

Spectrum Brands uses Hedge Accounting Insight to Improve Efficiencies and Reduce Audit Restatement Risk

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— John Beattie, VP & Treasurer, Spectrum Brands

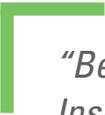
THE CUSTOMER

Spectrum Brands Holding Inc. (“Spectrum”) is a global consumer products company with a large portfolio of brands including George Foreman®, Rayovac® and Black & Decker Home®. Spectrum’s products are sold in over 120 countries around the world and generate over \$USD 3 billion in annual revenue.

THE ISSUE

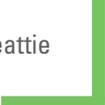
Due to its global strategy, Spectrum is exposed to interest rate, foreign exchange, and commodity price volatility. It has a disciplined hedging program to mitigate these risks and reduce its volatility to earnings and cash flow. It enters into derivative hedges to alleviate fluctuations, utilizing a rolling layering program. With this strategy, Spectrum typically adds layers of 10-12% of monthly forecast exposure once a quarter to its hedge portfolio, resulting in a smoothing and averaging of overall volatility.

Spectrum performs hedge accounting on its hedges to avoid unnecessary volatility in its income statements. The company initially used plain vanilla average rate forwards to mitigate foreign exchange rate risk, but subsequently added participating average rate forwards to its portfolio to benefit from favourable exchange rate movements. With the use of more sophisticated products, Spectrum required a thorough reporting and valuation tool to better address the challenge of calculating and reporting on such hedges.



“Before using Hedge Accounting Insight, there was an increased risk of an audit restatement. As there is less manipulation and more reliability with this web-based product, I can confidently say that it has decreased Spectrum’s audit restatement risk. I also am confident that calculations are performed correctly without having to rely on a time-consuming review as in the past. Hedge Accounting Insight is very comprehensive, and everything is now in one place. For all these reasons, it is the right solution for us.”

— John Beattie



THE NEED

Spectrum was using an Excel-based solution to perform hedge accounting on its portfolio, but the manual nature of spreadsheets meant the process remained time-consuming and error prone. Spectrum needed an easy to use, unified solution that would eliminate the inefficiencies and manual manipulation required with its current spreadsheet-based process. A fully integrated tool would help it save significant time and resources by eliminating the need to enter the same values in multiple times and locations.

THE SOLUTION

Spectrum considered a number of web-based products to manage its hedge accounting. It selected Hedge Accounting Insight, a Software-as-a-Service (SaaS) solution by FINCAD. The Company selected this solution because of its functionality, coverage, competitive rate, as well as FINCAD’s reputation and Spectrum’s relationship with the vendor.

Since adopting Hedge Accounting Insight, Spectrum feels that it has benefited from increased ease of use and reduced audit restatement risk, in addition to making the documentation process much simpler.

EASE-OF-USE FOR A MORE EFFICIENT REPORTING PROCESS

Spectrum Brands has on average 750 to 1000 discrete foreign exchange and commodity hedge contracts on its books and reports on them quarterly. This means that a significant amount of time and resources are spent valuing and reporting on hedges, and conducting hedge accounting. Moving from a spreadsheet system to Hedge Accounting Insight means that all data is now in one place, and only needs to be entered once. This significantly reduces the manual manipulation previously required with spreadsheets. *“With Hedge Accounting Insight we are guaranteed consistency and reliability – I enter the trades in once and don’t have to worry about it again, whereas with our previous*

system of spreadsheets a lot of manipulation was required," says Dave Kallenbach, Treasury Analyst, Spectrum Brands Holdings Inc.

REDUCED RISK OF ERRORS AND AUDIT RESTATEMENT

Now with Hedge Accounting Insight, Spectrum's audit process promises to be smoother and more efficient. *"In the past, there was an increased risk of an audit restatement. It was only through careful review and crosschecking of the outputs that we had the necessary confidence in the results. As there is less manipulation and more reliability with Hedge Accounting Insight (and its pre-built formulas), I can confidently say that it has decreased Spectrum's audit restatement risk,"* attests John Beattie, VP & Treasurer, Spectrum Brands. In addition, input error is also greatly reduced. Kallenbach, who works closely with the product, explains that when using Hedge Accounting Insight *"I only need to input a trade once and then it is in there forever. I have confidence that it is calculating correctly. Clearly the fact that there is less manipulation required means that there is less exposure to errors."*

DOCUMENTATION

Hedge Accounting Insight provides built-in documentation for fast and simple reporting. For Spectrum Brands, this means increased efficiency and better organization. *"I can*

export the necessary reports at the click of a button, and they are available immediately. Reporting is now organized and much easier than our previous system. There definitely is a documentation benefit," says Kallenbach.

FINCAD CUSTOMER SUPPORT

Spectrum Brands has had a positive experience with FINCAD's Client Services and Product Development teams. *"FINCAD's product team is very supportive, have taken many of our suggestions to heart and are building in the functionality that we requested. We're very happy with the service provided by FINCAD."* says Beattie.

THE FUTURE

Having improved Spectrum's hedge accounting and valuation process in a number of ways including creating efficiencies in its overall process, Spectrum sees its use of Hedge Accounting Insight expanding in the future. The Company looks forward to increased time savings and a smoother audit process. *"This web-based product is very comprehensive, and everything is now in one place. For all these reasons, it is the right solution for us,"* says Beattie.



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