

This XBRL element references the following glossary term(s):

- Master Glossary > Derivative Instrument

Derivative Financial Instruments, Liabilities [Member]

Element Name: *DerivativeFinancialInstrumentsLiabilitiesMember*

This XBRL element references the following glossary term(s):

- Master Glossary > Derivative Instrument

Derivative Liability, Notional Amount

Element Name: *DerivativeLiabilityNotionalAmount*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Derivative, Nonmonetary Notional Amount

Element Name: *DerivativeNonmonetaryNotionalAmount*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Derivative, Notional Amount

Element Name: *DerivativeNotionalAmount*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Derivatives, Embedded Derivatives [Policy Text Block]

Element Name: *DerivativesEmbeddedDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > 50 Disclosure > General, 50-3

This XBRL element references the following glossary term(s):

- Master Glossary > Embedded Derivative

Description of Embedded Derivative

Element Name: *DescriptionOfEmbeddedDerivative*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 15 Embedded Derivatives > 25 Recognition > General, 25-1

This XBRL element references the following glossary term(s):

- Master Glossary > Embedded Derivative

Discussion of Hybrid Instruments and Embedded Derivatives [Text Block]

Element Name: *DiscussionOfHybridInstrumentsAndEmbeddedDerivativesTextBlock*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 235 Notes to Financial Statements > 10 Overall > S99 SEC Materials > General, S99-1 (SX 210.4-08. (n) (1), (7))
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4A
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4C
- 815 Derivatives and Hedging > 15 Embedded Derivatives > 25 Recognition > General, 25-1
- 815 Derivatives and Hedging > 15 Embedded Derivatives > 45 Other Presentation > General, 45-1
- 815 Derivatives and Hedging > 15 Embedded Derivatives > 50 Disclosure > General, 50-1
- 815 Derivatives and Hedging > 15 Embedded Derivatives > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 15 Embedded Derivatives > 50 Disclosure > General, 50-3
- 825 Financial Instruments > 10 Overall > 50 Disclosure > General, 50-10

- 825 Financial Instruments > 10 Overall > 50 Disclosure > General, 50-15
- 825 Financial Instruments > 10 Overall > 50 Disclosure > Fair Value Option, 50-28
- 825 Financial Instruments > 10 Overall > 50 Disclosure > Fair Value Option, 50-30 (a)

This XBRL element references the following glossary term(s):

- Master Glossary > Embedded Derivative
- Master Glossary > Hybrid Instrument

Fair Value Disclosure, Off-balance Sheet Risks, Description

Element Name: *FairValueDisclosureOffBalanceSheetRisksDescription*

This XBRL element references the following glossary term(s):

- Master Glossary > Financial Instrument

Fair Value Disclosure, Off-balance Sheet Risks, Methodology

Element Name: *FairValueDisclosureOffBalanceSheetRisksMethodology*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 270 Interim Reporting > 10 Overall > 60 Relationships > General, 60-1
- 825 Financial Instruments > 10 Overall > 50 Disclosure > General, 50-10 (b)

This XBRL element references the following glossary term(s):

- Master Glossary > Financial Instrument

Fair Value Disclosure, Off-balance Sheet Risks, Significant Assumptions

Element Name: *FairValueDisclosureOffBalanceSheetRisksSignificantAssumptions*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 820 Fair Value Measurement > 10 Overall > 50 Disclosure > General, 50-1
- 825 Financial Instruments > 10 Overall > 50 Disclosure > General, 50-10 (b)

This XBRL element references the following glossary term(s):

- Master Glossary > Financial Instrument

Forward Contract Indexed to Issuer's Equity [Table]

Element Name: *ForwardContractIndexedToIssuersEquityTable*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-3
- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-4
- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-5

Forward Contract Indexed to Issuer's Equity, Classification

Element Name: *ForwardContractIndexedToIssuersEquityClassification*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-5 (a) (5)

Forward Contract Indexed to Issuer's Equity, Contract Reclassification

Element Name: *ForwardContractIndexedToIssuersEquityContractReclassification*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-3
- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-4

Forward Contract Indexed to Issuer's Equity, Forward Rate Per Share

Element Name: *ForwardContractIndexedToIssuersEquityForwardRate*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-5 (a) (1)

