RSM US LLP

One South Wacker Drive, Suite 500
Chicago, IL 60606

www.rsmus.com

January 13, 2020

Mr. Shayne Kuhaneck
Acting Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

File Reference No. 2019-790

Dear Mr. Kuhaneck:

RSM US LLP is pleased to provide feedback on the proposed Accounting Standards Update (ASU), *Derivatives and Hedging (Topic 815) – Codification Improvements to Hedge Accounting.* We appreciate the continued efforts the Financial Accounting Standards Board is putting forth to improve the guidance in a manner that better portrays in financial statements the economic results of risk management activities. We are supportive of the proposed amendments and commend the use of examples as a means of making these complex matters more understandable. We believe, however, that simplification and additional examples would be beneficial—particularly for the general audience that does not have specialized hedge accounting knowledge. Suggestions to accomplish this and other feedback are incorporated in our responses to the specific questions raised in the proposed ASU and additional comments that follow.

Responses to Questions for Respondents

Question 1: *Do the amendments in this proposed Update clarify and improve the guidance in Topic 815? If not, please explain which proposed amendment or amendments do not clarify and improve the guidance and why.*

As it relates to whether the amendments improve the guidance, we question the reasoning behind the proposed requirement in paragraph 815-20-55-38 for the fair value hedge basis adjustment on a foreign-currency-denominated debt instrument to be considered when assessing the effectiveness of a net investment hedge after the fair value hedge is discontinued. We believe this requirement could unnecessarily complicate these dual hedges. We believe the proposed amendments otherwise provide meaningful clarity to important aspects of the guidance and constitute improvements as the amendments are logical and will result in an application of the guidance that is more consistent with risk management activities.

Question 2: *Are the proposed amendments operable? If not, which proposed amendment or amendments pose operability issues and why?*

We are not aware of any proposed amendments that are not operable.

Question 3: *Should other changes related to the proposed amendments be made to clarify the intent of the proposed amendments?*

Additional comprehensive examples

Despite the efforts the Board and staff put forth to illustrate how to distinguish between the forecasted transaction and the hedge risk, we believe many companies will continue to struggle with the designation and documentation requirements in paragraph 815-20-25-3, in part due to the sheer magnitude of guidance to consider throughout the hedging subtopics of Topic 815. For example, to appropriately address the documentation requirements of paragraph 815-20-25-3 for a cash flow hedge of a forecasted transaction, an entity needs to be familiar with the guidance in ASC 815-20-25 as well as various illustrations and examples scattered throughout ASC 815-20-55 and ASC 815-30-55. Given how critical the upfront documentation is to qualifying for hedge accounting, as well as how the words used in that documentation can significantly impact whether a hedge is highly effective and whether forecasted transactions as documented will be probable of occurring, we think it would be beneficial to build upon the example in paragraph 815-20-55-80-A.

We believe it would be very beneficial to provide additional comprehensive examples demonstrating how an entity may address all the relevant documentation requirements for (a) a hedge involving a contractually specified component of a forecasted purchase or sale of a commodity, and (b) a hedge involving a contractually specified interest rate for forecasted interest payments on variable rate debt. While we recognize there are examples scattered throughout the above-mentioned subtopics of how certain aspects of the hedge relationship may be documented, comprehensive examples for these two additional types of hedges would be highly beneficial to the average reader who may not be proficient in navigating through Topic 815. It would be helpful to clarify through these additional examples the attributes that are required to be documented when describing the hedged transactions and refer directly to examples that demonstrate the negative consequences that could occur when the hedged transactions are described with too much specificity, including Case C in proposed paragraph 815-30-55-169 and Case B beginning at paragraph 815-20-55-97. If the Board adds these additional comprehensive examples we are suggesting, it also would be beneficial to prominently reference these examples in paragraph 815-20-25-3.

Proposed paragraph 815-30-55-1N

We also believe it would be beneficial to clarify proposed paragraph 815-30-55-1N. This paragraph implies there is flexibility in the manner in which the forecasted transaction and hedged item are documented and specifically indicates that, regardless of how documented, the tenor of an interest rate index is considered an attribute of the hedge risk. However, it is not evident in this paragraph whether or not the index or the nature of the debt as variable or fixed also should be considered to be attributes of the hedge risk regardless of how documented. It would be helpful to specifically state this given the importance of this distinction in determining whether the hedged transactions remain probable of occurring.

Terminology

We believe it would be preferable to use the terminology of "*a hedged transaction that is inconsistent with the most recently documented hedge risk*" in place of or as an explanatory addition to the terminology of "*a hedged transaction with an undocumented hedge risk*" used in paragraph 815-20-25-3 and related amendments because paragraph 815-20-25-3(b)(2)(iii) requires an entity to document the hedge risk as a condition of hedge accounting. As worded, a reader could jump to the conclusion that the various provisions related to a hedged transaction with an undocumented risk do not apply if a hedge risk was documented at hedge inception.

