



Ernst & Young LLP
5 Times Square
New York, NY 10036

Tel: +1 212 773 3000
ey.com

2021-002
Comment Letter No. 9

Ms. Hillary Salo
Technical Director
File Reference No. 2021-002
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

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Proposed Accounting Standards Update, *Derivatives and Hedging (Topic 815): Fair Value Hedging – Portfolio Layer Method* (File Reference No. 2021-002)

Dear Ms. Salo:

We appreciate the opportunity to comment on the Proposed Accounting Standards Update, *Derivatives and Hedging (Topic 815): Fair Value Hedging – Portfolio Layer Method*, issued by the Financial Accounting Standards Board (FASB or Board).

We continue to support the FASB's efforts to improve its hedge accounting model by enabling entities to better portray the economics of their risk management activities in their financial statements, and we believe this project is consistent with that objective. We also believe investor outreach is a critical aspect of the standard-setting process; therefore, we recommend that the FASB discuss in any final Accounting Standards Update (ASU) issued the extent of outreach it performed on this topic and the nature of the feedback the Board received from investors on its proposal.

We generally support the FASB's proposal, but we recommend that the Board consider expanding the scope of the portfolio layer method to include fair value hedges of interest rate risk for portfolios of all financial instruments, including financial liabilities and instruments that are not prepayable.

We agree with the proposed guidance that would allow entities to hedge multiple layers in a closed portfolio, rather than just a single layer. We believe a multiple-layer model is more consistent with the risk management strategies that would be employed by most entities, particularly financial institutions that routinely seek to hedge portfolios of financial instruments.

We also support the proposed guidance that would prohibit entities from considering the basis adjustments in existing portfolio layer hedges when measuring expected credit losses of the assets in the closed portfolio or determining whether available-for-sale assets in the closed portfolio are impaired. In our view, requiring these adjustments to be maintained at the closed portfolio level is consistent with the notion that entities are hedging a stated amount or stated amounts of a closed portfolio, not specific assets in the closed portfolio.



In addition, we agree with the proposed amendment to Accounting Standards Codification (ASC) 815-25-35-13B, which would clarify the guidance on how to determine the assumed term of the hedged item in a partial-term fair value hedge of interest rate risk. We note that the existing guidance is confusing and seems to imply that the assumed maturity needs to align with the end of a coupon period for the hedged item, which is inconsistent with how the last-of-layer hedging model is applied in practice. We believe the FASB's proposal to allow entities to use an assumed term for the hedged item that is aligned with the term of the hedging instrument (for all partial-term fair value hedges of interest rate risk, not just portfolio layer hedges) is a straight-forward approach that is consistent with the risk management objectives of entities.

We also note that certain aspects of the proposal may be operationally challenging to apply; therefore, we recommend that some aspects of proposed guidance be removed or simplified. In addition, we believe more clarity is needed in certain areas. These items are discussed in our responses to the Questions for Respondents, which are included in the appendix to this letter.

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We would be pleased to discuss our comments with the Board or the staff at its convenience.

Very truly yours,

Ernst & Young LLP

Appendix – Responses to Questions for Respondents included in the FASB’s proposal

Question 1 – Operability: Are the amendments in this proposed Update operable and auditable? If not, which proposed amendment or amendments pose operability or auditability issues and why?

We believe the proposed amendments are generally operable and auditable, but we think it would be helpful for the FASB to provide more clarity regarding how the definition of a hedged layer should be considered in practice.

The proposal defines a hedged layer as “a stated amount or stated amounts of a closed portfolio of prepayable financial assets or one or more beneficial interests secured by a portfolio of prepayable financial instruments that is **not expected to be affected by prepayments, defaults, or other factors affecting the timing and amount of cash flows for the period hedged**” (emphasis added). We believe that some constituents may be interpreting the highlighted phrase in this definition to mean that any asset in the closed portfolio that has been affected by prepayments or defaults would not be eligible to support a hedged layer amount and should essentially be removed from the closed portfolio. This would include assets that experience delinquencies that are expected to be cured during the life of the hedge and assets that are partially prepaid.

