HEDGE TRACKERS

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Ms. Susan Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
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director@fasb.org

RE: File Reference No. 2015-220

Dear Ms. Cosper:

Hedge Trackers, LLC appreciates the opportunity to comment on the Board's recent proposal, Derivatives and Hedging (Topic 815): Disclosures about Hybrid Financial Instruments with Bifurcated Embedded Derivatives. Hedge Trackers, LLC has been providing derivative accounting advisory services and tools to private and public companies with currency, interest rate and commodity risk since 2000 across industries. During that time we have worked with a number of companies in the identification of, accounting for, and disclosure of embedded derivatives associated with non-financial host instruments.

In Question 2 of the proposed ASU, respondents are invited to address the expansion of the scope from disclosures of embedded derivatives with financial hosts to include embedded derivatives in nonfinancial host contracts.

We believe that the FASB should ***not*** extend the scope to include nonfinancial hybrid instruments with embedded derivatives that are bifurcated under Topic 815. We specifically cite the lack of value provided and the increased confusion of applying the proposed update to embedded currency derivatives.

A foreign currency embedded derivative frequently arises when an entity executes a contract for goods or services in a currency other than the functional currency of the contracting entities (and does not meet other clearly and closely related scope exceptions of ASC815). Following are two examples of embedded currency derivatives and a brief discussion of why the proposed guidance would not be useful in these circumstances.

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Example embedded derivative #1:

A large Multi-National Corporation's (MNC) USD subsidiary executes a sales contract in EUR with a 3rd party, EUR functional entity. This MNC then sources goods in Norway from a NOK functional company and denominates the contract in EUR (natural hedge of EUR revenue for the MNC) creating an embedded currency derivative. ASC 815 identifies the firmly committed purchase order as the host contract and the EUR denomination an embedded derivative. As a result, the EUR purchase will be recorded at the EUR/$ exchange rate effective on the date the purchase contract with the Norwegian counterparty is executed. The embedded derivative is a EUR forward contract with an expiration date matching the purchase date. The embedded derivative (sale forward of EUR) may be designed as a cash flow hedge of the EUR revenue contract if all other qualifying criteria are met.

During the life of the embedded derivative, the purchase contract for Norwegian goods (host contract) does not appear on the balance sheet, but the embedded derivative is disclosed in ASC 815-10-55 mandated balance sheet and income statement tabular disclosures for Cash Flow Hedges detailing derivative type, location, amounts and effectiveness.

Example embedded derivative #2:

A Singapore based SGD functional subsidiary of a large MNC contracts with a local subsidiary of a second large US based MNC to provide goods or services under a global master agreement executed by the two parent entities. The master agreement establishes a USD price under which goods/services will be provided between the MNCs globally. Similar goods/services are denominated in multiple currencies around the world and in SGD for most of the Singapore subsidiary's customers. The contract between the two entities specifies the fixed USD value of goods/services between the parties. The two Singapore entities contract for goods/services in USD to be received and paid for monthly for a 24 month period.

ASC 815 identifies the sales order (backlog) as the host contract and requires revenue on each of the 24 transactions to be recorded at the exchange rate effective on the date the sales order contract is signed with the Singapore counterparty. The embedded derivatives are 24 SGD forward currency contracts maturing one each month for 24 months that are not designated for special hedge accounting and impact income monthly.

During the life of the embedded derivatives, the sales backlog does not appear on the balance sheet. The embedded derivatives are disclosed in current ASC 815-10-55 mandated balance sheet and income statement tabular disclosures detailing derivative type, location and amounts.

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In the examples above, the location and fair value amounts of the embedded derivatives are reported in the statement of financial position and the statement of financial performance in ASC 815-10-55 tables. The proposed ASU would require a duplicate set of tables or information. We do not believe an additional table for bifurcated embedded currency derivatives like those in the examples shared above provides any additional value to users of financial statements. We do not believe there is additional value in breaking out embedded derivatives or educating users of financial statements on the nuances of ASC815 derivative definitions, including why a USD denominated transaction between two USD MNCs that is executed on a local level between subsidiaries is a host contract with an embedded currency derivative.

In addition, there are no balance sheet accounts related to committed sales backlog or open purchase orders. This makes compliance with the second requirement to disclose the host contract's location in the statement of financial position (Not Applicable), carrying amount (Not Applicable), and measurement attribute (Not Applicable) another awkward conversation. Would companies be required to expose pricing on sales and purchase contracts to address the fair value methodology? We already see diversity in the practice of reporting on the financial performance of free standing derivatives; reporting on the financial performance associated with these embedded derivatives cannot be expected to be better.

In summary, we believe requiring the additional disclosures for host contracts that are not financial contracts will result in additional confusion, for both preparers and auditors. The general investment community along with the general accounting and audit communities are not familiar with embedded derivatives with nonfinancial hosts. Including them in the scope of the ASU will not improve their understanding but will result in an increase of data without an increase in understanding.

Thank you for the opportunity to provide input on the proposal. Please contact me at 408-350-8580 or hkane@hedgetrackers.com if you would like to discuss our comments.

Respectfully,

Helen Kane