Forward Contract Indexed to Issuer's Equity, Indexed Shares

Element Name: *ForwardContractIndexedToIssuersEquityIndexedShares*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-5 (a) (3)

Forward Contract Indexed to Issuer's Equity, Redeemable Stock, Redemption Requirements, Amount (Revision Date: 2011-07-06)

Element Name: *ForwardContractIndexedToIssuersEquityRedeemableStockRedemptionRequirementsAmount*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-5 (e)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 505 Equity > 10 Overall > 50 Disclosure > General, 50-11

Forward Contract Indexed to Issuer's Equity, Settlement Alternatives

Element Name: *ForwardContractIndexedToIssuersEquitySettlementAlternatives*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-5 (b)

Forward Contract Indexed to Issuer's Equity, Settlement Alternatives, Cash, at Fair Value (Revision Date: 2011-07-06)

Element Name: *ForwardContractIndexedToIssuersEquitySettlementAlternativesCashAtFairValue*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-5 (d)

Forward Contract Indexed to Issuer's Equity, Settlement Alternatives, Shares, at Fair Value (Revision Date: 2011-07-06)

Element Name: *ForwardContractIndexedToIssuersEquitySettlementAlternativesSharesAtFairValue*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-5 (d)

Forward Contract Indexed to Issuer's Equity, Settlement Date (Revision Date: 2011-12-20)

Element Name: *ForwardContractIndexedToIssuersEquitySettlementDateOrDates*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-5 (a) (4)

Forward Contract Indexed to Issuer's Equity, Shares

Element Name: *ForwardContractIndexedToIssuersEquityShares*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-5 (b) (2)

Forward Contract Indexed to Issuer's Equity, Type [Axis]

Element Name: *ForwardContractIndexedToIssuersEquityTypeAxis*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-3
- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-4
- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-5

Forward Contract Indexed to Issuer's Equity, Type [Domain]

Element Name: *ForwardContractIndexedToIssuersEquityTypeDomain*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-5

Nonmonetary Notional Amount of Price Risk Cash Flow Hedge Derivatives

Element Name: *NonmonetaryNotionalAmountOfPriceRiskCashFlowHedgeDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-4B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Nonmonetary Notional Amount of Price Risk Derivative Instruments Not Designated as Hedging Instruments

Element Name: *NonmonetaryNotionalAmountOfPriceRiskDerivativeInstrumentsNotDesignatedAsHedgingInstruments*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Nonmonetary Notional Amount of Price Risk Derivatives

Element Name: *NonmonetaryNotionalAmountOfPriceRiskDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Nonmonetary Notional Amount of Price Risk Fair Value Hedge Derivatives

Element Name: *NonmonetaryNotionalAmountOfPriceRiskFairValueHedgeDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Cash Flow Hedge Instruments

Element Name: *NotionalAmountOfCashFlowHedgeInstruments*

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Credit Risk Derivatives

Element Name: *NotionalAmountOfCreditRiskDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Derivative Instruments Designated as Net Investment Hedges

Element Name: *NotionalAmountOfDerivativeInstrumentsDesignatedAsNetInvestmentHedges*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Fair Value Hedge Instruments

Element Name: *NotionalAmountOfFairValueHedgeInstruments*

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Foreign Currency Cash Flow Hedge Derivatives

Element Name: *NotionalAmountOfForeignCurrencyCashFlowHedgeDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Foreign Currency Derivative Instruments Not Designated as Hedging Instruments

Element Name: *NotionalAmountOfForeignCurrencyDerivativeInstrumentsNotDesignatedAsHedgingInstruments*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Foreign Currency Derivative Purchase Contracts

Element Name: *NotionalAmountOfForeignCurrencyDerivativePurchaseContracts*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Foreign Currency Derivative Sale Contracts

Element Name: *NotionalAmountOfForeignCurrencyDerivativeSaleContracts*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Foreign Currency Derivatives

Element Name: *NotionalAmountOfForeignCurrencyDerivatives*

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Foreign Currency Fair Value Hedge Derivatives

Element Name: *NotionalAmountOfForeignCurrencyFairValueHedgeDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Interest Rate Cash Flow Hedge Derivatives

