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November 29, 2016  
Technical Director  
Financial Accounting Standards Board  
401 Merritt 7, PO Box 5116  
Norwalk, CT 06856-5116

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Dear Ms. Cospers:

We appreciate the opportunity to comment on the Proposed Accounting Standards Update, *Derivatives and hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities* (the proposal or Exposure Draft), issued by the Financial Accounting Standards Board (the Board, FASB).

We welcome the FASB's effort to simplify the accounting and compliance requirements in *Derivatives and Hedging (Topic 815)*. The current requirements for achieving hedge accounting are overly complex and restrictive, and do not allow a company's financial statements to completely and accurately portray the economics of hedging activities. Specifically, we support the efforts to allow for the designation of hedges of components of the hedged item, and the simplification of the measurement requirements for cash flow hedges designated for accounting purposes. See below for our responses to specific *Questions for Respondents* included in the FASB's Exposure Draft:

**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 linked to an index stated in the contract in a cash flow hedge of a forecasted purchase or sale of a nonfinancial asset. Do you agree with this 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 to allow an entity to designate the variability in cash flows attributable to changes of a component input of a forecasted purchase or sale of a nonfinancial asset. However, we would encourage the Board to consider a broader application of component hedging other than amounts contractually specified.

In the airline industry, companies purchase jet fuel in order to supply their aircraft and provide transportation to passengers. Because of the limited number of market participants (jet fuel users), jet fuel is not widely traded on an organized futures exchange and, therefore, there are limited opportunities to hedge directly in jet fuel. Airlines who actively hedge their future purchases of jet fuel often do so by executing derivative transactions in other oil products, such as West Texas Intermediate (WTI) crude oil, Brent crude oil, and heating oil. The pricing variability in these commodities has historically correlated with the pricing variability in jet fuel prices but the correlation percentage has been less than perfect due to inherent market differences between these commodities and jet fuel and the additional refining and delivery costs

to bring jet fuel to the point of sale (i.e. basis risk) and at times market considerations. This additional basis risk can and has resulted in certain of these commodities periodically failing to achieve high correlation with jet fuel, as defined by ASC 815.

While many industries will benefit from the proposed guidance to hedge a contractually specified component of the forecasted cash flow, the typical airline jet fuel purchasing contract does not specify WTI crude oil or Brent crude oil, as a component input into the final pricing of jet fuel. Therefore, airlines would not benefit from the proposed relief provided in the exposure draft.

Despite the lack of contractual specificity, it is widely accepted that the refined product of jet fuel is a direct output from the crude oil refining process and a portion of the pricing variability of jet fuel is directly linked to pricing variability in the underlying crude oil commodity. Providing the airlines an alternative model to allow for component hedging of this variability, which excludes the basis risk, would permit the airlines to effectively and efficiently hedge a significant portion of their jet fuel risk. . Similar to IFRS 9, *Financial Instruments*, we believe a model to allow component hedging if the component is “separately identifiable” and “reliably measurable” would be a reasonable criteria and would provide an accounting model that better aligned with the risk management activities currently used by the airlines. Alternatively, a more specific criteria that permits the airlines to consider the correlation based on the existence of a physical production or process evaluation, would perhaps be an alternative. As such, we would encourage the FASB to reconsider its limitation to only allow contractually-specified components, which would allow the airlines to designate the variability in projected cash flows related to clearly determinable components of the hedged risk.

Sincerely,

*Leah Koontz*

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