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November 21, 2016

Ms. Susan M. Cosper, Technical Director
Financial Accounting Standards Board
File Reference No. 2016-310
401 Merritt 7
P. O. Box 5116
Norwalk, CT 06856-5116

Proposed Accounting Standards Update, Targeted Improvements to Accounting for Hedging Activities

Dear Ms. Cosper:

Intel is pleased to comment on the Proposed Accounting Standards Update, Derivatives and Hedging (the "ASU"). We strongly support the Board aligning hedge accounting with an entity's risk management objectives and expanding the scope of instruments and hedging strategies that qualify for hedge accounting. We believe that the ASU achieves these objectives and results in operational efficiencies for preparers while improving the understandability of the hedging results for users of the financial statements.

Closer Alignment of Accounting and Entity's Risk Management Activities

We support the Board's proposal to remove the concept of periodic hedge accounting ineffectiveness. An entity's economic risk management strategy is generally executed within certain risk tolerance levels and it is common to allow for fluctuations around the perfect hedge ratio within the defined tolerance band permissible under current guidance. The current concept of hedge accounting ineffectiveness, therefore, does not align with how entities define ineffectiveness from the economic risk management perspective. We also support the Board's objective of matching the presentation of hedging results and the underlying exposure within the same functional presentation line on the statement of income.

Expanded Scope of Permissible Hedged Items

We believe the ASU more closely aligns hedge accounting with economic risk management strategies. In particular, removing the current distinction between component hedging of financial and non-financial instruments, revising the effectiveness measurement methodology for partial-term hedging strategies, and eliminating the concept of benchmark interest rates for cash flow hedges of interest rate risk of variable-rate financial instruments would enable entities to apply hedge accounting to a broader range of economic risk management strategies.

However, we believe the ASU's limitation of allowable benchmark interest rates does not support the Board's objective. Rather, we recommend that the Board allow for the identification of new benchmark

rates similar to the principles under International Financial Reporting Standard 9, *Financial Instruments*. Such principles would allow for a more timely incorporation of changes in the dynamic economic environment.

Simplified Compliance Requirements for Hedge Accounting

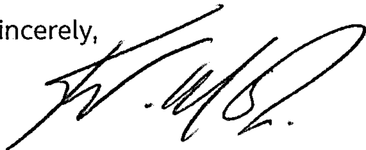
We support the ASU's proposal to simplify the hedge accounting effectiveness assessment framework by allowing a broader application of qualitative assessments and providing a longer period for completing the initial quantitative assessments. We believe that this will result in an increased operational efficiency for hedge accounting compliance.

Other Comments

The ASU proposal does not contemplate changes to the accounting framework related to portfolio-based hedging. Current guidance surrounding portfolio-based hedging is rules-based and restrictive in application. We encourage the Board to more closely align portfolio-based hedge accounting with the underlying risk management practices, similar to the other improvements proposed in the ASU. Additional comments, as well as responses to the questions presented in the Exposure Draft, are included in an Appendix to this letter.

Thank you for your consideration of our views. If you have any further questions or would like to discuss our response further, please contact me at (971) 215-1229, or Sam Roberts, Financial Reporting Controller, at (971) 215-4573.

Sincerely,



Kevin T. McBride
Vice President, Finance Corporate Controller
Intel Corporation

Appendix: Questions for Respondents

Question 1: 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.

We agree with the Board's decision. We support the Board's expansion of hedged items to include risk components in non-financial instruments. For entities exposed to commodity price risk, it is a common risk management strategy to hedge one or more of the risk components rather than the entire underlying item. In our opinion, the Board's removal of the current distinction between risk components of financial and non-financial instruments represents a significant milestone in establishing more principles-based standards.

