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January 13, 2020

VIA Email: director@fasb.org

Mr. Shayne Kuhaneck
Acting Technical Director, FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 2019-790. Proposed Accounting Standards Update, *Derivatives and Hedging (Topic 815): Codification Improvements to Hedge Accounting.*

Dear Mr. Kuhaneck,

The General Electric Company (hereinafter referred to as "GE" or "we"), appreciates the opportunity to respond to the Financial Accounting Standards Board's ("FASB's") request for comment on the proposed Accounting Standards Update ("ASU") Derivatives and Hedging (Topic 815): Codification Improvements to Hedge Accounting, (the "Exposure Draft").

We support the Board's effort to simplify the application of hedge accounting. We support the proposed amendments addressing when the hedged risk changes in a cash flow hedge such that a change in a designated hedged risk is not a missed forecast. We believe that this will clarify how to apply the guidance on missed forecasts and eliminate diversity in practice. However, we do not believe that foreign currency hedges should be scoped out of the proposal as conceptually there is nothing unique to foreign currency hedges that is not also relevant to interest rate or commodity hedges. We would prefer a conceptual model that is applicable to all risk types rather than a rule based model that excludes certain risk types. We do not think it would be onerous to amend the guidance to be consistent irrespective of risk type, and hence have proposed some edits to make this operarable and also illustrated the principle through an example.

We believe the proposed amendments to contractually specified components in cash flow hedges of nonfinancial forecasted transactions provide the necessary additional clarity on documentation requirements and the relationship to the relevant pricing formula. We believe the proposed amendments to foreign currency debt instruments in a dual fair value and net investment hedge will eliminate the mismatch that results from recording the fair value hedge basis adjustment foreign currency impact in OCI rather than income.

The appendix to this letter contains our detailed responses to the Questions for Respondents in the Exposure Draft. It includes additional observations and, in some cases, expands on our comments above.

I want to thank the FASB again for their effort and consideration of this issue. We hope you find our comments helpful. Should you have any questions or require further information concerning any of the matters discussed in this letter, please do not hesitate to contact me at Thomas.Timko@ge.com or Russel Botha at Russel.Botha@ge.com.

Yours truly,

GENERAL ELECTRIC COMPANY

/s/ Thomas S. Timko

Thomas S. Timko

Vice President, Controller and Chief Accounting Officer

cc: Chris Whitley, Head of Accounting Policy

Appendix
General Electric Company
Responses to Proposed ASU's 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?

We support the Board's proposal to make a distinction between the forecasted transaction and the hedged risk consistent with the basis for conclusions in Update 2017-12 such that a change in a designated hedged risk is not a missed forecast in accordance with paragraphs 815-30-40-4 through 40-6. We believe that this will clarify how to apply the guidance on missed forecasts and eliminate diversity in practice. It will reduce the risk associated with cash flow hedge accounting for situations where the hedged item occurs as originally forecasted but there is a change in the hedged risk calling into question an entity's ability to apply cash flow hedge accounting for similar transactions in the future if there is a pattern of such occurrences. We understand that many entities have limited the application of hedge accounting due to the guidance on missed forecasts that states a pattern of such misses could call into question the entity's ability to apply cash flow hedge accounting for similar transactions. Under one view in practice a pattern exists if only two or three misses are experienced thus creating a low threshold. As a result, entities can be discouraged from applying cash flow hedge accounting in situations where the hedged risk may change as they do not want to be restricted from applying cash flow hedge accounting in the future if they experience merely a couple of missed forecasts.

As highlighted in the basis for conclusions, it is not uncommon in practice that a hedged risk could change as a result of natural disasters, international trade disputes, elective changes in suppliers, or suppliers exercising their control over pricing terms, among other reasons. We thus support the Board's belief that an entity should not consider the hedged risk in determining whether to apply the missed forecast guidance and agree that without allowing those changes, the amendments in this proposed Update would not accomplish the Board's objective of avoiding a missed forecast when the forecasted transaction occurs.

However, we do not support the proposed exclusion of hedges of foreign exchange risk from the scope of the guidance on change in hedged risk. Those scope exceptions were not included in the amendments in Update 2017-12 and we understand that the Board decided to remove hedges of foreign exchange risk from the scope because of the documentation requirements in current GAAP in paragraph 815-20-25-3(d)(1)(iii)(01) that require that an entity document the exact amount of foreign currency being hedged when designating the forecasted transaction in a hedge of foreign exchange risk. However, we think that guidance could be amended with minimal impact to allow entities to continue with their existing foreign exchange hedging practices whilst also permitting entities to apply a consistent methodology allowed for interest rate and commodity hedging. This would have the benefit of providing one conceptual model that can be applied equally to all risk types rather than a rules based framework that excludes certain risk types and thereby creates additional complexity.

