November 22, 2016

Susan M. Cosper, Technical Director
File Reference No. 2016-310
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

Submitted via electronic mail to director@fasb.org

Re: File Reference: No. 2016-310, Exposure Draft: Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities

Dear Technical Director:

General Motors Company (“GM”) designs, builds and sells cars, trucks, crossovers and automobile parts worldwide. We also provide global automotive financing services through General Motors Financial Company, Inc. (“GM Financial”) that covers over 85% of GM’s world market. More information on GM and its subsidiaries can be found on our website at http://www.gm.com.

Changes in global markets and financial innovations have led GM and GM Financial to manage exposures to risk, particularly interest rate and foreign exchange risk, with derivatives. However, GM’s application of hedge accounting has historically been limited due to accounting guidance that, in our view, is overly complex and difficult to apply. Issues related to the application of the existing complex hedge accounting rules marked a period of time during which GM did not use hedge accounting at all. At times, derivatives have been accounted for at fair value with changes currently recognized in income. While economic hedges can sometimes effectively manage risk, the resulting impacts to operating results are often difficult for investors to understand and do not clearly portray the economic results of risk management activities. Yet this is often the only reasonable course of action given the complexity of current hedging guidance.

With that background, we welcome the opportunity to comment on the Proposed Accounting Standards Update, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities (the “Proposed ASU”), from the Financial Accounting Standards Board (“FASB” or the “Board”). We support the Board’s aim to more clearly portray hedging activities in the financial statements, while also offering the opportunity to simplify and expand the use of hedging activities in many situations where it is incumbent upon management to employ risk management strategies. We strongly support the Proposed ASU because it simplifies existing guidance and alleviates some of the burden financial statement preparers face with current hedge accounting. We are encouraged that the Proposed ASU further aligns the income statement presentation, by eliminating the need to separately measure and report hedge effectiveness and timing of earnings recognition of
the derivative with the hedged item. This alignment will provide financial statement users with what we believe to be a better reflection of the effectiveness of risk management strategies. Overall, we support the simplified hedging model and applaud the Board’s effort to reduce the administrative burden of applying hedge accounting.

While the Board has taken significant steps forward with this current proposal and many of the proposed changes will have a positive impact on companies like GM, we understand that the Proposed ASU is most beneficial to financial institutions and other organizations with more pervasive fair value hedging activities. With that in mind, combined with the history behind the current hedge accounting model that has been less than ideal for many organizations, we encourage the Board to keep the project open and regard any finalization of the Proposed ASU as an initial step to further simplification. We encourage the Board to embark on a much more comprehensive project to further simplify the hedge accounting model and the overall process so that the profession can ultimately move away from a model that requires reams of quantitative data to support the effectiveness of all hedging relationships.

While we strongly support the Proposed ASU, we also recommend that the Board consider a few additional modifications to the new guidance in the Proposed ASU, including: 1) amending the guidance to retain qualitative testing after quantitative testing is triggered so long as all data continues to support the notion that the hedge remains highly effective, 2) incorporating a concept that components of certain commodities with embedded components that are supported by actively traded indexes can be separately hedged without negotiating the modification of contracts so that the components are contractually specified, 3) ease requirements to allow hedge accounting for derivatives and simplify related documentation for hedging activities executed by a central treasury function on behalf of an affiliate with an external risk exposure and 4) employ a rapid deliberation process geared toward the issuance of an ASU such that it will be possible for calendar year end companies to implement as early as January 1, 2018.

The following provides details for the changes we believe the Board should consider:

Retention of qualitative testing when quantitative testing is triggered in certain cases

We support the Board’s decision to allow companies to qualitatively assess that hedges will continue to be highly effective on an ongoing basis so long as there have been no changes in the hedging relationship since the initial quantitative effectiveness assessment. However, when facts and circumstances change to the extent that the entity can no longer qualitatively assert that the hedge is highly effective, quantitative effectiveness assessments are required at that time and for all subsequent effectiveness assessment dates. Situations may exist where a quantitative assessment is subsequently triggered and the required quantitative assessment proves the hedging relationship continues to be highly effective, or the triggering event could be an outlier or aberration, such that all subsequent assessments move back in-line with the original forecast. In situations such as these, information may subsequently support a notion that the hedging relationship will remain highly effective barring further changes in facts and circumstances. As such, the need to perform quantitative assessments each subsequent quarter for all these types of relationships appears overly burdensome.

We question whether some changes in facts and circumstances that indicate the need for a quantitative assessment should automatically taint the hedging relationship such that an entity can only subsequently assess hedge effectiveness quantitatively. We recommend that the Board consider altering the guidance to permit use of qualitative assessments after a triggering event provided the subsequent quantitative assessment continues to support the determination that the relationship is highly effective, or provided the triggering event was an aberration such that the entity has the ability to qualitatively assess hedge effectiveness each quarter after the quantitative assessment demonstrates a highly effective offset and supports a high expectation of effectiveness.
Components of certain commodities that are supported by actively traded indexes

We support the Board’s decision to make certain contractually specified risks eligible for hedge accounting, particularly for companies like GM that seek to apply hedge accounting to commodity exposures so long as the risk is contractually specified. While this change is welcomed, we recommend that the Board consider an alternative for entities that buy or sell commodities through contracts that do not specify components, that allows the components to be separately eligible for hedge accounting so long as there is an active, liquid market for the component, and so long as the component is capable of being separately identified and measured. We believe an accommodation should be provided in the guidance so that entities are not required to renegotiate existing contracts to make changes to contractually specify components in order for those components to be eligible. It has been our experience that negotiated changes often result in the counterparty requiring that compensation be provided even though circumstances demonstrate that the contract change does not alter the underlying economics.

Hedging activities executed by a central treasury function on behalf of an affiliate

We recommend that the Board consider easing requirements to allow hedge accounting for derivatives executed by a central treasury function on behalf of an affiliate with an external risk exposure. While we accept the guidance in current literature that a derivative instrument with an unrelated third party can be designated as the hedging instrument in a hedge of risks in the consolidated financial statements and recognize there is no requirement for the operating unit to be a party to the hedging instrument, difficulties are encountered when factoring in the need for related documentation to push such hedging activities down to the subsidiary level for separate statutory or tax reporting. We recommend that the Board provide guidance, or reduce the related complexity, that would make it easier for companies to apply hedge accounting at the subsidiary level when global companies are hedging external risks at a central treasury function because it is often not feasible or effective to hedge these exposures at the subsidiary level.

We thank you for the opportunity to provide comments and we appreciate the Board’s consideration of the various points outlined in this letter. We strongly support the Board’s targeted improvement efforts to simplify the application of the hedge accounting guidance in current GAAP, and enthusiastically encourage the rapid deliberation by the Board geared towards issuance of an ASU so that it can be implemented as early as January 1, 2018, for calendar year end companies. Should you have any questions or need to discuss this letter, please contact me at (313) 665-3434.

Sincerely,

/s/ Thomas S. Timko

Thomas S. Timko
Vice President, Controller and Chief Accounting Officer
General Motors Company