Introduction

FASB Statement No. 80, *Accounting for Futures Contracts*, was issued in August 1984 and applies to futures contracts entered into after December 31, 1984. The development of Statement 80 was followed closely by futures experts (particularly those involved in the fast-growing area of financial futures) who have raised a number of detailed implementation questions. Following the issuance of a new pronouncement, it is common for FASB staff members to be asked for their personal views on implementation questions. The responses given to the questions that follow generally are extensions of guidance found in Statement 80 or elsewhere. However, those who have not yet had to deal with Statement 80 in financial statements they prepare, use, or audit may find the questions and responses useful. Also, many of the questions relate to circumstances that are present in futures markets only occasionally. To assist those affected by Statement 80, the questions and responses are being made broadly available through this article. It is important to understand that the responses constitute the views of the author and are not positions of the FASB.

The questions and responses below are preceded by a brief synopsis of the principal provisions of Statement 80; however, a detailed understanding of the provisions of the Statement may be needed as background for some of the more complex questions. A majority of the questions relate to financial futures, which have only in the past few years been in widespread use, compared with agricultural and commodity futures, which have been used since the mid-1800s.

Overview

A futures contract is a legal agreement to make or take delivery of a standardized quantity of a standardized commodity or financial instrument at a specified future date. Because futures contracts are traded on organized exchanges, they effectively can be canceled before the delivery date by entering into an offsetting contract for the same commodity or financial instrument. The market value of a futures contract changes frequently throughout its life, primarily in response to changes in expectations about market prices of the commodity or financial instrument underlying the contract and changes in short-term interest rates (the most volatile component of carrying costs). All changes in value of open futures contracts are settled in cash on a daily basis (that is, the customer's brokerage account is charged or credited for daily changes in the market value of a futures position, and the customer may have to put up additional margin or can withdraw excess amounts).

Statement 80 requires that daily changes in the market value of futures contracts be recognized in income immediately unless the contracts qualify as hedges. Put another way, the daily cash settlements on futures contracts represent current income or expense to an enterprise, unless the contracts qualify for deferral under the hedge provisions of Statement 80. To qualify for deferral, a futures contract must serve as a hedge; that is, it must reduce the overall price or interest rate risk of the enterprise. Further, the futures contract must be designated as a hedge of an existing asset, liability, firm commitment, or anticipated transaction. If a futures contract is accounted for as a hedge, gains and losses on the contract are deferred and become part of the carrying amount of the hedged item. Deferred
gains and losses are generally recognized in income at the same time that other components of the carrying amount of the hedged item are recognized in income. In the case of a financial instrument, the gains and losses are accounted for like additional premium or discount on the dates they occur and are amortized as adjustments of interest income or expense. Statement 80 also requires an ongoing assessment of correlation between the future results and changes in the market value of the hedged item. If correlation ceases to exist, any past deferrals continue to be accounted for as part of the carrying amount of the hedged item, but subsequent gains and losses on the futures contract must be taken directly to income as they occur.

**Questions and Responses**

The following two questions and responses apply to accounting for futures contracts, whether or not they are accounted for as hedges.

### Foreign Currencies

1. **Q**—Although Statement 80 says it does not apply to futures contracts on foreign currencies, may it be applied if a company desires? For example, the concept of hedging an "anticipated transaction" represents an evolution in the thinking of the Board that might be equally applicable to foreign currency transactions.

   **A**—No. There is no available election to apply provisions of Statement 80 to foreign currency futures, as the document specifically states that it does not apply to foreign currency futures. This question was explicitly addressed in paragraph 50 of the exposure draft that preceded Statement 80.

   The Board acknowledges that the accounting specified in this Statement for "anticipatory hedges" is presently not permitted for similar transactions in foreign currencies. Those provisions of FASB Statement No. 52, *Foreign Currency Translation*, are not being reexamined at this time. The Board may undertake such a review when the provisions of this Statement have been in effect for a reasonable period. (Footnote reference omitted.)

### Daily Limits

2. **Q**—Futures exchanges impose certain limitations, called "daily limits," on the aggregate daily change in trading prices for each type of futures contract. How should the change in value of a futures contract be measured and recognized if the movement of quoted prices is being restrained by daily limits?

   **A**—Footnote 3 says to use the contract's "quoted market price." It is unusual for a contract to move at the limit for many consecutive days. Recognition of an additional loss (if futures losses are being currently recognized in income) might be warranted based on FASB Statement No. 5, *Accounting for Contingencies*, but additional gain recognition would be inappropriate.

