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November 11, 2016

Ms. Susan M. Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116
By email: director@fasb.org

Re: File Reference No. 2016-310

Dear Ms. Cosper,

TD Bank, America's Most Convenient Bank®, ("TD", "we", "us," or "our") appreciates the opportunity to comment on the Proposed Accounting Standards Update, Derivatives and Hedging (Topic 815): *Targeted Improvements to Accounting for Hedging Activities* (the "Proposal") issued by the Financial Accounting Standards Board ("FASB" or the "Board"). TD Bank, America's Most Convenient Bank®, is one of the 10 largest banks in the U.S., providing a full range of retail, small business, and commercial banking products. In addition, we provide private banking and wealth management services. TD Bank, America's Most Convenient Bank® is a member of TD Bank Group and a subsidiary of the Toronto Dominion Bank, a top 10 financial services company in North America. We apply U.S. GAAP for our various regulatory reports. TD Bank Group applies IFRS accounting principles through SEC form 40-F and 6-K filings.

We use derivative instruments as a way to manage our interest rate, foreign exchange and other market risks. We do not use derivatives for proprietary trading. As such, our derivative activities are closely aligned with our risk management activities. Achieving hedge accounting, especially consistent application under U.S. GAAP and IFRS, is of vital importance as it allows for reduction of mark-to-market volatility in our financial statements.

We appreciate the Board's efforts in improving the overall model for hedge accounting and for its focus on aligning that accounting with an entity's risk management activities. We believe that the Board has reduced the complexity inherent in the current hedge accounting model.

We are supportive of the following improvements:

- **Benchmark interest rate** – We support the retention of the benchmark interest rate concept for fair value hedges of fixed-rate financial instruments and for cash flow hedges of the forecasted issuances or purchases of fixed-rate financial instruments. We also believe the addition of SIFMA Municipal Swap Rates as an eligible benchmark interest rate improves the hedge accounting model.

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- **Partial term fair value hedge** – TD's risk management activities include managing our overall fixed/floating cash flow profile – which, from time to time, includes entering into partial-term fair value hedges. We agree with the change in the Proposal to make a simplifying assumption that the hedged item has the same implicit maturity date as the hedging derivative as this will achieve convergence with IAS 39 and IFRS 9.

- **Time to complete initial quantitative assessment** – Extending the time frame to perform the initial prospective quantitative assessment eases the burden of preparing this analysis contemporaneously with hedge designation.

- **Shortcut method** – When the shortcut method is no longer met but the hedging relationship has been and remains highly effective, being able to apply a long haul methodology for assessing hedge effectiveness is an improvement to the hedge accounting model.

Further, we applaud the FASB for retaining the guidance in Topic 815 allowing voluntary de-designation of a hedging relationship.

SUMMARY OF SIGNIFICANT COMMENTS

In addition to our responses to the specific questions in the Proposal we have the following comments and suggestions that we would like the Board to consider.

Separately identifiable and reliably measurable risks – When managing risks of our financial assets and financial liabilities, we often employ a "risk component" approach to hedging. That is, we may hedge a component of the contractual cash flows of a financial asset or financial liability in order to achieve our risk management objectives. This risk management practice is aligned with the accounting under IFRS 9. Under IFRS 9, an entity may designate changes in the cash flows of an item attributable to a specific risk component provided that the risk component is "separately identifiable and reliably measurable". As adopters of IFRS, it is our experience that a "risk component approach" to hedge accounting will result in reduced ineffectiveness. For example, in a cash flow hedge of Prime-based loans, we would designate the LIBOR component of Prime as the hedged risk. Using the risk component approach, we can isolate the LIBOR component of Prime (LIBOR + credit/liquidity considerations) and use a LIBOR interest rate swap. In addition to reducing ineffectiveness, this methodology can provide real cost savings in this example as Prime-based swaps are generally more expensive than plain vanilla LIBOR interest rate swaps. Therefore we believe the Board should consider allowing an entity to designate a "separately identifiable and reliably measurable" risk component of a financial asset or financial liability in a cash flow hedge as part of the final Standard.

Treatment of excluded components of hedging derivatives – Under IFRS 9, the time value component of a derivative (such as an option or forward contract) that is excluded from effectiveness assessment in a cash flow hedge is initially deferred in AOCI. We suggest the Board include a similar concept in the Proposal to allow an entity the ability to defer a time value component that is excluded from hedge effectiveness in a qualifying cash flow hedge accounting relationship. Subsequently, the deferred amounts will be reclassified into earnings as the hedge item affects earnings or by using a systematic and rational basis over the period during which the hedged risk affects earnings. In our view, this provides a better representation of the financial results of a hedge using a forward or option contract.

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Basis risk in hedges of foreign currency denominated instruments – A foreign currency basis spread can be considered to be a charge to convert one currency into another. Foreign currency basis spreads are an economic phenomenon that would not exist in a perfect market however they exist in practice because markets are not perfectly efficient. Similar to the treatment of excluded time value components, IFRS 9 permits foreign currency basis spread to be accounted for as a cost of hedging and deferred in AOCI if an entity excludes the foreign currency basis spread of a financial instrument from the designation of a hedging instrument. We request that the Board consider including this as an agenda item during their redeliberations on the Proposal and consider alignment with IFRS 9. We will provide the Board with recommendations in our responses to your Questions to Respondents in a separate letter.

Managing expected prepayment risk –The guidance in ASC 815-20-25-6B allowing an entity to consider only how changes in the benchmark interest rate affects the decision to settle before scheduled maturity is an improvement to the hedge accounting model. We would, however, suggest the Board consider guidance similar to that in IAS 39.81A for portfolio fair value hedges of interest rate risk. That guidance seems to better accommodate the way we manage prepayment risk in a portfolio of financial assets such as mortgages or home equity lines of credit. Under this approach, the hedged item designated is an amount of currency within the scheduled time buckets such that portions of fair value exposure can be hedged and traditional similarity rules for fair value hedges are no longer required. This approach together with the permitted periodic rebalancing of the expected hedged fixed-rate cash flow dollar amounts achieves better alignment with our risk management practices. We request, on this issue critical to international banks, that the Board consider adding this approach to its agenda during the redeliberations on the Proposal.

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We appreciate the opportunity to comment on the Proposal and would be pleased to expand upon our views during our participation at the public roundtable meeting. Our responses to the specific questions raised in the Proposal will be provided separately.

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Sincerely,

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Valerie Gillis
SVP Finance & Chief Accountant
TD Bank Group