



1300 L Street NW Suite 1020 • Washington DC 20005-4168
phone 202.842.0463 • fax 202.842.9126
nopa@nopa.org • www.nopa.org

November 4, 2016

Via Email director@fasb.org

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

File reference: Proposed Accounting Standards Update, Derivatives and Hedging (Topic 815), Targeted Improvements to Accounting for Hedging Activities

The National Oilseed Processors Association (NOPA) represents the U.S. soybean, sunflower seed, canola, flaxseed and safflower seed crushing industries. NOPA's 12 member companies crush approximately 95% of all soybeans processed in the United States. NOPA's member companies process more than 1.8 billion bushels of oilseeds annually at 63 plants located in 19 states throughout the country, including 57 plants that process soybeans. A list of NOPA member companies is attached.

NOPA appreciates the opportunity to comment on the Board's proposed Accounting Standards Update, "Targeted Improvement to Hedge Accounting" (ASU). We support the Board's efforts to develop high quality standards with respect to derivative and hedge accounting.

We strongly support the ASU's proposed objective to more closely align hedge accounting and financial reporting with an entity's economic risk management activities. In particular, we support the proposal that would qualify risk components of commodity contracts as hedged items. We believe this proposal is consistent with the objective of hedge accounting and would allow NOPA member companies to adopt accounting models that reflect the way risk is actually managed in our industry, thereby producing financial statements that provide more useful information.

Appendix 1 to this letter provides our detailed responses to selected Questions for Respondents that were included in the ASU.

Thank you for consideration of our views. We would be pleased to discuss our comments with the FASB or its staff. We would also appreciate the opportunity to participate in the December 2 roundtable discussions.

Sincerely,

A handwritten signature in black ink that reads "Thomas A. Hammer". The signature is written in a cursive style.

Thomas A. Hammer
President



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NOPA's Twelve (12) Member Companies are:

- Ag Processing Inc
- Archer Daniels Midland Company
- Bunge North America, Inc.
- Cargill, Inc.
- CHS Inc.
- Consolidated Grain & Barge Company
- Incobrasa Industries, Ltd.
- Louis Dreyfus Commodities LLC
- Owensboro Grain Company, LLC
- Perdue Grain and Oilseed, LLC
- Riceland Foods, Inc.
- Zeeland Farm Soya

Appendix 1 – Responses to Selected Questions for Respondents

Q1. *The Board decided it would allow an entity to designate the hedged risk as the variability in cash flows attributable to changes in a contractually specified component stated in the contract in a cash flow hedge of a forecasted purchase or sale of a nonfinancial asset. Do you agree with that decision? Please explain why or why not. If not, what specific alternatives should the Board consider? Please explain why those alternatives would be beneficial.*

Response to Q1: NOPA strongly supports allowing qualifying risk components of forecasted non-financial cash flows to be designated as hedged items. We believe this proposal is consistent with the objective of hedge accounting and would allow NOPA member companies to adopt accounting models that reflect the way risk is actually managed in the oilseeds industry, thereby producing financial statements that provide more useful information. For example, the exchange-traded futures price (“board-price”) of soybeans is widely used by market participants as a component to build the agreed-upon transaction price in purchase and sale contracts. Oilseed market participants, including NOPA member companies, may choose to economically hedge the board-price component of the expected future cash flows by entering into exchange-traded soybean futures contracts. In this example, if hedge accounting is elected, the exchange-traded futures contracts are designated as the hedging instruments. The ability to designate the board-price component of the expected future cash flow as the hedged risk achieves alignment of the hedge accounting with the economic objective of the risk management activity.

Currently, price components may or may not be explicitly stated on our members’ commodity purchase or sale contracts. In order to implement risk component cash flow hedging, we understand from the proposed ASU that NOPA member companies would need to ensure that the board-price component is explicitly stated on every contract. Oilseed markets typically involve a large number of small producers delivering many individual shipments of product to local storage facilities. NOPA member companies would need to implement process and system changes and train personnel to ensure that price components are explicitly stated on every contract. Implementing this change would be expensive, and NOPA believes it would be a non-value-added undertaking. We believe there is sufficient auditable evidence of existing industry pricing practices to support risk component hedging, without mandating that price components be contractually specified.

Q4. *In regard to hedging forecasted transactions, paragraph 815-30-40-5, as amended, states that “a pattern of determining that hedged forecasted transactions are probable of not occurring would call **into** question both an entity’s ability to accurately predict forecasted transactions and the propriety of using hedge accounting in the future for similar forecasted transactions.” What is your policy on what constitutes a pattern? Are there certain instances or scenarios in which missed forecasts should not be incorporated into the consideration of this pattern?*

Response to Q4: Disruptions of forecasted transactions that are out of the control of the entity, for example an act of nature such as a hurricane that temporarily shuts down a processing plant, or a major equipment malfunction, should not be considered a pattern that would call into question either the entity's ability to accurately predict forecasted transactions or the propriety of using hedge accounting in the future for similar transactions.