The basis for conclusions acknowledges that the Board believes that there is no conceptual reason for excluding hedges of foreign exchange risk from the change in hedge risk guidance and instead states concerns that changes to the guidance on foreign exchange documentation and designation could have the unintended consequence of disrupting current foreign exchange hedging strategies. Our proposal is thus aimed at avoiding any disruption of current foreign exchange hedging strategies whilst also introducing consistency with other risk types as we believe there are benefits to preserving the existing practice whilst also expanding it to allow an alternative. We believe that entities should be given the ability to align their foreign currency exchange risk hedges to the guidance provided in 815-20-25-3 d. 1. iii. 02. That is, an entity should be permitted to document the forecasted transaction in such a manner that the forecasted transaction and hedged risk are distinguished. Whilst many entities will continue to apply the current guidance, through outreach we understand that entities would also like to be able to align their foreign currency exchange risk hedges to the guidance permitted for interest rate and commodity hedges.

We believe the distinction between which model entities apply to their foreign currency exposures may be made on the basis of the nature of the item that is being hedged which may be unique to foreign currency hedging strategies. Typically businesses will distinguish their foreign currency exposures between different categories. In the first category are forecasted foreign currency exposures that are of high volume and occur on a recurring basis where a steady volume can be reliably forecast – referred to as “flow” hedging in practice. For a manufacturing entity this would be the case where they sell the same product in large volumes each month e.g. selling MRI machines in a particular currency in a particular country where we have a long history of making such sales on a regular basis and an expectation that such activity will continue over the forecast horizon.

In contrast, in the second category are exposures that are infrequent and generally of much larger value where there is no recurring pattern. In a manufacturing entity such as GE we engage in large projects for customers to manufacture and install equipment such as turbines that can take several years to complete. In such projects we will be required to source large unique components from external vendors in order to complete the customer project. These components have to satisfy stringent criteria that are agreed to with the end customer and can thus be specified precisely at inception of the customer contract such that the forecasted transaction will be documented with sufficient specificity so that we can identify a transaction that is eligible to be identified as hedged when it occurs, regardless of the hedged currency risk. These items may need to be customized by the vendor to satisfy the customers requested specifications, and hence they are not purchased in large volume on a recurring basis but instead will be purchased to satisfy a unique project. An example to illustrate the level of specificity that is contained and would be included in the hedge documentation to identify the hedged forecasted transaction could be: Pressure Switch Fp60fx Relative Serie F - 1/4 '' Npt M - 250 Vdc - 50 Mbar (Code Pgme Fp60fx/Code Fabricant 107706). Such a detailed level of specificity would ensure that we are able to identify the forecasted transaction when it occurs.

For hedges of foreign currency sales or purchases where large volumes of similar items are purchased each period, the guidance on specifying the currency amount is most practicable because it alleviates the need to document each of the underlying forecasted transactions individually which could be an onerous task if they are all the same or similar and of small value but high volume. We would thus propose leaving that guidance in place.

However, for hedges of foreign currency exposures that are unique and non-recurring this guidance is not required because it is possible to specify the nature of the underlying, no different to any other category of risk as illustrated above. These projects can take many years to complete thus raising the likelihood that the sourcing team identify an opportunity to purchase the same part from a different supplier in a different currency to what was forecasted at inception of the project. Changing suppliers is consistent with our Enterprise-wide Risk Management practice, where sourcing teams are constantly working to diversify the supplier base, because there are onerous penalties for delays in such large contracts. Hence, the environment in which we do business requires us to periodically reassess and potentially change suppliers for many reasons including timing, quality and price. In such cases, the forecasted component being purchased will be purchased as originally anticipated, but the foreign currency exchange risk could change if the supplier is located in a different country. Said differently, our proposal for such cases is that the forecasted hedged item be identified by its specific physical attributes rather than by a currency amount.

We believe the relevant ASC 815 guidance could be amended with minimal impact to allow for a consistent principle to be applied in distinguishing the hedged forecasted transaction from the hedged risk whilst also allowing continued use of the existing practice of documenting a currency amount as follows:

815-20-25-3 Concurrent designation and documentation of a hedge is critical; without it, an entity could retroactively identify a hedged item, a hedged transaction, or a method of assessing effectiveness to achieve a desired accounting result. To qualify for hedge accounting, there shall be, at inception of the hedge, formal documentation of all of the following:

d. Documentation requirement applicable to cash flow hedges only:

1. For a cash flow hedge of a forecasted transaction, documentation shall include all relevant details, including all of the following (see paragraphs 815-30-55-1G through 55-1V for related implementation guidance):

i. The date on or period within which the forecasted transaction is expected to occur.

ii. The specific nature of asset or liability involved (if any).

iii. Either of the following:

01. ~~The expected currency amount for hedges of foreign currency exchange risk; that is, specification of the exact amount of foreign currency being hedged~~

~~02.~~ The quantity of the forecasted transaction ~~for hedges of other risks;~~ that is, specification of the physical quantity (that is, the number of items or units of measure) encompassed by the hedged forecasted transaction.

