Mr. Jackson Day
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Financial Accounting Standards Board
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By email: director@fasb.org

Ref.: Targeted Improvements to Accounting for Interest Rate Risk Hedging and Net Investment Hedging

Dear Mr. Day,

The International Swaps and Derivatives Association's ("ISDA")[1] North American Accounting Committee (the "Committee") appreciates the opportunity to comment and provide feedback on the Financial Accounting Standards Board's ("FASB" or "Board") proposed Accounting Standards Update ("ASU"), *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Interest Rate Risk Hedging and Net Investment Hedging* (the "proposed Update" or "Proposed ASU"). Collectively, the Committee's members represent a broad range of derivatives market participants, including corporations, investment managers, insurance companies, and global and regional banks. The Committee brings extensive expertise in financial reporting and policy matters related to derivatives, hedge accounting, and broader risk management activities.

The Committee appreciates the Board's proactive efforts to continuously refine the current accounting guidance to better reflect the economics of risk management. While the current hedge accounting framework has limitations that restrict the ability of hedging entities to align accounting outcomes with actual economic exposures, the changes put forward in the proposed Update provide meaningful operational relief for preparers, risk management professionals, and other market participants. Overall, the Committee supports the targeted improvements that are contained within the Proposed ASU. 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.

Hedging Interest Rate Risk for Held to Maturity ("HTM") Debt Securities

Question 1: Do the amendments in this proposed Update improve the guidance on hedge accounting for interest rate risk by permitting interest rate risk to be the hedged risk for HTM debt securities? Are the proposed amendments clear, operable, and auditable? Please explain why or why not. If not, what changes would you suggest?

The Committee supports the FASB's proposed amendments and believes that the amendments that will allow entities to designate hedges of interest rate risk for HTM debt securities represent an improvement of the current guidance on hedge accounting. Many of

1 Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 990 member institutions from 78 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's website: www.isda.org. Follow us on Twitter, LinkedIn, Facebook and YouTube.

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ISDA's member constituents hold portfolios of debt securities that are designated as HTM. The Committee believes that the amendments are clear and operable and will allow entities to apply fair value and cash flow hedge accounting to HTM securities without jeopardizing HTM classification. Under the proposed Update, the Committee also believes that market participants will benefit from being able to apply the portfolio layer method ("PLM") to HTM debt securities. Consistent with this, the Committee believes that one-time transition relief should be provided to allow entities to add HTM debt securities that were precluded from hedge accounting to existing PLM portfolios without the implications of a de-designation and re-designation that would be operationally burdensome and not provide decision useful information to users of the financial statements. Specifically, if an entity will be required to de-designate and re-designate PLM hedges to add HTM securities, the de-designations would require entities to allocate de-designated hedge basis adjustments to the items in the portfolio layers and then subsequently monitor the allocations to ensure the basis adjustments are derecognized as the assets are derecognized. It would be better to allow a one-time opportunity for HTM securities to be added to existing portfolio layers without affecting the active status of PLM hedging relationships. In addition, the Committee would be supportive if the FASB confirmed that entities have the ability to reclassify an Available for Sale ("AFS") debt security that is currently included within an existing PLM hedging relationship to HTM without requiring a de-designation of the hedging relationship as classification in itself would not impact the composition of the closed portfolio.

The Committee also urges the Board to consider one-time transitional relief that would permit entities to rebalance their portfolio designations and reclassify debt securities from the HTM category to Available for Sale ("AFS") upon adoption of the ASU without tainting their remaining HTM portfolios. While current guidance allows transfers from AFS to HTM, if the proposed ASU is finalized without a one-time ability to transfer from HTM to AFS, entities would be locked into legacy accounting-driven decisions beyond the date the new guidance is adopted.

The Committee believes that prior decisions to classify debt securities as HTM instead of AFS, (and also classifications as AFS instead of HTM), were in part based on the longstanding inability to designate HTM debt securities as hedged items in interest rate hedging relationships. In other words, some existing portfolio classifications may have been influenced more by accounting limitations rather than an entity's optimal long-term risk management objectives.

Specifically, institutions may have historically favored floating-rate securities or otherwise limited fixed-rate exposures within HTM portfolios to minimize interest rate risk that was unable to be hedged. Likewise, concerns regarding duration risk may have resulted in shorter HTM portfolio tenors than would otherwise have been chosen if the interest rate risk could have been hedged for those HTM debt securities. Similar considerations may have influenced mortgage-backed security classification decisions, including coupon selection, portfolio sizing, and management of negative convexity risk associated with HTM debt securities. Under the Proposed ASU, these considerations would change materially, and institutions may seek to rebalance portfolios by transferring selected securities to AFS in order to optimize asset composition, duration profiles, and risk management objectives.

Amendments to the Definition of the Secured Overnight Financing Rate ("SOFR") Overnight Index Swap Rate

Question 2: Do the proposed amendments improve the guidance on hedge accounting for interest rate risk by permitting any tenor of SOFR to be considered a benchmark interest rate? Are the proposed amendments clear and operable? Please explain why or why not. If not, what changes would you suggest?

The Committee supports the FASB's proposed amendments and believes that the amendments to permit any tenor of SOFR to be considered a benchmark interest rate improve the current guidance on hedge accounting and are clear and operable.

Permitting Float-to-Float Cross-Currency Swaps with Different Reset Dates to Be Hedging Instruments in Net Investment Hedges

Question 3: Do the proposed amendments improve the guidance on net investment hedges? Are the proposed amendments clear and operable? Do you agree that the period between repricing intervals and dates should occur every six months or more frequently? Please explain why or why not. If not, what changes would you suggest?

