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Re: File Reference Number 2019-790, Exposure Draft, *Derivatives and Hedging (Topic 815)*

The International Swaps and Derivatives Association's ("ISDA")[1] North American Accounting Policy Committee (the "Committee") appreciates the opportunity to comment on the Financial Accounting Standards Board's ("FASB") Proposed Accounting Standards Update, *Derivatives and Hedging* (Topic 815) (the "Proposed ASU"). Collectively, the Committee members have substantial professional and practical expertise addressing accounting policy issues related to financial instruments. This letter provides our organization's overall views on the Proposed ASU and our responses to the questions for respondents included within the Proposed ASU.

Overview

ISDA supports the FASB's efforts to clarify and improve the US generally accepted accounting principles ("GAAP"), applicable to hedging activities. The Proposed ASU will provide clarification for preparers for certain topics included in Accounting Standards Update No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities* ("ASU 2017-12"). The Committee agrees with the proposed guidance for Issues 2, 3 and 4 and does not have any specific comments in relation to those Issues. With respect to Issue 1, our members believe certain changes to the Proposed ASU will make it more operable and an improvement to the existing Topic 815 guidance related to a change in hedged risk within a designated hedging relationship.

Consistent with this, we provide the following comments related to Issue 1, and in the Appendix, our responses to the specific Questions for Respondents.

While we appreciate the FASB's efforts to provide clarification of certain matters in the Proposed ASU, the Committee also encourages the FASB to add a "Phase 2" targeted hedge accounting improvements project to its agenda. Such a project could address certain practice issues and other

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matters that remain unresolved or have arisen since the issuance of ASU 2017-12 which would be more than technical corrections.

Comments Related to Issue 1: Changes in Hedged Risk in a Cash Flow Hedge

Definition of hedged risk

A primary principle underlying hedge accounting is that a hedge relationship must be highly effective. This principle has been clearly defined in GAAP since hedge accounting guidance was originally issued more than 20 years ago. Since that time, entities have developed many acceptable qualitative and quantitative methods to assess hedge effectiveness based on the hedge effectiveness ratio range (i.e., 80% - 125%) that has come to be accepted as a defining characteristic of a highly effective hedge relationship, without the need for further prescriptive guidance. However, although we are not aware of any practice issues in this area, the Proposed ASU will narrow the flexibility that exists today by requiring entities to use a best estimate of the hedged risk and changing how items are assessed with respect to determining whether they share the same risk.

One objective of ASU 2017-12 was to align the accounting and financial statement presentation of hedging along with an entity's risk management activities. Consistent with that objective, we believe the hedged risk should be able to be defined broadly, while retaining the primary principle that a hedging relationship must be highly effective on a retrospective and prospective basis. This would allow entities to risk-manage portfolios more efficiently, by, for example, being able to include items that reference different interest rate indices in a single cash flow hedge of interest rate risk for a pool of items, as long as the hedge remained highly effective.

This can be achieved in the Proposed ASU by removing any explicit requirement to specify tenor or interest rate index when defining the hedged risk, thus permitting the hedged risk to be defined more broadly. Interest rate tenor should not be considered part of a hedged forecasted transaction, and also should not be explicitly required to be identified as part of a designated hedged risk. Permitting an entity to define the hedged risk broadly will allow a company to hedge forecast transactions subject to different variable rates in one pool, as long as the hedge remained highly effective.

If the FASB does not support the position that entities should be able to define the hedged risk broadly (e.g., as any variable interest rate), the Committee believes that the designated hedged risk should not be defined any narrower than the identification of an interest rate index. That is, we suggest removal of the reference to tenor being included in the hedged risk in paragraph 815-30-55-1N and paragraph 63 of the Basis for Conclusions, which would allow the hedged risk to be defined as broadly as the "risk of changes in cash flows due to changes in the contractually specified interest rate index", or can be defined more narrowly if an entity so chooses to do so.