<u>02. As an alternative for hedges of foreign currency exchange risk</u>, the expected currency amount; that is, specification of the exact amount of foreign currency being hedged

This would thus allow current practice to continue but also to have a consistent principle irrespective of hedged type. Regarding the consequential question of whether there should be any impact if the hedged risk changes, we believe the same principle would be applied as for other risks in that this would not give rise to a missed forecast but could instead give rise to hedge ineffectiveness. The proposed guidance would allow an entity to avoid retrospectively testing its effectiveness based on the revised hedged risk and should the Board retain that principle in the final update then that would apply here to. We do however believe that a re-evaluation of the effectiveness of the hedge based on the revised hedged risk could also be performed and may in fact be preferable because it would avoid the consequence of avoiding any ineffectiveness from the prior hedging relationship when in fact the hedge was not effective based on the revised hedged risk.

We also do not think that the variability in the underlying price of the non-financial item should create concerns in documentation of the hedged item because ASC 815-20-25-15 i. already permits an entity to hedge either:

1. *The risk of changes in the functional-currency-equivalent cash flows attributable to changes in the related foreign currency exchange rates*
2. *The risk of changes in the cash flows relating to all changes in the purchase price or sales price of the asset reflecting its actual location if a physical asset (regardless of whether that price and the related cash flows are stated in the entity's functional currency or a foreign currency), not the risk of changes in the cash flows relating to the purchase or sale of a similar asset in a different location.*
3. *The risk of variability in cash flows attributable to changes in a contractually specified component.*

The hedged forecasted transaction would thus be identified by its physical attributes (see above for examples) and the physical quantity of those items. This would provide sufficient basis to identify the hedged forecasted transaction when it occurs as required by the guidance. The foreign exchange risk would be identified a the hedged risk and we propose that this would be the combination of the currency pair being hedged (for example EUR against USD) as well as the anticipated foreign currency amount (for example EUR 100). The foreign currency amount would thus be specified as part of the hedged risk, not the forecasted transaction attributes. The specification of the foreign currency amount is necessary for hedge assessment and effectiveness purposes, but is not relevant in specifying the hedged forecasted transaction because that is specified by its physical attributes. In order to illustrate how this principle would work in practice we have proposed the following example:

Implementation Guidance and Illustrations

> Illustrations

> > Documentation requirement applicable to foreign currency cash flow hedges

815-30-55-1B This guidance discusses the implementation of paragraph 815-20-25-3. Entity A's objective is to hedge the variability in cash flows attributable to changes in foreign currency exchange risk in a forecasted purchase of a specified component that will be required to fulfil a large contract it has to construct a power turbine for a customer. The turbine must meet specific performance and quality criteria and Entity A is thus able to specify the precise nature of the component that will need to be purchased in the future. Specifically, Entity A will need to purchase a pressure switch Fp60fx Relative Serie F - 1/4 " Npt M - 250 Vdc - 50 Mbar (Code Pgme Fp60fx/Code Fabricant 107706). The following assumptions are relevant:
a. Entity A's functional currency is USD
b. Entity A expects to purchase the pressure switch in June 20X1
c. Entity A's best estimate of the risk expected to be present in this purchase is the EUR-USD exchange rate and it estimates the purchase price as EUR 1,000,000
d. The EUR-GBP spot rate on the trade date of the hedging instrument is 1.3.

815-30-55-1C On January 1, 20X1, Entity A enters into a forward contract to exchange EUR for USD with a notional amount of EUR 1,000,000 that matures on June 30, 20X1. The forward contract is designated as a hedging instrument in a foreign currency cash flow hedge in which the hedged item is documented as the forecasted purchases of a pressure switch Fp60fx Relative Serie F - 1/4 " Npt M - 250 Vdc - 50 Mbar (Code Pgme Fp60fx/Code Fabricant 107706). The hedged risk is documented separately as foreign currency exchange risk of EUR against USD with an estimated notional amount of EUR 1,000,000 because as of the date of hedge designation, Entity A expects the pressure switch to be purchased in EUR. Therefore, in accordance with paragraph 815-20-25-3 d. 1. iii. 02, Entity A documents as the hedged risk the variability in cash flows attributable to changes in the specified EUR USD exchange rate in the not-yet-existing contract. On January 1, 20X1, Entity A determines that all requirements for cash flow hedge accounting are met. As part of that determination, Entity A prospectively assesses hedge effectiveness and determines that all the necessary requirements are satisfied.

