VIA EMAIL

Ms. Susan M. Cosper
Technical Director
File Reference No. 2016-310
Financial Accounting Standards Board of
The Financial Accounting Foundation
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Dear Technical Director:

Thank you for the opportunity to respond to the Exposure Draft: Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities (the “Proposed Guidance”). Ball Corporation (“Ball,” “the company,” “we” or “our”) is a U.S.-based Fortune 500, multi-national manufacturer of metal packaging products and of aerospace and other technologies and services with sales in 2015 of $8.0 billion and total assets of approximately $9.8 billion, and is publicly traded on the New York Stock Exchange.

We support the Financial Accounting Standards Board’s (“FASB” or the “Board”) objective in its simplification initiative to reduce the cost and complexity of financial reporting while improving or maintaining the usefulness of the information provided to financial statement users. Following are our responses to certain of the questions posed in the exposure draft. Please note we intentionally have not responded to certain of the questions in the Exposure Draft.

Question 1: The Board decided it would allow an entity to designate the hedged risk as the variability in cash flows attributable to changes in a contractually specified component stated in the contract in a cash flow hedge of a forecasted purchase or sale of a nonfinancial asset. Do you agree with that decision? Please explain why or why not. If not, what specific alternatives should the Board consider? Please explain why those alternatives would be beneficial.

We agree with the Board’s decision to allow entities to hedge the contractually specified risk component stated in the contract in a cash flow hedge of a forecasted purchase of a nonfinancial asset. This would better reflect the true economics of transaction and align the company’s risk management strategy with the company’s accounting and financial reporting, and reduce complexity.

Question 2: The Board decided that it would retain the concept of benchmark interest rates for hedges of fixed-rate financial instruments and forecasted issuances or purchases of fixed-rate financial instruments, maintain the existing list of permissible benchmark rates, and add the SIFMA Municipal Swap Rate to the list.
a. Should the Board retain the current concept of benchmark interest rates for fair value hedges of fixed-rate financial instruments and for cash flow hedges of forecasted issuances or purchases of fixed-rate financial instruments? Please explain why or why not.

b. If the Board continues to maintain the current concept of benchmark interest rates, should the Board consider within the concept expectations that a rate will become widely used?

c. If the Board continues to maintain a list of rates, are there any other rates that should be added to the list? Please explain why a particular rate meets the definition of a benchmark rate.

d. Are there other alternatives to the current concept of benchmark interest rates the Board should consider (for example, a principles-based approach)? Please describe those alternatives.

We believe that the Board should retain the concept of benchmark interest rates for fair value hedges of fixed rate financial instruments. However, we note that US GAAP does not contain a list of permissible benchmark interest rates for jurisdictions outside the United States. Therefore, we recommend that the Board develop a process to add widely used and quoted non-U.S. rates to the list as market forces dictate.

Question 4: In regard to hedging forecasted transactions, paragraph 815-30-40-5, as amended, states that "a pattern of determining that hedged forecasted transactions are probable of not occurring would call into question both an entity’s ability to accurately predict forecasted transactions and the propriety of using hedge accounting in the future for similar forecasted transactions." What is your policy on what constitutes a pattern? Are there certain instances or scenarios in which missed forecasts should not be incorporated into the consideration of this pattern?

In considering whether there is a pattern of missed forecasts that could call into question an entity’s ability to accurately predict forecasted transactions and the propriety of using hedge accounting in the future for similar forecasted transactions, we believe certain events may not be easy to predict compared to others and determining what constitutes a pattern is subjective based on each entity’s facts and circumstances. Additionally, we believe unforeseen environmental or economic events should not be incorporated into the consideration of a pattern.

Question 6: Do you agree with the following Board decisions on presentation? Please explain why or why not. If not, what other alternatives should the Board consider?

a. For qualifying fair value, cash flow, and net investment hedges, the proposed amendments would modify current GAAP by requiring the entire change in the fair value of the hedging instrument included in the assessment of hedge effectiveness to be presented in the same income statement line item in which the earnings effect of the hedged item is presented.

b. For qualifying fair value, cash flow, and net investment hedges, the proposed amendments would retain current GAAP by requiring changes in the fair value of the hedging instrument excluded from the assessment of effectiveness to be recorded currently in earnings. For qualifying fair value and cash flow hedges, the proposed amendments would modify current GAAP by requiring changes in the fair value of the hedging instrument excluded from the assessment of effectiveness to be presented in the same income statement line item in which the
earnings effect of the hedged item is (or will be) presented. For qualifying net investment hedges, there will be no prescribed presentation requirements for changes in the fair value of the hedging instrument excluded from the assessment of effectiveness.

d. For cash flow hedges in which the hedged forecasted transaction is probable of not occurring, the proposed amendments would retain current GAAP by requiring amounts recorded in accumulated other comprehensive income to be reclassified to earnings immediately. However, the proposed amendments would require presentation of reclassified amounts in the same income statement line item in which the earnings effect of the hedged item would have been presented had the hedged forecasted transaction occurred.