In allowing the hedged risk in a cash flow hedge of interest rate risk to be defined more broadly, the guidance will align the requirements for variable rate financial instruments with the requirements for hedging contractually specified components of a non-financial asset. As an example, this change will result in treatment for a change in an interest rate index (without reference to tenor) as the equivalent of a change in a soybean index, as illustrated in the example beginning in paragraph 815-30-55-1B.

The Committee believes that there is no economic difference between the price variability associated with a financial asset/liability that embodies a contractually specified interest rate and the price variability associated with a nonfinancial asset for which the all-in price includes a contractually specified component. As a result, without a consistent model, a change in the hedged risk of a cash flow hedge of a financial instrument would require de-designation, while a similar change to the hedged risk underlying a hedge of a non-financial item would not necessarily require de-designation. This distinction is artificial and does not lead to an improvement in financial reporting.

Additionally, and as discussed further below, should the definition of hedged risk be required to specify an interest rate index (e.g., LIBOR or SOFR), it should not be further required to define in more granular characteristics, such as tenor or reset frequency (e.g, 1-month LIBOR versus 3-month LIBOR). In other words, by applying the concept of hedged risk at a higher level (i.e., index), we believe that all instruments that reference that index, regardless of interest calculation convention, have the same hedged risk.

Shared risk exposure and homogeneity testing

Paragraph 815-20-55-23A states that when assessing whether forecasted transactions hedged in a group share the same risk exposure, the entity should identify the best estimate of the hedged risk for each individual forecasted transaction to confirm whether they share the same risk exposure. However, paragraphs 25 and 64 of the Basis for Conclusions indicate that it was not the Board's intent to restrict portfolio hedges in this manner. Specifically, paragraph 64 of the Basis for Conclusions states:

> "…there could be instances in which changes in the cash flows associated with forecasted transactions with different interest rate indexes or commodity indexes are highly correlated. In those instances, forecasted transactions varying with different indexes could be aggregated in a group and hedged with a single derivative that provides a highly effective offset to changes in the overall cash flows of the group."

The combination of a narrow hedged risk definition and the concept of shared risk exposure indicates that a portfolio hedge can only include instruments with the same hedged risk, including tenor, which would change existing practice, as existing US GAAP permits hedges of indices with mixes of tenors (for example, 3-month and 6-month LIBOR). In order to alleviate this tension, we request that the guidance in paragraph 64 of the Basis for Conclusions be elevated to the Codification and that the guidance in paragraph 63 of the Basis for Conclusions remove reference to instruments in a portfolio having the same tenor and reset date. Further, if the FASB permits a broader definition of hedged risk, as discussed above, then quantitative homogeneity testing for a portfolio would not be required, as shared risk exposure would be obvious in that all instruments are indexed to a variable interest rate. This would be consistent with evaluation of cash flow portfolio hedges today, as homogeneity testing is performed largely on a qualitative basis. Further, any differing characteristics of instruments within a pool or the worst-case characteristics of the pool (as discussed below) would be captured by a company's effectiveness assessment (e.g., regression).

Hedge effectiveness testing

Some entities (particularly financial institutions) assess hedge effectiveness for pool cash flow hedges based on worst-case scenarios (based on all reasonably possible scenarios/outcomes) to effectively prove that hedges will be highly effective under all scenarios. While the use of a best estimate is a reasonable approach to assess hedge effectiveness, we believe there is no reason it should be a required approach. If an entity can pass hedge effectiveness in a worst-case scenario, for example, it follows that the hedge would be highly effective in all (i.e., more favorable) scenarios. In addition, since there is no longer a requirement to measure ineffectiveness after the adoption of ASU 2017-12, there is no benefit to mandating the use of a standard method (e.g., best estimate).

For those entities that have taken the "worst case" approach for efficiency purposes, their hedge documentation reflects the procedures to follow if the hedge effectiveness assessment fails based on the "worst-case" hypothetical derivative. That is, they have either (1) remained silent if they fail the worst-case scenario and deem that the entire hedging relationship is no longer considered highly effective, or (2) specified how a more precise hypothetically perfect derivative (i.e., one that reflects the actual, and not the theoretical "worst-case" composition of the pool) should be used to assess hedge effectiveness.