Element Name: *NotionalAmountOfInterestRateCashFlowHedgeDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Interest Rate Derivative Instruments Not Designated as Hedging Instruments

Element Name: *NotionalAmountOfInterestRateDerivativeInstrumentsNotDesignatedAsHedgingInstruments*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Interest Rate Derivatives

Element Name: *NotionalAmountOfInterestRateDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Interest Rate Fair Value Hedge Derivatives

Element Name: *NotionalAmountOfInterestRateFairValueHedgeDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Net Investment Hedging Instruments

Element Name: *NotionalAmountOfNetInvestmentHedgingInstruments*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Nonderivative Instruments Designated as Net Investment Hedges

Element Name: *NotionalAmountOfNonderivativeInstrumentsDesignatedAsNetInvestmentHedges*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Other Derivatives Not Designated as Hedging Instruments

Element Name: *NotionalAmountOfOtherDerivativesNotDesignatedAsHedgingInstruments*

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Price Risk Cash Flow Hedge Derivatives

Element Name: *NotionalAmountOfPriceRiskCashFlowHedgeDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Price Risk Derivative Instruments Not Designated as Hedging Instruments

Element Name: *NotionalAmountOfPriceRiskDerivativeInstrumentsNotDesignatedAsHedgingInstruments*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Price Risk Derivatives

Element Name: *NotionalAmountOfPriceRiskDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Notional Amount of Price Risk Fair Value Hedge Derivatives

Element Name: *NotionalAmountOfPriceRiskFairValueHedgeDerivatives*

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1A (d)
- 815 Derivatives and Hedging > 10 Overall > 50 Disclosure > General, 50-1B

This XBRL element references the following glossary term(s):

- Master Glossary > Notional Amount

Option Indexed to Issuer's Equity [Axis] (Revision Date: 2011-12-20)

Element Name: *OptionIndexedToIssuersEquityEquityAxis*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-3
- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-4
- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-5

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 480 Distinguishing Liabilities from Equity > 10 Overall > 55 Implementation > General, 55-63

Option Indexed to Issuer's Equity [Table]

Element Name: *OptionIndexedToIssuersEquityTable*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-2
- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-3
- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-4
- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-5

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 480 Distinguishing Liabilities from Equity > 10 Overall > 55 Implementation > General, 55-63

This XBRL element references the following glossary term(s):

- Master Glossary > Freestanding Contract

Option Indexed to Issuer's Equity, Classification

Element Name: *OptionIndexedToIssuersEquityClassification*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-5 (a) (5)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 480 Distinguishing Liabilities from Equity > 10 Overall > 55 Implementation > General, 55-63

Option Indexed to Issuer's Equity, Contract Reclassification

Element Name: *OptionIndexedToIssuersEquityContractReclassification*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-3
- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-4

Option Indexed to Issuer's Equity, Description [Text Block]

Element Name: *OptionIndexedToIssuersEquityDescriptionTextBlock*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-3
- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-4
- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-5

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 480 Distinguishing Liabilities from Equity > 10 Overall > 55 Implementation > General, 55-63

This XBRL element references the following glossary term(s):

- Master Glossary > Freestanding Contract

Option Indexed to Issuer's Equity, Equity [Table]

Element Name: *OptionIndexedToIssuersEquityEquityTable*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-3
- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-4
- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-5

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 480 Distinguishing Liabilities from Equity > 10 Overall > 55 Implementation > General, 55-63

Option Indexed to Issuer's Equity, Indexed Shares

Element Name: *OptionIndexedToIssuersEquityIndexedShares*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-5 (a) (3)

Option Indexed to Issuer's Equity, Redeemable Stock, Redemption Requirements, Amount (Revision Date: 2011-07-06)

Element Name: *OptionIndexedToIssuersEquityRedeemableStockRedemptionRequirementsAmount*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-5 (e)

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 505 Equity > 10 Overall > 50 Disclosure > General, 50-11

Option Indexed to Issuer's Equity, Settlement Alternatives

Element Name: *OptionIndexedToIssuersEquitySettlementAlternatives*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-5 (b), (c)

This XBRL element references the following glossary term(s):

