October 5, 2015

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


Dear Ms. Cosper:

The American Council of Life Insurers (ACLI)1 appreciates the opportunity to comment on the Financial Accounting Standards Board’s (the “Board” or “FASB”) Exposure Draft of a Proposed Accounting Standards Update on the “Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships” (the “Proposal” or “ED”). Our members utilize derivative contracts to hedge important risks within their businesses, including those related to interest rates, and have designated derivative contracts as qualifying for hedge accounting under either “critical matched terms” (CMT) or “long-haul” method (regression).

We support the Board’s overall objective to ensure consistent application of U.S. generally accepted accounting principles (“GAAP”) for derivative contract novations. We have reviewed and evaluated the Proposal and believe the Board’s recommendations are appropriate, and consistent with how we believe contract novations should be accounted for.

Following are our specific responses related to the Board’s questions:

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1 The American Council of Life Insurers (ACLI) is a Washington, D.C.-based trade association with 284 member companies operating in the United States and abroad. ACLI advocates in federal, state, and international forums for public policy that supports the industry marketplace and the 75 million American families that rely on life insurers’ products for financial and retirement security. ACLI members offer life insurance, annuities, retirement plans, long-term care and disability income insurance, and reinsurance, representing more than 90 percent of industry assets and premiums. Learn more at www.acli.com.
**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?

**ACLI Answer 1:** We agree that a change in a counterparty to a derivative instrument should not trigger dedesignation, assuming all financial terms such as rates, notional amount and tenor of the original hedge have been maintained with the novated hedge. The rationale for our position is:

- No, or a de-minimis cash payment is exchanged as a result of the termination.
- For CTM hedges, the counterparty is not considered a “critical term”.
- For Regression-based effectiveness tests, the counterparty does not factor into the calculation (unless credit issues arise with the counterparty) therefore there is no impact to regression statistics nor reported ineffectiveness.

**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?

**ACLI Answer 2:** We believe companies may have derivative positions that go back many years and the data to retrospectively apply this Standard may be extremely difficult for certain companies. That is, the data required for regression re-calculations may not be available or may be impractical to obtain. Given this fact, we believe prospective treatment is an appropriate application, with adequate disclosure of the change in the footnotes to the financial statements.

**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?

**ACLI Answer 3:** We believe that providing a company the flexibility to apply retrospectively will make their financial statements more comparable across periods, thus the option should be allowed, but likely will be impractical for many companies that had previously de-designated hedges.

**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.

**ACLI Answer 4:** We do not believe there is a rationale for non-public entities to apply derivative contract novations differently than 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.

**ACLI Answer 5:** We believe the proposed amendments, assuming they are applied prospectively, should not be difficult for companies to comply with. We believe it should be effective for the immediate calendar year following implementation, to allow companies time to update procedural documentation, if needed. Early adoption should be permitted, as given the diversity of practice noted by the Board.

**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.

**ACLI Answer 6:** We do believe the transition disclosures will be helpful for users of the financial statements, in order to understand comparability across periods, or change, if retrospectively applied.

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We appreciate the opportunity to comment on the Proposal. If there are any questions regarding the content of this letter, or if you wish to discuss our comments, please contact me.

Sincerely,

Mike Monahan
Senior Director, Accounting Policy