Giant Manufacturing EUR-Denominated Note 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 240 million of Giant’s first previously unhedged net investment in Small Sub 2 (the hedged item) against the risk of adverse changes in the EUR/USD exchange rate. Giant’s strategy is to hedge, using the EUR Debt-Hedging Instrument (the hedging instrument), 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 EUR Debt-Hedging Instrument.

• The note issued by Giant includes the following terms:
  o Issuer: Giant Manufacturing LLC.
  o Notional: EUR 240 million.
  o Issue date: June 26, 2019.
  o Coupon rate: 5.75% per annum.
  o Maturity date: July 15, 2027.

• The EUR Debt-Hedging Instrument, which is not reported at fair value, 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 2.

• Hedge effectiveness will be assessed quarterly by confirming that the designated net investment’s net equity balance at the beginning of any period collectively continues to equal or exceed the balance outstanding on Giant’s EUR-denominated debt (i.e., the EUR Debt-Hedging Instrument) and that all other critical terms of the hedging instrument and hedged net investments continue to match (e.g., the underlying currencies). If there are no changes in the critical terms of the hedging relationship, then the hedging relationship will be considered to be perfectly effective. The assessment of effectiveness and the measurement of ineffectiveness (described below) will be on a pretax basis.

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