- Master Glossary > Net Cash Settlement
- Master Glossary > Net Share Settlement
- Master Glossary > Physical Settlement

Option Indexed to Issuer's Equity, Settlement Alternatives, Cash, at Fair Value (Revision Date: 2011-07-06)

Element Name: *OptionIndexedToIssuersEquitySettlementAlternativesCashAtFairValue*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-5 (d)

Option Indexed to Issuer's Equity, Settlement Alternatives, Shares, at Fair Value (Revision Date: 2011-07-06)

Element Name: *OptionIndexedToIssuersEquitySettlementAlternativesSharesAtFairValue*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-5 (d)

Option Indexed to Issuer's Equity, Settlement Date

Element Name: *OptionIndexedToIssuersEquitySettlementDateOrDates*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-5 (a) (4)

Option Indexed to Issuer's Equity, Shares

Element Name: *OptionIndexedToIssuersEquityShares*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-5 (b) (2), (c)

Option Indexed to Issuer's Equity, Strike Price

Element Name: *OptionIndexedToIssuersEquityStrikePrice*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-5 (a) (2)

Option Indexed to Issuer's Equity, Type [Axis]

Element Name: *OptionIndexedToIssuersEquityTypeAxis*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-3
- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-4
- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-5

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 480 Distinguishing Liabilities from Equity > 10 Overall > 55 Implementation > General, 55-63

Option Indexed to Issuer's Equity, Type [Domain]

Element Name: *OptionIndexedToIssuersEquityTypeDomain*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 55 Implementation > General, 55-7

This XBRL element references the following glossary term(s):

- Master Glossary > Freestanding Contract

Option Indexed to Issuers Equity, Settlement Dates (Revision Date: 2011-11-20)

Element Name: *OptionIndexedToIssuersEquitySettlementDates1*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-5 (a) (4)

Reclassifications Between Temporary and Permanent Equity

Element Name: *ReclassificationsBetweenTemporaryAndPermanentEquity*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-3
- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-4

Schedule of Derivative Financial Instruments Indexed to, and Potentially Settled in, Entity's Own Stock, Equity [Table Text Block]

Element Name: *ScheduleOfDerivativeFinancialInstrumentsIndexedToAndPotentiallySettledInEntitysOwnStockEquityTextBlock*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-3
- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-4
- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-5

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 505 Equity > 10 Overall > 50 Disclosure > General, 50-11

Schedule of Forward Contracts Indexed to Issuer's Equity [Table Text Block]

Element Name: *ScheduleOfForwardContractsIndexedToIssuersEquityTextBlock*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-5

Schedule of Options Indexed to Issuer's Equity [Table Text Block]

Element Name: *ScheduleOfOptionsIndexedToIssuersEquityTextBlock*

This XBRL element references the following paragraph(s) in this Subtopic:

- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-3
- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-4
- 815 Derivatives and Hedging > 40 Contracts in Entity's Own Equity > 50 Disclosure > General, 50-5

This XBRL element references the following paragraph(s) in other Subtopic(s):

- 480 Distinguishing Liabilities from Equity > 10 Overall > 55 Implementation > General, 55-63

This XBRL element references the following glossary term(s):

- Master Glossary > Freestanding Contract

END OF DOCUMENT -

815-45-00 Status

General Note: The Status Section identifies changes to this Subtopic resulting from Accounting Standards Updates. The Section provides references to the affected Codification content and links to the related Accounting Standards Updates. Nonsubstantive changes for items such as editorial, link and similar corrections are included separately in Maintenance Updates.

General

00-1 No updates have been made to this subtopic.

END OF DOCUMENT -

815-45-05 Overview and Background

General Note: The Overview and Background Section provides overview and background material for the guidance contained in the Subtopic. It does not provide the historical background or due process. It may contain certain material that users generally consider useful to understand the typical situations addressed by the standards. The Section does not summarize the accounting and reporting requirements.

General

05-1 This Subtopic addresses the financial accounting and reporting for **weather derivatives** within its scope.

END OF DOCUMENT -

815-45-15 Scope and Scope Exceptions

General Note: The Scope and Scope Exceptions Section outlines the items (for example, the entities, transactions, instruments, or events) to which the guidance in the Subtopic does or does not apply. In some cases, the Section may contain definitional or other text to frame the scope.

