Giant Manufacturing Cross-Currency Swap Documentation

Note that capitalized terms not defined herein are defined within the case facts.

The following represents details and facts associated with the proposed hedging instruments and hedge designation. (Note that for purposes of this case scenario, some of this information may not be relevant to the questions.)

- Giant’s risk management objective for this transaction is to protect EUR 120 million of Giant’s first previously unhedged net investment in Small Sub 1 (the hedged item) against the risk of adverse changes in the EUR/USD exchange rate. Giant’s strategy is to hedge the risk of changes in the USD equivalent value of a portion of its net investment in its consolidated EUR subsidiaries attributable to changes in the EUR/USD exchange rate between the designation date and maturity date of the Cross-Currency Hedging Instrument using the Cross-Currency Hedging Instrument (the hedging instrument).

- Giant’s cross-currency swap has the following terms:
  - Index: EUR/USD exchange rate.
  - Pay notional: EUR 120 million.
  - Pay rate: 3-month EUR-EURIBOR (plus a fixed spread of 3.3225%).
  - Receive notional: USD 120 million.
  - Receive rate: 3-month USD-LIBOR (plus a fixed spread of 3.25%).
  - Effective date: March 31, 2019.
  - Maturity date: March 31, 2024.

- Both legs of the swap have the same repricing intervals and dates, which are every three months on the last business day of each March, June, September, and December, subject to the modified following-business-day convention based on New York and London business days.

- The Cross-Currency Hedging Instrument is designated as a net investment hedge of the risk of changes in the previously unhedged EUR balance of Giant’s beginning net investment balance (at the inception of the hedging relationship) in Small Sub 1.

- Hedge effectiveness will be assessed quarterly on the basis of overall changes in the fair value of the Cross-Currency Hedging Instrument (i.e., on the basis of changes in forward rates). The assessment of effectiveness and the measurement of ineffectiveness (described below) will be on a pretax basis.

- The critical terms of the Cross-Currency Hedging Instrument match those of the hedged net investment (e.g., the notional amount of the Cross-Currency Hedging
Instrument matches the amount of the net investment designated as being hedged); therefore, Giant expects there to be zero hedge ineffectiveness.