Shape the future
with confidence

Ernst & Young LLP
One Manhattan West
New York, NY 10001-8604

Tel: +1 212 773 3000
ey.com

Mr. Jackson M. Day
Technical Director
File Reference No. 2026-ED200
Financial Accounting Standards Board
801 Main Avenue
P.O. Box 5116
Norwalk, CT 06856-5116

13 August 2026

Proposed Accounting Standards Update, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Interest Rate Risk Hedging and Net Investment Hedging* (File Reference No. 2026-ED200)

Dear Mr. Day:

We appreciate the opportunity to comment on the Proposed Accounting Standards Update, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Interest Rate Risk Hedging and Net Investment Hedging* (the proposal), issued by the Financial Accounting Standards Board (FASB or Board). We continue to support the Board's ongoing efforts to improve and simplify its guidance on hedge accounting to better portray the economic results of an entity's risk management activities in its financial statements.

Over the past decade, the FASB has issued several Accounting Standards Updates to better align hedge accounting with entities' risk management strategies and reduce the complexity and cost of applying certain aspects of the guidance. While these amendments have been well received, stakeholders continue to face challenges in applying the current hedge accounting model. Their concerns range from specific issues that could be addressed with targeted improvements to broader matters that may require fundamental changes to key aspects of the model. Therefore, we support the FASB's phased approach to addressing certain issues in the near term while it pursues a more comprehensive long-term project.

The current proposal represents the FASB's short-term project to address three discrete hedge accounting issues that stakeholders identified in response to the FASB's 2025 Invitation to Comment, *Agenda Consultation*. We agree with the issues the Board has included in the proposal because they address specific limitations in the hedge accounting model that can restrict its application and constrain an entity's ability to apply hedge accounting to certain risk management activities. We believe the proposal would address these concerns, enable broader application of the hedge accounting model and enhance its operability.

While we are supportive of the proposal overall, we suggest that the Board consider allowing additional flexibility in the transition approach for Issue 2 — Amendments to the Definition of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate. See our response to Question 4 in the Appendix to this letter for additional information, along with our responses to the other questions in the proposal.

* * * * *

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

Very truly yours,

Ernst & Young LLP

Ernst & Young LLP

Appendix — Responses to questions raised in the Proposed Accounting Standards Update, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Interest Rate Risk Hedging and Net Investment Hedging*

> **Question 1** — Hedging Interest Rate Risk for Held-to-Maturity (HTM) Debt Securities: Do the amendments in this proposed Update improve the guidance on hedge accounting for interest rate risk by permitting interest rate risk to be the hedged risk for HTM debt securities? Are the proposed amendments clear, operable, and auditable? Please explain why or why not. If not, what changes would you suggest?

We agree that the proposed amendments would improve the guidance on hedge accounting by permitting interest rate risk to be designated as the hedged risk for held-to-maturity (HTM) debt securities in both fair value hedges and cash flow hedges. Removing the longstanding prohibition would further align the hedge accounting model with entities' risk management strategies by allowing them to hedge interest rate risk on debt securities regardless of their accounting classification. It would also be consistent with the application of hedge accounting for held-for-investment loans.

In addition, we believe the amendments would be clear, operable and auditable.

> **Question 2** — Amendments to the Definition of the Secured Overnight Financing rate (SOFR) Overnight Index Swap Rate: Do the proposed amendments improve the guidance on hedge accounting for interest rate risk by permitting any tenor of SOFR to be considered a benchmark interest rate? Are the proposed amendments clear and operable? Please explain why or why not. If not, what changes would you suggest?

We agree that the proposed amendments would improve the guidance on hedge accounting for interest rate risk by permitting SOFR rates of any tenor to be considered a benchmark interest rate. This would simplify hedge effectiveness testing for entities that use Term SOFR-based derivatives as hedging instruments and reduce the risk of missed forecasts in certain cash flow hedge strategies.

In addition, we believe the amendments would be clear, operable and auditable.

> **Question 3** — Permitting Float-to-Float Cross-Currency Swaps with Different Reset Dates to Be Hedging Instruments in Net Investment Hedges: Do the proposed amendments improve the guidance on net investment hedges? Are the proposed amendments clear and operable? Do you agree that the period between repricing intervals and dates should occur every six months or more frequently? Please explain why or why not. If not, what changes would you suggest?

We agree that the proposed amendments would improve the guidance on net investment hedges by permitting certain float-to-float cross-currency interest rate swaps with different repricing intervals and dates to qualify as hedging instruments. We believe these amendments are necessary because, following the cessation of the London Interbank Offered Rate (LIBOR), many replacement rates across different jurisdictions no longer share uniform repricing conventions.

We also believe the amendments would be clear and operable, and we agree that a repricing interval occurring at least every six months would be sufficient to justify an assumption that the variable payments or receipts are at market rates.

Question 4 — 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 provide decision-useful information? Please explain why or why not.

We agree that the proposed transition requirements would be operable and that the proposed transition disclosures would provide decision-useful information. However, we believe additional clarity could be provided in paragraph 815-20-65-8c to indicate that the amendments would only apply to hedging relationships entered into on or after the date of adoption, assuming that is the Board's intent.

In addition, while we agree with such a prospective transition approach for Issues 1 and 3, we believe the Board should consider allowing entities to apply the amendments related to Issue 2 on a modified retrospective basis. As the Board notes in paragraph BC35 of the proposal's Background Information and Basis for Conclusions, the Issue 2 amendments could affect existing hedges in which SOFR OIS has been designated as the hedged risk and a Term-SOFR derivative is used as the hedging instrument. Under the proposed prospective transition approach, entities would be required to dedesignate and redesignate these existing hedges in order to apply the Issue 2 amendments. This would reduce the usefulness of the amendments because the hedging instrument would be off-market upon redesignation, creating additional complexity.

Providing entities with the option to apply the Issue 2 amendments on a modified retrospective basis rather than requiring this transition would seem to address the Board's concern noted in the Basis for Conclusions that the potential benefits would not justify the cost and complexity.

If the Board decides to allow for modified retrospective transition for the Issue 2 amendments, we suggest that it also clarify that an entity may modify its method for assessing hedge effectiveness as part of the transition. This would allow entities to use simplified methods (such as the shortcut method) to assess the ongoing effectiveness of existing hedges when changing the designated hedge risk results in a hedging relationship that can now be considered perfectly effective based on a qualitative analysis.

Question 5 — 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 the amendments would be relatively straightforward to apply and, therefore, could be implemented in a timely manner. However, we defer to preparers on the specific time frame they believe is appropriate and recommend the Board determine the effective dates based on their feedback.

Question 6 — 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.

While we believe the proposal's expected benefits would justify the expected costs, preparers are better positioned to provide detailed information about the nature and magnitude of those costs.