General Note for Financial Instruments: Some of the items subject to the guidance in this Subtopic are **financial instruments**. For guidance on matters related broadly to all financial instruments, (including the fair value option, accounting for registration payment arrangements, and broad financial instrument disclosure requirements), see Topic 825. See Section 825-10-15 for guidance on the scope of the Financial Instruments Topic.

General

> Entities

15-1 The guidance in this Subtopic applies to all entities.

> Instruments

15-2 Except as noted in this paragraph, the guidance in this Subtopic applies to all **weather derivatives** that are not exchange-traded (and, therefore, not subject to the requirements of Subtopic 815-10). The guidance in this Subtopic does not apply to contracts written by insurance entities that entitle the holder to be compensated only if, as a result of an insurable event, the holder incurs a liability or there is an adverse change in the value of a specific asset or liability for which the holder is at risk.

END OF DOCUMENT -

815-45-20 Glossary

General Note: The Master Glossary contains all terms identified as glossary terms throughout the Codification. Clicking on any term in the Master Glossary will display where the term is used. The Master Glossary may contain identical terms with different definitions, some of which may not be appropriate for a particular Subtopic. For any particular Subtopic, users should only use the glossary terms included in the particular Subtopic Glossary Section (Section 20).

Fair Value

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Trading

An activity involving securities sold in the near term and held for only a short period of time. The term trading contemplates a holding period generally measured in hours and days rather than months or years. See paragraph 948-310-40-1 for clarification of the term trading for a mortgage banking entity.

Weather Derivative

A forward-based or option-based contract for which settlement is based on a climatic or geological variable. One example of such a variable is the occurrence or nonoccurrence of a specified amount of snow at a specified location within a specified period of time.

END OF DOCUMENT -

Checkpoint Contents
Accounting, Audit & Corporate Finance Library
Standards and Regulations
FASB Codification
Codification
Broad Transactions
815 Derivatives and Hedging
815-45 Weather Derivatives
815-45-25 Recognition

815-45-25 Recognition

General Note: The Recognition Section provides guidance on the required criteria, timing, and location (within the financial statements) for recording a particular item in the financial statements. Disclosure is not recognition.

General Note for Fair Value Option: Some of the items subject to the guidance in this Subtopic may qualify for application of the Fair Value Option Subsections of Subtopic 825-10. Those Subsections (see paragraph 825-10-05-5) address circumstances in which entities may choose, at specified election dates, to measure eligible items at fair value (the fair value option). See Section 825-10-15 for guidance on the scope of the Fair Value Option Subsections of the Financial Instruments Topic.

General

> Nontrading Activities

>> Non-Exchange-Traded Forward-Based Weather Derivative

25-1 An entity that enters into a non-exchange-traded forward-based **weather derivative** in connection with nontrading activities shall account for the contract by applying an intrinsic value method (as discussed in Section 815-45-30). See Example 1 (paragraph 815-45-55-7) for an illustration of the accounting for an example degree-day forward contract.

>> Non-Exchange-Traded Option-Based Weather Derivative

25-2 An entity that purchases a non-exchange-traded option-based weather derivative in connection with nontrading activities shall recognize an asset.

25-3 An entity that sells or writes a non-exchange-traded option-based weather derivative shall recognize a liability.

25-4 [Paragraph Not Used]

> Trading Activities

25-5 All weather derivative contracts entered into under **trading** or speculative activities shall be accounted for as assets or liabilities.

25-6 For purposes of this Subtopic, an entity shall be considered to be involved in trading or speculative activities if it enters into weather derivative contracts with the objective of generating profits on or from exposures to shifts or changes in climatic or geological conditions. See paragraphs 815-45-55-1 through 55-6 for specific guidance.

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815-45-30 Initial Measurement

General Note: The Initial Measurement Section provides guidance on the criteria and amounts used to measure a particular item at the date of initial recognition.

General

> Nontrading Activities

30-1 A purchased non-exchange-traded option-based **weather derivative** recognized as an asset under paragraph 815-45-25-2 shall be measured initially at the amount of the premium paid.

30-2 A sold or written non-exchange-traded option-based weather derivative recognized as a liability under paragraph 815-45-25-3 shall be measured initially at the amount of the premium received.

