HEDGE TRACKERS

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

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

Dear Ms. Salo:

Thank you for the opportunity to comment on the proposed Fair Value Hedging-Portfolio Layer Method (Topic 815). We applaud the expansion of the last-of-layer designation to the proposed portfolio-layer method which will allow entities to hedge a larger proportion of their closed portfolio without increasing the risk of a breach.

Hedge Trackers, LLC is a hedging and derivative accounting advisory practice and provider of related tools and software. Our clients include a full spectrum of public and private companies, community banks and credit unions. Our clients generally execute derivatives to protect their margins from interest rate, currency or commodity price fluctuations. Our reactions and responses to the proposed update reflect our experience as a service provider, our understanding of our clients and their hedging requirements, and our interactions with audit teams across the country.

We welcome the proposed guidance and believe the addition in scope, to allow multiple hedges and amortizing hedges, will allow entities to better align their hedge program with the interest rate risk of their prepayable portfolios. Once implemented, the proposal would eliminate the disparity in current practice that has resulted in some entities applying the multiple-layers approach while others have been constrained by the more conservative reading of the current guidance (single-layer approach).

In reading the proposed guidance, we are in favor of the flexibility offered by ASC 815-25-40-8A – Voluntary Dedesignation, however, we are unsure how a voluntary dedesignation will be evaluated from a program perspective. When last-of-layer was introduced in ASU 2017-12, paragraph BC119 specifically addressed the tainting threshold in paragraph 815-30-40-5 and explained that it should NOT be incorporated into the last-of-layer method. We would like to see a similar comment incorporated addressing the portfolio-method.

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In the attached document please find our comments in response to selected questions posed by the Board. If you require additional clarification or have questions on our response, please contact me at hkane@hedgetrackers.com or 408.350.8580.

Sincerely,

Helen Kane
CEO
Hedge Trackers, LLC

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Attachment 1 - Responses to Select Questions

Question 2-*Risk Management: As proposed, would the multiple-layer model align with entities' risk management objectives? Please explain why or why not.* Yes – the multiple-layer model better aligns with entities' risk management objectives. The main issue that we struggle to address with both clients that currently use last-of-layer and those that are still evaluating the strategy is the difficulty of finding the right balance between hedging enough to provide adequate protection and being careful to hedge only a notional amount that will still be outstanding at hedge maturity. The ability to hedge different time horizons within the same portfolio or to use an amortizing swap will allow users to hedge a greater amount in the near term and a lesser amount in the far term. Not only does this align with the economics of the underlying amortizing assets, but it also aligns with the increasing risk of pre-payment and default as time passes. Additional clarity may be required that specifies that the notional values on an amortizing swap should not exceed the portfolio's maximum expected exposure notional value at each future date.

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.* Yes – we find the dedesignation sequencing clear and easy to use for the portfolio structures our clients would hedge. It has controls to prevent cherry-picking a preferred derivative to dedesignate, will be consistent across users, and will not require users to identify and address with documentation all potential scenarios at designation.

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?* No.