March 30, 2018

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

File Reference No. 2018-220
Re: Proposed Accounting Standards Update, Derivatives and Hedging (Topic 815):
Inclusion of the Overnight Index Swap (OIS) Rate Based on the Secured Overnight Financing Rate (SOFR) as a Benchmark Interest Rate for Hedge Accounting Purposes

Dear Ms. Cosper:

Deloitte & Touche LLP is pleased to comment on the FASB’s proposed Accounting Standards Update (ASU) Derivatives and Hedging (Topic 815): Inclusion of the Overnight Index Swap (OIS) Rate Based on the Secured Overnight Financing Rate (SOFR) as a Benchmark Interest Rate for Hedge Accounting Purposes.

We support the Board’s effort to add a SOFR-based reference rate as an acceptable benchmark interest rate in GAAP in the United States. Use of a SOFR swap rate has appeal because it will be based on actual transactions in an active market and incorporate a low level of credit risk. The Board’s proactive addressing of the acceptability of the OIS rate based on SOFR as a benchmark rate in the United States will eliminate some uncertainty that could hamper its market acceptance. However, if the Board deems it appropriate to move forward with designating the OIS rate based on SOFR as a benchmark interest rate in the United States despite the lack of a current market for derivatives that reference that rate, it is unclear why there should be significant concerns with designating a broader SOFR-based swap rate as a benchmark interest rate if that broader rate would have the same limitations.

Our responses to the proposed ASU’s questions for respondents are included in the appendix.
We appreciate the opportunity to comment on the proposed ASU. If you have any questions concerning our comments, please feel free to contact Jonathan Howard at (203) 761-3235.

Yours truly,

Deloitte & Touche LLP

cc: Mark Bolton
    Robert Uhl
Appendix
Deloitte & Touche LLP
Responses to Proposed ASU’s Questions for Respondents

**Question 1:** The Board decided to propose that the OIS rate based on SOFR should be added as a U.S. benchmark interest rate. Should the OIS rate based on SOFR be included as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815? Why or why not?

We support the Board’s proposal to add the OIS rate based on SOFR as a U.S. benchmark interest rate for accounting purposes under ASC 815. Doing so will eliminate uncertainty within GAAP that could hamper market acceptance of a SOFR-based reference rate as a benchmark interest rate and a possible alternative to a rate based on the London Interbank Offered Rate (LIBOR). We believe that this outcome is desirable given the uncertainty about the future use of LIBOR. We agree that a SOFR swap rate has appeal because it will be based on actual transactions in an active market and incorporate a low level of credit risk.

**Question 2:** The Board’s proposal to add the OIS rate based on SOFR, rather than a broader SOFR swap rate that would be the equivalent of the LIBOR swap rate, is based on the ARRC’s paced transition plan, which indicates that OIS swaps referencing SOFR are expected to begin trading in 2018. Over a longer term horizon, swaps referencing a SOFR term rate (that is, tenors greater than overnight) may be developed in the marketplace. Should a broader SOFR swap rate be included as a U.S. benchmark interest rate instead of the OIS rate based on SOFR?

We question whether a SOFR-based benchmark interest rate will ultimately be applied broadly in practice if it is limited to an overnight tenor. We understand how the Alternative Reference Rates Committee’s transition plan influenced the Board’s decision to limit the SOFR-based benchmark interest rate to an OIS rate. We also acknowledge that the Board may add projects in the future to consider designation of other SOFR-based swap rates as benchmark interest rates in the United States.

However, in the proposed ASU’s Basis for Conclusions, the Board acknowledges that the OIS rate based on SOFR is an “emerging rate” that “may not immediately meet the characteristics of widely recognized, quoted, and referenced given the lack of derivative transactions referencing that rate.” If the Board deems it appropriate to move forward with designating the OIS rate based on SOFR as a benchmark interest rate in the United States despite the lack of a current market for derivatives that reference that rate, it is unclear why there should be significant concerns with designating a broader SOFR-based swap rate as a benchmark interest rate if that broader rate would have the same limitations.

Adding a broader SOFR-based swap rate (one that would be comparable to the LIBOR swap rate) to this project may (1) further reduce uncertainty that could hamper market acceptance of SOFR-based derivative contracts and (2) avoid the need for future standard setting. Also, even if contracts that reference SOFR-based swap rates with tenors other than the OIS rate are not introduced in the near future, the mere designation by the Board of a broader SOFR swap rate as an acceptable benchmark interest rate would not seem likely to have a negative effect on financial reporting since it is unlikely that an entity would designate a particular tenor of a SOFR-based swap rate as a benchmark interest rate in a hedging relationship if there were no derivative contracts in the market that referenced that rate.
**Question 3:** For hedging relationships of benchmark interest rate risk for which the designated hedged risk will be changes in fair values or cash flows attributable to changes in the OIS rate based on SOFR, should the Board consider providing any transition relief upon designation of SOFR as a benchmark rate? If so, please describe the specific types of relief needed and whether relief is necessary for existing hedging relationships based on LIBOR that will transition to SOFR or newly designated hedging relationships based on SOFR.

We do not see a need for the Board to grant any transition relief to entities that designate a SOFR swap rate as a benchmark interest rate in a hedging relationship.

**Question 4:** Should additional disclosures be required? If yes, please explain what specific additional disclosures should be required and why.

We agree with the Board that the addition of a new benchmark interest rate does not warrant new disclosure requirements.

**Question 5:** Should the proposed amendments be applied on a prospective basis only for qualifying new or redesignated hedging relationships? If not, please explain why.

We agree that an entity should apply the proposed amendments on a prospective basis only for qualifying new or redesignated hedging relationships.

**Question 6:** Should the effective date of the proposed amendments coincide with the effective date of Update 2017-12? If not, when should the proposed amendments be effective? Please explain why.

We do not see a compelling reason to align the effective date of the proposed amendments with the effective date of ASU 2017-12. The Board may want to consider aligning the effective date of the amendments with the timing of the Federal Reserve Bank's initiation of publication of the daily SOFR rate; however, creating such alignment may not be critical since it seems unlikely that an entity would designate a SOFR-based swap rate as the benchmark interest rate exposure in a hedging relationship if no derivative contracts referencing that rate existed in the marketplace.