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November 25, 2024

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

Via Email to director@fasb.org

Re: File Reference No. 2024-ED200

Dear Mr. Day:

Grant Thornton LLP appreciates the opportunity to comment on Proposed Accounting Standards Update, *Derivatives and Hedging (Topic 815): Hedge Accounting Improvements*. We support the Board's efforts to enable entities to achieve and maintain hedge accounting for a greater number of highly effective economic hedges, and we believe that the proposed amendments clarify and improve the relevant guidance in ASC 815. However, as noted in our responses below to the questions in the proposed ASU, we believe certain changes would enhance the clarity and operability of the proposed guidance.

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 proposed amendments clarify and improve the guidance on cash flow hedges of individual forecasted transactions hedged as a group. However, we believe the meaning of "hedged risk" in the context of a group of forecasted transactions should be clarified.

In Example 4 Case A, beginning at ASC 815-20-55-91, the loans in the portfolio all accrue interest based on the same interest rate index (30-Day Average SOFR), and according to ASC 815-20-55-94, the hedging entity has "designated the hedging relationship as hedging the risk of changes in the 30-Day Average SOFR (in arrears)

interest rate…" Based on this statement it appears that there may be a single hedged risk associated with the group of forecasted transactions – the risk associated with changes in the specified index, 30-Day Average SOFR.

However, the proposed guidance in ASC 815-20-55-96A states that the "differences between the hedged risks of the individual forecasted transactions in the group and the contractual terms of the hedging instrument" include "payment dates, reset dates, and interest rate floors." This indicates that there may be multiple hedged risks associated with the group of forecasted transactions based on various payment dates, reset dates, and interest rate floors among the loans outstanding during the hedge term.

We note that the Board's 2019 Proposed Accounting Standards Update, *Derivatives and Hedging (Topic 815): Codification Improvements to Hedge Accounting*, specified that the hedged risk "is the index or price that determines the amount, or a component of the amount, of the value transferred," and that in a hedge of interest rate risk, the interest rate tenor is considered part of the hedged risk. The 2019 proposed guidance also emphasized that the forecasted transaction and the hedged risk are distinct from one another.

We believe that the operability of the proposed guidance would be improved by clarifying what is an attribute of the hedged risk and what is an attribute of the forecasted transaction. For example, would the payment date associated with a forecasted transaction represent an attribute of the hedged risk, or would this be an attribute of the forecasted transaction, distinct from the hedged risk?

We also note that the proposed guidance uses the terms "risk exposure" (for example, in ASC 815-20-55-23) and "hedged risk" (for example, in ASC 815-20-55-23A). If these terms are meant to be synonyms, we recommend using consistent terms throughout the proposed guidance to improve clarity.

Question 2—Hedging Forecasted Interest 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 clarify and improve the guidance on cash flow hedges of interest payments on choose-your-rate debt instruments.

We note that the proposed guidance in ASC 815-20-25-79B states "… the quantitative prospective assessment of hedge effectiveness shall consider all reasonably possible changes in cash flows …" We are concerned that this paragraph may be read to specify that an entity *must* use a quantitative method of assessing hedge effectiveness when hedging interest payment cash flows associated with a choose-your-rate debt instrument, contrary to the statement in paragraph BC37 of the proposed ASU that the proposed guidance would "permit entities to assess hedge effectiveness on a qualitative basis."

We believe that, for example, if the initially chosen index and other terms of the hedged forecasted transactions match those in the hedging instrument, an entity

should be able to apply a qualitative effectiveness assessment, at least until an alternative index or tenor is chosen such that the critical terms of the hedged forecasted transactions no longer match the critical terms of the hedging instrument.

We recommend that whether an entity may use a qualitative method of assessing hedge effectiveness in cash flow hedges involving choose-your-rate debt instruments be clarified in the proposed guidance.

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. While we believe that significant judgment may be required in applying the clearly-and-closely related guidance to identify eligible components and subcomponents, we believe that practitioners will be able to draw upon experience applying this long-standing element of ASC 815 to reach reasonable conclusions.

We note that, according to paragraph BC72 in the proposed ASU, "… the price variability associated with the forecasted purchase or sale of the nonfinancial asset that is recognized upon settlement should be eligible to be hedged because the variable component is always 'at market' and, therefore, does not affect the fair value of the derivative."

Additionally, paragraph BC75 in the proposed ASU states, "… the Board decided to clarify that the guidance in paragraph 815-20-25-15(e) … does not preclude hedging a variable price component in a forward contract accounted for as a derivative if changes in the fair value of the derivative are not attributable to the hedged risk."

We believe that the concept described in the preceding excerpts from the proposed Basis for Conclusions could be more clearly articulated in ASC 815-20-25-15(e) as follows, with our proposed changes to the guidance underlined:

> If the forecasted transaction relates to a recognized asset or liability, the asset or liability is not remeasured with changes in fair value attributable to the hedged risk reported currently in earnings. For example, if the forecasted transaction relates to the purchase or sale of a nonfinancial item under a contract that is required to be accounted for as a derivative under Topic 815 (that is, a recognized asset or liability), hedge accounting is permitted for a variable price component (or subcomponent) in the contract if changes in fair value are not attributable to the hedged risk and all other hedge criteria are satisfied.

Question 4—Net Written Options as Hedging Instruments: 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 and would address the issues identified by stakeholders with applying this guidance following entities' transition away from LIBOR-based financial instruments. We do not support the alternative approach to remove the net written option test from ASC 815 as we are concerned that such a change may have unintended consequences.

Question 5—Foreign-Currency-Denominated Debt Instrument 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 on foreign-currency-denominated debt instruments used as both the hedging instrument and hedged item and are both 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 requirements are operable, although we believe feedback on this question from financial statement preparers will be critical to identify operability concerns based on reporting entities' unique hedging activities. We defer to financial statement users regarding the decision usefulness of the proposed transition disclosures.

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 defer to financial statement preparers regarding the amount of time needed to implement the proposed amendments and whether additional time is needed to entities other than public business entities to implement the proposed amendments.

Question 8—General: Do you expect any unintended consequences of providing these proposed amendments? If so, please explain what those unintended consequences would be.

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We have not identified any unintended consequences of the proposed amendments.

Question 9—Benefits and Costs: 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 defer to financial statement preparers and users regarding the costs and benefits of applying the proposed guidance.

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We would be pleased to discuss our comments with you. If you have any questions, please contact Ryan Brady (ryan.brady@us.gt.com).

Sincerely,

/s/ Grant Thornton LLP