   The remaining questions only apply to futures contracts that are accounted for as hedges. A positive response generally indicates that "hedge accounting" is or continues to be appropriate; a negative response indicates that the futures contract should not be accounted for as a hedge, or that "hedge accounting" should be terminated for a futures contracts that previously qualified as and was accounted for as a hedge.
Enterprise Risk

3. **Q—** Paragraph 4(a) requires that the item being hedged expose the enterprise to price or interest rate risk. How is enterprise risk different from transaction risk for purposes of assessing whether a futures contract qualifies as a hedge?

**A—** The concept of enterprise risk reduction is new to many accountants and has resulted in many questions. Statement 80 requires that a futures contract accounted for as a hedge reduce the risk of the enterprise (the overall company), not just the volatility of a particular position or transactions. Whether enterprise risk has been reduced is a factual matter, irrespective of management's intent in a particular situation. For example, a futures strategy undertaken "because management believes interest rates are going up" does not necessarily qualify for deferral. Management must assess whether the futures contract increases or reduces the effect on the enterprise of expected (or of unexpected) changes in interest rates. Only strategies that reduce the effects of price or interest rate changes on an enterprise meet the requirement for enterprise risk reduction to account for a futures contract as a hedge.

Business Unit Risk

4. **Q—** Statement 80 permits risk assessment on a business unit level if the enterprise "... cannot assess risk by considering other relevant positions and transactions for the enterprise as a whole because it conducts its risk management activities on a decentralized basis. ..." Must it be "impossible" (♦ paragraph 45) to perform an enterprise risk assessment before a business unit approach is permitted?

**A—** The word "cannot" in ♦ paragraph 4(a) establishes a high threshold to overcome. However, if information about enterprise-wide risk is not available without, for example, establishing new accounting systems at considerable expense, the condition probably could be considered satisfied.

5. **Q—** How is a "business unit" defined? For example, could one department of a bank qualify as a business unit for purposes of assessing risk reduction?

**A—** Statement 80 provides an exception to the enterprise-wide risk assessment (the business unit approach) only when an enterprise risk assessment is not practicable. The words "cannot" and "decentralized" in ♦ paragraph 4(a) and "impossible" in ♦ paragraph 45 indicate that a department of a bank will not qualify in most circumstances, unless specific factors make it impossible or prohibitively costly to include that department within an overall risk assessment. Also, a business unit approach to risk assessment that, over time, does not tend to reduce enterprise risk effectively should be reevaluated.

Time Period for Risk Assessment

6. **Q—** How long a time frame must be considered in the enterprise risk assessment? (This question usually arises in connection with the use of financial futures to reduce interest rate risk in financial institutions.) For example, if an institution takes a long position in financial futures to offset the next month's exposure but long-term risk of the enterprise would be offset by taking short positions, do the long futures contracts qualify as hedges?

**A—** Statement 80 does not prescribe any single measure of interest rate sensitivity for purposes of assessing enterprise risk. An enterprise is not required to consider all time periods in assessing risk, as long as the enterprise's exposure in the period being hedged is reduced. It is common for the hedging strategy to cover a finite time period. However, commitments relating to later time
periods may affect the risk inherent in an existing position, such as a firm fixed-price contract to sell an asset in a later period. ♦ Paragraph 4(a) specifically requires the enterprise to consider commitments and anticipated transactions in assessing risk.

Initial Assessment of Probability of Correlation

7. ♦ Paragraph 4(b) states that, in evaluating whether future correlation is probable, the enterprise should consider correlation that has existed in "relevant past periods." What is meant by "relevant" past periods? May some periods of noncorrelation be ignored?

A—The use of the word "relevant" indicates that a company does not have to track futures and cash market prices since the inception of a contract that has been traded for 100 years or more or during periods of extraordinary circumstances such as when markets were government-regulated. However, the company should at least track the correlation for a number of past periods that are longer than the intended duration of the hedge. Further, it would be unreasonable to ignore a period of noncorrelation based on an unsupported assertion that the period was not considered "relevant." Statement 80 specifically requires consideration of different economic conditions; note the paragraph 4(b) requirement to consider the "degree of correlation that can be expected at various levels of higher or lower market prices or interest rates." If correlation depends on a continuation of current interest and inflation rates, the futures contract will not qualify as a hedge. However, if a specific unusual event can be identified that caused a temporary aberration and the probability of recurrence of similar events is remote, future correlation might reasonably be judged to be probable.

