October 4, 2019

Via email to director@fasb.org

Mr. Shayne Kuhaneck, Acting Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Re: Reference Rate Reform (Topic 848) (File Reference No. 2019-770)

Dear Mr. Kuhaneck:

We are pleased to provide comments on the FASB’s Proposed Accounting Standards Update, Reference Rate Reform (the “proposed Update”).

We support the proposal and believe that it will address the operational challenges likely to arise in accounting for contract modifications and hedge accounting due to reference rate reform. Our detailed responses to the Questions for Respondents are contained in the attached Appendix.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Gautam Goswami at (312) 616-4631 or Tim Kviz at (703) 245-8685.

Very truly yours,

BDO USA, LLP
Appendix

General

Question 1—Costs and Complexities: Are the amendments in this proposed Update operable and auditable? If not, which proposed amendment(s) pose operability or auditability issues and why?

Generally, we believe the amendments in the proposed Update are operable and auditable. Due to the significant number of cross-references included in the proposed Update, we suggest adding brief descriptions of the items cross-referenced to allow for ease of understanding.

Question 2—Additional Issues: Are there additional accounting issues or optional expedients related to reference rate reform that the Board should consider? Please be as specific as possible and explain why those issues require consideration.

The forepart of the proposal and the basis indicate that modifications of fallback protocols because of reference rate reform would be within the scope of the amendments because they are modifications to the terms of a contract that have the potential to change the amount or timing of contractual cash flows. Considering the significance, we recommend this also be clarified in the main amendments and not only the basis.

We note that during the transition period, the proposal allows for an entity to disregard certain key criteria (e.g., same repricing dates and same index in determining whether it can apply a qualitative method and assume perfect hedge effectiveness). Considering that in many cases it is expected that both the hedged item and the hedging derivative would transition to SOFR concurrently, we are unsure whether the proposed relief to such an extent is necessary.

Further, in those cases where there are mismatches, it may result in incorrectly concluding that the hedge is highly effective. We suggest that the Board consider carrying out further outreach with users whether that would provide decision-useful information or whether in those cases effectiveness should be assessed by a quantitative long-haul method, as done currently, to determine whether the hedge is highly effective.

Contract Modifications

Question 3—Expedients: Do you agree with the proposed expedients for the accounting for contract modifications? If not, please explain which proposed amendment(s) you disagree with and why.

Yes, we agree with the proposed expedients for the accounting for contract modifications. For ease of application, we recommend clarifying the following regarding the optional expedient to treat a reference rate-related amendment as a debt modification:

- The “one-year rule” in paragraph 470-50-40-12(f) would not need to be considered at the time the expedient is applied;
• The expedient is applicable even for replacement of LIBOR by another rate that may not be considered a benchmark (i.e., prime rate instead of SOFR);

• The expedient is available for public debt, considering that amendments to public debt are accounted for as an extinguishment in certain cases without the application of the 10% cash flow test (i.e., when there is no negotiation with the individual creditors); and

• Whether an assessment under the Troubled Debt Restructuring Guidance would be required (i.e., if an entity that is experiencing financial difficulty elects the expedient).

In addition, we note that debt amendment assessments are often assessed on a creditor-by-creditor basis (i.e., the unit of assessment is the creditor, not any particular debt obtained from that party). For creditors that have extended multiple debt arrangement with an entity, we suggest the Board further clarify whether the optional expedient can be used if some of their debt transition to SOFR and others to a different rate (i.e., prime).

**Question 4—Election Level: Do you agree that the optional expedients for contract modifications should be applied at the relevant Topic, Subtopic, or Industry Subtopic level? If not, what alternative do you suggest and why?**

Yes, we agree that the optional expedients for contract modifications should be applied at the relevant Topic, Subtopic or Industry Subtopic level.

**Hedge Accounting**

**Question 5—Change in Critical Terms: Do you agree with the proposed exceptions to the requirement in Topic 815 to dedesignate a hedging relationship for a change in critical terms of the hedging relationship? If not, please explain which proposed amendment(s) you disagree with and why.**

Yes, we generally agree with the proposed exceptions to the requirement in Topic 815 to dedesignate a hedging relationship for a change in critical terms of the hedging relationship. Also, refer to our response for Question 2 regarding the appropriateness of allowing for a qualitative hedge assessment method despite identified mismatches.

**Question 6—Fair Value Hedges: Do you agree with the proposed optional expedients for fair value hedge accounting? If not, please explain which proposed amendment(s) you disagree with and why.**

Refer to our response for Question 2.

**Question 7—Cash Flow Hedges: Do you agree with the proposed optional expedients for cash flow hedge accounting? If not, please explain which proposed amendment(s) you disagree with and why.**

Refer to our response for Question 2.
Question 8—Election Level: Do you agree that the proposed exceptions and optional expedients related to hedge accounting should be applied on an individual hedging relationship basis? If not, please explain why.