30-3 The intrinsic value method requires that the reporting entity allocate the cumulative strike amount to individual periods within the contract term. That allocation shall reflect reasonable expectations at the beginning of the contract term of normal or expected experience under the contract. That allocation shall be based on data from external statistical sources, such as the National Weather Service. See Example 1 (paragraph 815-45-55-7) for an illustration of the accounting for example contracts.

>> Embedded Premium or Discount

30-3A A purchased or written weather derivative may contain an embedded premium or discount if the contract terms are not consistent with current market terms (for example, the cumulative strike amount referenced in the contract is not consistent with historical weather data, adjusted for expected experience). In those circumstances, the premium or discount shall be quantified, removed from the calculated benchmark strike, and accounted for as discussed in the preceding paragraphs.

> Trading Activities

30-4 All weather derivative contracts entered into under **trading** or speculative activities shall be measured initially at their **fair value**.

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815-45-35 Subsequent Measurement

General Note: The Subsequent Measurement Section provides guidance on an entity's subsequent measurement and subsequent recognition of an item. Situations that may result in subsequent changes to carrying amount include impairment, fair value adjustments, depreciation and amortization, and so forth.

General

> Nontrading Activities

>> Non-Exchange-Traded Forward-Based Weather Derivative

35-1 An entity that enters into a non-exchange-traded forward-based **weather derivative** in connection with nontrading activities shall account for the contract by applying the intrinsic value method.

35-2 The intrinsic value method computes an amount based on the difference between the expected results from an upfront allocation of the cumulative strike and the actual results during a period, multiplied by the contract price (for example, dollars per heating degree day). The intrinsic value (or intrinsic value measure) of the contract at interim dates shall be calculated based on cumulative differences between actual experience and the allocation through that date. The initial allocation of the cumulative strike amount shall not be adjusted over the term of the contract to reflect actual results.

35-3 See Example 1 (paragraph 815-45-55-7) for an illustration of the accounting for an example degree-day forward contract.

>> Non-Exchange-Traded Option-Based Weather Derivative

35-4 An entity that purchases a non-exchange-traded option-based weather derivative in connection with nontrading activities shall amortize to expense the premium paid (or due) and apply the intrinsic value method described in paragraph 815-45-35-2 to measure the contract at each interim balance sheet date. The premium asset shall be amortized in a rational and systematic manner.

35-5 All entities that sell or write a non-exchange-traded option-based weather derivative shall recognize any subsequent changes in **fair value** currently in earnings—the premium shall not be amortized.

35-6 See Example 1 (paragraph 815-45-55-7) for an illustration of the accounting for an example degree-day option contract.

> Trading Activities

35-7 All subsequent changes in fair value of weather derivative contracts entered into under **trading** or speculative activities shall be reported currently in earnings.

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815-45-50 Disclosure

General Note: The Disclosure Section provides guidance regarding the disclosure in the notes to financial statements. In some cases, disclosure may relate to disclosure on the face of the financial statements.

General

50-1 **Weather derivative** contracts within the scope of this Subtopic are financial instruments and, therefore, entities that enter into such contracts shall follow the disclosure requirements under Subtopic 825-10.

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815-45-55 Implementation Guidance and Illustrations

General Note: The Implementation Guidance and Illustrations Section contains implementation guidance and illustrations that are an integral part of the Subtopic. The implementation guidance and illustrations do not address all possible variations. Users must consider carefully the actual facts and circumstances in relation to the requirements of the Subtopic.

General

> Implementation Guidance

>> Identifying Trading Activities

55-1 Determining whether or when an entity is involved in **trading** or speculative activities involving **weather derivative** contracts is a matter of judgment that depends on the relevant facts and circumstances. The framework in which such facts and circumstances are assessed shall be based on an evaluation of the various activities of an entity rather than solely on the terms of the contracts. Inherent in that framework is an evaluation of the entity's intent for entering into a weather derivative contract.

