



April 17, 2013

Via email

Leslie Seidman, Chairman
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut, 06856-5116

Accounting for Financial Instruments – Hedge Accounting

Dear Ms. Seidman:

At its March 2013 meeting, the Committee on Corporate Reporting (“CCR”) of Financial Executives International (“FEI”) discussed the status of the FASB’s broad project on Financial Instruments and the potential opportunity to significantly improve the accounting for derivatives and hedging activities through certain targeted amendments to the existing standards. We understand that it is the FASB’s intent to address revisions to the hedge accounting model once it completes its work on principles for classification and measurement. It is CCR’s view that the FASB should seek to address the most urgent areas requiring amendments through a short term project that could be completed in time to be included as part of the overall changes contemplated in the other phases of the project (Impairment and Classification and Measurement). This recommendation is further discussed below. FEI’s Committee on Corporate Treasury (“CCT”) concurs with this view and fully supports the recommendations in this letter.

FEI is a leading international organization of 15,000 members, including Chief Financial Officers, Controllers, Treasurers, Tax Executives and other senior financial executives. CCR and CCT are technical committees of FEI, which review and respond to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. This document represents the views of CCR and CCT and not necessarily the views of FEI or its members individually.

As described in our April 25, 2011 comment letter in response to the FASB’s Discussion Paper, we strongly support efforts to improve and simplify accounting for hedging

activities. We understand the Board's prior decision to focus on the classification and measurement standard before deliberating changes to the existing hedge accounting guidance. Now that this work is nearing completion, we believe it is the appropriate time to address hedge accounting.

The Discussion Paper raised the question of whether the FASB should make targeted changes to existing guidance or move to converge US GAAP on derivatives and hedging activities with the IASB's standards. We believe that, with appropriate sequencing of the issues, the Board can implement much-needed improvements to the basic hedge accounting model in the short term while continuing its work on the broader convergence issues over a longer time frame.

It is therefore the unanimous view of CCR and CCT that the Board begin to consider targeted improvements to existing GAAP that address known issues with the guidance and could be implemented relatively quickly. These improvements include: (1) lowering the threshold for hedge effectiveness from highly effective to reasonably effective, (2) allowing a more qualitative approach to testing hedge effectiveness, and (3) expanding the range of risks eligible for hedge accounting for financial and non-financial instruments.

Hedge Effectiveness Assessment

The May 2010 proposed FASB accounting standards update (the "proposal") would have, among other things, simplified the requirements for hedge effectiveness and lower the threshold for qualifying as an effective hedge. Specifically, the proposal included changes to the assessment of hedge effectiveness to require: (1) a hedging relationship to be reasonably effective (rather than highly effective), (2) a qualitative assessment of the effectiveness of a hedging relationship at inception (unless a quantitative assessment is necessary based on facts and circumstances) and (3) no ongoing assessment of effectiveness, unless facts and circumstances suggest the hedging relationship would no longer be effective.

The proposal provided no quantitative guidance about what constitutes reasonable effectiveness and many comment letter respondents, including the FEI, strongly support the removal of "bright lines" in the hedge effectiveness and criteria and quantitatively driven hedge effectiveness testing. We believe that these enhancements would relieve significant operational complexities associated with applying the requirements. We also believe that these enhancements could be integrated into the existing guidance without requiring extensive changes to the FASB codification.

While the proposal would lower the threshold for hedge effectiveness, it would still require that hedge ineffectiveness be measured and recorded in earnings for cash flow hedging relationships. One of the proposed changes to the measurement of hedge ineffectiveness was the elimination of the ability to assume perfect effectiveness by using hedging relationships that qualify for the shortcut or critical terms match methods. We are not supportive of this elimination given the significant implications this proposed change would have on the complexity and cost of applying hedge accounting by entities that do not have the required systems and processes to comply with the requirements for

ineffectiveness measurement under the long-haul method. We also expect that retention of these accommodations will be important for private companies. We therefore suggest that the Board not amend or eliminate the guidance that allows for the assumption of perfect effectiveness through the shortcut or critical terms match methods.

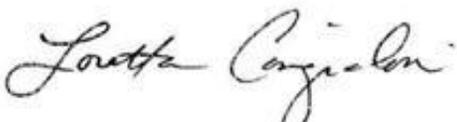
Risks eligible for hedge accounting

In September 2012, the IASB issued a review draft of its hedge accounting model. The IASB model allows additional exposures to qualify as hedged items for both financial and non-financial instruments as long as the risk component is separately identifiable and reliably measurable. Incorporating this type of guidance into US GAAP would allow for expansion of the hedging strategies that could qualify for hedge accounting over the current FASB proposal, which allows only benchmark interest rate, foreign currency risk, and credit risk (as well as a combination of these risks) as an allowable hedged risk component for financial instruments. We further note that US GAAP for nonfinancial instruments currently only allows for the entire risk of the item or foreign currency to be hedged.

We believe that a more inclusive approach that permits these other risks to be hedged will better meet the needs of stakeholders, will not increase the complexity of hedge accounting, and will improve the consistency and comparability of financial reporting. The ability to designate risk components allows entities to transparently reflect the financial statement results of their risk management strategies, which are often to hedge only one or more components rather than the entire item. Furthermore, extending risk components to non-financial hedged items removes an arbitrary accounting distinction between financial and non-financial items and would therefore enhance users' understanding of an entity's risk management activities. Similar to the hedge effectiveness amendments, we believe that an enhancement that permits hedge accounting for a broader array of economic risks could also be integrated into the existing guidance without requiring extensive changes to the FASB codification.

We appreciate the Board's consideration of our recommendations, and fully support the FASB Board's efforts to improve and simplify accounting for hedging activities. If you have any questions regarding our recommendations or other information included in this letter, please do not hesitate to contact Lorraine Malonza at (973) 765-1047.

Sincerely,



Loretta Cangialosi
Chair, Committee on Corporate Reporting



Teri List-Stoll
Chair, Committee on Corporate Treasury