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November 25, 2024

Via email to director@fasb.org

Mr. Jackson M. Day, Technical Director
Financial Accounting Standards Board
801 Main Avenue
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Derivatives and Hedging (Topic 815): Hedge Accounting Improvements (File Reference No. 2024-ED200)

Dear Mr. Day:

We appreciate the opportunity to respond to the Board's exposure draft on hedge accounting improvements and support the Board's efforts to clarify the guidance and broaden application of hedge accounting.

Overall, we support the Board's proposal to expand the application of cash flow hedge accounting to additional forecasted transactions and underlying risks since this would more closely align an entity's hedge accounting with its risk management activities. However, we believe that a proposed aspect of the similar risk assessment (Issue 1) may result in unnecessary burden in applying U.S. GAAP. We have described our concerns and suggestions in our responses to the Questions for Respondents in the attached Appendix.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Tim Kviz at (703) 245-8685.
Very truly yours,

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Appendix

Question 1—Similar Risk Assessment for Cash Flow Hedges: *Do the amendments in this proposed Update clarify and improve the guidance on cash flow hedges of individual forecasted transactions hedged as a group? In addition, are the proposed amendments clear and operable? Please explain why or why not. If not, what changes would you suggest?*

The proposed amendments would allow hedge accounting to be applied more broadly and would accommodate risk management strategies in a post-LIBOR environment in which there is an increased variety of alternative reference rates and tenors, which we support. However, we find the proposed requirement to evaluate whether individual forecasted transactions hedged in a group have a similar risk exposure to be costly and burdensome. In our view, once a cash flow hedging relationship is determined to be highly effective on an aggregate basis, the additional evaluation of the individual risks underlying the forecasted transactions is not necessary. Therefore, we recommend that the Board remove the similar risk assessment requirement.

However, if the Board were to retain the proposed amendments, we question whether it is necessary to monitor whether the risk exposure is similar on an ongoing basis, considering that the hedge effectiveness test would address the risk of continuing with an ineffective hedge. Therefore, we would support a similar risk assessment requirement performed at only hedge inception.

Additionally, paragraph BC22 references a dual-purpose approach commonly applied for evaluating hedge effectiveness and similarity of hedged risks ("test to worst" approach) in which the hedging instrument is tested against the least effective risk in the pool. It is unclear under proposed paragraph 815-20-55-23A whether such "test to worst" approach would be acceptable because the proposed guidance would require assessing each hedged risk on an individual basis. Because the Basis for Conclusions is not retained in the Codification, we suggest that the Board clarify proposed paragraph 815-20-55-23A. This could be done by adding a statement in a parenthesis or by providing a separate practical expedient.

Lastly, we suggest that the Board consider expressly permitting partial de-designation of a hedge relationship when one or more of the hedged risks related to a group of individual transactions are no longer similar. We believe full de-designation to be more burdensome and costly operationally for many organizations. Partial de-designation would be consistent with the Boards stated objective of more closely aligning hedge accounting with the economics and an entity's risk management activities.

Question 2—Hedging Forecasted Interest Payments on Choose-Your-Rate Debt Instruments: *Do the proposed amendments clarify and improve the guidance on cash flow hedges of interest payments on choose-your-rate debt instruments? In addition, are the proposed amendments clear and operable? Please explain why or why not. If not, what changes would you suggest?*

We support the proposed amendments as they are consistent with the Board's overall objective of aligning hedge accounting with the economics of an entity's risk management activities. Specifically, the proposed amendments would provide flexibility and reduce the risk of hedge dedesignation on choose-you-rate debt instruments, as well as reduce the current diversity in practice on whether a change in rate requires de-designation of the hedge relationship or whether the hedging relationship can remain in place if the relationship continues to be highly effective. Additionally, they would alleviate the burden of ongoing documentation of various interest rate indexes and tenors. We believe the proposed amendments are clear and operable.

Question 3—Cash Flow Hedges of Nonfinancial Forecasted Transactions: *Do the proposed amendments clarify and improve the guidance on cash flow hedges of nonfinancial forecasted transactions? In addition, are the proposed amendments, including those that require the application of the clearly-and-closely-related assessment, clear and operable? Please explain why or why not. If not, what changes would you suggest?*

The proposed amendments would improve the guidance because they would allow entities to designate more variable components (or subcomponents) of forecasted purchase or sales price of nonfinancial assets in cash flow hedges (for example, ingredients of a commodity). Additionally, the proposed amendments would provide entities with more flexibility in risk management activities independent of whether the entity transacts in a spot market or a forward market.

