October 1, 2015

Ms. Susan M. Cosper
Technical Director
Financial Accounting Standards Board
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director@fasb.org

Reference: Exposure Draft Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships

Dear Ms. Cosper:

The Mortgage Bankers Association\(^1\) (MBA) appreciates the opportunity to comment on FASB’s exposure draft Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships (Exposure Draft). The following contains a background section for the benefit of our members and others reading this document, followed by MBA’s general comment, and finally followed by MBA’s response to specific questions contained in the Exposure Draft.

**Background**

In the context of this letter and in the Exposure Draft, novation refers to replacing one counterparty to a derivative contract with a new party. Novations occur (but are not limited to) regulatory changes such as a change to a central clearing arrangement, mergers of financial institutions, an entity exiting the derivative line of business, or an entity managing against internal counterparty credit limits.

Often reporting entities engage in derivative contracts to hedge a specific asset or position. If they elect hedge accounting treatment under FASB Topic 815, there may be

\(^1\) The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 280,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets; to expand homeownership and extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of over 2,200 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, thrifts, REITs, Wall Street conduits, life insurance companies and others in the mortgage lending field. For additional information, visit MBA's Web site: [www.mba.org](http://www.mba.org).
a requirement to de-designate the hedge accounting relationship and discontinue the application of hedge accounting.

FASB’s Emerging Issues Task Force (EITF) found that the guidance in FASB Topic 815 is not explicitly clear on the effect of a novation on an existing hedge accounting relationship. They also concluded that there was inconsistency in practice.

The Exposure Draft would clarify FASB Topic 815 to state that “a change in the counterparty to a derivative instrument that has been designated as the hedging instrument in an existing hedging relationship would not, in and of itself, be considered a termination of the derivative instrument.”

**General Comment**

Many members of MBA who have not elected fair value accounting for loans held for sale or mortgage servicing rights (MSRs) hedge those assets and have elected hedge accounting treatment under FASB Topic 815. Those members would not want the hedge accounting treatment to lapse simply because of a change in counterparty. Accordingly, MBA supports the proposed clarification contained in the Exposure Draft.

**Responses to FASB’s Questions**

**Question 1:** Do you agree that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument in an existing hedge accounting relationship should not, in and of itself, require de-designation of that hedge accounting relationship?

**MBA’s Response:** MBA agrees. See General Comment above.

**Question 2:** Do you agree that the effects of initially adopting the amendments in this proposed Update should be applied on a prospective basis to all existing and new hedge accounting relationships in which a change in the counterparty to a derivative instrument occurs after the effective date of the proposed guidance?

**MBA’s Response:** MBA agrees.

**Question 3:** There may be circumstances in which entities have previously de-designated a hedge accounting relationship upon the occurrence of a novation that, under the proposed amendments, would no longer result in a de-designation. Those entities may have been following an abbreviated qualitative method of hedge accounting (for example, the shortcut method) before the de-designation and either (a) re-designated the hedge under the long-haul method or (b) chose not to re-designate the hedge as a result of the complexities of applying the long-haul method when using an off-market derivative as the hedging instrument. Is the scenario described above prevalent? If so, for those entities that had been applying an abbreviated qualitative
method of hedge accounting before a de-designation resulting from a past novation, should the Task Force consider permitting, but not requiring, retrospective transition?

**MBA’s Response:** MBA is not aware the extent to which reporting entities may have de-designated a hedge accounting relationship upon the occurrence of a novation that, under the proposed amendments, would no longer result in a de-designation. However, it seems fair that such entities should have the option for retrospective transition.

**Question 4:** The proposed amendments would apply to all entities. Should the proposed amendments be different for entities other than public business entities? If so, please describe how and why you think they should be different.

**MBA’s Response:** MBA believes the additional guidance in the Exposure Draft is straight-forward and simple to apply on a prospective basis. Separate reporting requirements for non-public reporting entities would only result in additional diversity in practice. Therefore, MBA recommends no carve out principle for non-public entities in this case.

**Question 5:** How much time would be needed to implement the proposed amendments and should the implementation period differ for public business entities versus all other entities? Should this guidance be effective upon issuance? If the guidance is not effective upon issuance, should early adoption be allowed? Please explain why.

**MBA’s Response:** MBA believes that little time would be needed to implement the proposed amendments unless reporting entities are allowed an option for retrospective transition. If entities are allowed the option for retrospective transition, at least six months should be allowed. In either case, the transition rules should allow reporting entities the option of early adoption.

**Question 6:** Should a reporting entity be required to provide the transition disclosures specified in this proposed Update? Should any other disclosures be required? If so, please explain why.

**MBA’s Response:** MBA believes that the proposed disclosure requirements are sufficient. Additional disclosures should only be considered if the final pronouncement permits retrospective transition for those entities that had been applying an abbreviated qualitative method of hedge accounting before a de-designation resulting from a past novation.
MBA appreciates the opportunity to comment on the Exposure Draft. Any questions about the information contained herein should be directed to me at (202) 557-2860 or jgross@MBA.org.

Sincerely,

[Signature]

James P. Gross
Vice President of Financial Accounting & Public Policy