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Ms. Susan M. Cosper Technical Director Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

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and Hedging (Topic 815) Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting

Purposes - a consensus of the FASB Emerging Issues Task Force

Dear Ms. Cosper:

The 12 Federal Home Loan Banks (the "FHLBanks") appreciate the opportunity to comment on the Financial Accounting Standards Board's (the "FASB" or "Board") Exposure Draft of a Proposed Accounting Standards Update, *Derivatives and Hedging (Topic 815) Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate)* as a Benchmark Interest Rate for Hedge Accounting Purposes - a consensus of the FASB Emerging Issues Task Force (hereinafter referred to as the "proposed Update"). The FHLBanks are government-sponsored enterprises that serve the public by enhancing the availability of credit for residential mortgages and targeted community development. The FHLBanks are financial cooperatives and SEC registrants. Our responses to the questions asked in the proposed Updated are presented below.

Question 1: Do you agree that the Fed Funds Effective Swap Rate (OIS) should be included as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815, in addition to UST and LIBOR? Why or why not?

Yes. The FHLBanks believe that including OIS as a benchmark interest rate may improve hedge accounting for current risk management strategies, as well as enable entities to incorporate new strategies to address market risks. Generally, the OIS curve is used as the discount curve when performing a present value calculation to estimate the fair value of a collateralized LIBOR-based swap that is designated as a hedge of changes in fair value due to changes in LIBOR (as the designated benchmark interest rate). Because LIBOR is the designated benchmark interest rate, the changes in the fair value of the hedged item due to changes in the designated benchmark interest rate are estimated using LIBOR as the discount curve when assessing hedge effectiveness using the long-haul method. This difference in discount curves results in additional hedge ineffectiveness that would not be present if the fair values of both the hedging instrument and the hedged item attributable to the risk being hedged were determined using the same discount curve. The FASB Emerging Issues Task Force ("EITF") acknowledged this issue in EITF Issue No. 13-A ("Issue No. 13-A") and proposed the inclusion of OIS as a benchmark as a means to address the issue. Issue No. 13-A states that proponents of including OIS as a benchmark interest rate believe that entities would utilize OIS products for fair value hedging strategies. However, including OIS as a benchmark interest rate may also decrease the ineffectiveness recognized in a fair value hedging relationship in which a LIBOR-based swap is used to hedge changes in fair value due to changes in OIS (as the designated benchmark interest rate) because the fair values of both the hedging instrument and the hedged item would be determined using the same discount curve (OIS) when assessing hedge effectiveness.

Question 2: Do you agree that no additional disclosures should be required? If not, please explain why.

Yes.

Question 3: Do you agree that the proposed amendments only should be applied on a prospective basis for qualifying new or redesignated hedging relationships? If not, please explain why.

Yes. The FHLBanks agree that the proposed amendments should only be applied on a prospective basis for qualifying new or redesignated hedging relationships. For certain hedging relationships using LIBOR-based swaps, the LIBOR swap curve will continue to be the benchmark interest rate risk being hedged. But for certain new or redesignated hedging relationships using LIBOR-based swaps, OIS may be the designated benchmark interest rate risk being hedged. Paragraph BC11 of the proposed Update clarifies that the inclusion of a new benchmark interest rate would justify an entity's use of different benchmark interest rates for similar hedges. However, ASC 815-20-25-6 states that the use of different benchmark rate for all new benchmark interest rate hedging relationships. Until the existing LIBOR-based benchmark interest rate hedging relationships have been terminated, or redesignated, the use of different benchmark interest rates for similar hedges will be commonplace. Furthermore, because an entity could use LIBOR-based swaps to hedge changes in both benchmark interest rates (LIBOR and OIS), the use of different benchmark interest rates for similar hedges could continue indefinitely. Accordingly, ASC 815-20-25-6 should be amended to remove the requirement that the use of different benchmark rates for similar hedges be rare.

Question 4: Should the effective date of the amendments in the proposed Update coincide with the issuance date of a final Update? If not, when should the amendments be effective? Please explain why.

Yes. The effective date of the amendments should coincide with the issuance date of the final Update.

Question 5: If the effective date of the amendments in the proposed Update does not coincide with the issuance date of a final Update, should early adoption be permitted? If not, please explain why.

Yes. The FHLBanks believe that entities should be able to adopt the amendments as soon as practicable.

Additionally, the FHLBanks believe the Board should consider further amendments to ASC 815 due to the increasing use of the OIS curve to estimate the fair value of derivatives. If the LIBOR curve and the OIS curve were to diverge significantly, entities that designate LIBOR-based swaps to hedge the risk of changes in fair value attributable to changes in LIBOR (as the designated benchmark interest rate), but use the OIS curve to discount the projected cash flows when estimating the fair value of the swap, would record additional ineffectiveness and potentially have to dedesignate hedging relationships even if they are actually effective at hedging changes in the designated benchmark interest rate (LIBOR). This is because the current guidance in ASC 815 (formerly in FAS 133) does not permit an entity to exclude any components of the gain or loss on the hedging instrument, other than time value, from the assessment of hedge effectiveness. FAS 133, which was adopted by entities over a decade ago, has undergone many interpretations and amendments. However, none of those interpretations or amendments considered the shift from the use of the LIBOR curve to the OIS curve to discount projected cash flows when estimating the fair value of certain LIBOR-based swaps. Accordingly, the FHLBanks believe that the guidance needs to evolve so that the accounting is consistent with the general principle underlying ASC 815-20-25-82, which permits the exclusion of a gain or loss component that is unrelated to an entity's defined risk management strategy for the assessment of hedge effectiveness. Specifically, at a minimum, ASC paragraph 815-20-25-83, "Example 9" in paragraphs 815-25-55-53 through 55-61, "Example 11" in

paragraphs 815-25-55-72 through 55-77, paragraph 815-20-35-16, and paragraph 815-25-35-2 should be amended.

