October 5, 2015

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


Dear Ms. Cosper:

On behalf of the 11 Federal Home Loan Banks (the “FHLBanks”), we appreciate the opportunity to comment on the Financial Accounting Standards Board’s (the “FASB” or “Board”) Exposure Draft of a Proposed Accounting Standards Update, Derivatives and Hedging (Topic 815) Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships - a consensus of the FASB Emerging Issues Task Force (hereinafter referred to as the “proposed Update”). Derivative instruments are an integral part of each FHLBank’s financial and risk management strategies and as such, the impact of these instruments permeates each FHLBank’s financial statements. At June 30, 2015, the combined notional amount of derivative instruments held by the FHLBanks was $590 billion. Therefore we appreciate the Board’s renewed efforts in addressing Topic 815 interpretation issues. Our responses to the questions asked in the proposed Update are presented below.

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 redesignation of that hedge accounting relationship?

Yes. The FHLBanks 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 redesignation of that hedge accounting relationship. Furthermore, the FHLBanks agree that such a change should not, in and of itself, be considered a change in a critical term of the hedging relationship. We believe this view is supported by the Securities and Exchange Commission (“SEC”) as evidenced by their May 2012 letter to the ISDA Accounting Policy Chairman regarding the novation of an over-the-counter derivative contract to effect central clearing in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

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 new hedge accounting...
relationships in which a change in the counterparty to a derivative instrument occurs after the effective date of the proposed guidance?

The FHLBanks believe that there may be circumstances in which entities (including the FHLBanks) have not previously designated a hedge accounting relationship upon the occurrence of a novation (for both cleared and non-cleared derivative contracts). For these entities, there may be no effect of initially adopting the amendments of the proposed Update. Additionally, there may be no effect of adoption for an entity that elected to simultaneously designate and redesignate a long-haul hedging relationship due to the occurrence of a novation. Accordingly, the FHLBanks believe the amendments should be issued as technical corrections or clarifications and, therefore, should be effective upon issuance. See additional discussion in response to questions 3 and 6.

Question 3: There may be circumstances in which entities have previously designated a hedge accounting relationship upon the occurrence of a novation that, under the proposed amendments, would no longer result in a designation. Those entities may have been following an abbreviated qualitative method of hedge accounting (for example, the shortcut method) before the designation 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 designation resulting from a past novation, should the Task Force consider permitting, but not requiring, retrospective transition?

The FHLBanks agree that retrospective transition should be permitted for entities that have previously designated a hedge accounting relationship upon the occurrence of a novation, assuming all applicable hedging requirements (as clarified) were met, regardless of whether the shortcut or long-haul method was previously applied. However, as stated in our response to question 2, there may be circumstances in which entities have not previously designated a hedge accounting relationship upon the occurrence of a novation. We believe that this scenario should also be considered when characterizing the amendments and determining any adoption requirements.

An additional scenario exists for an entity that previously elected to simultaneously designate and redesignate a long-haul hedge accounting relationship, solely due to the occurrence of a novation, despite that the novation did not interrupt the entity’s hedge of a designated risk exposure and did not result in a financial statement impact. For these entities, the amendments clarify that such an extensive documentation exercise is not required.

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.

No. The FHLBanks believe the amendments should apply to all 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.

The FHLBanks believe the amendments should be issued as technical corrections or clarifications and, therefore, should be effective upon issuance. We do not believe that differing implementation periods are necessary.

**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.**

The FHLBanks do not believe that the transition disclosures specified (i.e., a change in accounting principle) should be required. As stated above, there may be circumstances in which entities have not previously redesignated a hedge accounting relationship upon the occurrence of a novation. Paragraph BC3 of the proposed update states:

The guidance in Topic 815 is not explicitly clear about the effect on an existing hedge accounting relationship, if any, of a change in the counterparty to a derivative instrument that is designated as the hedging instrument in an existing hedge accounting relationship. Furthermore, the existing guidance, which is limited, is interpreted and applied inconsistently in practice [emphasis added].

The FHLBanks agree that the guidance is not explicitly clear and most likely has been applied inconsistently. Accordingly, for some entities, the proposed amendments will simply confirm their historical application of the guidance; a change in the counterparty to a derivative instrument that has been designated as the hedging instrument has not, in and of itself, required redesignation, nor has it represented a change in a critical term. For these entities, the amendments do not represent a change in accounting principle. Rather, the amendments represent a clarification of the guidance. Therefore, disclosure of a change in accounting principle, including an explanation of why the newly adopted principle is preferable [ASC 250-10-50-1(a)], should not be required.

If an entity has previously redesignated a hedge accounting relationship upon the occurrence of a novation, and all hedging requirements (under the guidance, as clarified) have been met, and that entity elects to retrospectively apply the amendments to recognize a financial statement impact, then that entity should disclose the impact of the adoption of the guidance.

We thank the Board for its consideration of our views and welcome the opportunity to discuss this matter with the Board and its staff. Please do not hesitate to contact me at (317) 465-0350.

Sincerely,

K. Lowell Short  
Chief Accounting Officer  
Federal Home Loan Bank of Indianapolis  
(On behalf of the Federal Home Loan Banks as Chair of the Controllers’ Committee)