The Committee supports the FASB's proposed amendments and believes that the amendments permitting float-to-float cross-currency swaps with different reset dates to be the hedging instrument in net investment hedges are clear and operable. ISDA agrees with the proposed six-month period between repricing intervals and dates. ISDA believes that six-month repricing intervals and dates are frequent enough to justify the assumption that the variable payments or receipts are at market rates and leverage a similar concept that is already used in the shortcut method.

In addition to the proposed Updates, the Committee also recommends making conforming amendments to the guidance in ASC 815-35-35-9 which currently defines the criteria for perfect effectiveness in net investment hedging relationships using a method based on changes in spot exchange rates. The Committee believes that the use of generally established variable interest rates denominated in the respective notional currencies of a cross-currency interest rate swap should be sufficient to support a qualitative assessment that the hedging relationship is perfectly effective, provided that such rates reset at least every six months. Because a net investment does not contain an inherent benchmark interest rate, the use of different generally established market rates on the two legs of a cross-currency interest rate swap should not, in and of itself, preclude a conclusion of perfect hedge effectiveness.

The Committee recommends the following updates to paragraph ASC 815-35-35-9.

ASC 815-35-35-9

The hedging relationship would not be considered perfectly effective, and the guidance in paragraph 815-35-35-10 shall be applied if any of the following conditions exist:

a. The notional amount of the derivative instrument does not match the portion of the net investment designated as being hedged.
b. The derivative instrument's underlying exchange rate is not the exchange rate between the functional currency of the hedged net investment and the investor's functional currency.
c. When the hedging derivative instrument is a cross-currency interest rate swap eligible for designation in a net investment hedge in accordance with paragraph 815-20-25-67, both legs are not based on generally established ~~comparable~~ interest rate curves (for example, pay foreign currency based on any overnight interest rate denominated in the notional currency ~~the three-month London Interbank Offered Rate [LIBOR]~~, receive functional currency based on any term interest rate that resets every six months or more frequently denominated in the notional currency ~~three-month commercial paper rates~~).

Transition

Question 4: 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 provide decision-useful information? Please explain why or why not.

While we believe that the proposed transition approach of prospective application is operable, the Committee suggests that the Board consider permitting an option to elect a modified retrospective transition approach, particularly for the changes related to the definition of SOFR as a benchmark interest rate. The Committee believes that an option to adopt the amendments on a modified retrospective basis would allow entities currently utilizing Term SOFR derivatives in fair value hedge accounting relationships to qualify for the shortcut method for their existing hedges.

That is, under the current guidance, entities could not apply the shortcut method when the interest rate risk being hedged was the SOFR OIS benchmark rate but the hedging instrument referenced a Term SOFR rate. Instead, these entities were required to apply the more burdensome long-haul method, which requires quantitative hedge effectiveness assessment and measurement of the hedged item. If the Proposed ASU related to Issue #2 is finalized, new hedges of this type would qualify for the shortcut method, given the Term SOFR rate would be an allowable benchmark interest rate. This relief would not be available for existing long-haul hedging relationships, as the hedging derivatives would likely have off-market terms, which would preclude de-designation and re-designation of the existing hedge relationship under the shortcut method without obtaining a new hedging derivative. The Committee believes that an option to apply the transition approach on a modified retrospective basis would be operable and would better align with economics of those hedge relationships as well as reduce cost of ongoing application of hedge accounting.

As noted in our response to Question 1, the Committee supports one-time transition relief allowing entities to reclassify debt securities from HTM to AFS as well as one-time transition relief allowing entities to add HTM debt securities to existing PLM portfolios without being required to de-designate hedging relationships.

Effective Date

Question 5: 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?

The Committee believes that the proposed Update can be applied with very minimal effort and cost and provide operational relief for market participants. We believe that the effective date for entities other than public business and the effective date for public business entities should be consistent. In addition, because the application of hedge accounting is elective, there should be no need for any significant delay in issuing the proposed amendments due to implementation concerns. Specifically, once issued, entities with the ability to adopt the guidance may do so at their earliest convenience, while there will be no imposition on other entities to implement any of the changes in the amendments if they are not able or chose not to elect to execute such hedges.

The Committee encourages the Board to finalize the amendments with sufficient lead time to permit adoption before the 2026 year-end reporting cycle. Based on feedback from market participants, the Proposed ASU is expected to be operationally straightforward to implement because entities generally already manage these exposures economically and have existing hedge accounting infrastructure, systems, and controls in place. In addition, we support transition guidance that permits adoption on any date selected by an entity, rather than requiring adoption only at the beginning of an annual or interim period. Flexible adoption dates would allow entities to align implementation with their governance, control, and reporting processes while also enabling them to realize the benefits of the amendments as soon as they are operationally prepared to do so.

Given the targeted nature of the amendments and the relatively low implementation burden, the Board may wish to consider whether the final standard could be issued in time to permit adoption before December 31, 2026. Earlier availability would allow entities to apply the amendments during the 2026 reporting cycle while still providing adequate time to complete necessary governance and control activities.

Benefits and Costs

Question 6: 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.

The Committee believes that the expected benefits of the proposed amendments justify the costs. In addition, as noted in the response to the previous question, implementation of the amendments (and all hedge accounting) is elective. As a result, entities would presumably only incur any relevant costs because they believe the benefits to be sufficient to justify those costs.

Closing

We hope you find the Committee's comments and responses to the proposed ASU 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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