Yes, we agree that the proposed exceptions and optional expedients related hedge accounting should be applied on an individual hedging relationship basis.

We note that the proposed paragraph 848-30-25-4 refers to 815-20-25-3(b)(2)(iv) (02) for the timing of an entity providing an addendum to its hedge documentation regarding the changes made to the hedging relationship from electing an optional expedient. Considering that certain private companies are provided additional time under paragraph 815-20-25-3A, we suggest that reference also be made to that paragraph so that private companies benefit from the additional time provided to complete the addendum. Further, we suggest the necessity and timing of completing the addendum also be cross-referenced in Topic 815.

Disclosures

Question 9—Contracts or Holdings: What quantitative and qualitative disclosures should be provided to help users understand a reporting entity’s current contracts or holdings (as of the reporting date) that are affected by reference rate reform? For financial statement preparers, what costs would be incurred in providing these disclosures? For financial statement users, what alternative sources of information would be used if a reporting entity does not provide any quantitative and qualitative disclosures? What costs would be incurred to obtain quantitative and qualitative information to better understand a reporting entity’s exposure to reference rate reform? Should the quantitative and qualitative disclosures, if any, have a termination date after December 31, 2022? If not, when should such disclosures expire and why?

We believe this question is best addressed by users and preparers. We believe that the disclosures should expire following the year of a change in a referenced interest rate index, whether relating to LIBOR or any other reference rate that may be discontinued in the future.

Question 10—Hedge Accounting: What quantitative and qualitative disclosures should be provided to help users understand the financial reporting effects of expedients elected by a reporting entity? For financial statement preparers, what costs would be incurred in providing these disclosures? For financial statement users, what costs would be incurred if a reporting entity does not provide any quantitative and qualitative disclosures to help financial statement users understand the financial reporting effects of any hedge accounting expedients elected?

See our response to Question 9.

Question 11—Transition: Do the proposed transition disclosure requirements provide decision-useful information? If not, what would you recommend and why?

Yes, we agree.
Transition and Termination Date

Question 12—Transition: Do you agree that the proposed optional expedients should be applied on a prospective basis upon election? If not, what alternative do you suggest and why?

Yes, we generally agree that the proposed optional expedients should be applied on a prospective basis upon election. However, if financial statements that include contract modifications (i.e., inclusion or modification of fallback language) made in anticipation of reference rate reform have not been issued, we recommend that the expedients be allowed, even if those modifications were made prior to the issuance of a final update.

Reference rate reform may also affect contracts within the scope of ASC 860 (i.e., securitization transactions) and ASC 810 (i.e., the evaluation of consolidation of variable interest entities, whether changes to the reference rates are reconsideration events, and whether negotiation of the changes to a new reference rate would be an indicator of power). We suggest that these Topic also be included in the Table in paragraph 848-20-55-2, in addition to other key Topics already referred (i.e., ASC 606 and ASC 815).

We note the proposal states that an entity may elect the hedging related optional expedients only if it has adopted the amendments in Accounting Standards Update (ASU) No. 2017-12, Targeted Improvements to Accounting for Hedging Activities. Considering the Board’s separate proposal to defer the adoption date of ASU 2017-12 to at least 2021 for a significant population of entities, we request the Board confirm those entities would not need to early adopt that ASU to be eligible for the reference rate reform transition relief upon issuance of final guidance.

We do not believe early adoption of ASU 2017-12 to be necessary in all circumstances as it may defeat the purpose of providing a deferral to 2021. While we acknowledge that the hedge accounting-related amendments in this proposal may be in contemplation of the significant targeted amendments made in ASU 2017-12, we believe that certain key relief may still be provided even if that ASU is not early adopted. For instance, allowing a change to the terms of a designated hedging instrument or the hedged risk arising out of reference rate reform without automatically redesignating the hedge should provide relief to many hedging relationships, as in many cases the expected concurrent change to both the hedging derivative and the hedged item would cause the hedging relationship to remain highly effective. We note the extensive disclosures in Topic 815 even prior to adoption of ASU 2017-12, along with those in Topic 820, provide relevant information for users to assess the financial statement effects of any changes to the hedging relationships even if the ASU is not early adopted. However, for those entities that also wishes to change the method designated for use in assessing effectiveness or rebalance the hedging relationship, we agree that only be allowed if an entity has adopted the amendments in Update 2017-12, as it goes beyond just a change to the reference rate used in hedge designation.

Question 13—Termination Date: Do you agree that the proposed amendments should not apply to contract modifications made and hedging relationships entered or evaluated after December 31, 2022? If not, when should the proposed amendments expire and why?
We agree with the proposed sunset provision for reforms arising from replacement of the LIBOR rate, noting that the Board will consider whether future developments warrant any changes to that termination date.