A requirement to assess and document hedge effectiveness based on a best estimate would be a substantial change in practice for certain entities. We believe the guidance should remain unchanged from current requirements, as we are not aware of any practice issues and entities should continue to have the flexibility to assess effectiveness based on a worst-case scenario (with respect to the actual derivative), a best estimate scenario or another reasonable basis.

Separate from the worst-case hypothetical, we note that many companies currently rely on their prior period retrospective test for their ongoing prospective tests (i.e., perform a dual-purpose effectiveness test), which the proposed guidance also seems to preclude, as the prospective test would need to reflect an entity's best estimate, which may differ from the best estimate reflected in the prior period's retrospective test if it has been revised. This would be a change in practice for many companies and would now require two separate tests instead of one.

Lastly, there is diversity in practice regarding the effectiveness assessment requirements for certain variable rate loans that allow the borrower to choose the interest rate index (or index tenor) at each reset date that will define the next reset date and be used for interest accruals until that next reset date (referred to as "you'pick'em debt").

Specifically, there is a lack of consistency with respect to what testing needs to be performed upfront and on an ongoing basis. Based on our interpretation of the Proposed ASU, the Committee believes entities need only use their best estimate (i.e., the interest rate currently selected under the debt arrangement) for purposes of assessing effectiveness, and would not need to consider the other eligible but not selected interest rates when assessing hedge effectiveness. Given the pervasiveness of you'pick'em debt and the diversity in existing practice, the Committee asks the FASB to include this example explicitly in the guidance.

<u>Reasonably possible changes in cash flows for pool hedges</u>

Paragraph 815-20-25-79B states that "the quantitative prospective assessment of hedge effectiveness shall consider all reasonably possible changes in cash flows of the forecasted transaction attributable to the designated hedged risk." For pool hedges of variable rate financial instruments that contain multiple tenors, we note that if an entity had to test all possible tenors each reporting period, this would be challenging to implement and onerous to perform from an operational standpoint. We propose that the FASB clarify that differing characteristics of the pool (e.g., different variable-rate interest rate indexes, payment frequencies, reset dates, etc.) would be considered in the construction of the hypothetically perfect derivative to ensure the guidance in paragraph 815-20-25-79B is not in conflict with the requirement to assess effectiveness based on an entity's best estimate. To date, there has been no requirement (for example, running monte carlo simulations) for assessing hedge effectiveness. As currently written, the proposed guidance in paragraph 815-20-25-79B could be interpreted as incremental to the initial prospective testing done in practice today (i.e., incorporating the differing characteristics of the pool in the hypothetical derivative). We believe this would be an onerous requirement for companies to adopt, not cost effective and operationally burdensome.

Reevaluation of the hedged risk

Paragraph 815-30-35-37B creates a waterfall for identifying the forecasted transaction when a shortfall occurs. The waterfall requires entities to first consider the original hedged risk, to next consider the undocumented methodology, and then finally allow a two-month window to generate the forecast transactions (using the aforementioned waterfall).

The Committee believes this would be an onerous process to identify the forecasted transactions and could actually expedite recognition of AOCI in earnings due to the requirement to first look to forecasted transactions that occur with a revised hedge risk during the original hedge period, rather than defaulting to the two-month grace period that would effectively delay the release of AOCI. This would be challenging to document and would represent a change in how entities have historically identified the forecasted transactions in applying ASU 2017-12. For example, some entities have historically looked to the forecasted transaction based on the original hedge risk in the forecasted time period first and then the two-month additional time period second (rather than looking to the revised hedged risk in the same period before looking to the two-month additional time period allowed under current GAAP and the Proposed ASU).

The Committee sees the proposal as providing more flexibility for entities to identify forecast hedged transactions, but given the potential incremental effort to apply the proposal, the FASB should not prescribe a specific methodology that is to be followed by all entities. Instead, because there is no measurement and separate accounting recognition of hedge ineffectiveness for highly effective cash flow hedges, the Proposed ASU should allow companies to make a policy election regarding how hedged forecasted transactions will be identified (including the ability to use the FASB proposal), as long as the methodology is applied consistently, systematically and rationally.

