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October 5, 2015

Via email to director@fasb.org

Susan M. Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships (File Reference No. EITF-15D) ("the ED")

Dear Ms. Cosper:

We are pleased to provide comments on the Board's proposed clarifications regarding effect of derivative contract novations on existing hedging relationships and believe it will provide a basis for consistent application in practice.

We agree with the Board that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument in an existing hedge accounting relationship should not, in and of itself, require dedesignation of that hedge accounting relationship. Therefore, we support the proposal that a change in the counterparty would not, in and of itself, be considered a termination of the derivative instrument or a change in a critical term of the hedging relationship and agree this clarification will avoid unnecessary dedesignations. We also agree with the transition approach proposed by the Board.

Our responses to the specific questions, including suggestions and clarifications for consideration, are elaborated in the Appendix.

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We would be pleased to discuss our comments with the FASB staff. Please direct questions to Adam Brown at (214) 665-0673 or Gautam Goswami at (312) 616-4631.

Very truly yours,

BDO USA, LLP

BDO USA, LLP

Appendix

Question 1: Do you agree that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument in an existing hedge accounting relationship should not, in and of itself, require dedesignation of that hedge accounting relationship?

We agree with the Board that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument in an existing hedge accounting relationship should not, in and of itself, require dedesignation of that hedge accounting relationship. We believe that the proposed clarification about a change in the counterparty not, in and of itself, being considered a termination of the derivative instrument or a change in a critical term of the hedging relationship, will provide a basis for consistent application and avoid unnecessary dedesignations.

Separately, we note that paragraph BC8, includes a statement that "If the only change to the derivative is the counterparty (and no concerns exist with respect to collectibility of cash flows on the derivative or with the ongoing effectiveness of the hedging relationship), the hedging relationship will be largely unaffected." We suggest that the Board revise or delete the parenthetical statement as it may pose an unintended consequence regarding whether any concerns on collectibility (however insignificant) would prevent application of the proposed guidance and note that the existing counterparty default guidance already addresses those concerns, as also clarified in paragraph BC10.

We note that novations could occur for various reasons, including a commitment by the new counterparty to better overall economics, such as a narrower bid-ask spread on future derivatives entered into with that counterparty. We suggest that the Board reiterate in the basis that the proposed guidance can nevertheless be applied so long as the existing derivative is not affected. Further, we request that the Board clarify in the basis whether negotiated changes to margin requirements or other amendments to a credit support annex or customized schedules to a master agreement (e.g., allowing netting all amounts due on a single day under multiple transactions, modifying the business day convention, etc.) upon a novation affect the applicability of the proposed guidance.

Question 2: Do you agree that the effects of initially adopting the amendments in this proposed Update should be applied on a prospective basis to all existing and new hedge accounting relationships in which a change in the counterparty to a derivative instrument occurs after the effective date of the proposed guidance?

We agree with applying the amendments prospectively on or after the adoption date.

Question 3: There may be circumstances in which entities have previously dedesignated a hedge accounting relationship upon the occurrence of a novation that, under the proposed amendments, would no longer result in a dedesignation. Those entities may have been following an abbreviated qualitative method of hedge accounting (for example, the shortcut method) before the dedesignation and either (a) redesignated the hedge under the long-haul method or (b) chose not to redesignate the hedge as a result of the complexities of applying the long-haul method when using an off-market derivative as the hedging instrument. Is the scenario described above prevalent? If so, for those entities that had been applying an abbreviated qualitative method of hedge accounting before a dedesignation resulting from a past novation, should the Task Force consider permitting, but not requiring, retrospective transition?

We have no objections to providing a transition method election for those entities that had been applying an abbreviated qualitative method of hedge accounting before a dedesignation resulting from past novation and otherwise continue to be eligible to use such method for that hedging relationship. The Board also could consider whether providing an optional modified retrospective transaction (a cumulative catch-up) would alleviate some of the complexities associated with a full retrospective transition (e.g., recasting prior periods) for entities that are more concerned with hedge continuity rather than consistency with comparative periods.

For entities that had redesignated the hedge under a long-haul method upon novation, while we appreciate the cost and administrative advantages, reversing prior ineffectiveness recorded under a long-haul approach may create further complexities and be counter-intuitive to some users. Conversely, although the question does not indicate this to be an option, some may believe that if prior novations are scoped in, it should equally be applicable to entities that were previously using a long-haul approach. Concerns about retrospectively recording (or reversing) prior ineffectiveness under a long-haul approach may be alleviated if a modified transition approach is allowed, as discussed above. As such, further targeted outreach with users and other stakeholders on this aspect may be beneficial.

If full retrospective transition is allowed and elected, we suggest that the Board clarify whether it can be applied to the comparative periods, even if that derivative is no longer in existence at date of adoption. While such circumstances may be less common, an entity with, for instance, a hedging program may nevertheless prefer to do so for consistency, including in the 5-year selected data table. Further, considering that the question only references the shortcut method and to avoid any unintended misapplication, we suggest that the Board clarify whether retrospective transition also would apply to entities that may have been applying the critical terms match method to hedge component risk. Similarly, if application of a long-haul method had not resulted in any ineffectiveness, would those hedging relationships be eligible for the retrospective transition?

Question 4: The proposed amendments would apply to all entities. Should the proposed amendments be different for entities other than public business entities? If so, please describe how and why you think they should be different.

As the proposed amendments intend to provide a basis for consistent application upon occurrence of a novation, we do not believe that nonpublic entities would benefit from any differences in guidance.

Question 5: How much time would be needed to implement the proposed amendments and should the implementation period differ for public business entities versus all other entities? Should this guidance be effective upon issuance? If the guidance is not effective upon issuance, should early adoption be allowed? Please explain why.

Considering the nature of the proposed amendments and prospective transition, we recommend making them effective upon issuance for all entities. However, if the Board permits applying the amendments to prior novations as discussed in Question 3 above, we suggest that adequate time, along with ability to early adopt, be provided for entities to determine whether retrospective or prospective transition would be relevant for their users.

Question 6: Should a reporting entity be required to provide the transition disclosures specified in this proposed Update? Should any other disclosures be required? If so, please explain why.

We have no objections to the proposed transition disclosures and do not believe any other incremental disclosures are needed for prospective adoption. However, if prior novations are scoped in as discussed in Question 3 above, the Board may consider requiring the complete disclosures in Section 250-10-50 applicable to changes in accounting principle.