Required timing to reassess the best estimate of the hedge risk

Paragraph BC22 of the proposed ASU states that the Board decided not to extend the timing relief for the requirement to reassess the best estimate of the hedge risk expected to be present in forecasted transactions to certain private companies and not-for-profit entities. It does not appear evident from the proposed amendments what the required timing is intended to be for these entities to reassess the best estimate of the hedge risk. As such, we suggest the Board modify the guidance in paragraphs 815-20-25-139 through 25-141 to clearly reflect the Board's intent as entities may logically assume that, if they are not required to assess the effectiveness of the hedge until the next financial statements are available to be issued, they are not required to reassess the best estimate of the hedge risk until that time.

Question 4: *Would any of the proposed amendments require special consideration for private companies that are not financial institutions and not-for profit entities (except for not-for-profits entities that have issued, or are a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market)? If so, which proposed amendment or amendments would require special consideration and why?*

Except for clarifying the timing of the requirement to reassess the best estimate of the hedge risk that we point out in our response to the preceding question, we are not aware of any amendments that require special consideration for private companies. In our experience, many middle market companies struggle equally in understanding and applying the hedge accounting guidance, regardless of whether they are a private company, public company, not-for-profit entity or financial institution.

Question 5: *Should entities use a method documented at hedge inception to identify hedged transactions using hindsight or should another approach be used? Please explain why. If you support another approach, please explain that alternative.*

As noted in our response to Question 3, many entities (both public and private) continue to struggle with the documentation requirements of paragraph 815-20-25-3, given that these requirements are not intuitive and are not consistent with how management generally views its hedge relationships from the risk management perspective, as well as given the sheer magnitude and complexity of the guidance in Topic 815. As such, we expect these entities also will struggle with documenting the method that will be used to identify hedged transactions using hindsight. The expanded examples mentioned in our response to Question 3 should be helpful in this regard. However, we believe it would be contrary to promoting meaningful financial reporting if an entity would be required to conclude that it did not qualify for hedge accounting if, due to oversight, this particular requirement or other details about the hedging relationship were not met at hedge inception despite a good faith effort. For that reason, we believe an entity that omitted such documentation should be permitted to select a policy after the inception of the hedge and apply that policy consistently to all similar hedges.

Question 6: *Is transition guidance needed for entities that may have applied the change in hedge risk guidance to hedges of foreign exchange risk or credit risk or both in reported financial statements?*

We defer to reporting entities to respond to this question as we are not aware of the extent to which entities may have applied the change in hedge risk guidance to these types of hedges. As noted in the “Additional comments” section that follows, we believe the change in hedge risk guidance should be extended to hedges of foreign exchange risk.

Question 7: *Do you agree with the specific considerations for transition for the proposed amendments? Are other transition provisions needed related to:*

a. The proposed amendments that would require that an entity consider only the designated hedge risk in the prospective assessment of hedge effectiveness for hedges within the scope of the change in hedge risk guidance

b. The proposed amendments on the subsequent assessment of hedge effectiveness when a change in hedge risk is identified?

Please explain why or why not.

We agree with the proposed transition amendments. However, we believe an entity that modifies a hedge of overall changes in cash flows of forecasted purchases or sales of nonfinancial assets to specify that the hedge risk is the variability in the contractually specified component should be permitted to elect to perform subsequent assessments of effectiveness qualitatively, similar to the relief extended through ASU 2017-12 in paragraph 815-20-65-3(e)(5)(i).

Question 8: *Do you agree with the proposed effective dates? If the proposed amendments were effective for all public business entities for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years and for all other entities for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021, would entities have sufficient time to implement these amendments if a final Update is issued in the first half of 2020?*

We believe that the proposed effective dates are logical because the effective date for entities that are not public business entities coincides with the deferred effective date of ASU 2017-12. We respectfully defer to reporting entities to comment on the time needed to implement the amendments.

Additional comments

We agree with the belief expressed in paragraph BC65 of the proposed ASU that there is no conceptual basis to exclude hedges of foreign exchange risk from the change in hedge risk guidance and encourage the Board to reconsider this decision.

We also note that paragraph 815-30-55-1A was moved to proposed paragraph 815-30-55-1W. We believe paragraphs 815-30-55-2 through 55-8 also should be moved to follow proposed paragraph 815-30-55-1W since they are a continuation of the example noted there.

We greatly appreciate the efforts the Board has put forth to improve hedge accounting and the opportunity to provide feedback on this proposed ASU. We would be pleased to respond to any questions the Board or its staff may have concerning our comments and ask that questions be directed to Rick Day at 563.888.4017 or Faye Miller at 410.246.9194.

Sincerely,

RSM US LLP

RSM US LLP