Change in hedged risk related to newly issued versus seasoned bonds

The proposed guidance in paragraph 815-30-55-1J(a) states, "in a cash flow hedge in which the forecasted transaction is future interest receipts of a financial asset or future interest payments of a financial liability, documentation of the forecasted transaction should include: (a) the expected amount of principal on which the future interest cash flows are expected to be received or paid, (b) an entity's best estimate of the timing of future interest receipts or payments or debt purchase or proceeds in accordance with paragraph 815-20-25-16(d) and 815-20-25-3(d)(1)(i) and (vi)." The Committee believes the guidance in (a) and (b) can be conflicting in certain circumstances and requests clarification on what is permissible. For example, when hedging the forecast purchase of a fixed-rate seasoned bond, the expected amount of principal on which future interest cash flows will be received or paid can change over time (i.e., to effectively adjust the principal amount to reflect a market yield). As a result, documentation of the forecasted transaction could not include this information, as it will not be known until the time of the transaction.

It is unclear whether the guidance in paragraph 815-30-55-1J(B) was intended to create a requirement to document whether the forecasted transaction being hedged was interest coupons or the purchase price/proceeds. The Committee recommends clarifying paragraph 815-30-55-1J(a) to include debt purchase or proceeds, so an entity may hedge both proceeds and interest receipts, which share the same risk, in the same hedging relationship as suggested by paragraph 815-30-55-1J(b). Entities executing this hedging strategy are often seeking to manage interest rate risk on an investment portfolio, and as such may not necessarily distinguish between interest coupons versus the purchase price. Further, the same derivative would be used whether hedging interest coupons versus purchase price and the reclassification to earnings would also occur at the same time (as the amortization of the discount/premium for hedges of purchase price occurs at the same time as interest accruals for hedges of interest coupons). The ability to hedge both the proceeds and interest coupons in one hedging relationship would meet the objective of the Proposed ASU, which is to reduce missed forecasts as the issue does not pertain to the risk being hedged, but rather an arbitrary distinction in the hedged item.

Hedge documentation

The proposed guidance in paragraph 815-30-55-1Q states that a company needs to add an addendum to its hedge documentation if a change in hedged risk has occurred, which would include changes in the number or timing of interest payments or receipts. While we agree that some form of documentation of a change in hedged risk should be completed, we do not believe that the method of documentation should be prescribed. The Committee does not believe there is a need to have explicit guidance on how the hedge documentation itself needs to reflect a change in the hedged risk and should allow for entities to document this in a flexible manner. As such, we suggest removing this requirement.

Timing of identifying the change in hedged risk

In paragraph 54 of the Basis for Conclusions, it states that an identified change in hedged risk would trigger a final retrospective effectiveness assessment at the point in time that it actually happens. We would suggest clarifying that this language does not require an entity to identify changes in hedged risk on an ongoing basis, as any changes in hedged risk will be identified as part of the effectiveness testing.

From an operational standpoint, many entities do not monitor hedge relationships on a daily or weekly basis and commonly complete all hedge assessments at quarter-end. As such, it may be difficult for the entity to identify changes in a best estimate on a real-time basis (and for audit firms to audit that assertion). Additionally, for private companies, the assessments may only be done on an annual basis as there are no interim reporting requirements. We do not believe this is a necessary requirement, as changes will be reflected in the assessment of hedge effectiveness.

Identifying foreign exchange risk as part of the hedged risk

The proposed amendments in paragraph 815-30-35-37A prohibit a company from identifying foreign exchange (“FX”) risk as part of the hedged risk. We do not believe there is a substantive reason for excluding FX risk from the proposed guidance. We believe this could be addressed by documenting the foreign currency component of a loan as a FX loan asset and having the hedged risk as the foreign currency. For example, in a foreign currency loan, a company could note the functional currency amount (USD) as the number of units with the hedged risk being EUR. Another example would be when an entity is hedging FX risk in a cash flow hedge of a forecast nonfunctional currency transaction. If there is a shortfall in purchases of the applicable currency designated as the hedged risk (e.g., EUR), the company could look to purchases in other foreign currencies (GBP) during the specified period as an undocumented hedged risk that has not yet affected earnings. As a result, the guidance in paragraph 815-30-40-5 would not apply because the company fulfilled the designated amount of forecasted transactions in the originally specified time period. If the FASB does not wish to change the scope of the existing Proposed ASU, the Committee requests including this as part of the Phase 2 project for targeted improvements to the hedge accounting guidance.

