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January 15, 2020

Via email to director@fasb.org

Mr. Shayne Kuhaneck, Acting Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Re: Financial Instruments—Derivatives and Hedging (Topic 815): Codification Improvements to Hedge Accounting (File Reference No. 2019-790)

Dear Mr. Kuhaneck:

We are pleased to provide comments on the Board's proposal to amend the Codification in order to make improvements to the hedge accounting guidance.

We generally agree with the proposals. However, we believe that additional clarification on certain aspects of the proposed guidance, especially on distinguishing between hedged risk and forecasted transactions, would improve understandability and ease application of the guidance. Our detailed responses to the Questions for Respondents are contained in the attached Appendix.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Gautam Goswami at (312) 616-4631 or Tim Kviz at (703) 245-8685.

Very truly yours,

BDO USA, LLP

BDO USA, LLP

Appendix

Question 1: Do the amendments in this proposed Update clarify and improve the guidance in Topic 815? If not, please explain which proposed amendment or amendments do not clarify and improve the guidance and why.

Overall, we agree that the amendments in this proposed Update clarify and improve the guidance in Topic 815; however, we have the following suggestions for the Board's consideration:

Issue 1: Change in Hedged Risk in a Cash Flow Hedge:
A) The amendments propose that if an entity identifies that the hedged risk has changed, it should begin assessing hedge effectiveness using the revised hedged risk as of the date that the change was identified. As indicated in BC55 of the proposal, that date may not necessarily be the date on which the hedged risk changed. As such, for simplicity purposes, we suggest that entities also be allowed to assume that the hedged risk changed immediately following the date the hedge relationship was last assessed to be highly effective. In other words, the assessment of hedge effectiveness assumes the hedged risk was revised at the beginning of the quarter instead of trying to identify a specific date in that quarter as the date of change. This also minimizes the possibility of permitting hedge accounting for hedges that no longer qualify as highly effective (e.g., if an entity *identified* the revision at the end of a period and determines that the hedge relationship is no longer highly effective, it is likely that the hedge relationship was not highly effective during a portion of that period as well).

B) The proposal indicates that when assessing prospective hedge effectiveness with the revised hedge risk, the instrument used to estimate changes in the value of the hedged risk should be on the basis of market data as of the *inception* of the hedging relationship. It would be helpful if the proposed guidance were clarified to address whether the hypothetical derivative should be constructed assuming the revised hedged risk in effect since hedge inception, which may not be reflective of the facts, or whether the hypothetical derivative should be constructed retaining the prior hedged risk until the date the revised hedged risk is identified, and with the revised hedge risk thereafter. We note that entities that currently apply regression generally run a combined regression using a singular data set for the hypothetical derivative for both the retrospective and prospective assessments of effectiveness; therefore, this suggested clarification would be helpful for those entities. Further, since the hypothetical derivative method under paragraphs 815-30-35-25 to 35-29 does not use the term "market data" and those paragraphs have not been revised, it would be helpful if the Board provides the context for inclusion of this term when assessing hedge effectiveness with the revised hedge risk.

C) We suggest that the requirements for an addendum in the circumstances described in implementation paragraph 815-30-55-1Q be provided in the main recognition and measurement sections of Subtopic 815-30 as well, rather than solely in the implementation guidance. We believe that implementation guidance should be reserved for requirements already existing in the recognition and measurement section and not for establishing new requirements. Further, we suggest that it be specifically mentioned whether the addendum (and the related hedge assessment) should be documented contemporaneously with the change as indicated in the implementation examples.