Q6. *Do you agree with the following Board decisions on presentation? Please explain why or why not. If not, what other alternatives should the Board consider?*

- a. For qualifying fair value, cash flow, and net investment hedges, the proposed amendments would modify current GAAP by requiring the entire change in the fair value of the hedging instrument included in the assessment of hedge effectiveness to be presented in the same income statement line item in which the earnings effect of the hedged item is presented.*
- b. For qualifying fair value, cash flow, and net investment hedges, the proposed amendments would retain current GAAP by requiring changes in the fair value of the hedging instrument excluded from the assessment of effectiveness to be recorded currently in earnings. For qualifying fair value and cash flow hedges, the proposed amendments would modify current GAAP by requiring changes in the fair value of the hedging instrument excluded from the assessment of effectiveness to be presented in the same income statement line item in which the earnings effect of the hedged item is (or will be) presented. For qualifying net investment hedges, there will be no prescribed presentation requirements for changes in the fair value of the hedging instrument excluded from the assessment of effectiveness.*
- c. For cash flow hedges in which the hedged forecasted transaction is probable of not occurring, the proposed amendments would retain current GAAP by requiring amounts recorded in accumulated other comprehensive income to be reclassified to earnings immediately. However, the proposed amendments would require presentation of reclassified amounts in the same income statement line item in which the earnings effect of the hedged item would have been presented had the hedged forecasted transaction occurred.*

Response to Q6: The proposal aligns with the longstanding oilseeds processing industry practice of many of NOPA's members. We believe that reporting hedge accounting results in the same income statement line item as the hedged transaction results in the most useful financial reporting.

Q7. *Do you agree with the proposed disclosure amendments in (a), (b), and (c) below? Please explain why or why not.*

- a. Cumulative basis adjustments related to fair value hedges (suggest no comment)*
- b. Quantitative hedge accounting goals, if any, that an entity sets when developing its hedge accounting objectives and strategies and whether it met those goals*
- c. Revised tabular disclosure for fair value and cash flow hedges that would focus on the effect of hedge accounting on income statement line items.*

Response to Q7:

- a) No response
- b) NOPA is not clear about the intended meaning of the term “quantitative hedge accounting goals” and would request further clarification before commenting.
- c) The proposed disclosures in paragraph 815-10-50-4A (a) of the fair value amounts of derivative instruments are redundant with disclosures required by ASC 820.

Paragraph 815-10-50-4A(c) requires an unnecessary, redundant reporting of readily available income statement line item amounts.

Q8. *Unless the hedging relationship meets one of the exceptions that assumes perfect offset at hedge inception, an entity would be required to perform an initial quantitative test of hedge effectiveness and would be allowed to perform subsequent hedge effectiveness assessments qualitatively unless facts and circumstances change. Do you agree with this proposed change? Please explain why or why not.*

Response to Q8: NOPA agrees with allowing subsequent hedge effectiveness assessments to be performed qualitatively. We believe that the change will reduce the administrative burden of hedge accounting.

Q9: *The Board decided that an entity may elect at hedge inception to perform subsequent assessments of effectiveness qualitatively. However, certain changes in the facts and circumstances associated with the hedging relationship in subsequent periods may require a quantitative assessment of effectiveness to be performed. Once an entity determines that a quantitative assessment of effectiveness is required, the entity would be prohibited to return to qualitative testing in periods after this determination is made. Can situations arise in which an entity no longer may assert qualitatively that the hedging relationship continues to be highly effective but when tested quantitatively would be highly effective? If so, please describe those circumstances. Should an entity be allowed to return to qualitative testing after such a significant change in facts and circumstances precluded it in a prior period? If so, please discuss the factors that an entity should consider to justify a reasonable expectation that the hedge will once again be highly effective on a qualitative basis.*

Response to Q9: NOPA believes that an entity should be allowed to return to qualitative testing after a significant change in facts and circumstances precluded it in a prior period. For example, there could be a temporary market disruption, which is later resolved so that the market returns to its normal conditions. For example, a shortage of sunflower oil could impact the correlation of CME soybean oil futures to sunflower oil.

Q10. *Do you agree with the proposed amendment that would allow an entity to perform the initial quantitative testing portion of hedge documentation at any time between hedge inception and the quarterly effectiveness testing date using data applicable as of the date of hedge inception? Please explain why or why not.*

Response to Q10: We agree with the proposal to allow additional time to complete documentation of the initial quantitative testing. In some circumstances, this change will allow for a smoother and more manageable administrative workflow, and therefore reduce costs and reduce risk of errors.

Q11. *The proposed amendments related to the timing of the preparation of hedge documentation and subsequent qualitative testing apply to both public entities and private companies. Are there valid reasons why the content of or the timing of the preparation of hedge documentation should be different for public entities and private companies? If so, please describe the specific types of transactions for which different treatment should be considered.*

Response to Q11: NOPA member companies include public as well as private entities. NOPA does not believe that there is a need to differentiate the documentation and testing requirements between private and public entities.

Q12. *Should the effective date be the same for both public business entities and entities other than public business entities?*

Response to Q12: NOPA member companies include public as well as private entities. We believe the effective date should be the same for all entities. Comparability across entities with respect to ineffectiveness measurements will be enhanced if the effective date is the same.

Q13. *How much time is needed to implement the proposed amendments? Should entities other than public business entities be provided more time? If so, how much more time?*

Response to Q13: Due to the elective nature of hedge accounting, entities have discretion in the timing of implementing these changes. Other proposed changes, such as no longer measuring ineffectiveness, and recording all changes in the hedging instrument in OCI, will be relatively simple to implement and will immediately reduce current administrative requirements. NOPA member companies do not think these changes will cause an undue burden for relatively smaller entities, and we also don't think that additional time for private enterprises is necessary.