Paragraph 815-20-25-83 states, in part, "Changes in the excluded component shall be included currently in earnings, together with any ineffectiveness that results under the defined method of assessing ineffectiveness. No other components of a gain or loss on the designated hedging instrument shall be excluded from the assessment of hedge effectiveness nor shall an entity exclude any aspect of a change in an option's value from the assessment of hedge effectiveness that is not one of the permissible components of the change in an option's time value." This paragraph should be amended such that another component of a gain or loss on the designated hedging instrument (i.e., the difference in the values computed using OIS as the discount curve and LIBOR as the discount curve) may be excluded from the assessment of hedge effectiveness in a benchmark fair value hedging relationship. Consistent with the guidance in the first sentence of paragraph 815-20-25-83, this component would be recorded in earnings; however, it should not be viewed as ineffectiveness. It is not related to changes in the benchmark interest rate. The difference in values should be viewed as merely a component of the gain or loss on the hedging instrument as a result of changes in fair value. Consistent with the current disclosure requirements for excluded components (paragraph 815-10-50-4C(d)(2)), this amount could be disclosed separately as illustrated in Example 21, presented in paragraph 815-10-55-182. To isolate the changes in value due to a change in the benchmark interest rate, an entity should be permitted to use LIBOR as the discount curve for hedge effectiveness testing, even if OIS is used as the discount curve for estimating fair value. The accounting principle underlying this approach is consistent with the guidance in paragraph 815-20-25-82(d), which states:

If the effectiveness of a hedge with a forward contract or futures contract is assessed based on changes in fair value attributable to changes in spot prices, the change in the fair value of the contract related to the changes in the difference between the spot price and the forward or futures price shall be excluded from the assessment of hedge effectiveness.

The FHLBanks believe similar language, such as the language shown below, could be provided:

If the effectiveness of a hedge with an interest rate swap is assessed based on changes in fair value attributable to changes in LIBOR, as the designated benchmark interest rate, the change in fair value of the contract related to changes in the difference in values computed using OIS as the discount curve and LIBOR as the discount curve should be excluded from the assessment of hedge effectiveness.

Example 9 may either be amended to incorporate the use of the OIS curve in the determination of the fair value of the swap or to state that the fair value of the swap in the example is estimated using the LIBOR curve as the discount rate due to the collateralization of the swap. If the latter approach is used, then an additional example illustrating the use of the OIS curve to determine the fair value of the hedging instrument and the use of the LIBOR curve to estimate the component of that change in fair value due to changes in the benchmark interest rate could be provided. This additional example could emphasize that the component of the gain or loss on the designated hedging instrument calculated as the difference in the values computed using OIS as the discount curve (for estimating fair value) and computed using LIBOR as the discount curve (for hedge effectiveness testing) should also be included in current earnings. If an additional example is not included, but the use of different discount rates for determining the swap's fair value and the swap's value for testing hedge effectiveness is permitted, then paragraph 815-25-55-61 should be amended to state that both the change in fair value of the hedged item and the change in fair value of the hedging instrument are attributable to the risk being hedged. In other words, any component of the gain or loss on the swap that is not due to changes in the benchmark interest rate (calculated as the difference in the values computed using OIS as the discount curve and LIBOR as the discount curve) is not ineffectiveness. Consistent changes should be made to Example 11.

Additionally, for a benchmark interest rate hedge, credit risk should be excluded from the assessment of hedge effectiveness and should not impact the recorded amount of ineffectiveness. As discussed above, in

a benchmark interest rate hedge, the assessment of hedge effectiveness and the amount of any recorded ineffectiveness should be based on the change in fair value attributable to only the change in the benchmark interest rate in order to be consistent with an entity's defined risk management strategy. Therefore, paragraph 815-20-35-16, which addresses the impact of a change in a derivative's fair value due to a change in the creditworthiness of the derivative counterparty, should be amended to clarify that it applies to full fair value hedges but not benchmark interest rate hedges, except for cases where it is not probable that payments will be made by the derivative counterparty.

Paragraph 815-25-35-2 states, in part, "If the fair value hedge is fully effective, the gain or loss on the hedging instrument, adjusted for the component, if any, of that gain or loss that is excluded from the assessment of effectiveness under the entity's defined risk management strategy for that particular hedging relationship (as discussed in paragraphs 815-20-25-81 through 25-83)..." This paragraph should be amended to also refer to the paragraphs discussing the permitted exclusion of the component of a gain or loss on the hedging instrument calculated as the difference in the hedging instrument's values computed using OIS as the discount curve and computed using LIBOR as the discount curve for assessing hedge effectiveness.

While the FHLBanks understand that the FASB's hedging project has been indefinitely delayed, the FHLBanks suggest that the Board consider these additional amendments at this time so that entities will be able to apply comprehensive accounting guidance that reflects the current market environment. We thank the Board for its consideration of our views and welcome the opportunity to discuss this matter with the Board and its staff. Please do not hesitate to contact me at (412) 288-5123.

Sincerely,

Edward V. Weller

Controller

Federal Home Loan Bank of Pittsburgh

(On behalf of the Federal Home Loan Banks as Chair of the Controllers' Committee)