We do not believe this is the Board’s intent. Instead, we believe the objective of the guidance is to ensure that, throughout the term of the hedging relationship, an entity can demonstrate that it expects to have interest cash flows on an amount of assets or beneficial interests that equals or exceeds the stated amount of the designated hedge layer or layers.

This view seems to be supported by the proposed guidance in 815-25-40-9A(a), which would indicate that when a portfolio layer method hedging relationship is discontinued because the outstanding amount of assets or beneficial interests in the closed portfolio is less than the hedged layer or layers (i.e., a breach has occurred), an entity should “identify the asset or assets (**or portion thereof**) that caused the breach” (emphasis added). The reference to a portion of the asset seems to indicate that when an asset is partially prepaid, only the prepaid portion of the asset would no longer be available to support the hedged layer.

To avoid questions on this topic and the potential for diversity in practice, we suggest that the FASB clarify that assets that experience delinquencies expected to be cured during the life of the hedge and assets that are partially prepaid would continue to support the stated amount or amounts of the designated hedged layer or layers in a closed portfolio. We believe such a clarification would be useful, even if it were made in the Background Information and Basis for Conclusions of any final standard.

Question 2 – Risk Management: As proposed, would the multiple-layer model align with entities’ risk management objectives? Please explain why or why not.

We believe the proposed multiple-layer model would further align hedge accounting with entities’ risk management objectives. The current guidance that allows entities to hedge only a single layer in a closed portfolio of financial assets limits the total amount of principal that can be hedged to the amount of assets the entity expects to be outstanding at a single point in time (i.e., the amount of assets expected to be outstanding at the end of the single hedging period).

Allowing entities to hedge multiple layers in a single closed portfolio enables them to designate hedging relationships based on management's expectations about the amount of assets that will be outstanding at different points in time, thereby maximizing the amount of outstanding principal that can be hedged within the closed portfolio. This approach is more consistent with entities' risk management objectives because it provides them with the flexibility to designate hedging relationships based on management's expectations regarding when prepayments or defaults on assets in the closed portfolio will occur over a period of time.

However, we note that the proposed criteria in 815-20-25-12A(d) through 25-12A(e) regarding assets that can be included in the closed portfolio may limit the ability of entities to actively manage hedging relationships within a single closed portfolio. These limitations would be inconsistent with the risk management objectives of certain entities that we understand would choose to define a closed portfolio broadly and add new hedges or dedesignate existing hedges in the closed portfolio as needed.

As discussed further below, the proposed criteria could make it challenging for entities to add new hedges or dedesignate existing hedges in a closed portfolio where existing hedging relationships already exist. Therefore, we believe the Board should consider not including the proposed criteria in 815-20-25-12A(d) through 25-12A(e) in any final guidance.

Contractual maturity criteria

The contractual maturity date criterion in 815-20-25-12A(d)(2) states that "all assets in the closed portfolio shall have a contractual maturity date on or after the end of the earliest-ending hedge period associated with the closed portfolio." This proposed guidance could make it challenging for entities to add shorter-term hedges to a closed portfolio with one or more existing hedges.

For example, assume that an entity initially designates hedges of a five-year layer and a 10-year layer within a single closed portfolio. Under the proposed guidance, all financial assets in the closed portfolio would be required to have contractual maturities of at least five years when these hedges are designated. If the entity subsequently wanted to add a hedge of a three-year layer to the closed portfolio, it could only do so if the existing assets in the closed portfolio (with contractual maturities of five years and greater) were able to support all three hedging relationships. The entity could not add additional assets (with maturities of three years and greater) to the closed portfolio without having to dedesignate and redesignate its two existing hedging relationships.

While we agree that adding new assets to a closed portfolio is a dedesignation event, we note that if the proposed criteria in 815-20-25-12A(d) were eliminated, the entity in the example above would be able to include assets with contractual maturities between three and five years in the original closed portfolio, and these assets could then serve to support the addition of the three-year hedge. Including these shorter-dated assets in the original closed portfolio should not affect the original designated hedges of five and 10 years.

In our view, the proposed criteria in 815-20-25-12A(d) seem unnecessary, given the proposed guidance in 815-20-25-12A(a) and 815-25-35-7A that would require an entity to perform and document an analysis (at hedge inception and each subsequent assessment date) supporting its expectations that the hedged layer for each existing hedging relationship will remain outstanding for

the period hedged. The requirement to perform this analysis would seem to ensure that the closed portfolio always contains assets with contractual maturities that are long enough to support all hedging relationships that exist in the closed portfolio at any given point in time.