Other Comments Related to Technical Corrections

Hedges of Call Options Embedded within Callable Debt

In ASU 2017-12, the FASB amended Topic 815 to permit companies that hedge callable fixed rate debt to identify the benchmark interest rate component of the coupon cash flows as the hedged item in a fair value hedge when the designated benchmark interest rate is identified as the hedged risk in paragraph 815-25-35-13 and to isolate changes in the embedded call option based solely on changes in a benchmark interest rate (thus permitting companies to exclude credit risk from their assessments of hedge effectiveness and measurement of hedge results) in paragraph 815-20-25-6B and 815-25-35-13A. The ability under ASU 2017-12 to exclude credit risk when measuring changes in fair value of callable debt under long haul significantly reduced cost and complexity associated with prudent risk management strategies that are designed to only hedge interest rate risk. However, the ability to exclude credit risk in this context only applies when the hedged item is all or a proportion of the entire callable debt instrument.

Topic 815 (and the original FASB Statement No. 133 ("FAS 133")) contained specific guidance regarding the accounting for fixed rate call monetizations (codified in paragraph 815-25-55-29). This guidance explicitly provides that when the hedged item in a fair value hedge is solely the embedded call option (hedged with a written interest rate option, or swaption) the designated hedged risk must be total changes in fair value (including obligor credit risk). While floating rate call monetizations and fixed rate call monetizations achieve substantially similar economic objectives (given that the hedges for both strategies generate a substantial portion of their initial value from the written option), paragraph 815-25-55-29 was not amended by ASU 2017-12 to permit companies to identify the benchmark interest rate component of the embedded call option and isolate changes in the fair value of the embedded call option based solely on changes in a benchmark interest rate.

Retaining the guidance in paragraph 815-25-55-29 has resulted in materially disparate accounting treatment for economically similar hedges (other than the coupon structure). Moreover, the FASB's objectives in issuing ASU 2017-12 were to better align financial reporting with an entity's risk management objectives and to simplify the application of the hedge accounting guidance in Topic 815. As described more fully below, the requirement to measure and report total changes in fair value of an embedded call option within callable debt that is hedged by the issuer with a written interest rate option does not reflect a typical company's risk management objectives and results in significant operational and accounting complexity. For these reasons, we request that the FASB consider making targeted changes to paragraph 815-25-55-29 by incorporating the guidance in paragraph 815-20-25-6B and 815-25-35-13A. This change to the guidance is sufficiently contained to a specific issue related to the principle of designated hedged risk, only affects fair value hedges of callable debt (and further only affects the accounting for the hedged item), and does not have any other interactions with other Topic 815 guidance or other ASC Topics/subtopics.

Accounting for Fixed Rate Call Monetizations

If an issuer had to reflect changes in its own credit risk in the value of the embedded call option, it is not clear how well the written swaption (only sensitive to a benchmark interest rate such as LIBOR) would offset total changes in fair value of the embedded call option. Issuers of callable debt that want to execute fixed rate call monetizations are not able to do so under the guidance in Topic 815 unless the hedged risk is the total change in fair value of the hedged item (i.e., interest rate risk and credit risk for the embedded call option). While entities may execute floating rate call option monetizations and attain streamlined accounting for a hedge of benchmark interest rate risk only, doing so may exceed their floating rate debt limits. In evaluating whether a written LIBOR-based swaption would be highly effective in offsetting the total changes in fair value of the embedded bond call options, our members have observed that, depending on the period during which the changes in value were calculated, the hedge may only marginally qualify for hedge accounting, even when all of the monetary terms of the embedded and written options are matched. This is in stark contrast to the Board's conclusions in FAS 133, which highlighted that if the option features of both instruments match, the gains or losses of the two options generally will offset. Additionally, the potential mismatch and "ineffectiveness" that could arise due to the requirement to reflect changes in the issuer's own credit risk could be significant. This "ineffectiveness" would contribute to distortions in reported earnings and is not reflective of economic reality, as the company is only seeking to monetize the benchmark interest rate component of the embedded option (which is the only risk that can be hedged in the market). Further, this issue can be exacerbated depending on the timing of the monetization (i.e., whether it occurs at issuance vs. after issuance). It would seem that this type of accounting result is counter to the FASB's stated objectives in its issuance of ASU 2017-12.

