

June 18, 2021

Ms. Hillary Salo
Technical Director
Financial Accounting Standards Board (FASB)
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

Via e-mail : director@fasb.org

Re: File Reference No. 2021-002
Proposed Accounting Standards Update (ASU)
ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities

To Ms. Salo,

The Accounting Principles and Auditing Standards Committee (the Committee) of the Florida Institute of Certified Public Accountants (FICPA) respectfully submits its comments on the referenced proposal. The Committee is a technical committee of the FICPA and has reviewed and discussed *ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. The FICPA has more than 19,600 members, with its membership comprised primarily of CPAs in public practice and industry. The Committee is comprised of 26 members, of whom 42% are from local or regional firms, 19% are from large multi-office firms, 19% are sole practitioners, 4% are in international firms, 8% are in education, and 8% in industry.

The Committee appreciates this opportunity to respond to the ASU and also appreciates the FASB's continued efforts to make targeted improvements to accounting for hedging activities and has the following comments related to the questions numbered below:

Question 1 – Operability and ability to audit

As to operability, we do not believe that the hedging techniques employed using spot-starting swaps, forward-starting swaps and other types of derivatives will impact operability. A potential challenge may be in the models used in determining prepayment speeds, default probabilities and so forth. As a result, the hedged layers will only be as good as the assumptions used. Therefore, a key element will be that the auditor has specialists that have the appropriate expertise and hedging experience to evaluate the assumptions and conclusions being made.

Question 2 – Multiple-layer model and risk management objectives

Any approach that enhances the ability to properly manage risk or more precisely, manage duration and price risk, should be welcomed. Accounting standards should not discourage

techniques used by financial risk managers and we believe this relatively narrow update enhances the usability of hedge accounting.

Question 3 – Scope limitations

The Committee believes the FASB should explore expanding the applicable guidance to a larger population of potential financial instruments given other hedging instruments also are subject to assumptions which can be readily determinable and applied under this proposed update rather than limiting the scope to a narrow set of instruments.

Question 4 – Sequencing

The Committee is in partial agreement and agrees with the update permitting an entity to fully or partially dedesignate at any time. As the FASB describes, this would help entities proactively tailor hedging strategies to changing interest rate environments. However, as noted above, the Committee would support the FASB exploring enhancing the scope to include all applicable designated instruments.

Question 5 – Basis adjustments and disclosure

The Committee believes no changes in additional disaggregation is needed.

Question 6 – “Follow the Asset” method

The Committee does believe it to be cost effective and that the recency approach is acceptable given the currently available reporting technologies available.

Question 7 – Certain private and not-for-profit entities

This is a limited scope, technical update. The issues that could hinder publicly-traded companies from implementing this ASU could also present similar challenges to smaller private companies and not-for-profit entities.

Question 8 – Transition guidance

No applicable comments.

Question 9 – Implementation

No applicable comments.

The Committee appreciates this opportunity to respond to the ASU. Members of the Committee are available to discuss any questions or concerns raised by this response.

Respectfully submitted,

Mike Jerman, CPA
Chair, FICPA Accounting Principles and Auditing Standards Committee

Committee members coordinating this response:

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