November 22, 2016

Via Electronic Mail

Mr. Russell Golden  
Chairman  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-05116

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

Dear Mr. Golden:

The Clearing House Association L.L.C. (“The Clearing House”)¹ appreciates the opportunity to comment on the above-referenced (the “Proposal” or “ED”). The Clearing House supports efforts to identify ways to improve hedge accounting and to better align an entity’s risk management activities and financial reporting for hedging relationships. Accordingly, we are strongly supportive of the Proposal, as we believe the proposed changes will better portray the economic results of an entity’s risk management activities in its financial statements.

In particular, we support the refinements to the accounting for the hedged item in fair value hedges of interest rate risk, including those that improve the accounting for partial term hedging relationships, hedges of prepayable debt instruments, and hedges of the benchmark rate of fair value hedges. We also support the proposed changes that allow more risk component

¹ The Clearing House is a banking association and payments company that is owned by the largest commercial banks and dates back to 1853. The Clearing House Association L.L.C. is a nonpartisan organization that engages in research, analysis, advocacy and litigation focused on financial regulation that supports a safe, sound and competitive banking system. Its affiliate, The Clearing House Payments Company L.L.C. owns and operates core payments system infrastructure in the United States and is currently working to modernize that infrastructure by building a new, ubiquitous, real-time payment system. The Payments Company is the only private-sector ACH and wire operator in the United States, clearing and settling nearly $2 trillion in U.S. dollar payments each day, representing half of all commercial ACH and wire volume.
hedging, including those that allow an entity to designate the variability in cash flows attributable to the contractually specified interest rate as the hedged risk for a cash flow hedge of a variable-rate financial instrument, and that add the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Rate as an eligible benchmark interest rate for a fair value hedge of interest rate risk. All of these changes better align the accounting for hedge relationships with the underlying economics of those relationships, and should therefore result in greater representational faithfulness of financial reporting.

We also support the improvements regarding the application of current guidance related to the assessment of hedge effectiveness, as we believe that all of these changes will help streamline the application of hedge accounting while still maintaining the overall rigor of the hedge assessment and documentation criteria.

We have a few suggestions regarding the disclosures and the proposed accounting for the discontinuance of the shortcut method in certain circumstances for your consideration, as detailed in the Appendix to our letter.

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In conclusion, we strongly support the FASB’s efforts to improve hedge accounting and align it more closely with enterprise risk management, and we therefore support the issuance of the Proposal. We hope you find our suggestions useful. If you have any questions regarding our letter, please contact me at 212.613.9883 (david.wagner@theclearinghouse.org).

Respectfully submitted,

David Wagner
Executive Managing Director,
Head of Finance and Risk Affairs and
Senior Associate General Counsel
The Clearing House Association, L.L.C.

cc: Ms. Susan M. Cosper
Technical Director
(Financial Accounting Standards Board)

Ms. Joanne Wakim
(Board of Governors of the Federal Reserve)
Ms. Kathy Murphy
Mr. Louis A. Thompson, Jr.
(Office of the Comptroller of the Currency)

Mr. Robert Storch
(Federal Deposit Insurance Corporation)

Mr. Mark Kronforst
Mr. Wesley Bricker
(Securities and Exchange Commission)
Appendix: Recommendations

1. Interim disclosures should not be required to be the same as annual disclosures

   Topic 815 currently requires that entities provide disclosures regarding derivatives for every annual and interim reporting period for which a statement of financial position and statement of financial performance are presented. However, the overall purpose of interim financial statements is to provide disclosures about material matters that have occurred since the date of the most recent annual financial statements. Requiring the same level of disclosure in interim financial statements as that required in annual financial statements, without regard to significant or material changes, can result in substantial duplication of disclosure that may be confusing to investors, as it does not highlight information that management views as important, but is provided merely to fulfill a requirement. Accordingly, we recommend that Topic 815 be amended to not explicitly require that annual disclosures regarding derivatives and hedging relationships be provided in interim financial statements. Instead, interim disclosures should be provided only where such disclosures are necessary to reflect material matters that have occurred since the issuance of the annual financial statements.

2. Discussion of quantitative hedging goals is more suited to MD&A

   The ED proposes (in paragraph 815-10-50-1Ae) that an entity disclose its quantitative goals, if any, that the entity sets when developing its hedge accounting objectives and strategies and whether it met those goals. We believe these disclosures belong more properly in Management’s Discussion and Analysis (MD&A), as this is intended to provide information about the quality of, and potential variability of, a company's earnings and cash flow, and to provide a narrative explanation of a company's financial statements that enables investors to see the company through the eyes of management. Accordingly, we suggest that FASB eliminate this proposal and refer it to the SEC for potential inclusion in MD&A.

3. Discontinuance of the shortcut method should not automatically be considered a correction of an error

   The Proposal states (in 815-20-25-117E) that if an entity determines that the use of the shortcut method is no longer appropriate, an entity shall consider the resulting adjustment as a correction of an error. However, we note that discontinuance of the shortcut method may be triggered by an event outside of the entity’s control, such as a credit ratings downgrade of either the hedging instrument or the hedged item. Accordingly, we believe that the Proposal should be modified to state that entities should analyze the reasons for discontinuing the shortcut method to determine whether the adjustment should be treated as a correction of an error or a change in estimate.