In the U.S. there are over 15 nonfinancial corporations that have issued over $25 billion in aggregate principal of callable debt that remains outstanding as of December 31, 2019[2] (including callable debt issuers that are U.S. financial institutions would expand the total number of issuers to over 25 and aggregate outstanding callable debt obligations to over $65 billion). As such, this accounting issue is relevant to a relatively large number of corporate issuers, and additional guidance would be an improvement to these issuers' accounting should they decide to execute fixed rate call monetizations.

Given the forgoing, we ask the FASB to modify paragraph 815-25-55-29 as follows to be consistent with the guidance for hedges of callable debt swapped to floating [text inserted <u>underlined</u> and deleted text ~~struck out~~].

[2] Estimated based on Bloomberg

815-25-55-29 To assess whether the hedge is expected to be highly effective in achieving offsetting changes in fair value, Entity F is permitted to apply the guidance in ASC 815-20-25-6B and isolate changes in the embedded call option based solely on the designated benchmark interest rate when determining changes in its fair value ~~could estimate and compare the changes in fair values of the two options for different market interest rates. Because this Subtopic does not permit derivative instruments, including embedded derivatives whether or not they are required to be accounted for separately, to be separated into components, Entity F can only designate a hedge of the entire change in fair value of the embedded purchased call option~~. Additionally, consistent with the principles set forth in ASC 815-25-35-13, the hedging entity may choose to identify the benchmark interest rate component of the embedded call option at the inception of the hedge relationship or the contractual embedded call option as the hedged item. The resulting changes in fair value of the embedded call option can be measured based on the guidance in ASC 815-25-35-13A and will be included currently in earnings. Changes in the fair value of the written option also will be included currently in earnings and presented in the same income statement line item as the earnings effect of the hedged item. Any mismatch between the changes in fair values of the hedging instrument and the hedged item attributable to the hedged risk~~, thus,~~ will be automatically reflected in earnings. (The hedge ~~is likely to~~ may have some earnings effect ~~because~~ if the premium for the written call option ~~is unlikely to be the same as~~ differs from the premium for the embedded purchased call option or the critical terms of the written call option differ from the critical terms of the purchased call option.)

Closing

We hope you find ISDA's comments and responses informative and useful. Should you have any questions or desire further clarification on any of the matters discussed in this letter, please do not hesitate to contact the undersigned.

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Appendix: Responses to FASB's Questions for Respondents

Question 1: Do the amendments in this proposed Update clarify and improve the guidance in Topic 815? If not, please explain which proposed amendment or amendments do not clarify and improve the guidance and why.

- The Committee appreciates the FASB's efforts to separate the hedged item and the hedged risk. We agree with the proposed guidance to address Issues 2, 3 and 4 and do not have any specific comments in relation to those Issues. However as noted above for Issue 1, we believe additional changes are needed to the technical corrections to make them operable and an improvement to current guidance. We believe this new guidance could create new unnecessary complications as written. In addition, the Committee voices its continued support for a "Phase 2" targeted improvements hedge accounting project to address unresolved issues from the issuance of ASU 2017-12 that would be more than simple technical corrections.

Question 2: Are the proposed amendments operable? If not, which proposed amendment or amendments pose operability issues and why?