815-30-55-1D As part of its normal process of assessing whether it remains probable that the hedged forecasted transaction will occur and as part of its required quarterly reassessment of its best estimate of the hedged risk in accordance with paragraph 815-30-35-37B, on March 31, 20X1, Entity A determines that the forecasted purchase of the pressure switch in June 20X1 will occur but that the pressure switch will be purchased from a different supplier to what was originally forecast and hence will be purchased in GBP instead of EUR. As of March 31, 20X1, Entity A retrospectively assesses hedge effectiveness on the basis of the changes in cash flows associated with the forecasted purchase of the pressure switch attributable to variability in the EUR USD exchange rate and begins prospectively assessing hedge effectiveness on the basis of the changes in cash flows associated with the forecasted purchase of the *pressure switch attributable to variability in the GBP USD exchange rate in accordance with paragraph 815-30-35-1B. When assessing hedge effectiveness with the revised hedged risk (that is, the GBP USD exchange rate), Entity A creates the terms of the instrument used to estimate changes in the value of the revised hedged risk (either under the hypothetical derivative method or another acceptable method in Subtopic 815-30) on the basis of market data as of the inception of the hedging relationship. Entity A does this by converting the originally anticipated EUR purchase price of EUR 1,000,000 into its equivalent GBP purchase price of GBP 1,300,000 using the spot rate as of the inception of the hedging relationship. Because the hedged forecasted transaction (that is, the purchase of the pressure switch) is still probable of occurring, Entity A may continue to apply hedge accounting if the hedging instrument is highly effective at achieving offsetting cash flows attributable to the revised foreign currency hedged risk.*

815-30-55-1E In subsequent periods after the initial prospective assessment of hedge effectiveness using variability in the GBP USD exchange rate, Entity A retrospectively assesses hedge effectiveness using variability in the GBP USD exchange rate for the periods it was the entity's then-best estimate (which would not include any periods before the change in hedged risk was identified). On June 20X1, Entity A enters into a contract to purchase the component in GBP.

815-30-55-1F If on March 31, 20X1, the forward contract indexed to the EUR USD exchange rate is not highly effective at achieving offsetting cash flows attributable to the GBP USD exchange rate (the revised foreign currency exchange risk) on a prospective basis, the hedging relationship must be discontinued on March 31, 20X1. In that case, as long as it is not probable that the hedged forecasted transaction (that is, the forecasted purchase of the pressure switch) will not occur by June 30, 20X1, or within an additional two-month period of time thereafter in accordance with paragraph 815-30-40-4 and the retrospective hedge effectiveness assessment based on variability in the EUR USD exchange rate indicated that the hedging relationship was highly effective from the period of January 1, 20X1, to March 31, 20X1, Entity A would reclassify amounts from accumulated other comprehensive income to earnings when the hedged forecasted transaction affects earnings in accordance with paragraphs 815-30-35-38 through 35-41. The reclassified amounts should be presented in the same income statement line item as the earnings effect of the hedged item in accordance with paragraph 815-2045-1A. Immediate reclassification of amounts from accumulated other comprehensive income to earnings would be required only if it becomes probable that the hedged forecasted transaction (that is, the purchase of the specified pressure switch in June 20X1) will not occur by June 30, 20X1, or within an additional two-month period of time thereafter in accordance with paragraph 815-30-40-4. As discussed in paragraph 815-30-40-5, 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 applying cash flow hedge accounting in the future for similar forecasted transactions.

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

Please see our response to question 1 above. Specifically, we would prefer to have one consistent principle to apply when documenting the hedged forecasted transaction separately from the hedged risk, irrespective of risk type, as we believe that would be more operable than scoping out certain risks.

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

No.

Question 4: Would any of the proposed amendments require special consideration for private companies that are not financial institutions and not-forprofit 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?

Not applicable for us.

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.

Yes.

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?

Please see our response to question 1 above.

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 hedged risk in the prospective assessment of hedge effectiveness for hedges within the scope of the change in hedged risk guidance b. The proposed amendments on the subsequent assessment of hedge effectiveness when a change in hedged risk is identified? Please explain why or why not?

Yes, we agree with the transition considerations.

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?

Yes, we agree with the proposed effective dates.