The Association of
Accountants and
Financial Professionals
in Business

via email
To: director@fasb.org

November 25, 2024

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

RE: File Reference No. 2024-ED200

Dear Mr. Day,

The Financial Reporting Committee (FRC or Committee) of the Institute of Management Accountants (IMA) is writing to share its views on the Financial Accounting Standards Board's (FASB or Board) *Proposed Accounting Standards Update, Derivatives and Hedging (Topic 815): Hedge Accounting Improvements* ("ASU", or "Proposal").

The IMA is a global association representing over 130,000 accountants and finance team professionals. Our members work inside organizations of various sizes, industries and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities, and multinational corporations. The FRC is the financial reporting technical committee of the IMA. The Committee includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics, and analysts. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals, and other documents issued by domestic and international agencies and organizations. Additional information on the FRC can be found at www.imanet.org (About IMA, Advocacy, Financial Reporting Committee).

The Committee agrees with and strongly supports the Board's objective to align hedge accounting with the economics of an entity's risk management activities. The proposed changes raised by the Board will result in an improvement to hedge accounting by allowing entities to maintain hedge accounting in more instances when the economic hedge continues to be effective. The Committee supports the proposed amendments for all five issues. The changes are clear and operable and we believe an effective date of one year after issuance would be appropriate with an option for early adoption. We have raised recommendations below for each of the five issues which we believe would further achieve the Board's objective to improve the hedge accounting guidance.

Issue 1: Similar Risk Assessment for Cash Flow Hedges

The Committee commends the Board on the proposed changes for similar risk assessment for cash flow hedges. Changing the requirement to designate a group of individual forecasted transactions from having a shared risk exposure to a similar risk exposure will help entities apply hedge accounting to more transactions that are economically hedged. Under the proposed guidance we expect entities hedging pools of loans to include as many loans as possible with various reference rates in hedge pools to reduce the potential risk of a missed forecast if market rate preferences shift. However, we encourage the Board to allow that partial de-designation is permitted if one of the hedged rates in the pool is no longer considered similar. This will ensure hedge accounting can continue for the remaining hedged risks in the pool which continue to be similar and remain highly effective.

In addition, we understand one of the Board's objectives in this Proposal was to address counterintuitive accounting results which occurred during global reference rate reform. When a reference rate changes or is discontinued, we believe that the Board's intent is for hedge accounting to continue when the hedge remains highly effective in hedging the cash flows related to the new reference rate. To achieve this objective, we would encourage guidance that either explicit covers, or is operable in, an interest rate cessation scenario. Specifically, the proposed guidance in ASC 815-20-55-23A(a); 815-20-55-23D and 815-20-55-99 Case C may be interpreted that the entire hedge must be de-designated upon the rate being discontinued, thus increasing the operational burden experienced during a cessation event. Additionally, we urge the Board to provide explicit guidance that if an interest rate index designated as a hedged risk in a loan pool is discontinued, an entity would not have a missed forecast so long as loans indexed to the remaining interest rate indices in the pool can continue to support the occurrence of the hedged forecasted cash flows.

Issue 2: Hedging Forecasted Interest Payments on Choose-Your-Rate Debt Instruments

The Committee supports the proposed changes which would establish an operable model to address a pervasive hedging strategy used by corporate entities. The model would reduce the risk of hedge dedesignation events and missed forecasts consistent with the Board's objectives.

Issue 3: Cash Flow Hedges of Nonfinancial Forecasted Transactions

The Committee supports the changes in the Proposal which would expand hedge accounting for forecasted purchases and sales of nonfinancial assets. Our members have noted instances in practice when hedge accounting could not be applied to certain contracts due to the limitation of designation of components which are contractually specified; in particular, nonfinancial forecasted transactions in spot markets - commonly integrated into risk oversight policies and practices for preparer entities exposed to certain contractual risks. Additionally, the clarification in the Proposal permitting designation of a variable price component in a contract that is accounted for as a derivative as the hedged risk if the associated forecasted purchase or sale qualifies to be in a hedged forecasted transaction will provide needed clarity on the application of hedge accounting for nonfinancial forecasted transactions.

Issue 4: Net Written Options as Hedging Instruments

We support the proposed amendments related to Issue 4 which would make the net written option test more operable. However, we believe the Board could further simplify the guidance by eliminating the net written options test in ASC 815-20-25-94. The Board considered this alternative as noted in the basis for conclusions to the Proposal – refer to BC81. In hedge effectiveness testing under ASC 815-20-25-79(a) all reasonably possible changes in fair values or cash flows must be considered. This requirement effectively reduces the use of net written options to limited circumstances that would generally pass the net written option test. As a result, strategies that would involve asymmetry of the gain and loss potential of the combined hedged position when using options or combinations of options would not qualify for hedge accounting. Therefore, eliminating the test requirement would improve the operability of the guidance by allowing entities to bypass the complex net written options test without having negative consequences on financial reporting or permitting other uses that are inconsistent with the intent of the guidance.

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

The Committee supports the changes as they address the recognition and presentation mismatch for dual hedges resulting from the guidance in ASU 2017-12 that eliminated the separate measurement and recognition of hedge ineffectiveness. The accounting outcome for dual hedges under the Proposal would be consistent with the outcome prior to adoption of ASU 2017-12.

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

Sincerely,

Josh D. Paul

Josh Paul
Chair, Financial Reporting Committee
Institute of Management Accountants
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