Designation as a Hedge

8. ♦ Paragraph 4(b) requires that a futures contract be "designated" as a hedge. May a company that hedges choose not to "designate" a particular futures contract and recognize all changes in the value of the contract in income as they occur? May a previously designated contract be "undesignated," with subsequent futures gains or losses accounted for at market?

A—Yes, However, a pattern of designations and "undesignations" of futures contracts would raise questions about the sufficiency of controls over documentation of designation procedures, as well as questions about the validity of the hedge strategy. A pattern of "undesignations" and "redesignations" suggests speculation, not hedging.

9. ♦ If similar futures contracts are aggregated and designated as a hedge, possibly to obtain a "portfolio smoothing" effect for higher correlation, can the portfolio of contracts be accounted for as a hedge?

A—It would depend on the circumstances. There might be circumstances when a "blend" of futures contracts provides the best hedge, such as a hedge of a financial instrument when there is no available futures contract on an instrument of comparable maturity. On the other hand, the company should not justify ignoring an absence of correlation for one contract merely because it is offset by the results of another. That would imply that the "clear economic relationship" between the item being hedged and the item underlying the futures contract (a requirement for deferral accounting in ♦ paragraph 4(b)) does not exist.

10. ♦ Footnote 6 to paragraph 4(b) states that futures contracts may be designated as a hedge of an identifiable group of essentially similar items. How "similar" do hedged items have to be to group them for hedge designation purposes?

A—This is a matter for individual company and auditor judgment. Generally, the method of
grouping the items should approximate the results that would be achieved if the contracts could be designated to individual items.

11. **Q—** Paragraph 8 permits certain enterprises (for example, commodity dealers) that hedge a "net exposure" to allocate results of futures contracts between items held and disposed of, rather than designating the futures contracts as hedges of specific items or transactions. If commodity dealers can hedge a net exposure relating to inventory, can't banks reasonably treat a futures contract as a hedge of a net interest margin or "gap"?

**A—** No. ♦ Paragraph 62 specifically rejects this approach.

### Probability of Occurrence of an Anticipated Transaction

12. **Q—** Paragraph 9 permits a futures contract to be designated as a hedge of an anticipated transaction if the anticipated transaction meets certain conditions. Paragraph 9(b) requires that the anticipated transaction be "probable." How "probable" does an anticipated transaction have to be?

**A—** Paragraph 9(b) includes specific guidance, requiring a high degree of probability. Further, the term "probable" has been used in connection with various other authoritative accounting pronouncements. ♦ Footnote 7 to paragraph 4(b) of Statement 80 specifically refers to the notion of probability described in FASB Statement 5, *Accounting for Contingencies*.

### Hedges of LIFO Inventories

13. **Q—** If a company hedges inventory that is recorded on the last-in, first-out (LIFO) method, to which units of inventory should it designate the futures contracts?

**A—** The company should designate the futures contracts as hedges of the most recent inventory purchases. In hedges of inventory, the futures results become part of the carrying amount of the inventory and are ultimately charged to cost of goods sold. Designation of futures contracts as hedges of old LIFO layers could result in permanent deferral of futures results, which would be inappropriate. Recognition of the futures results should be consistent with the company's basic method of accounting for other inventory costs. Further, only those LIFO layer of inventory that the company intends to sell meet the condition in ♦ paragraph 4(a) that "the item to be hedged exposes the enterprise to price (or interest rate) risk."

### Cross-Hedging with Financial Futures

14. **Q—** Paragraph 4(b) requires that there be a "clear economic relationship" between the item underlying the futures contract and the item being hedged. Is it reasonable to conclude that this requirement will rarely come into play with respect to financial futures, since they all tend to be affected similarly when market interest rates change?

**A—** Absolutely not. The requirement for a "clear economic relationship" was included specifically with financial futures in mind. For example, correlation between rate changes on short-term and long-term financial instruments cannot be expected when there are shifts in the yield curve. In addition, some financial instruments have variable maturities. Last year, it was reported that some savings and loans hedged investments in GNMA's by taking short positions in T-bond futures. When rates fell, there were losses on the T-bond futures, but expected gains on the GNMA's did not occur because the mortgages underlying the securities paid off early when homeowners refinanced at lower rates.

In some circumstances, the "clear economic relationship" may be subject to question when
seemingly identical commodities and commodities futures contracts are involved. Commodities futures contracts require delivery of a standardized quantity of a specific grade of a commodity at a specific location. If the hedger sells inventory in a different market environment, market risk to that hedger may not correlate well with futures prices.

