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November 25, 2024

Mr. Jackson M. Day
Technical Director
Financial Accounting Standards Board
801 Main Avenue
PO Box 5116
Norwalk, CT 06856-5116

RE: Proposed Accounting Standards Update, Derivatives and Hedging (Topic 815): Hedge Accounting Improvements (File Reference No. 2024-ED200)

Dear Mr. Day:

We appreciate the opportunity to comment on Proposed Accounting Standards Update, *Derivatives and Hedging (Topic 815): Hedge Accounting Improvements*. We support the Board's objective to more closely align hedge accounting with the economics of an entity's risk management strategy, and we believe the proposed amendments achieve that objective. The Appendix to this cover letter provides our responses to the questions for respondents and includes a recommendation for the Board to consider.

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If you have questions about our comments or wish to discuss the matters addressed in this comment letter, please contact Kimber Bascom at kbascom@kpmg.com or Mahesh Narayanasami at maheshnarayanasami@kpmg.com.

Sincerely,

KPMG LLP

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("KPMG International"), a Swiss entity.

Appendix – Responses to Questions for Respondents

Question 1 – Similar Risk Assessment for Cash Flow Hedges:

Do the amendments in this proposed Update clarify and improve the guidance on cash flow hedges of individual forecasted transactions hedged as a group? In addition, are the proposed amendments clear and operable? Please explain why or why not. If not, what changes would you suggest?

We believe the amendments in the proposed Update clarify and improve the guidance on cash flow hedges of individual forecasted transactions hedged as a group because they better align the hedge accounting guidance with entities' risk management practices. We believe the proposed amendments are clear and operable.

Question 2 – Hedging Forecasted Instrument Payments on Choose-Your-Rate Debt Instruments:

Do the proposed amendments clarify and improve the guidance on cash flow hedges of interest payments on choose-your-rate debt instruments? In addition, are the proposed amendments clear and operable? Please explain why or why not. If not, what changes would you suggest?

We believe the proposed amendments are clear and operable exclusively for choose-your-rate debt instruments and provide a practical approach for borrowers with those types of instruments. We believe limiting the change in hedged risk model introduced by ASU 2017-12 (i.e. allowing a hedging relationship to continue when the hedged risk changes during the life of the hedging relationship if the hedging instrument is still highly effective) to choose-your-rate debt will significantly reduce practice issues encountered when applying the model to more complex hedging relationships. Although applying the model only to choose-your-rate debt may appear to limit the ability to achieve continuous hedge accounting, the proposed Update also includes amendments in Issue 1 permitting an entity to hedge multiple risks in a single hedging relationship – including multiple interest rate indices – if an entity documents the risks at hedge inception and determines they are similar throughout the hedging relationship. We believe this combination of proposed amendments strikes the right balance between achieving the objective of allowing a hedging relationship to continue when the hedged risk changes and resolving practice issues that arise when applying that objective to more complex hedging relationships.

The Board decided that the change in hedged risk model should focus on cash flow hedges of choose-your-rate debt instruments for the reasons explained in paragraphs 29 to 33 of the Basis for Conclusions. However, the proposed amendments to Case B of Example 9, which starts in paragraph 815-30-55-52, would permit an entity to continue applying cash flow hedge accounting when the hedged risk changes even though the cash flow hedge does not relate to choose-your-rate debt. In that example, Entity MNO is hedging variability in coupon payments attributable to changes in the SOFR OIS benchmark interest rate as the hedged risk in a cash flow hedge of the forecasted issuances of fixed-rate 90-day notes. When Entity MNO ceases issuing those notes and, instead, issues variable-rate debt with interest payments based on 3-month Term SOFR, Entity MNO is permitted to continue applying hedge accounting if the hedging instrument (indexed to 90-Day Average SOFR) is highly effective at achieving offsetting cash flows attributed to the contractually specified interest rate (3-Month Term SOFR).

We believe this result is inconsistent with the proposed amendments that limit application of the change in hedged risk model to a borrower hedging interest payments on choose-your-rate debt instruments and this inconsistency will make the scope of the change in hedged risk model unclear. We encourage the

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Board to eliminate Case B of Example 9 for consistency with the proposed amendments, otherwise it may be necessary for the Board to undertake future standard setting about when a cash flow hedging relationship can be continued after aspects of the hedging relationship change.