Question 2: The Board decided that it would retain the concept of benchmark interest rates for hedges of fixed-rate financial instruments and forecasted issuances or purchases of fixed-rate financial instruments, maintain the existing list of permissible benchmark rates, and add the SIFMA Municipal Swap Rate to the list.

a. Should the Board retain the current concept of benchmark interest rates for fair value hedges of fixed-rate financial instruments and for cash flow hedges of forecasted issuances or purchases of fixed-rate financial instruments? Please explain why or why not.
b. If the Board continues to maintain the current concept of benchmark interest rates, should the Board consider within the concept expectations that a rate will become widely used?
c. If the Board continues to maintain a list of rates, are there any other rates that should be added to the list? Please explain why a particular rate meets the definition of a benchmark rate.
d. Are there other alternatives to the current concept of benchmark interest rates the Board should consider (for example, a principles-based approach)? Please describe those alternatives.

We agree with the Board's decision. For hedges of fixed-rate financial instruments, an entity's objective is to hedge only interest rate risk, thus, the benchmark interest rates should represent approximations of the risk-free rates. Without the concept of benchmark interest rates, it may be possible for an entity to hedge based on rates or indices that include risk components other than the interest rate risk.

We recommend that the Board consider removing the list of permissible benchmark rates and adopting a more principles-based approach. We believe that the current approach of defining a narrow list of allowable benchmark rates does not support the Board's objective of aligning the entities' accounting and economic risk management strategies.

Although we believe that the current list, along with SIFMA, represents the vast majority of the market's existing interest rate indices, changes in the market environment in the future may lead to new benchmark interest rates that should be added to the list of permissible benchmark rates. Under the current approach, in response to market environment changes, the Board would be required to conduct a periodic reassessment of the permissible benchmark rates. We recommend that the Board provide the same principles as under IFRS 9 for the identification of new benchmark rates, rather than continue to specify particular indices. This will allow for a more timely incorporation of changes in the dynamic economic environment.

Question 3: The Board decided that it would allow an entity to use either the full contractual coupon cash flows or the cash flows associated with the benchmark rate determined at hedge inception in calculating the change in the fair value of the hedged item attributable to interest rate risk, except when the current market yield of the financial instrument is below the benchmark rate at hedge inception. In that instance, the total contractual coupon cash flows would have to be used. Do you agree with this decision? Please explain why or why not.

We agree with the Board's decision to allow an entity to use either the full contractual coupon cash flows or the cash flows associated with the benchmark rate determined at hedge inception in calculating the change in the fair value of the hedged item attributable to interest rate risk.

We disagree with the proposed exception applicable when the current market yield of the financial instrument is below the benchmark rate at hedge inception. In these instances the hedged item continues to be exposed to interest rate risk attributable to the change in the benchmark rate. Instead of maintaining this rules-based exception, we recommend the Board to establish a principles-based approach that would allow entities to utilize the most appropriate cash flows in calculating the change in fair value of the hedged item attributable to the interest rate risk.

If the Board retains the guidance related to this rules-based exception, we recommend the Board to provide illustrative examples to clarify the type of scenarios that would result in the benchmark rate exceeding the current market yield of a financial instrument. We also recommend that the Board explicitly address that late hedges are not subject to this exception.

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 recognize that the auditing community has a wide range of rules-based interpretations on what constitutes a pattern. Intel performs a quarterly assessment to determine whether a pattern of missed forecasts has occurred. We believe that a series of significant missed forecasts within a short time period for a specific hedging program would call into question the accuracy of our forecasts for that particular hedging program. We believe that extraordinary events, such as corporate restructuring, major economic events or natural disasters, should be excluded from the consideration of this pattern.

Question 5: Are there hedging relationships that would be eligible to meet the requirements in the proposed amendments and IFRS 9, but the hedge results would be recognized and presented differently? If so, please describe the transaction and why it would be recognized and presented differently in accordance with IFRS 9.

There are several differences between the IFRS 9 guidance and the proposed ASU that would result in a different presentation of the hedge results. Specifically, under IFRS 9, the effective portion of the cash flow hedge gain or loss is recorded as a basis adjustment of the underlying hedged item when the underlying hedged item is recognized on the balance sheet. The proposed ASU retains the concept of amortizing the effective portion of the cash flow gain or loss out of other comprehensive income. IFRS 9 provides a better representation of the hedging results as it presents the hedge item net of the hedging costs. We recommend that the Board consider a similar recognition concept.

