

End-Users of Derivatives: “FAS 133 is a burden, but we’ll get over it”

By Christopher Faille, Reporter

Tuesday, June 19, 2001 10:28:19 AM ET

BETHESDA, Md. (HedgeWorld.com)—Respondents to a survey designed to measure the effect of Financial Accounting Standard 133 on the end-users of derivatives generally said that the rule has reduced their reliance upon many traditional hedging activities, but they also said that they expect that this effect will be short-lived.

The survey, conducted by the research department of the Association of Finance Professionals, headquartered in Bethesda, Md., received responses from the financial officers of over 200 companies, covering a wide cross-section of businesses and revenue sizes. Approximately two-thirds of the respondents were from publicly traded companies.

“Compliance with FAS 133 has been onerous and in some cases has slowed corporate use of derivatives,” said James Haddad. Mr. Haddad, vice president of AFP and leader of its Financial Accounting and Investor Relations task force, added, “In the long run however, companies that currently are not using derivatives to manage risk indicate that they expect to employ these instruments at some point in the future.”

Although the Financial Accounting Standards Board adopted FAS 133 in June 2000, many companies’ first affected reporting period was the first quarter of 2001.

The survey showed that before the new rules took effect, end-users preferred two sorts of derivatives to others—interest-rate swaps to hedge interest-rate exposure, and forward contracts to hedge currency or commodity-price exposure. Under the new rule, these earlier preferences have become more marked, at the expense of plain-vanilla options and futures contracts. Of the respondents, 58% now hold hedge exposures in one of these two ways.

Only 8% of respondents thought derivatives use in connection with commodity and raw materials hedging would decrease over time as a result of FAS 133.

The consulting firm Kawaller & Company assisted AFP with this survey. That firm’s founder, Ira Kawaller, also serves on the FASB’s Derivatives Implementation Group ([Previous HedgeWorld Story](#)).

“In what may be a reaction to the difficulties in compliance, 25% of respondents reported that they mark a significant portion of derivatives to market through earnings rather than devote time and expense to the process of qualifying for special hedge accounting,” said Mr. Kawaller.

CFaille@HedgeWorld.com

Story Copyright © 1999-2001 HedgeWorld Limited All rights reserved.