Business Risks:

1. Price
2. Credit
3. Interest
4. Foreign Exchange

Characteristics of Derivatives:

1. Value changes in response to the value of the underlying
2. Requires no/small net investment
3. Settled at a future date

Hedge Item - the transaction that gives rise to risks.

Hedge Instrument - the contract entered into in order to mitigate or eliminate risks.

Hedge Items:

1. Exposed Asset
2. Exposed Liabilities
3. Firm Commitment/Non-cancellable
4. Forecasted Transactions (Silent = Cash Flow Hedge)

Hedge Instruments:

1. Forward/Future Contracts
2. Interest Rate Swap Agreement
3. Call Options/Put Options

Hedging Activities:

1. **Cash Flow Hedge** = Unrealized Gain/Loss
    a. Effective = OCI to P/L
    b. Ineffective = P/L
2. **Undesignated/Speculation** = Unrealized G/L to Effective/Ineffective to P/L