At December 31, 2019 and 2018, in connection with cash flow hedges of anticipated royalties and cost transactions, the company recorded net gains of $145 million and net gains of $342 million (before taxes), respectively, in AOCI. The company estimates that $72 million (before taxes) of deferred net gains on derivatives in AOCI at December 31, 2019 will be reclassified to net income within the next 12 months, providing an offsetting economic impact against the underlying anticipated transactions.

Foreign Currency Denominated Borrowings

The company is exposed to exchange rate volatility on foreign currency denominated debt. To manage this risk, the company employs cross-currency swaps to convert fixed-rate foreign currency denominated debt to fixed-rate debt denominated in the functional currency of the borrowing entity. These swaps are accounted for as cash flow hedges. The maximum length of time over which the company has hedged its exposure to the variability in future cash flows is approximately 12 years. At December 31, 2019 and 2018, the total notional amount of cross-currency swaps designated as cash flow hedges of foreign currency denominated debt was $8.2 billion and $6.5 billion, respectively.

At December 31, 2019 and 2018, in connection with cash flow hedges of foreign currency denominated borrowings, the company recorded net losses of $185 million and net gains of $75 million (before taxes), respectively, in AOCI. The company estimates that $166 million (before taxes) of deferred net gains on derivatives in AOCI at December 31, 2019 will be reclassified to net income within the next 12 months, providing an offsetting economic impact against the underlying exposure.

Subsidiary Cash and Foreign Currency Asset/Liability Management

The company uses its Global Treasury Centers to manage the cash of its subsidiaries. These centers principally use currency swaps to convert cash flows in a cost-effective manner. In addition, the company uses foreign exchange forward contracts to economically hedge, on a net basis, the foreign currency exposure of a portion of the company's nonfunctional currency assets and liabilities. The terms of these forward and swap contracts are generally less than one year. The changes in the fair values of these contracts and of the underlying hedged exposures are generally offsetting and are recorded in other (income) and expense in the Consolidated Income Statement. At December 31, 2019 and 2018, the total notional amount of derivative instruments in economic hedges of foreign currency exposure was $7.1 billion and $5.2 billion, respectively.

Equity Risk Management

The company is exposed to market price changes in certain broad market indices and in the company's own stock primarily related to certain obligations to employees. Changes in the overall value of these employee compensation obligations are recorded in SG&A expense in the Consolidated Income Statement. Although not designated as accounting hedges, the company utilizes derivatives, including equity swaps and futures, to economically hedge the exposures related to its employee compensation obligations. The derivatives are linked to the total return on certain broad market indices or the total return on the company's common stock, and are recorded at fair value with gains or losses also reported in SG&A expense in the Consolidated Income Statement. At December 31, 2019 and 2018, the total notional amount of derivative instruments in economic hedges of these compensation obligations was $1.3 billion and $1.2 billion, respectively.

Cumulative Basis Adjustments for Fair Value Hedges

At December 31, 2019 and 2018, the following amounts were recorded in the Consolidated Balance Sheet related to cumulative basis adjustments for fair value hedges:

($ in millions)

At December 31:	2019	2018
Short-term debt		
Carrying amount of the hedged item	$ —	$(1,878)
Cumulative hedging adjustments included in the carrying amount—assets/(liabilities)	—	(4)[1]
Long-term debt		
Carrying amount of the hedged item	(3,411)	(6,004)
Cumulative hedging adjustments included in the carrying amount—assets/(liabilities)	(440)[2]	(333)[2]

[1] Includes ($6) million of hedging adjustments on discontinued hedging relationships at December 31, 2018.

[2] Includes ($404) million and ($213) million of hedging adjustments on discontinued hedging relationships at December 31, 2019 and 2018, respectively.

The Effect of Derivative Instruments in the Consolidated Income Statement

The total amounts of income and expense line items presented in the Consolidated Income Statement in which the effects of fair value hedges, cash flow hedges, net investment hedges and derivatives not designated as hedging instruments are recorded and the total effect of hedge activity on these income and expense line items are as follows:

($ in millions)

	Total		Gains/(Losses) of Total Hedge Activity	
For the year ended December 31:	2019	2018	2019	2018
Cost of services	$32,491	$33,687*	$ 68	$ 30
Cost of sales	7,263	7,835*	51	8
Cost of financing	904	1,132	(42)	(6)
SG&A expense	20,604	19,366	267	(116)
Other (income) and expense	(968)	1,152	(15)	(434)
Interest expense	1,344	723	(93)	(6)

* Reclassified to conform to 2019 presentation.