Prepayment criteria

The prepayment criterion in 815-20-25-12A(e)(2) states that “all assets in the closed portfolio are or become prepayable before the end of the latest-ending hedge period associated with the closed portfolio.” This proposed guidance could be problematic if an entity were to dedesignate the latest-ending hedge in a closed portfolio with more than one existing hedge.

For example, assume an entity has defined a closed portfolio consisting of financial assets that all become prepayable in eight years and has designated separate hedging relationships within this closed portfolio of a five-year layer, a seven-year layer and a 10-year layer. If the entity were to dedesignate the 10-year layer hedge at some point while the other two hedging relationships were still outstanding, none of the assets in the closed portfolio would meet the proposed criteria in 815-20-25-12A(e) since none of the assets are or become prepayable by the end of year seven. As such, it would seem that the five-year and seven-year hedges would need to be dedesignated and a new closed portfolio established with assets that meet the criteria in 815-20-25-12A(e) (if they exist) in order for the entity to then redesignate these hedging relationships.

In our view, the proposed criteria in 815-20-25-12A(e) does not seem to have a theoretical basis, given that the proposal would allow an entity to initially designate hedges of a five-year layer and a seven-year layer in the example above even though none of the assets in the closed portfolio would be prepayable in these time periods. In paragraph BC19 in the Background Information and Basis for Conclusions section of the proposal, the Board discusses its decision not to require that a sufficient amount of assets become prepayable within the time period for each hedging relationship in the closed portfolio, noting the absence of a conceptual basis for such a requirement given that the hedged layers are assumed to be nonprepayable.

We agree with the Board and, as such, question the conceptual basis for limiting the scope of the portfolio layer method to only prepayable assets. (See our response to Question 3 for additional discussion on including nonprepayable instruments in the scope of the portfolio layer method). If the Board is not comfortable including nonprepayable assets in the scope of the portfolio layer method at this time, we suggest that the proposed criteria in 815-20-25-12A(e) be amended to only require that assets in the closed portfolio become prepayable at some point in their contractual life in order to be eligible for inclusion in the closed portfolio.

Use of amortizing swaps

Additional complexities may exist when an entity uses an amortizing swap as the hedging instrument in a portfolio layer hedge. As such, regardless of whether the Board decides to keep the proposed criteria in 815-20-25-12A(d), we believe additional clarity is needed with respect to these types of hedging relationships.

The proposed guidance in 815-20-55-14B indicates that an amortizing swap can be used as the hedging instrument in a portfolio layer hedge of different layer amounts for different time periods but indicates that this would be considered a single hedging relationship. Assuming this was the only hedging relationship in a closed portfolio, it would appear that the guidance in 815-20-25-12A(d)(1) would require that all of the financial assets in the closed portfolio have contractual maturity dates on or after the end of the latest layer being hedged with the amortizing swap, as this would represent the hedged period for a single hedging relationship.

For example, if an entity used a three-year amortizing swap with a notional of \$100 million in year one, \$75 million in year two and \$50 million in year three as the hedging instrument in a single portfolio layer hedge, all the financial assets in the closed portfolio (which must exceed \$100 million) would be required to have contractual maturities of three years or greater. If this is the Board's intent, we suggest that the Board make this clear in any final guidance.

Absent additional clarity, some may conclude that the closed portfolio in the above example could include assets with contractual maturities ranging from one year to three years, as long as the entity could support that there would be sufficient assets in the closed portfolio to cover the hedged layer amount for each year. Such a view might be based on the proposed example (Scenario C) in 815-20-55-14F, which indicates that designating an amortizing-notional swap as the hedging instrument achieves comparable results to designating several constant-notional swaps in a multiple-layer hedging strategy. Since all of the assets in a closed portfolio would not be required to have contractual maturities of three years or more if an entity designated a one-year layer, a two-year layer and a three-year layer as three separate relationships under a multiple-layer hedging strategy, some may believe this is not required when hedging different amounts in a single hedging relationship using an amortizing swap.