D) We observe that paragraph 815-30-55-96A, reproduced from current guidance, indicates that if at any time during the hedging relationship the entity determines that "it is no longer probable that any of the forecasted transactions in the series will occur by the date (or within the time period) originally specified, it must terminate the original hedging relationship for each of those specific nonprobable forecasted transactions (*even if the forecasted transaction will occur within an additional two-month period of time after that originally specified date*)". However, we note that paragraph 815-30-55-1T of the proposed changes to the hedging guidance indicates that "transactions with undocumented hedged risks identified as hedged transactions should be the same as the forecasted transactions documented at hedge inception. They should be those transactions that fulfill the shortfall in *transactions that occurred with the documented hedged risk within the originally specified time period plus an additional two-month period*, if applicable, in accordance with paragraph 815-30-40-4". Example 26 (proposed paragraph 815-30-55-161) illustrates the application of the proposals in paragraph 815-30-55-1T. We suggest there be specific discussions in the final guidance (or basis thereof) comparing the "two-month period" guidance in paragraph 815-30-55-96A with the Examples 26. We think that would be helpful in clarifying the intent of the proposed amendments and understanding why paragraph 815-30-55-96A is not in conflict with the Examples 26 but are complementary to each other.

E) We observe that the fact pattern in paragraph 815-30-55-150 is silent on whether the July forecasted purchases of 1,000 bushels are also hedged. We believe that expanding the example for when the July forecasted purchases are also hedged would be helpful in understanding how the guidance is to be applied when there is a shortfall in the June hedge. For example, if the shortfall can be adjusted from the July purchases, it could consequently result in a shortfall for the July hedge and so forth (i.e., a "chain reaction" of shortfalls). We request clarity in this regard.

F) The amendments in this proposed Update would require forecasted transactions hedged in a group to prospectively share the risk exposure for which they are being hedged at inception and on an ongoing basis. While acknowledging the discussions in basis paragraphs BC57 to BC59, we question whether it is necessary to monitor whether the risk exposure is shared on an ongoing basis, considering that the hedge effectiveness test would addresses the risk of continuing with an ineffective hedge. With changes in hedge risk permitted and the use of hindsight, this is an additional burden that does not appear to provide a clear benefit. That is, if the hedge relationship is highly effective, it is unclear what drives the need for an additional test. Further, considering that at inception, the group must share the same risk exposure it is unlikely that potentially offsetting risk exposures would be aggregated together and hedged on a net basis subsequently as discussed in paragraph BC59.

Issue 2: Contractually Specified Components in Cash Flow Hedges of Nonfinancial Forecasted Transactions
G) In regard to the clarification in paragraph 815-20-25-15B for hedges of certain nonfinancial forecasted transactions, we suggest that the Board specify whether the assertion of occurrence of physical settlement of the contract is probable should be included in the hedge designation document. Further, whether that assertion can be for the notional amount hedged if that amount is less than the total contractual amount.

H) The proposed amendments in paragraph 815-20-25-22E would require that the pricing formula that includes the contractually specified component must determine the price of the nonfinancial asset. We believe that the Board should clarify or provide indicators on what is the threshold for that determination (i.e., how to assess whether that contractually specified component "determines" the price of the nonfinancial asset).

Question 2: Are the proposed amendments operable? If not, which proposed amendment or amendments pose operability issues and why?

Please see application suggestions in our responses to the other Questions in this Appendix.

Question 3: Should other changes related to the proposed amendments be made to clarify the intent of the proposed amendments?

See our responses to Question 1 above.

Additionally, we believe it would be useful to preparers and auditors to include a comprehensive example addressing application of the proposed guidance to "you-pick-'em" debt (where an entity has the option to select any tenor of LIBOR e.g., 1-mo LIBOR, 3-mo LIBOR, 6-mo LIBOR, or the prime rate as the interest rate at each interest reset date) addressing the concepts of best estimate, revised hedged risk, and forecasted transactions. Illustrations of applying that guidance to "you-pick-'em" debt where the overall LIBOR index (instead of a specific tenor) is initially being hedged, contrasted with hedging a specific LIBOR tenor (as well as if the interest rate subsequently elected is the prime rate), may provide greater clarity in applying the proposed guidance.

