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July 7, 2021

Hillary Salo
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Via Email to director@fasb.org

Re: File Reference No. 2021-002

Dear Ms. Salo:

Grant Thornton LLP appreciates the opportunity to comment on proposed Accounting Standards Update (ASU), *Derivatives and Hedging (Topic 815): Fair Value Hedging – Portfolio Layer Method*.

We support the Board's efforts to respond to stakeholder feedback on the "last-of-layer" guidance codified by ASU 2017-12 and to further align this hedge accounting approach with entities' interest rate risk management strategies.

Our responses to the questions in the proposed ASU follow.

Question 1: Operability: Are the amendments in this proposed Update operable and auditable?

We believe that application of the proposed guidance is auditable. The question of operability is best addressed by financial statement preparers.

Question 2: Risk Management: As proposed, would the multiple-layer model align with entities' risk management objectives?

We believe this question is best addressed by financial statement preparers.

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?

The guidance in the proposed ASU appears to be responsive to stakeholder feedback and we agree with the Board's decision to limit the scope of this project to permit multiple-layer hedging strategies and to address the accounting for basis adjustments, rather than expanding potential hedged items in this type of fair value hedge beyond closed portfolios of prepayable financial assets.

We note that the proposed ASU would add a condition to ASC 815-20-25-12A that, to designate a hedge under the portfolio layer method, an entity must elect to apply the partial-term hedging guidance. According to paragraph BC14 in the proposed ASU, the purpose of this amendment appears to be to refine a core concept of the single-layer model.

In the spirit of refining core concepts of the single-layer model, we believe that the Board should also consider clarifying whether a necessary condition of applying the portfolio layer method is electing to calculate the change in the hedged item's fair value attributable to changes in the benchmark interest rate based on the benchmark rate component of the contractual coupon cash flows of the hedged item in accordance with ASC 815-25-35-13.

Question 4: Dedesignation Sequencing: Do you agree with the Board's proposed amendments on hedge dedesignation sequencing under the multiple-layer model?

We agree.

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?

Both the current last-of-layer model and the proposed portfolio layer model prescribe different accounting for basis adjustments depending on whether a breach is anticipated or has actually occurred. Specifically, if a breach is anticipated, an entity may partially dedesignate a hedge such that a breach is no longer anticipated, but if a breach actually occurs, then an entity must fully dedesignate the affected hedge.

As noted in paragraph BC118 of ASU 2017-12,

> If on any subsequent effectiveness testing date an entity determines that the outstanding amount of the closed portfolio as of the reporting date is less than the hedged item (that is, the designated last of layer), the hedging relationship must be discontinued immediately (as discussed in paragraph 815-25-40-8(b)). Because the process of forecasting the hedged item was unsuccessful, the Board concluded that the entity should not be afforded the flexibility of partial dedesignations.

With the introduction of multiple-layer portfolio hedging strategies we believe that the objective of the current dedesignation requirements (that is, to promote disciplined forecasting and proactive adjustments of accounting hedges) might be undermined by the ability to structure what would have formerly been a single layer into multiple layers with identical terms for which a breach would affect only one layer and not the entire portfolio hedge.

For example, two entities with an identical closed portfolio of prepayable financial assets each establish a fair value hedge using the portfolio layer method. Entity A designates a single layer as the hedged item using a single swap contract with a $10 million notional. Entity B designates two identical layers as hedged items using two identical swap contracts each with a $5 million notional. Upon a breach Entity A would have no option but to dedesignate its hedge, whereas Entity B could dedesignate only a single layer, so long as a breach is not anticipated with respect to the remaining layer.

We believe the Board should consider whether the multiple layer guidance as currently proposed effectively permits the "flexibility of partial dedesignations" in the event of a breach. If so, then we believe the Board should consider whether adjustments to the proposed model are necessary.

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?

We believe the expected costs of identifying the asset(s) that cause a breach is best addressed by preparers.

We agree with aligning the derecognition guidance with other Topics in GAAP.

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 over-the-counter market)?

We do not believe that any of the proposed amendments require special consideration for private companies.

Question 8: Transition: Do you agree with the proposed transition guidance?

We agree.

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?

We believe this question is best addressed by financial statement preparers.

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We would be pleased to discuss our comments with you. If you have any questions, please contact Ryan Brady, Partner, at 312.602.8741 / ryan.brady@us.gt.com, or Matt Esposito, Partner, at 212.624.5535 / matt.esposito@us.gt.com.

Sincerely,

/s/ Grant Thornton LLP