The Goldman Sachs Group, Inc. | 200 West Street | New York, NY 10282
Tel: 212-902-7052 | Fax: 212- 291-5573 | email: Tim.Bridges@gs.com

Timothy Bridges
Managing Director
Global Head of Accounting Policy

November 22, 2016

Mr. Russell G. Golden
FASB Chairman
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: File Reference Number 2016-310, Exposure Draft of Proposed Accounting Standard Update, Derivatives and Hedging (Topic 815) – Targeted Improvements to Accounting for Hedging Activities

Dear Mr. Golden:

Goldman Sachs appreciates the opportunity to provide comments on the Financial Accounting Standards Board's (the "Board") proposed Accounting Standards Update (ASU), *"Derivatives and Hedging (Topic 815) – Targeted Improvements to Accounting for Hedging Activities"* (the "proposal" or "proposed guidance").

We strongly support the Board's objective of improving the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. To that end, we believe that the Board has met this objective. In particular, we are very supportive of the following targeted improvements related to accounting for the hedged item in fair value hedges of interest rate risk:

- Permitting an entity to measure the change in fair value of the hedged item on the basis of the benchmark rate component of the contractual coupon cash flows determined at hedge inception, rather than on the full contractual coupon cash flows;

- For prepayable financial instruments, permitting an entity to consider only how changes in the benchmark interest rate affect a decision to settle a debt instrument before its scheduled maturity;

- Allowing an entity to measure the hedged item in a partial-term hedge by assuming the hedged item has a term that reflects only the designated cash flows being hedged.

We believe these refinements will both increase the number of hedging strategies that qualify for fair value hedge accounting, and reduce the mismatch between the change in fair value of the hedged item and the change in fair value of the hedging derivative.

We have the following additional comments.

Benchmark Rate Component of the Contractual Coupon Cash Flows

We believe the Board's intent was to provide entities the ability to determine separately for each individual hedge relationship whether to measure the change in fair value of the hedged item using the full contractual coupon cash flows or the benchmark portion thereof. We support this approach because some existing hedge relationships may involve derivative instruments designed to achieve a higher level of effectiveness when compared to changes in the fair value of a debt instrument based on its full contractual coupon cash flows. Therefore, if the same approach had to be applied consistently across all hedging relationships, it would create significant implementation costs if, for example, these derivatives had to be terminated to allow for the entity to opt into the alternative approach being proposed. Otherwise, the entity would be forced to wait until its existing hedges roll-off to opt into the alternative approach proposed which, in the context of a large hedge program, is unlikely to be feasible.

Additionally, we support the ability to use the cash flows associated with the benchmark rate determined at hedging inception when the current market yield of the hedged item is greater than the benchmark interest rate at such time. While this could involve using cash flows greater than the full contractual coupon cash flows (e.g., in a late-term hedge where interest rates have increased such that they exceed the contractual coupon), we believe this will result in a better reflection of the corresponding risk management activities in the financial statements, as is the stated objective of the proposed guidance.

Benchmark Interest Rates

We support the Board's proposal to retain the concept of benchmark interest rates for hedges of fixed-rate financial instruments. Additionally, as financial markets will continue to evolve, we believe the Board should permit within this concept an expectation that a given rate will become widely recognized and quoted. This is especially relevant given the efforts of the Alternative Reference Rate Committee ("ARRC") to identify an alternative reference rate to U.S. Dollar LIBOR in the U.S., in addition to the efforts of similar groups in other jurisdictions globally. The viability and liquidity of these alternatives will be driven, in part, by the ability of end users to use the product to achieve hedge accounting.

We believe the emergence of new benchmark interest rate candidates will be relatively infrequent given they will be a function of significant coordination across financial markets, including market participants and regulators. Adding expectations to the benchmark concept will allow the guidance to be more proactively responsive to changes in financial markets. Further, incorporating expectations into the benchmark interest rate concept would be consistent with the methodology utilized by the Emerging Issues Task Force ("Task Force") as part of the deliberations that led to the addition of the Fed Funds Effective Swap Rate (OIS) to the list of permissible benchmarks in the United States. Specifically, in paragraph BC8 of the Basis for Conclusions in ASU 2013-10,[1] the Task Force considered both that OIS (1) "*is evolving* as a widely recognized and quoted rate" and (2) "is a rate that *is becoming* more widely used in the U.S. financial market" (*emphasis added*). In other words, it appears that the Task Force historically has considered expectations of where financial markets were heading. Therefore, adding expectations to the benchmark interest rate concept may simply be codifying historical practice.

Disclosure of Quantitative Hedge Accounting Goals

We believe it will be difficult for certain entities to disclose quantitative hedge accounting goals, if any, that an entity sets when developing its hedge accounting objectives and strategies, and whether it met those goals. Specifically, this requirement would be operationally intensive and will create a significant reporting burden for entities such as Goldman Sachs with large hedging programs that dynamically adjust for a wide range of factors. Therefore, we suggest the disclosure requirements retain their focus on a qualitative discussion of an entity's program and hedging activities. Ideally, the Board would defer the portion of the proposal that contemplates amending or creating disclosures until it has completed its Disclosure Framework Project (except for the requirement to disclose ineffectiveness, as the proposal would eliminate this concept).

Effective Date

Given that the proposal should result in significant improvements to the current guidance, we believe that early adoption should be permitted immediately for all entities.

Thank you for the opportunity to provide our views. If you have any questions regarding this letter, please contact me at 212-902-7052.

Sincerely,

Timothy J Bridges

/s/ Timothy Bridges

[1] *"Derivatives and Hedging (Topic 815) No. 2013-10 – Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes."*