If the Board decides not to include the proposed guidance in 815-20-25-12A(d) in any final guidance, it could provide additional clarity about the application of the guidance in 815-20-25-12A(a) and 815-25-35-7A to portfolio layer hedging relationships where an amortized swap is used as the hedging instrument if it has concerns about an entity designating assets with different assumed maturities in a single hedging relationship. That is, the Board could provide additional clarity if it believes allowing entities to look to assets with shorter contractual maturities to support a larger amount being hedged in the earlier years of a hedge is inconsistent with the notion of a single hedging relationship.

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.

We believe the scope of the portfolio layer method should be expanded to include prepayable liabilities, such as certificates of deposit (CDs) with a feature that permits the holder to put the CD back to the financial institution upon death (often referred to as a death put). We see no conceptual reasons why the portfolio layer method used to hedge interest rate risk in a fair value hedge of a portfolio of prepayable financial assets could not also be used when hedging interest rate risk in a portfolio of prepayable financial liabilities.

In addition, as noted in our response to Question 2, given the proposed guidance in 815-20-25-12A(e) that would allow entities to designate hedged layers for time periods when none of the assets in the closed portfolio are contractually prepayable, it is unclear to us why the Board feels the need to limit the scope of the portfolio layer method to prepayable financial assets. While many financial instruments include some form of prepayment feature, and therefore would be eligible to be included as a hedged item in a portfolio layer hedge, some do not.

As such, we believe the Board should consider expanding the scope of the portfolio layer method to include partial-term fair value hedges of interest rate risk for portfolios of all financial instruments, regardless of whether they are prepayable. As discussed in paragraph BC116 in the Basis for Conclusions of ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*, the Board's primary purpose for incorporating the last-of-layer method into ASU 2017-12 was to provide entities with the ability to obtain hedge accounting for portfolios of prepayable assets without having to incorporate the risks arising from prepayments, defaults and other factors affecting the timing and amount of cash flows into the measurement of the hedged item. We note that the ability to "ignore" prepayment risk when measuring the change in fair value of the hedged item is one of the primary benefits of this model. However, we believe the portfolio layer model (as proposed) would also serve to reduce complexity in accounting for fair value hedges of interest rate risk for portfolios of financial instruments that are not prepayable and to better align the accounting for these hedges with entities' risk management objectives.

If the Board continues to believe that expanding the scope of the portfolio layer method for the points noted above is beyond the scope of this project as discussed in paragraph BC28 in the Background Information and Basis for Conclusions section of the proposal, we recommend that the Board consider these issues in Phase 2 of its hedge accounting project.

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.

We agree there is a need for dedesignation sequencing under a multiple-layer model when the aggregate amount of the hedged layers exceeds the amount of assets or beneficial interests in the closed portfolio (i.e., a breach occurs). When a breach occurs, some amount of the hedged basis adjustment must be immediately recognized in earnings. Accordingly, under a multiple-layer model, there is a need to include guidance that would safeguard against an entity potentially managing earnings by cherry-picking which hedging relationship to dedesignate and therefore which corresponding basis adjustment (or portion thereof) to immediately recognize in earnings. For example, an entity could choose to dedesignate a hedge with a positive basis adjustment instead a negative basis adjustment.

The proposed guidance in 815-25-40-8(b)(2) indicating that an entity would dedesignate the hedged layer with the shortest remaining period until the hedged item's assumed maturity date would address this concern. In addition, we note that the FASB's proposal has the benefit of being straightforward and is general enough that it could be applied in situations where the hedged layers in the closed portfolio change over time (e.g., if an entity added a new hedging relationship or dedesignated an existing hedging relationship in the closed portfolio).

However, we believe the Board should be open to any feedback it receives from preparers or other constituents suggesting alternative dedesignation sequencing approaches. We believe other sequencing approaches could be viable, as long as they would achieve the objective of safeguarding against cherry-picking and could be easily applied if hedged layers in the closed portfolio change over time.

We agree with the Board's proposal not to require dedesignation sequencing when a hedging relationship is discontinued (or partially discontinued) due to an expected breach (i.e., when an entity no longer expects that assets exceeding the hedged layer amount will be outstanding for the full hedged period). We believe allowing entities to choose which hedging relationship to dedesignate or partially dedesignate when a breach is expected better aligns with their risk management objectives because it would allow management to make these decisions based on its view of which benchmark interest rate(s) it would like to continue to hedge, considering the interest rate environment at the time the anticipated breach is identified.