Classification of Margin Deposits

15. **Q**—Futures exchanges require deposit with the futures broker of an initial margin deposit to open a futures contract, and maintenance of margin as long as the contract is open. Should the futures margin deposit be classified as part of the carrying amount of an item being hedged?

**A**—No. The margin deposit is a current receivable from the broker and should not be included as part of the carrying amount of the hedged item (♦ paragraph 17).

Classification of Deferred Futures Gains and Losses: Firm Commitments and Anticipated Transactions

16. **Q**—Should futures results that hedge an anticipated sale or a firm sales commitment be included in the measure of the sales transaction as an adjustment of sales revenue or as a component of cost of sales?

**A**—The company should use the most reasonable approach based on the nature of the hedge strategy and the hedge itself and should apply that approach consistently. Further, the classification of deferred futures gains or losses on the balance sheet also should be consistent with the hedge strategy. In nearly all cases, it will be most informative to include deferred futures results in the carrying amount of related assets or liabilities once they are acquired, rather than continuing to report a separate deferred gain or loss relating to the firm commitment or anticipated transaction. If the futures results are classified as part of the cost of inventory, they should subsequently be included as part of cost of sales. Further, classification separate from inventory should not be used to avoid performing a market test on the inventory carrying amount, including the deferred futures results.

17. **Q**—How are deferred gains and losses on contracts relating to anticipated transactions classified on the balance sheet? Current or long term?

**A**—The amounts should be classified as current or long term consistent with the expected classification of the asset or liability that will be recorded as a result of the anticipated transaction (current for an anticipated inventory purchase, noncurrent for an anticipated long-term financing). If the futures contracts do not hedge an anticipated acquisition of an asset or liability (for example, an anticipated sales commitment for which inventory has not been purchased), the results should be classified as current if the deferrals are expected to be amortized to income within one year or business cycle.

Amortization of Financial Futures Results

18. **Q**—In a hedge of an interest-bearing financial instrument carried at amortized cost, futures results are amortized as interest adjustments, and ♦ paragraph 7 of Statement 80 provides that amortization must commence no later than the date each futures contract is closed out. Does paragraph 7 permit amortization to be delayed until a contract is closed out in all cases?

**A**—This provision of paragraph 7 was included to indicate that a company need not recompute amortization of futures results on a daily basis, which would be the theoretically correct basis. ♦
Paragraph 67 clarifies that this approach was permitted because daily adjustments of amortization would be cumbersome. This provision should not be cited as support for an illogical amortization approach or one that results in a distortion of the normal pattern of interest income or expense recognition. In relatively short-duration hedges, amortization will probably need to be adjusted more frequently to avoid distortions. The method of amortization of futures results should reasonably approximate the results that would be achieved if amortization were to be adjusted daily.

19. **Q—◊** Footnote 4 to paragraph 4(a) describes circumstances when a futures contract may be designated as a hedge of a fixed-rate financial instrument that an enterprise intends to hold to maturity. ◊ Paragraph 7 requires amortization of futures results relating to financial instruments carried at amortized cost "over the expected remaining life of the instrument." May a shorter period than the remaining life be used to amortize futures results if that is consistent with the hedge strategy?

**A—No. ◊ Paragraphs 7 and ◊ 66 are quite specific, requiring amortization over the expected remaining life of the instrument. If the hedge strategy is to hedge only the short-term exposure caused by holding a long-term instrument, then futures contracts relating to short-term instruments would be used and the enterprise should designate the future contracts as hedges of anticipated liability repricings, which will accomplish the goal of an amortization period consistent with the hedge strategy.**

### Ongoing Assessment of Correlation

20. **Q—◊** Paragraph 11 requires termination of hedge accounting "if high correlation has not occurred," which is essentially a historical test. However, ◊ paragraph 4(b) (which describes the initial requirements for hedge accounting) refers to probability of future correlation, a forward-looking assessment. Is the forward-looking probability assessment required at inception of the hedge with historical evaluation thereafter?

