October 5, 2015

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

File Reference No. EITF-15D

Dear Ms. Cosper:

McGladrey LLP is pleased to comment on the Proposed Accounting Standards Update (ASU), Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships. We are supportive of the ASU as is elaborated on in our responses to the specific questions that are raised in the ASU that follow.

Responses to Questions for Respondents

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 dedesignation of that hedge accounting relationship?

We are in full agreement with this decision and proposed amendment given that a change in counterparty in and of itself generally does not impact the effectiveness of the hedging relationship. Additionally, the ASU will reduce diversity and make it possible for reporting entities to change counterparties as required or desired for sound business reasons, without terminating a hedge. Given the complexities of hedge accounting, we believe it would be beneficial to smaller reporting entities in particular if the final ASU as codified would make mention of the type of circumstances under which a novation could require dedesignation (e.g. the likelihood that the counterparty will not default ceases to be probable or in conjunction with the novation, a critical term that impacts the cash flows of the derivative is modified).

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?

Refer to our response to Question 3 that follows. We are in agreement with permitting retrospective transition.
**Question 3:** There may be circumstances in which entities have previously dedesignated a hedge accounting relationship upon the occurrence of a novation that, under the proposed amendments, would no longer result in a dedesignation. Those entities may have been following an abbreviated qualitative method of hedge accounting (for example, the shortcut method) before the dedesignation and either (a) redesignated the hedge under the long-haul method or (b) chose not to redesignate 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 dedesignation resulting from a past novation, should the Task Force consider permitting, but not requiring, retrospective transition?

We are not aware of the scenario as described being prevalent. We would however be supportive of allowing retrospective transition for those hedges that remain open as of the date of adoption as smaller reporting entities with limited resources were likely ill-equipped to redesignate such hedges and those entities that did redesignate are likely incurring significant ongoing costs to apply a long-haul method with a derivative that was off-market on the redesignation date.

**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.

We would suggest that if the decision is made to not permit retrospective application for all entities that consideration be given to permitting it for entities that are not public business entities.

**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.

Time required for implementation should be minimal. Given that the ASU would clarify existing guidance and reduce diversity, we would be supportive of permitting early adoption, or, if retrospective application is not permitted, making the guidance effective upon issuance.

**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.

We are in agreement that the proposed transition disclosures should be required. Additionally, if retrospective application is permitted, the disclosure requirements should be expanded to encompass disclosure of the effect of retrospective adjustments.
We appreciate this opportunity to provide feedback on the proposed ASU and would be pleased to respond to any questions the Board or its staff may have concerning our comments. Please direct any questions to Rick Day at 563.888.4017 or Faye Miller at 410.246.9194.

Sincerely,

McGladrey LLP