In addition, we believe that earnings management is less of a concern in the case of an expected breach. An entity's decision on which hedging relationship to discontinue (or partially discontinue) when a breach is expected could affect the period over which a hedged basis adjustment is amortized because the adjustment is allocated to assets in the closed portfolio with different contractual maturities based on the subgroup that supports the particular hedge that is discontinued. However, there is no immediate earnings recognition of any of the hedged basis adjustment associated with the dedesignated hedge.

Finally, we recommend that a reference to the examples in 815-20-55-14K through 55-14N be added to the proposed guidance in 815-25-40-8 through 40-9A because these examples are intended to illustrate the application of the guidance on discontinuing hedge accounting.

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.

We agree with the Board's proposed amendments on accounting for basis adjustments and disclosure of those basis adjustments in disclosures required by other US GAAP topics beyond hedge accounting.

We support the Board's proposal to prohibit entities from considering the basis adjustments in existing portfolio layer hedges when they measure expected credit losses of assets in the closed portfolio or determine whether available-for-sale assets in the closed portfolio are impaired. In addition, we support the Board's proposal that entities not disclose the outstanding basis adjustments for existing portfolio layer hedges on a more disaggregated basis than the closed portfolio level, even in situations where other topics in US GAAP require the disclosure of the amortized cost basis of the assets in the closed portfolio at a more disaggregated level. We agree with the proposed guidance that would instead require entities to separately disclose the total amount of the portfolio layer basis adjustments that have been excluded from the disclosed amortized cost basis of the assets in these situations.

We believe the proposed amendments regarding the accounting for basis adjustments and how they should be disclosed are consistent with the notion that, under the portfolio layer method, an entity is hedging a stated amount or amounts of a closed portfolio, not specific assets in the closed portfolio.

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.

It is our understanding that the "Follow the Asset" method described in 815-25-40-9A of the proposal is intended solely to address the question of income statement geography for any basis adjustment that is immediately recognized in earnings upon the breach of a hedged layer or layers. This approach would require entities to identify the asset or assets that caused the breach in order to determine the nature of the event (e.g., prepayment or default) that resulted in the hedged layer amount exceeding the assets in the closed portfolio. The portion of the hedged basis adjustment required to be recognized immediately in earnings would then be presented in an income statement line item consistently with the nature of the event that caused the breach (e.g., interest income if the breach resulted from a prepayment, credit loss if the breach resulted from a default).

Given the nature of portfolio layer hedging relationships, it is not clear to us that the benefit to investors of this requirement would justify the cost incurred by preparers to track this information. For example, if numerous events take place on the date that a breach occurs, presentation of the basis adjustment recognized in earnings based on the specific event (i.e., prepayment versus default) that occurred earlier on this day, assuming such a distinction could be made, does not seem to provide information that is necessarily relevant for investors.

In our view, the proposed requirement "to follow the asset" seeks to obtain a level of precision that is inconsistent with other aspects of the portfolio layer method, where entities are hedging a stated amount or amounts of a closed portfolio, not specific assets within the closed portfolio. We believe the needs of investors could be met if the Board required entities to disclose the amount of the basis adjustment recognized in earnings upon a breach, as well as the income statement line item where the basis adjustment is presented.

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 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?

We generally do not believe that the proposed amendments require special consideration for private companies that are not financial institutions or not-for-profit entities (other than those 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). In addition, it is our understanding that not-for-profits and private companies that are not financial institutions generally do not execute hedging strategies where the portfolio layer method would be applied.

However, in the interest of completeness, we suggest that the proposed guidance in 815-25-35-7A be clarified to address when certain private companies and not-for-profit entities would be required to perform and document an analysis that supports their expectation that the hedged layer is still anticipated to be outstanding for the period hedged.

In accordance with ASC 815-20-25-142 through 25-143, the private companies and not-for-profit entities described above have until the date on which their next interim (if applicable) or annual financial statements are available to be issued to perform and document their subsequent quarterly hedge effectiveness assessments. Although the timing of when the effectiveness assessment must be completed is deferred, these entities are still required to complete an assessment for each quarter.