We observe that, before ASU 2017-12 (which introduced the change in hedged risk model), Case B of Example 9 did not result in hedge accounting being continued when the hedged risk changed. Although the example assumed the hedging instrument was not effective against the revised hedged cash flows because the hedging instrument and hedged cash flows were based on different indexes, it did not specify that Entity MNO would have otherwise been permitted to continue hedge accounting. We believe omitting Case B would have the result of reverting to practice (for instruments other than choose-your-rate debt instruments) before ASU 2017-12 introduced the change in hedged risk model.

We believe Case A of Example 9 should continue to be included in the Codification. In that scenario, the cash flow hedge is discontinued when variability in the hedged forecasted transactions is eliminated due to issuance of a fixed-rate instrument. We believe some existing practice related to applying the discontinuation guidance is based on this example in which the net derivative gain or loss in accumulated other comprehensive income is not immediately reclassified into earnings when the hedged risk is eliminated and it is still probable that the hedged forecasted transactions (future interest payments) will occur.

Question 3 – Cash Flow Hedges of Nonfinancial Forecasted Transactions:

Do the proposed amendments clarify and improve the guidance on cash flow hedges of nonfinancial forecasted transactions? In addition, are the proposed amendments, including those that require the application of the clearly-and-closely-related assessment, clear and operable? Please explain why or why not. If not, what changes would you suggest?

We believe the proposed amendments clarify and improve the guidance on cash flow hedges of nonfinancial forecasted transactions for the reasons outlined in paragraphs 55 to 57 of the Basis for Conclusions. Additionally, we believe the proposed amendments are clear and operable.

Question 4 – Net Written Options as Hedging Instrument:

Do the proposed amendments improve the guidance on net written options as hedging instruments? Please explain why or why not. If not, what changes would you suggest? In addition, the Board rejected an alternative to the proposed amendments related to the net written option test in paragraph 815-20-25-88 that would have removed the test from Topic 815 (see paragraph BC81). Do you have any views on the alternative rejected by the Board and whether it would be more operable, be less complex, and provide more decision-useful information compared with the proposed amendments?

We believe the proposed amendments improve the guidance on net written options as hedging instruments because the revised guidance would allow entities to continue to apply hedge accounting for strategies involving a compound derivative composed of a written option and non-option derivative (e.g. an interest rate swap with a written cap or floor) after LIBOR cessation. We agree with the Board's decision to reject the alternative that would have removed the net written option test in paragraph 815-20-25-88 from Topic 815 based on the rationale outlined in paragraph 83 of the Basis for Conclusions.

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Question 5 – Foreign-Currency-Denominated Debt Instruments as Hedging Instrument and Hedged Item (Dual Hedge):

Do the proposed amendments improve the guidance on a foreign-currency-denominated debt instrument that is used as the hedging instrument and hedged item (commonly referred to as a "dual hedge")? In addition, are the proposed amendments on dual hedges clear and operable? Please explain why or why not. If not, what changes would you suggest?

We believe the proposed amendments improve the guidance for a foreign-currency-denominated debt instrument that is used as the hedging instrument and hedged item for the reasons outlined in paragraphs 85 to 88 of the Basis for Conclusions. Additionally, we believe the proposed amendments are clear and operable.

Question 6 – Transition:

Are the proposed transition requirements operable? If not, why not, and what transition method would be more appropriate and why? Would the proposed transition disclosures be decision useful? Please explain why or why not.

We believe the proposed transition method is operable. The proposed transition disclosure would be decision-useful and is consistent with current guidance in Topic 250 for a change in accounting principle.

Question 7 – Effective Date:

In evaluating the effective date, how much time would be needed to implement the proposed amendments? Should the effective date for entities other than public business entities be different from the effective date for public business entities? Please explain why or why not. If the effective dates should be different, how much additional time would entities other than public business entities need to implement the proposed amendments?

We believe preparers are best positioned to comment on the time needed to implement the proposed ASU.

Question 8 – General:

Do you expect any unintended consequences of providing these proposed amendments? If so, please explain what those unintended consequences would be.

Except as discussed in our response to Question 2, we do not expect unintended consequences as a result of providing these proposed amendments.

Question 9 – Benefits and Cost:

Would the expected benefits of the proposed amendments justify the expected costs? If not, please describe the nature and magnitude of those costs, differentiating between one-time costs and recurring costs.

We believe preparers are best positioned to describe what, if any, incremental costs they would expect to incur if the proposed amendments are finalized.

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