**A—Yes. Once it is concluded that future correlation is probable, the company must monitor the hedge performance to assess whether the futures contract has been an effective hedge. If the hedge has not been effective, that is, if high correlation of the results of the futures contract with change in the value of the hedged item has not existed during the period of the hedge, hedge accounting must be terminated. The forward-looking probability assessment in paragraph 4(b) requires judgment in considering past results and other factors to conclude whether a contract can be designated as a hedge. Once that designation has been made, the continuation of hedge accounting must be justified by the results of the hedge entered into. Paragraph 59 states:**

> In many cases the actual results of a hedge transaction may be approximately what was expected. However, even though high correlation may be probable at inception, it is not certain; actual price relationships over the hedge period may be significantly different from what was expected. . . . The Board concluded that the continuation of hedge accounting must be justified by what has actually happened rather than on the basis of expectations formed at an earlier date. (Emphasis added.)

21. **Q—◊** Paragraph 11 requires an enterprise to assess correlation of futures results with market value changes of the hedged item "regularly." How often is "regularly" for purposes of assessing correlation?

**A—At least as often as financial results are reported. Due to the risks inherent in the futures markets, most companies monitor their positions continuously.**
Measures of Correlation

22. Q—The "high correlation" requirement in paragraph 4(b) states that the futures results must "substantially offset" the effects of price or interest rate changes on the hedged item. How should "substantial offset" be measured? (This question arises both at inception of a hedge and in connection with the required ongoing assessment of correlation.)

A—Whether futures results are expected to "substantially offset" changes in the value of the hedged item (and whether that substantial offset is achieved on an ongoing basis) should be assessed based on a comparison of changes in the value of the futures contracts to changes in the fair value of the hedged item. Hedge accounting probably would not be terminated if, for example, a hedge proved to be "99 percent effective" (the amount of the change in the value of the futures contracts is only 1 percent different from the amount of the change in the value of the hedged item), even though the extra 1 percent futures gain or loss might be material to reported results.

This was the most significant change between the exposure draft and the final version of Statement 80; under the exposure draft approach, any "excess" futures gains or losses would have been immediately recognized as income or expense, subject to the normal assessments of materiality in financial statements. That approach was modified in response to comments on the exposure draft.

23. Q—How high is "high" correlation required to be for purposes of assessing whether the hedge accounting requirements have been met?

A—The Board intentionally did not specify any specific measure of correlation and left that matter for judgment and evolution in practice. Because of the requirement for a "clear economic relationship" between the item being hedged and the item underlying the futures contract, correlation should be substantially higher than that which would occur due to mere chance. The enterprise probably should set specific criteria at the inception of the hedge as to what will and will not be considered high correlation and then apply those criteria in the ongoing assessment of correlation based on actual hedge results.

Some have misunderstood the concept of substantial offset to require a dollar-for-dollar matching of results based on the face values of the futures contract and the hedged item. That is not the case. Frequently (particularly with financial futures), a "hedge ratio" provides the best matching between futures results and changes in the value of the hedged item due to cross-hedging considerations, differences between expected cash flows on the futures contracts compared with cash flows relating to the hedged item, and tax effects.

Ongoing Assessment of Enterprise Risk

24. Q—Must a company consider overall (enterprise) risk in the ongoing assessment of correlation (paragraph 11)?

A—No. Overall risk reduction is a prerequisite for deferral accounting. Once that prerequisite is met, only the ongoing assessment of correlation with the hedged item is required. Thus, the enterprise does not have to perform enterprise-wide risk assessments continually to assess whether existing futures contracts (previously designated as hedges) increase or decrease risk, although the existence of those contracts must be considered in assessing enterprise risk for purposes of designating additional futures contracts as hedges. Further, it may be prudent to cease hedge accounting based on an assessment that enterprise risk considerations have changed, and Statement 80 would not preclude such a decision.

25. Q—If a company hedges inventory anticipated to be sold in six months and enters into a firm
fixed-price contract after three months to sell the inventory at the anticipated date (three months later), does the company have to cease hedge accounting?

A—Statement 80 requires risk assessment at the inception of the hedge and a correlation assessment on an ongoing basis. Risk is assessed on an enterprise-wide basis, while correlation is assessed on a linked transaction basis. In the above example, the price of the hedged item is effectively fixed, so correlation is no longer probable. Therefore, hedge accounting should be terminated.

Estimates of Value of Futures Contracts

26. Q—If reasonable estimates of value for the ongoing assessment are permitted for the hedged item (paragraph 11), may estimates also be used for the value of the futures contract when daily limits are being hit or when trading volume is low?

A—Yes. However, if that situation continues to exist, it would provide evidence that correlation is not probable, and hedge accounting should be terminated.