While it may seem reasonable to assume the relief provided in ASC 815-20-25-142 through 25-143 would also apply to the timing of when these private companies and not-for-profit entities would be required to perform and document the proposed analysis in 815-25-35-7A, this is not clear, given that the proposed guidance states that entities are required to perform this analysis “at each effectiveness assessment date.”

In addition, we note that if these entities are provided additional time to perform and document the analysis supporting their expectation that the hedged layer is still anticipated to be outstanding for the period hedged, this could result in the “Follow the Asset” Method discussed in Question 6 presenting an even greater challenge for these entities, since breaches may not be identified until this analysis is performed. This could potentially require these entities to work through a year’s worth of transactions to identify the specific asset or assets in the closed portfolio that caused a breach.

Question 8 – Transition: Do you agree with the proposed transition guidance? Please explain why or why not.

We generally agree with the proposed transition guidance but believe certain aspects of the guidance could be clarified.

We agree with the Board’s proposal for entities to apply the amendments related to hedging multiple layers in a single closed portfolio on a prospective basis. We also agree with the Board’s proposal to require entities to apply the amendments related to the accounting for fair value hedge basis adjustments on a modified retrospective basis through a cumulative-effect adjustment to the opening balance of retained earnings as of the date of adoption.

In addition, we support the proposed transition guidance that would give entities the option to apply the amendments related to disclosures required by ASC Topics other than ASC 815 either prospectively as of the date of adoption of a final ASU or retrospectively to each period presented after the date of adoption of ASU 2017-12. We believe this flexibility would provide those entities that believe it is important to disclose information in all periods presented in their financial statements on a comparable basis the ability to do so, without requiring this transition for all entities.

With respect to the proposed transition guidance in 815-20-65-6(e), we agree that adding one or more portfolio layer hedges to a closed portfolio should not require an entity to dedesignate any of its existing hedges in that closed portfolio. In addition, we agree with the Board’s decision to explicitly address this issue, given the proposed guidance in 815-20-25-3(c)(2) that would require an entity to document, at hedge inception, an analysis supporting its expectation that the hedged layer is anticipated to be outstanding for the period hedged. Because this documentation needs to consider all layers hedged in a single closed portfolio, this analysis would need to be updated whenever a new hedging relationship is added to an existing closed portfolio.

However, we do not believe this concept should be limited to hedging relationships existing as of the date that any final guidance is adopted, as discussed in 815-20-65-6(e). That is, we do not believe this is just a transition issue. Instead, we believe the proposed guidance should apply any time an entity adds a new hedging relationship to an existing closed portfolio. As such, we recommend that the FASB clarify this point and move this guidance from transition to the more general guidance in ASC 815-20-25.

Finally, we note that we found the proposed guidance in 815-20-65-6(a) through 65-6(c) related to the interaction between the transition and effective date of the proposed guidance and the guidance in ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, to be confusing. However, we believe this is likely due to the fact that the proposed transition guidance was written without the benefit of knowing what effective date the Board will ultimately agree to for the proposed guidance and whether this effective date will be before, after or the same as the effective date of ASU 2016-13 for entities that aren't public business entities that meet the definition of a Securities and Exchange Commission (SEC) filer, excluding entities eligible to be smaller reporting companies as defined by the SEC (i.e., fiscal years beginning after 15 December 2022). Once the FASB sets an effective date of any final guidance related to the portfolio layer method, we believe the transition guidance related to the interaction between these amendments and ASU 2016-13 can be written in a more straightforward, understandable manner.

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 your response.

We believe preparers are in a better position to respond to this question, but we note that the amount of time needed to implement the proposed amendments may depend on how the Board responds to the feedback it receives from constituents on the operationally challenging aspects of the proposal, such as the "Follow-the-Asset" Method discussed in Question 6.

In addition, given the fact that many financial institutions have delayed applying the last-of-layer method until the FASB addressed various issues, including whether entities will be able to hedge multiple layers, we believe entities should have the ability to early adopt the guidance if they so desire. As long as any final guidance allows all entities to early adopt the amendments, we would support a longer implementation period and later effective date for entities that are not public business entities.