

November 21, 2016

Mr. Russell Golden, Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

(Sent via e-mail to director@fasb.org)

Re: File Reference No. 2016-310

Dear Mr. Golden:

The International Business Machines Corporation (“IBM” or “the company”) appreciates the opportunity to comment on the proposed Accounting Standards Update: Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities (the “proposed ASU” or “exposure draft”), issued by the Financial Accounting Standards Board. Overall, we are supportive of the project and appreciate the Financial Accounting Standards Board’s (the “Board”) efforts to improve the hedge accounting model and the impacts to financial reporting. The proposed improvements simplify the application of hedge accounting and better portray the related economics of an entity’s risk management activities in its financial statements. The proposed ASU will provide users of financial statements with more meaningful information that is more closely aligned with risk management objectives.

The changes to hedge accounting outlined in the proposed ASU related to what qualifies for hedge accounting, how it is documented and how hedge effectiveness is assessed and hedge ineffectiveness is measured will provide a meaningful simplification to hedge accounting. Financial statements that better reflect the economics of these risk management activities will benefit preparers, auditors, users and other stakeholders. Overall, we are very supportive of the proposed ASU.

With respect to hedging forecasted transactions as outlined in the proposed ASU we are concerned with the concepts which could call into question a strategy that was never intended to be forecasted with 100% accuracy.

Question 4: 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?

We believe that it would be extremely difficult to define a single approach for identifying when a “pattern” of determining that the hedged forecasted transactions are probable of not occurring exists. There is significant judgement with respect to hedged forecasted transactions and it is important to understand the reasons for missed forecasted transactions. For example, if an entity hedges a large group of homogenous transactions sharing the same risk in a period, then the threshold for identifying a pattern of determining that hedged forecasted transactions are probable of not occurring might be higher than for those where there are only a few transactions in a given period. However, we do believe that once the reasons are identified, the impact to future forecasts should be considered.

With respect to disclosure requirements we agree with the removal of the requirement to disclose the ineffective portion of the change in the fair value of the hedged item, however, we are concerned with the incremental requirements.

Question 7: 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
- 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

We understand the value in adding the cumulative basis adjustments related to fair value hedges, however, we believe the disclosure of hedging goals is best left as part of broader risk management strategy discussions already included in Management's Discussion and Analysis.

Quantitative disclosures would not be meaningful given an entities' risk management activities may be modified in response to many factors, including market changes. An entity's risk and hedge activities could vary from period to period and the amounts may not be fixed until the company enters into the hedge transaction. When executing these transactional activities, we would consider that we have automatically achieved our goal to hedge the amount intended. Companies have complex and iterative layering strategies for hedging that will complicate the interpretation of whether or not goals were actually met.

We believe the tabular disclosure for fair value and cash flow hedges by income statement line item in the footnotes is unnecessary as the derivative hedging results are already explained in the footnote, including the income statement line item they impact. The income statement already reflects the impacts of the hedging results.

We believe the additional costs of quantitative and tabular disclosure would outweigh the benefit. The company recommends the Board complete its Disclosure Framework Project and the Board's Decision Process, prior to imposing new disclosure requirements of this scope.

We would recommend the Board and its staff consider the approach taken on this project for future projects. We believe that the standard setting process benefited from the decision to provide extensive educational sessions in order to identify and research all of the project's concerns before making any decisions.

Thank you for the opportunity to comment on the exposure draft. If you have any questions, please contact me at (914) 766-2477.

Sincerely,

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