Technical Director

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Financial Accounting Standards Board

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To the Technical Director :

This Accounting Standards Update, Topic 815, Derivatives and Hedging, is overall an Update that deals with accounting treatment of securities held – to – maturity, and available – for – sale. This commenter has read through this Update that raises issues about leverage and derivatives and their accounting treatments and related disclosures in the financial statements, the way fair value is matched from records to the financial statements, and the actual economic substance of derivatives transactions including the ways derivatives are used in leverage and in hedging strategies. The Update discusses the various risks involving hedging and derivatives including interest rate risk, hedge risk, underlying risk and so on. Any familiarity with such items calls for constant and deliberate study and review of the properties of derivatives, their financial attributes as well, and the different ways in which derivatives, when employed properly, can greatly benefit public and private businesses alike.

Much of the discussion in this Update has to do with investment securities, pricing of financial assets and their financial statement presentation, whereas there is a classic reluctance by business stakeholders and always has been to concentrate on the same and to shun any knowledge of one's use of, and the perceived utilities of leverage and liabilities that can facilitate income – producing assets or working capital that make businesses operable and keeps them going. It is important that one not lose, given the emphasis in the discussion upon activities and risk assessment and other business activities, sight of the actual purpose of the for – profit entity to generate revenue and to accumulate capital. Any cursory web search of Topic 815 brings up more I.F.R.S. internet landing pages than either FASB or actual U.S. GAAP landing pages. The I.F.R.S. to a great extent, a system based upon domains and activities, does not have the same capital formation emphasis as U.S. GAAP and users of financial statements should be wary of comparing U.S. GAAP to strictly I.F.R.S. – formatted financial statements.

Incidentally also, this commenter is surprised that U.S. GAAP now allows for more and more adjustments to Retained Earnings, such as the "basis adjustment" included in this Update. Though adjusting Retained Earnings is a serious matter, there did not appear in this Update, apart from related basis adjustment language, any reasonable or consistent argument for this. Given the adjustment to Retained Earnings in the Update a priori a basis adjustment for fair value securities, it is possible this treatment of the Retained Earnings account could find more widespread use in contradiction to the principle of recording capital formation through the Income Summary. This commenter humbly suggests that the Financial Accounting Standard Board seriously discuss the accounting treatment of the basis adjustment and within the derivatives – hedging topic at hand in view of allowing for an income statement item or items for disclosure instead of focusing on modifying the Retained Earnings account. This commenter thanks the Board for being allowed to give feedback on this important standards Update at this time and insofar as it is a privilege, thanks the reader of this memorandum as well for the related effort in its review. Responses to the Update's questions are as follows :

Question 1. – Operability : Are the amendments in this proposed Update operable and auditable? If not, which proposed amendment or amendments pose auditability or operability issues and why? Answer : This Accounting Standards Update in its amendments' sections refers to "basis" and "basis adjustments" that have to do with fair value adjustments of a securities portfolio and portfolio attributes. The term "basis adjustment" per se appears to have to do with an asset or interest rate security or instrument having a different definition other than that of GAAP fair value, e.g., tax basis, and thereby "inside basis" or "outside basis" as might be the connotation of the term for tax, not GAAP. Further the "basis adjustments" also encompass tax terms for items that are computationally different from what appears to be at hand here – a GAAP valuation allowance. This commenter otherwise believes the amendments in this Update are auditable and operable as long as the bookkeeping for the securities referred to in the Update is according to GAAP, and has affirmative management representation according to Topic 815 guidance.

Question 2. – Risk Management : As proposed, would the multiple – layer model align with the entities' risk management objectives? Please explain why or why not? Answer : This standards Update provides for a number of types of risk affecting the derivative securities it examines – interest rate risk, hedging risk, exchange risk, (implied) market and business risks underlying the portfolio, asset pricing risk, prepayment risk, and these risks and others are integrated into the risk assessment(s) and risk management activities by the entity. The amendments in this proposed Update more closely align the entity's financial reporting with its risk assessment and management activities and by this more clarity and consistency in financial reporting by the entity.

Question 3. – Scope : Do you agree with the Board's decision to limit the scope of the types of instruments eligible for portfolio – layer method hedging to prepayable financial assets or one or more beneficial interests secured by a portfolio of prepayable financial instruments? Please explain why or why not. Answer : The Board appears by this standards Update to emphasize clarifying and improving the amendments presented the provisions of Update 2017 – 12, rather than in considering the plethora of derivatives and securities hedging overall. The benefits of first examining and then establishing accounting treatment for derivatives and securities hedging, closed portfolios and designations and the like included, do not outweigh the much higher costs of the establishment of accounting treatment for every single one of these derivatives and securities and related hedges. By this, commenter agrees with the Board's decision to limit the scope of the instruments eligible for the portfolio – layer method in refining the provisions of standards Update 2017 – 12.