We generally agree with the Board’s proposed amendments on presentation, however, we do not agree with the proposed amendments that would require presentation of reclassified amounts in the same income statement line item in which the earnings effect of the hedged item would have been presented had the hedged, forecasted transaction occurred as this could be misleading to the users of the financial statements. Specifically, as it relates to (d.) above, it would result in potentially misleading financial statements as it relates to entities hedging foreign currency exposure. If a forecasted transaction does not occur (i.e. sale), then it would be misleading to present the hedged transaction gain/loss as revenue. We believe that the entity should be given the latitude to determine a consistent application for the presentation of reclassified amounts in the income statement.

Question 7: Do you agree with the proposed disclosure amendments in (a), (b), and (c) below? Please explain why or why not.

a. Cumulative basis adjustments related to fair value hedges

b. Quantitative hedge accounting goals, if any, that an entity sets when developing its hedge accounting objectives and strategies and whether it met those goals

c. Revised tabular disclosure for fair value and cash flow hedges that would focus on the effect of hedge accounting on income statement line items.

We agree with the proposed amendments in (a) and (c) above, however, for proposed amendment (b) we strongly disagree as such disclosures could potentially expose the entity’s risk management strategies, which may include competitively sensitive information. However, we would not object to disclosure of qualitative information.

Question 8: Unless the hedging relationship meets one of the exceptions that assumes perfect offset at hedge inception, an entity would be required to perform an initial quantitative test of hedge effectiveness and would be allowed to perform subsequent hedge effectiveness assessments qualitatively unless facts and circumstances change. Do you agree with this proposed change? Please explain why or why not.

We agree with this proposed amendment. This is in line with the Board’s simplification initiative to reduce the cost and complexity of financial reporting while improving or maintaining the usefulness of the information. With the Company’s long history in the industry and experience with the hedging activities the Company enters into, we are confident that subsequent qualitative hedge effectiveness assessments are sufficient for meeting the hedge effectiveness assessment requirements.
Question 9: The Board decided that an entity may elect at hedge inception to perform subsequent assessments of effectiveness qualitatively. However, certain changes in the facts and circumstances associated with the hedging relationship in subsequent periods may require a quantitative assessment of effectiveness to be performed. Once an entity determines that a quantitative assessment of effectiveness is required, the entity would be prohibited to return to qualitative testing in periods after this determination is made. Can situations arise in which an entity no longer may assert qualitatively that the hedging relationship continues to be highly effective but when tested quantitatively would be highly effective? If so, please describe those circumstances. Should an entity be allowed to return to qualitative testing after such a significant change in facts and circumstances precluded it in a prior period? If so, please discuss the factors that an entity should consider to justify a reasonable expectation that the hedge will once again be highly effective on a qualitative basis.

Circumstances may exist in which a company may believe a quantitative reassessment is appropriate when a company may not be able to qualitatively assert that the hedge has been or is expected to continue to be highly effective. For instance, market condition changes that were not taken into consideration in the initial qualitative hedge assessment could warrant a quantitative reassessment to assert that the hedge is expected to continue to be highly effective. An entity should not be prohibited from returning to a qualitative assessment when conditions warrant.

Question 10: Do you agree with the proposed amendment that would allow an entity to perform the initial quantitative testing portion of hedge documentation at any time between hedge inception and the quarterly effectiveness testing date using data applicable as of the date of hedge inception? Please explain why or why not.

We agree with the proposed amendment. It is appropriate to give entities until the end of the quarter in which the hedge is executed to perform this testing. This amendment could afford companies with limited resources additional time to complete the initial quantitative testing portion while not sacrificing accurate interim reporting.

Question 11: The proposed amendments related to the timing of the preparation of hedge documentation and subsequent qualitative testing apply to both public entities and private companies. Are there valid reasons why the content of or the timing of the preparation of hedge documentation should be different for public entities and private companies? If so, please describe the specific types of transactions for which different treatment should be considered.

There are no valid reasons why the content of or the timing of the preparation of hedge documentation should be any different for private companies than for public entities. We believe all the proposed amendments, including timing and content of hedge documentation, should be consistently applied to both public and private companies.

Question 12: Should the effective date be the same for both public business entities and entities other than public business entities?

The effective date should be consistent for both public and nonpublic entities.
Question 13: How much time is needed to implement the proposed amendments? Should entities other than public business entities be provided more time? If so, how much more time?

This proposed update seeks to simplify the application of hedge accounting; therefore, an extended implementation period would not appear to be necessary. We would seek to implement the proposed amendments in the earliest possible fiscal year upon the issuance of the standard. Public and nonpublic entities should be on the same timeline.

Question 14: Do you agree with the proposed transition method and disclosures in paragraph 815-20-65-3? Do you agree with the Board’s decision not to allow a retrospective transition approach? Please explain why or why not.

We agree with the Board’s decision to require adoption of the Proposed Update using a modified retrospective approach.

We appreciate your consideration of our comments, please contacts us if you have any further questions regarding our comments on the Proposed Guidance.

Sincerely,

Shawn M. Barker
Vice President and Controller