Hedge Termination

27. Q—Paragraph 10 provides that, in a hedge of an anticipated transaction, deferred futures gains and losses should continue to be deferred when a hedge is terminated, as long as the anticipated transaction is still probable. Why isn't similar guidance included in paragraphs 6 through 8 dealing with hedges of existing assets, liabilities, and firm commitments?

A—Although this guidance is not explicitly given under the section on hedges of existing assets, liabilities, or firm commitments, it is equally applicable for a different reason. When futures results are deferred relating to an existing asset, liability, or firm commitment, they become part of the carrying amount of the item, and GAAP does not generally permit adjustments to carrying amounts except in certain circumstances (for example, lower-of-cost-or-market writedowns) that would apply whether or not the hedge is terminated.

Accounting upon Termination of a Hedge

28. Q—Assume a hedge is terminated based on a discretionary decision because management no longer wishes to reduce a particular risk. High correlation has existed and is still considered probable, and the hedged asset, liability, or firm commitment still exists (or the anticipated transaction is still considered probable). Although it is clear that all past futures results should not be taken to income (they continue to be deferred as a part of the cost of the hedged item, as clarified in response to question 27), should any excess futures gains or losses be recognized immediately in income?

A—No. Once futures results are deferred based on an assessment that there has been high correlation, those deferred gains or losses are part of the carrying amount of the related asset, liability, firm commitment, or anticipated transaction. As noted in response to question 27, GAAP does not generally recognize adjustments to carrying amounts, except in certain circumstances (for example, lower-of-cost-or-market writedowns) that would apply whether or not the hedge is terminated. Since correlation was high (the hedge is terminated for other reasons), the effect would not be material in relation to the hedged item but could be significant in relation to other financial statement elements.

29. Q—If a hedge has been terminated but the hedged item is still held or the hedged anticipated transaction is still probable, should the company continue to monitor correlation of futures results
with the market value of the hedged item or anticipated transaction and adjust deferred hedge results if correlation ceases to exist?

A—No. The correlation test is relevant only during the period that the futures contracts are open. Once the hedge is terminated, the deferred futures results are treated like any other component of the cost of the hedged item or anticipated transaction, subject to adjustment for lower-of-cost-or-market considerations, etc.

Hedge Termination after the Balance Sheet Date

30. Q—If high correlation ceases to be achieved after year-end but before financial statements are issued, should any excess futures gains or losses be recognized as of the reporting date? (Presumably, they were not considered to be material deviations from the expected results under the hedge strategy at the reporting date.) Also, should subsequent (speculative) futures losses be accrued as of the reporting date?

A—An absence of correlation after year-end may provide evidence that information available at the year-end date should have resulted in hedge termination, in which case an adjustment should be made. However, if correlation was high at year-end, and based on all available evidence at that time it was probable that correlation would continue, then deferral was appropriate as of that date, and hedge termination is an event to be recognized in the following year. Further, any subsequent gains or losses resulting from futures price changes in the following year would be recognized in that year. Disclosure would be appropriate.

Redesignation as a Hedge

31. Q—Once hedge accounting is terminated, may the same contract be redesignated as a hedge of the same transaction if hedge accounting was terminated due to absence of correlation?

A—Probably not. It would be difficult to conclude that future high correlation is probable if recent past correlation did not occur. One exception might occur if the absence of correlation was caused by an obvious explainable event that caused a temporary aberration in the market to occur and that is not expected to recur. In that circumstance, the absence of correlation would result in hedge termination for futures contracts open at the time, but future correlation still might be considered probable.

32. Q—Once hedge accounting is terminated, may the same contract be redesignated as a hedge of the same transaction if hedge accounting was terminated for reasons other than an absence of correlation? (For example, management might decide to cease hedge accounting if circumstances have changed such that the futures contract is increasing enterprise risk.)

A—Yes, as long as the conditions of ♦ paragraph 4(a) are met. However, a pattern of "undesignations" followed by "redesignations" would raise questions about the sufficiency of controls over documentation of designation procedures, as well as questions about the validity of the hedge strategy. As noted in response to ♦ question 8, a pattern of "undesignations" and "redesignations" suggests speculation, not hedging.

Disclosure

33. Q—♦ Paragraph 12 requires disclosure of, among other things, "a description of the events or transactions that result in recognition in income of changes in value of the futures contracts." Must this description include all possible circumstances or only those that are probable?
A—The disclosure required by paragraph 12 is not intended to require a recital of the provisions of Statement 80. Rather, the types of events that generally lead to futures amortization should be disclosed so that the reader can understand the nature of the hedging activity and its effects on the financial statements.