January 23, 2020

Mr. Shayne Kuhaneck
Acting Technical Director
File Reference: 2019-790
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

File Reference No. 2019-790: Proposed Accounting Standards Update,
Derivatives and Hedging (Topic 815),
Codification Improvements to Hedge Accounting

Dear Mr. Kuhaneck:

The Edison Electric Institute (EEI) and the American Gas Association (AGA) appreciate the opportunity to comment on the Financial Accounting Standards Board's (FASB or Board) Exposure Draft on the Proposed Accounting Standard Update (ASU) on *Derivatives and Hedging (Topic 815), Codification Improvements to Hedge Accounting* (hereafter the "Exposure Draft").

EEI is the association that represents all U.S. investor-owned electric companies. Our members provide electricity for 220 million Americans and operate in all 50 states and the District of Columbia. As a whole, the electric power industry supports more than 7 million jobs in communities across the United States. In addition to our U.S. members, EEI has more than 60 international electric companies as International Members, and hundreds of industry suppliers and related organizations as Associate Members. Organized in 1933, EEI provides public policy leadership, strategic business intelligence, and essential conferences and forums.

AGA, founded in 1918, represents 202 local energy companies that deliver clean natural gas throughout the United States. There are more than 70 million residential, commercial and industrial natural gas customers in the U.S., of which almost 93 percent – more than 65 million customers – receive their gas from AGA members. AGA is an advocate for natural gas utility companies and their customers and provides a broad range of programs and services for member natural gas pipelines, marketers, gatherers, international gas companies and industry associates. Today, natural gas meets almost one-fourth of the United States' energy needs.

EEI and AGA regularly work together on projects of mutual interest and impact to the energy utility sector broadly, and the comments expressed herein represent the majority view of each organization's member companies and respond only to one specific aspect of the Exposure Draft that is of concern to our industry.

EEI and AGA support the overall intent of the Exposure Draft and, more broadly, the Board's work to simplify and streamline the hedge accounting provisions of Topic 815. However, we have identified one aspect of the Exposure Draft, as written, that could be interpreted to impose additional conditions on typical hedge designations historically used by our industry. Under that interpretation, the potential exists that certain of those historically valid designations would no longer be permitted.

New Paragraph 815-20-25-15B articulates two criteria that would apply "if a forecasted transaction is the purchase or sale of a nonfinancial asset under a contract that is accounted for as a derivative under Topic 815" in order to demonstrate satisfaction of paragraphs 815-20-25-15(d) through (e). We understand that this new paragraph is intended to be permissive ("if" indicating that it applies only to this specific fact pattern and not to other, previously existing fact patterns eligible for hedge accounting), to resolve diversity in practice by clarifying that such contracts ***<u>are</u>*** eligible for hedge accounting as indicated in Paragraph BC 86, and thus to add, not restrict or limit, eligible hedging relationships.

Other language in the Basis for Conclusions appears to support the interpretation that the intent of the Exposure Draft is to clarify additional fact patterns in which it would be valid to apply hedge accounting under Topic 815, not to restrict or change the application to currently valid hedging relationships, including (emphasis added):

- BC87 – "forecasted transactions…meeting the above criteria ***<u>could</u>*** be hedged…"
- BC88 – BC 90 indicate that some interpret this fact pattern to permit hedge accounting while others believe it is "***not permitted*** to be an eligible hedge…"
- BC91 – "The Board believes that [these transactions]…***<u>should not be disqualified</u>*** from being designated as forecasted transactions by either paragraph 815-20-25-15(d) or (e)…"
- BC91-BC92 – "[those requirements are meant] to prevent hedging nonfinancial assets acquired for trading purposes…[and] hedging variable cash flows [for a derivative]…remeasured at fair value through earnings…"
- BC93 – "The Board believes that ***<u>there is no such [prohibited] relationship</u>*** [when the criteria in Paragraph 815-20-25-15B are met]…"

We note, however, that the Accounting Standards Codification would only include the language in Paragraph 815-20-25-15B, not any of the language from the Basis for Conclusions. Since the foregoing language in the Basis for Conclusions clarifying the intent of that new paragraph will not carry over to the Codification, we are concerned that Paragraph 815-20-25-15B could be misinterpreted to add new requirements to existing valid hedging relationships.

A lack of clarity in the final language in the Codification could lead some to conclude (erroneously, we believe) that this new paragraph's provisions (i) require designation of forward contracts as the forecasted transaction (which is not required in Topic 815); (ii) impose more restrictive criteria than Topic 815 currently requires for demonstrating that a forecasted transaction is probable; or (iii) require tracking of forward contracts and forecasted transactions in a way that would be impractical and inoperable. Any of these interpretations could, in turn, result in restrictions on or disqualification of valid hedging relationships historically designated under Topic 815.

Our industry historically has identified probable forecasted transactions without reference to any related physical supply or sales contracts. Rather, our member companies typically have determined physical commodity purchase or sale requirements that are probable of occurrence based on reliable historical data adjusted for current conditions. Such designations were independent of, and did not necessarily link, those forecasted transactions with specific contracts (if any) in order to substantiate probability of occurrence.

In order to avoid the potential for misinterpretation as described above, we recommend that the final Accounting Standards Update clarify the Board's intent with respect to Paragraph 815-20-25-15B. This might be accomplished in a number of ways – for example, by incorporating within the Codification language that reflects one or more of the following clarifications regarding this paragraph:

- It <u>permits</u> hedge accounting for a <u>new</u> fact pattern;
- It does not change existing requirements or impose new criteria for otherwise valid hedging relationships under other provisions of Topic 815, particularly with respect to probability of occurrence and physical settlement;
- It does not <u>require</u> association of forecasted transactions with specific contracts, either at hedge inception or thereafter;
- Other text from the Basis for Conclusions that would clarify and codify the Board's intent.

Additionally, for the avoidance of doubt, upon issuance of a final Accounting Standards Update, it might be helpful to add a paragraph in the Basis for Conclusions that summarizes the Board's intent clearly and succinctly in a single location. While it is typical for the Board to discuss changes from language in an Exposure Draft as adopted during redeliberations for inclusion in the final standard, we believe it would be especially important to do so in this case.

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EEI and AGA appreciate the opportunity to provide our input on this Exposure Draft. We would be pleased to discuss our comments and to provide any additional information that you may find helpful.

Very truly yours,

/s/ Richard F. McMahon, Jr.

Richard F. McMahon, Jr.
Vice President, Edison Electric Institute

/s/ Brody Wilson

Brody Wilson
Chair, American Gas Association Accounting Advisory Council
Vice President, Treasurer & Chief Accounting Officer, NW Natural