However, we note that further judgment would be introduced for spot market transactions and for transactions in which a subcomponent is designated as the hedged risk when determining whether the variable component or subcomponent is clearly and closely related as described in paragraph 815-10-15-32(a) through (b) considering the breadth and depth of potential variable components or subcomponents that may be designated as the hedged risk. For example, it may be challenging in some cases to determine whether the magnitude and impact of a price adjustment is significantly disproportionate as discussed in paragraph 815-10-15-32(b) when the underlying is not extraneous, which may increase costs. We note that proposed Example 25 in the Proposal illustrates the designation of a price subcomponent (copper index price) as the hedged risk in a cash flow hedge of a price component (copper wire) explicitly referenced in a forecasted transaction formula. Because copper is the core ingredient of a copper wire, it is relatively straightforward to conclude that it is clearly and closely related to the component referenced in the pricing formula. However, the proposed Example does not analyze the clearly and closely related concept and only refers to paragraph 815-10-15-32. For users to better understand how this guidance impacts the designation of different components, we believe it would be helpful if the Board adds a discussion in paragraph 815-30-55-155 to explain the clearly and closely related assessment. Alternatively, the Board may consider providing an additional example to illustrate a scenario where a subcomponent is not clearly and closely related to the referenced component.

Question 4—Net Written Options as Hedging Instruments: *Do the proposed amendments improve the guidance on net written options as hedging instruments? Please explain why or why not. If not, what changes would you suggest? In addition, the Board rejected an alternative to the proposed amendments related to the net written option test in paragraph 815-20-25-88 that would have removed the test from Topic 815 (see paragraph BC81). Do you have any views on the alternative rejected by the Board and whether it would be more operable, be less complex, and provide more decision-useful information compared with the proposed amendments?*

We believe the proposed amendments improve the guidance on the application of the net written option test in a post-LIBOR world for cash flow hedges of interest rate risk. The simplified assumptions that clarify that the combination of a non-option derivative (e.g., an interest rate swap) and an option-based derivative (e.g., an embedded written cap or floor) is a net written option in certain circumstances that are common in hedges of variable-rate debt instruments with embedded caps or floors with a pay-fixed swap that contains a mirror image cap or floor will allow for more cash flow hedge relationships to be eligible for hedge accounting. This will also better align the accounting guidance with common risk management strategies.

Further, we agree with the Board's decision to retain the net written option test as discussed in BC81. The proposed amendments address a specific narrow-scope issue identified in practice, and we are concerned that wholesale removal of the test might result in unintended consequences.

***Question 5—Foreign-Currency-Denominated Debt Instrument as Hedging Instrument and Hedged Item (Dual Hedge)** : Do the proposed amendments improve the guidance on a foreign-currency-denominated debt instrument that is used as the hedging instrument and hedged item (commonly referred to as a "dual hedge")? In addition, are the proposed amendments on dual hedges clear and operable? Please explain why or why not. If not, what changes would you suggest?*

Yes, the proposed amendments would improve the guidance on foreign-currency-denominated debt instruments used in a dual hedge because they would address the unintended consequences identified following issuance of ASU 2017-12 and discussed in paragraphs BC85 through BC86 of the Proposal. The proposed amendments also are clear and operable.

***Question 6—Transition**: Are the proposed transition requirements operable? If not, why not, and what transition method would be more appropriate and why? Would the proposed transition disclosures be decision useful? Please explain why or why not.*

Yes, we believe the proposed prospective transition requirements are operable and appropriate because the proposed changes would be expected to affect only ongoing assessments required to retain hedge accounting and would permit, but not require, entities to amend the hedging relationship in certain of their cash flow hedges.

***Question 7—Effective Date**: In evaluating the effective date, how much time would be needed to implement the proposed amendments? Should the effective date for entities other than public business entities be different from the effective date for public business entities? Please explain why or why not. If the effective dates should be different, how much additional time would entities other than public business entities need to implement the proposed amendments?*

We do not think significant time would be required to adopt the proposed amendments also noting that the hedging guidance is optional. Accordingly, we believe a mandatory effective date for the proposed amendments of at least one year from issuance of a final ASU, with early adoption permitted anytime, would be appropriate and sufficient for public business entities. In line with the Private Company Decision-Making Framework, we suggest providing private companies with at least an additional period to adopt the amendments, also considering implementation efforts of other FASB recent pronouncements.

***Question 8—General**: Do you expect any unintended consequences of providing these proposed amendments? If so, please explain what those unintended consequences would be.*

We do not expect any unintended consequences from the proposed amendments.

***Question 9—Benefits and Costs**: Would the expected benefits of the proposed amendments justify the expected costs? If not, please describe the nature and magnitude of those costs, differentiating between one-time costs and recurring costs.*

We believe the expected benefits arising from the proposed amendments generally would outweigh the costs of implementation because they would result in greater alignment between a company's risk management activities and the ability to align the accounting through the use of hedge accounting, greater flexibility in applying hedge accounting, and would expand the population of hedged risks available for hedge relationships.