- As noted above, we believe there necessary changes to the proposed amendments in order to make the Proposed ASU operable and an improvement to existing GAAP. There are certain provisions that may not be operable as written. Paragraph 815-20-25-79B states that for a cash flow hedge, a company needs to consider all reasonably possible changes in cash flows of the forecasted transaction attributable to the hedged risk, but not consider possible changes attributable to changes other than the designated hedged risk. A requirement to test different tenors on an ongoing basis would be onerous, and the Committee believes the assessment of effectiveness would incorporate these differences.
- Many companies currently test hedge effectiveness on a basis worst-case scenario, and the requirement to test and document hedge effectiveness based on the best estimate would be a substantial change in practice for these entities. This would be an onerous change in practice, and currently, if a company is able to pass hedge effective in a worst-case scenario, it would be effective in all scenarios. No change is needed to the existing guidance that allows such flexibility.
- Paragraph 815-30-55-1Q states a company needs to add an addendum to its hedge documentation if a change in hedged risk has occurred. This would also include changes in the number or timing of interest payments/receipts which could potentially be changing for pool hedges every period. This would be an onerous task and operationally challenging for companies with a large number of pool hedges. We agree that some form of documentation of a change in hedged risk should be completed, but do not believe that the method of documentation should be prescribed.
- We note that the Committee's responses above include suggestions to make the above amendments more operable.

Question 3: Should other changes related to the proposed amendments be made to clarify the intent of the proposed amendments?

- Please refer to comments above.

Question 4: Would any of the proposed amendments require special consideration for private companies that are not financial institutions and not-for-profit entities (except for not-for-profits entities that have issued, or are a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market)? If so, which proposed amendment or amendments would require special consideration and why?

- Yes, refer to the comment above on the timing of identifying the change in hedged risk. If the proposed guidance is not changed regarding when a change in hedged risk has to be identified, we believe relief would need to be provided for private companies who are not currently required to monitor hedge effectiveness throughout the year.

Question 5: Should entities use a method documented at hedge inception to identify hedged transactions using hindsight or should another approach be used? Please explain why. If you support another approach, please explain that alternative.

- Yes, refer to the comment on the reevaluation of the hedged risk above. We do not believe there is a need to prescribe a waterfall for identifying the forecasted transaction. The Committee believes the FASB should permit companies to apply a systematic and rational approach defined upfront.

Question 6: Is transition guidance needed for entities that may have applied the change in hedge risk guidance to hedges of foreign exchange risk or credit risk or both in reported financial statements?

- We are not aware of entities that may have applied the change in hedge risk guidance to hedges of foreign exchange risk or credit risk or both and as such do not believe transition guidance is needed. However, please refer to our comments above regarding hedges of FX risk.

Question 7: Do you agree with the specific considerations for transition for the proposed amendments? Are other transition provisions needed related to:

a. The proposed amendments that would require that an entity consider only the designated hedged risk in the prospective assessment of hedge effectiveness for hedges within the scope of the change in hedged risk guidance
b. The proposed amendments on the subsequent assessment of hedge effectiveness when a change in hedged risk is identified?

Please explain why or why not.

- The Committee does not believe additional transition provisions are required related to the above items.

Question 8: Do you agree with the proposed effective dates? If the proposed amendments were effective for all public business entities for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years and for all other entities for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021, would entities have sufficient time to implement these amendments if a final Update is issued in the first half of 2020?

- Please refer to question 2 above regarding the challenges companies face to make this guidance operable. Although the amendments are limited in nature, in order to benefit from the proposed hedging flexibility, certain quantitative testing process would need to be established and performed both at inception (at a minimum) and on an ongoing basis. Further, certain processes may need to be changed to accommodate a change in hedged risk, for example, the process to create a hypothetical derivative when the hedge risk has changed. These processes are much more demanding than a requirement to modify hedging documentation. It would take time for entities to establish the process for the first time.
- The entities that are subject to dual IFRS and US GAAP reporting may want to analyze the proposed and finalized IBOR transition guidance from IASB during 2020. To set an effective date for 2022 would afford these entities sufficient time to perform the assessment and make an implementation plan that is most efficient in addressing the requirements under both of the standards. We believe for those entities that want to adopt early, early adoption should be permitted.