Question 4. – Dedesignation Sequencing : Do you agree with the Board's proposed amendments on hedge dedesignation sequencing under the multiple – layer model? Please explain why or why not. Answer : Dedesignation under the multiple – layer model takes place given a systematic and rational method and the Board has decided against allowing entities sole discretion of their own dedesignation method or methods. The entity - initiated dedesignation of an entity's hedges called for an overriding complexity in disclosures and misrepresenting the financial economics of the entity vis – a – vis the hedges. This complexity has to do with the dedesignation sequence that is apparently not often documented at the beginning of a hedge. By this, commenter agrees with the Board decision on dedesignation sequencing under the multiple – layer model.

Question 5. – Basis Adjustments : Do you agree with the Board's proposed amendments on accounting for basis adjustments and disclosure of those basis adjustments in disclosures required by other areas of GAAP outside hedge accounting? Please explain why or why not. Answer : The basis adjustment appears to have to do with a computation of fair value with breach and then computation before dedesignation, and a difference in an allocation to a basis adjustment. Entities should have a proactive policy toward prepayments, defaults and other factors that do not make up the hedged asset, and the basis adjustment of the asset(s) examined should consistently not assimilate those factors in turn. Basis adjustments are also on a closed portfolio level. This should not distort the balance sheet disclosure of basis adjustments. This also allows financial statement users to examine fair value basis adjustments that do not affect future cash flows. Provided the financial statement reasonably and faithfully presents the basis adjustment associated, e.g., with a breach caused by prepayments or a breach caused by credit defaults as illustrated by this Update, this commenter agrees with the Board's proposal.

Question 6. – "Follow the Asset" Method : In the case of a breach, do the expected costs of identifying which assets in the closed portfolio that caused the breach justify the expected benefits of aligning the derecognition guidance with other Topics in GAAP? Please explain why or why not. Answer : The accounting treatment for the basis adjustment associated with the breach of assets in a closed portfolio is consistent with the accounting for any premium or discount on the assets causing the breach. The entity would have to know in the event of the breach which assets caused the breach on the basis of recency (in time) to the breach, and the systematic identification of such assets would be dependent upon the time they are or were to remain outstanding. By this, commenter agrees that the costs of identifying the assets causing the breach do justify the expected benefits of compliance, for instance, with credit losses treatment in Topic 326 and treatment of dedesignated hedges in Topic 815.

Question 7. – Certain Private Companies and Not – for – Profit Entities : 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 – profit entities that have issued, or are a conduit obligor for, securities that are traded, listed, or quoted on an exchange or an over – the counter market?) If so, which proposed amendment would require special consideration and why? Answer : Private companies that are not financial institutions are exempted from having to provide documentation concerning the entity's risk – management activities, and along with not - for – profit organizations are allowed to submit documentation assessing hedge effectiveness. This does not affect the simplified hedge accounting method used by private companies in their hedging activities.

Question 8. – Transition : Do you agree with the proposed transition guidance? Please explain why or why not. Answer : Due to the interaction between Topics 310 (Receivables), 320 (Debt Securities) and 326 (Financial Instruments – Credit Losses), and Topic 815 (Derivatives and Hedging), and possibly other GAAP provisions, there should be some transition relief for those required to comply with the proposed Update once finalized, especially private business entities. Provision should also be made for public business entities in view of this to follow the adoption and transition rules of Topic 326 as this commenter believes the overall importance and relevance of this Update parallels the implementation of Topic 326.

Question 9. – Implementation : How much time would be needed to implement the proposed amendments? Should the amount of time needed to implement the proposed amendments by entities other than public business entities be different from the amount of time needed by public business entities? Please explain you're your response. Answer : The objective of financial reporting is to provide useful information to stakeholders, though the benefits of providing new information for financial statement users from improvements in financial reporting should justify the costs. Such benefits and costs are more qualitative in nature and are difficult to measure. Some relief given any implementation deadline of this standards Update should be allowed for private business entities. This commenter also suggests for purposes of discussion the importance of Topic 326, Financial Instruments – Credit Losses, in parallel with the implementation of Topic 815 and that they both, given interactions with related standards, allow for the same transition period and implementation deadline for public business entities.

By,

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