55-2 It is easier to evaluate the trading activities of an entity if such activities are segregated either organizationally or by legal entity. If an entity conducts both trading activities and nontrading activities and those activities are not segregated either organizationally or by legal entity, it is essential that the entity analyze contracts at inception according to the factors in paragraphs 815-45-55-5 through 55-6 and identify those contracts as either trading or nontrading. However, if an operation's trading activities are not segregated in either of those ways and an evaluation of the indicators identified in paragraphs 815-45-55-4 through 55-6 would conclude that a portion of the operation's activities are trading, then only that portion of the operation's activities that is considered trading shall be accounted for at **fair value**.

55-3 As used in this Subtopic, operation refers to any identifiable activity of an entity (for example, a subsidiary, a division, or a unit) that enters into the types of weather derivative contracts that are within the scope of this Subtopic.

55-4 For purposes of identifying trading activities, the following groups of indicators shall be considered for each identifiable operation (activity) of an entity that enters into weather derivative contracts that are within the scope of this Subtopic. Category A lists the fundamental indicators to be considered for purposes of determining whether the operation of an entity that enters into weather derivative contracts is involved in trading activities. Accordingly, the presence of indicators from Category A may be a strong indication that the operation's activities are trading. The presence of indicators from only Category B may indicate that such activities are trading. The absence of any or all of the indicators in either category, by itself, shall not preclude the operation's activities from being considered trading. Nevertheless, all available evidence shall be considered to determine whether, based on the weight of that evidence, an operation is involved in trading activities.

55-5 All of the following are fundamental indicators in Category A:

a. The operation's primary business is not inherently exposed to the specific weather-related risk stated as a variable (for example, temperature, wind velocity, and humidity) in the weather derivative contracts it holds.

b. The volume of weather derivative contracts exceeds a reasonable or supportable level of weather-related risk inherent in the operation's primary business.

c. The change in value of the weather derivative contract (for example, based on a temperature variable) is expected to move in a direction that does not mitigate or offset the risk of the underlying exposure (for example, fuel consumption).

d. The operation develops and uses its own proprietary models to price the weather derivative contracts it offers or trades.

55-6 All of the following are secondary indicators (management and controls) in Category B:

a. Compensation and/or performance measures are tied to the short-term results generated from weather derivative contracts (that is, the operation is measured based on trading profits or changes in the market values of its positions as opposed to profitable management of income-producing assets).

b. The operation communicates internally in terms of trading strategy (that is, management reports identify contractual positions, fair values, risk exposure, and so forth).

c. The word trading is in the name of the operation for internal or external purposes.

d. Employees of the operation are referred to as traders or have prior experience in derivative trading or risk-management activities.

e. Assessment of net market positions of the operation is done on a regular basis.

f. Infrastructure of the operation is similar to that of a trading operation of a bank or investment bank—front office, middle office, and back office (that is, there is a segregation of back-office processing and front-office trading functions).

g. An infrastructure exists that enables the operation to capture price and other risks on a real-time basis.

h. The activities are managed on a portfolio or book basis.

> Illustrations

>> Example 1: Degree-Day Contracts

55-7 The following Cases illustrate two types of degree-day contracts:

a. A degree-day swap (Case A)

b. A degree-day option (Case B).

55-8 Cases A and B share all of the following assumptions:

a. Entity A is a construction materials entity that has its sales decrease during cold winters or a chemical manufacturer that has its natural gas consumption costs increase during cold winters. Entity B is a natural gas distribution entity that experiences lower revenues during warm winters.

b. Neither Entity A nor Entity B is a dealer in weather derivatives (that is, the operations of both entities that entered into this contract are nontrading).

c. At inception of each contract, the reporting entity constructs the allocation (as presented in the table in paragraph 815-45-55-11) of the strike level of heating degree days across the contract period based on historical heating degree day averages (the weather-related index) for the respective months. That allocation is not part of the contract terms. (Heating degree days is the winter measure of average daily temperature below 65 degrees Fahrenheit.)

d. Actual heating degree days (as presented in the table in paragraph 815-45-55-11) reflect the measure of actual average daily temperatures below 65 degrees Fahrenheit based on weather service readings. If the average of the daily high and the daily low temperatures is 34 degrees Fahrenheit, then there are 31 heating degree days for that day. To determine the number of heating degree days for a period, add heating degree days for each day of the period.