An entity may decide to hedge the LIBOR index instead of a specific tenor of LIBOR (e.g., 3-mo LIBOR) for an "you-pick-'em" debt because the entity cannot assert that 3-mo LIBOR always would be the chosen rate over a 5 year hedge term, even though it can assert that interest bearing debt is probable of being outstanding over that term. In that case, if the entity can only assert that the 3-mo LIBOR would be the chosen rate over year 1 of a 5 year hedge term, but hasn't yet decided on whether they will use any other LIBOR tenor for the remaining 4 years, it is not clear whether an entity could prospectively assess hedge effectiveness using the 3-mo LIBOR as its then-best estimate of the hedged risk for the entire 5 year hedge term, or whether they would be required to assess all contractually available LIBOR tenors in determining whether the hedge is expected to remain highly effective prospectively over its entire term.

Question 4: Would any of the proposed amendments require special consideration for private companies that are not financial institutions and not-for-profit entities (except for not-for-profits entities that have issued, or are a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market)? If so, which proposed amendment or amendments would require special consideration and why?

We observe that if the hedged risk is revised, the proposals do not to provide private companies and not-for-profit entities with relief, similar to the timing relief provided in the amendments in Update 2017-12,[1] to delay the reassessment of their hedged risk best estimate because it believes that the relief would be unnecessary. For example, in basis paragraphs BC22 through BC24, the

[1] Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities

Board notes that management would know immediately if it refinanced its debt and is now paying interest at a different interest rate. While we agree with the basis discussions, we also note that Update 2017-12 acknowledges that many private company stakeholders stated that they lack the resources to complete the required hedge documentation and initial and subsequent effectiveness assessments in a timely manner. In addition, many private companies do not have quarterly reporting requirements. We think that the same considerations may also apply to the requirement to reassess the hedged risk, and therefore, would not object if the Board provided timing relief similar to that discussed in BC184 and paragraph 815-20-25-142 of Update 2017-12. That is, not to reduce the minimum frequency (quarterly) of the reassessment that must be performed under the proposals, but only defer the timing of the performance of those assessments.

Question 5: Should entities use a method documented at hedge inception to identify hedged transactions using hindsight or should another approach be used? Please explain why. If you support another approach, please explain that alternative.

Considering that the proposal allows relief in designating the hedged transaction more broadly than the hedged risk, we are unsure why entities should be required to document the hindsight identification method at hedge inception instead of identifying the eligible transactions when a shortfall subsequently occurs. The basis paragraph BC40 of proposals itself provides "The Board believes that hindsight identification methods should be reasonable but could vary with the nature of an entity's business, its hedging relationships, and risk management strategies. Accordingly, the proposed amendments in paragraph 815-30-35-45A place no explicit limitations on the attributes of the forecasted transaction that can be the basis for an entity's hindsight identification method." Therefore, so long as entities do not change the *nature* of the hedged transactions identified at hedge inception when applying hindsight, we are unsure why they should be required to document, and consequently be bound by, the hindsight identification method at inception.

However, if the proposal is retained, we recommend more clearly articulating why the use of hindsight is not in conflict with the guidance that an entity cannot designate the last 15,000 units sold in a given period as the forecasted transactions, as discussed in paragraph BC35.

Question 6: Is transition guidance needed for entities that may have applied the change in hedge risk guidance to hedges of foreign exchange risk or credit risk or both in reported financial statements?

We are not aware of entities that may have applied the change in hedge risk guidance to hedges of foreign exchange risk or credit risk or both in reported financial statements.

Question 7: Do you agree with the specific considerations for transition for the proposed amendments? Are other transition provisions needed related to:

- ***a. The proposed amendments that would require that an entity consider only the designated hedged risk in the prospective assessment of hedge effectiveness for hedges within the scope of the change in hedged risk guidance***
- ***b. The proposed amendments on the subsequent assessment of hedge effectiveness when a change in hedged risk is identified?***

We have not identified the need for other transition provisions but acknowledge that preparers and users may have additional input, including as it relates to transition disclosures.

Question 8: Do you agree with the proposed effective dates? If the proposed amendments were effective for all public business entities for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years and for all other entities for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021, would entities have sufficient time to implement these amendments if a final Update is issued in the first half of 2020?

We defer to preparers in this regard.