The proposed ASU would require entities to record the entire change in the fair value of a hedging instrument within the same income statement line item where the earnings effects are recorded for the

hedged item. As IFRS 9 does not provide guidance on the geography of the presentation of the change in fair value of the hedging instrument, the presentation of the results may be misaligned between the bases of accounting. We believe that the proposed ASU guidance provides a better presentation of the hedging results. See our response to Question #6.

Question 6: 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.

We agree with the Board's decisions on presentation. Recording hedge effects within the same line item as the hedged item allows the users of the financial statements to better understand the costs and results of hedging activities and aligns accounting presentation with hedging economics.

We recommend that the Board also provide guidance for presentation of hedging results in the statement of cash flows that aligns presentation of hedging results and the hedged underlying within the same cash flow section.

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 do not believe that the proposed disclosures would provide incremental value to the users of the financial statements.

The proposed cumulative basis adjustments related to fair value hedge disclosures would constitute an aggregation of the information presented in current period and historical fair value hedging relationship disclosures and from other notes to the financial statements. Specifically, this would represent an aggregation of information already presented within the required Derivatives in Fair Value Hedging Relationships and Long-Term Debt disclosures.

The proposed tabular disclosure for fair value and cash flow hedges, which focuses on the effects of hedge accounting on income statement line items, would constitute an aggregation of footnote information already presented within the notes to the financial statements. Specifically, this would represent an aggregation of information already presented within the required Derivatives in Fair Value Hedging Relationships, Derivatives in Cash Flow Hedging Relationships and the Other Comprehensive Income (Loss) disclosures. Should the Board decide to retain the proposed tabular disclosure, we recommend removing duplicative tabular disclosures under existing guidance.

We do not believe that disclosing quantitative hedging goals would fully represent the true economic risk to which the entity may be exposed if it underperforms its hedging goals, does not elect hedge accounting designation for its hedges or does not hedge at all. We believe that the existing FASB and SEC disclosure requirements regarding an entity's risk exposures, risk management strategies and the effect that hedge accounting has on its financial statements are sufficient.

Question 8: 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.

We agree with the Board's proposed change. Allowing the subsequent hedge effectiveness assessments to be performed qualitatively better aligns with how the entity would assess hedge effectiveness from its risk management perspective when there were no changes in the facts and circumstances.

Question 9: 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.

In general, it is unlikely for a hedge position to be quantitatively effective following significant changes to the facts and circumstances associated with a hedging relationship. Limited situations may arise where a change in the facts and circumstances would prevent the continuation of the qualitative effectiveness assessment while a quantitative effectiveness assessment continues to indicate high effectiveness of the hedging relationship. For example, such a situation may occur due to temporary market disruptions and could affect tandem currencies and commodity hedges.

An entity should be allowed to resume qualitative effectiveness assessment when it is able to demonstrate quantitatively that hedge relationship is highly effective and the entity does not anticipate further changes in the facts and circumstances.

Question 10: 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.

We agree with the Board's proposed amendment. The auditing community has generally interpreted the contemporaneous documentation requirement to mean that all required hedge accounting documentation, including quantitative hedge effectiveness assessment, is completed on the day of the hedge accounting designation. The Board's proposal to simplify the hedge accounting effectiveness assessment framework will require entities to perform more extensive quantitative scenarios modelling at inception of the hedging relationship in order to apply qualitative assessments in subsequent periods. Providing a longer period for completing the initial quantitative assessments will make it more operationally feasible for the entities.

Question 11: 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.

No response.

Question 12: Should the effective date be the same for both public business entities and entities other than public business entities?

No response.

Question 13: 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?

We do not anticipate that a significant effort will be necessary to implement the proposed amendments.

Question 14: Do you agree with the proposed transition method and disclosures in paragraph 815-20-65-3? Do you agree with the Board's decision not to allow a retrospective transition approach? Please explain why or why not.

We agree with the proposed transition method and disclosures in paragraph 815-20-63-3. We agree with the Board's decision to disallow a retrospective transition approach, as this may lead to a lack of comparability across entities.