>>> Case A: Degree-Day Swap Contract Terms

55-9 Entity A and Entity B enter into a degree-day swap (that is, a contract with two-directional risk). The contract requires no initial net investment and requires a payment by Entity A to Entity B if cumulative heating degree days are less than 4,500 heating degree days during the period from November 1, 1999, to March 31, 2000. If cumulative heating degree days exceed 4,500 heating degree days during that same period, Entity B will make a payment to Entity A. The contract has a floor of 2,500 heating degree days and a cap of 6,500 heating degree days. The payment under the contract is equal to $10,000 multiplied by the cumulative number of heating degree days above or below 4,500 heating degree days and is made on April 5, 2000. Based on the foregoing terms, this contract carries a maximum payout limitation of $20 million by Entity A and $20 million by Entity B regardless of actual temperature levels experienced. The accounting for the degree-day swap by both parties is presented in the table in paragraph 815-45-55-11.

>>> Case B: Degree-Day Option Contract Terms

55-10 Entity A purchases on November 1, 1999, a degree-day option from Entity B for a premium payment of $5.85 million. The option requires that Entity B pay Entity A $10,000 for each heating degree day in excess of 4,500 heating degree days (the strike level) cumulative during the period from November 1, 1999, to March 31, 2000. This contract specifies a maximum payout limitation of $20 million regardless of actual temperature levels experienced, thereby effectively stipulating a cap based on 6,500 heating degree days. The contract is settled on April 5, 2000. The accounting for the purchased degree-day option by both parties is presented in the table in the following paragraph. The accounting does not include amounts related to the option premium of $5.85 million.

>>> Assumptions, Calculations, and Accounting

55-11 The following table presents the accounting by both parties for the weather derivatives in Cases A and B.

	November	December	January	February	March	Totals
Assumption—average historical temperature	48 degrees	33 degrees	26 degrees	26 degrees	42 degrees	
Allocation of heating degree days strike	500 (a)	1,000 (b)	1,200 (c)	1,100 (d)	700 (e)	4,500
Actual heating degree days	600	700	1,700	1,700	500	5,200
Warmer (colder) than average in heating degree days	(100)	300	(500)	(600)	200	(700)
Cumulative warmer (colder) in heating degree days	(100)	200	(300)	(900)	(700)	
Cumulative actual heating degree days	600	1,300	3,000	4,700	5,200	
Accounting for degree-day swap:						
Current period Entity A loss (gain)	$ (1,000,000)	$ 3,000,000	$ (5,000,000)	$ (6,000,000)	$ 2,000,000	$ (7,000,000)
Cumulative Entity A loss(gain)	$ (1,000,000)	$ 2,000,000	$ (3,000,000)	$ (9,000,000)	$ (7,000,000)	
Current period Entity B loss (gain)	$ 1,000,000	$ (3,000,000)	$ 5,000,000	$ 6,000,000	$ (2,000,000)	$ 7,000,000
Cumulative Entity B loss (gain)	$ 1,000,000	$ (2,000,000)	$ 3,000,000	$ 9,000,000	$ 7,000,000	
Accounting for purchased degree-day option:						
Current period Entity A loss (gain)	$ (1,000,000)	$ 1,000,000	$ (3,000,000)	$ (6,000,000)	$ 2,000,000	$ (7,000,000)
Cumulative Entity A loss (gain)	$ (1,000,000)	-	$ (3,000,000)	$ (9,000,000)	$ (7,000,000)	

(a) (65 – 48) × 30 = 510, rounded to 500 for presentation purposes.
(b) (65 – 33) × 31 = 992, rounded to 1,000 for presentation purposes.
(c) (65 – 26) × 31 = 1,209, rounded to 1,200 for presentation purposes.
(d) (65 – 26) × 28 = 1,092, rounded to 1,100 for presentation purposes.
(e) (65 – 42) × 31 = 713, rounded to 700 for presentation purposes.

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815-45-60 Relationships

General Note: The Relationships Section contains links to guidance that may be helpful to, but not required by, a user of the Subtopic. This Section may not be all-inclusive. The relationship items are organized according to the Topic structure in the Codification.

General

> Fair Value Measurements and Disclosures

60-1 For a discussion of fair value measurements and related disclosure requirements, see Topic 820.

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