

Date: [Insert Date]

To: [Insert Name of Head of Trading/Portfolio Manager]

From: [Insert Name of Compliance Officer/Supervisor]

Department: Compliance / Risk Management

Subject: Formal Notification of Hedging Strategy Compliance Review

Dear [Insert Name],

This letter serves as a formal supervisory notification regarding the compliance requirements for the hedging strategies currently employed by [Insert Department/Fund Name].

Following a recent internal review of trading activities, we are formalizing the expectations for adherence to regulatory standards and internal risk limits. All hedging activities must strictly align with the following mandates:

- **Documentation:** Every hedge must have a clearly documented objective, identifying the specific underlying risk or asset being mitigated.
- **Correlation Verification:** Regular testing must be conducted to ensure high correlation between the hedging instrument and the hedged item.
- **Prohibition of Speculation:** Derivative positions designated as hedges must not be used for speculative leverage beyond the established risk parameters.
- **Reporting:** Any material breach of hedge effectiveness or deviation from the approved strategy must be reported to the Compliance Department within [Insert Timeframe].

Please acknowledge receipt of this letter and confirm that all current positions are in compliance with the Firm's Hedging Policy by [Insert Deadline Date].

Failure to comply with these supervisory requirements may result in the suspension of trading limits or further disciplinary action.

Sincerely,

[Insert Signature Area]

[Insert Name of Supervisor]

[Insert Title]

[Insert Company Name]