To the Technical Director:

This commenter has reviewed the Proposed Accounting Standards Update issued on September 5, 2019 on Topic 848, Reference Rate Reform, Facilitation of the Effects of Reference Rate Reform on Financial Reporting including the text on reference rate reform and its relation to financial contract modifications, debt agreements, leases and derivative investments as these pertain to new replacement reference rates for the future discontinued LIBOR (London Interbank Offer Rate) and related reference rates due to rate reform efforts. In the United States, the Alternative Reference Rates Committee (ARRC) as convened by the Federal Reserve has in 2017 identified the Secured Overnight Financing Rate (SOFR) as a replacement reference rate for the LIBOR, and the Overnight Index Swap rate has also been identified in the U.S. as a reference rate to newly replace the LIBOR. This commenter appreciates the opportunity to submit a narrative on the topic of reference rate reform, and given the scope of the various topics involved and their interactions, has made attempts to allow for usefulness of comments as submitted versus submitting abbreviated responses only – this commenter overall agrees with the proposed guidance and will in responses make all attempts to provide reasonable and substantive narrative on why the agreement and what for. Rate reform concerning the LIBOR has been an accounting and finance question for some time and the U.K. will no longer compel usage of this rate past 2021 with the financial instruments illustrated in this proposed update.

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? The amendments in this proposed Update are operable and auditable, yes, insofar as the overriding importance of rate reform is concerned and the clarification of, e.g., redesignation questions and potential confusion surrounding these. Given the adjustments to debt and other contracts (leases) and hedges of fair value cash flow, and derivatives due to the LIBOR replacement reference rate, the entity is assured the proposed guidance has provided for mismatches and adjustments, separate measurement and recognition, without having to reassess financial instruments disclosures. The guidance for financial instruments illustrated in this proposed Update allows for continuing the contracts and hedges as before, considering modifications under the new rate(s,) and without having again to reassess previous financial and accounting determinations for the entity’s contracts and hedges presented in the financial statements. Methodology is in the proposed Update to disregard mismatches provoked by the rate
changes. As with any accounting change, audit questions arise that here might include proper resolution of valuation and yield assessments and computations and proper assessment of the mismatches given the overall importance of accounting and auditing’s matching principle, work flows and work product changes given the reform and proper transition to the new reference rate(s) and proper election considerations.

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. Additional issues and questions related to reference rate reform include proper transition to the new replacement reference rate(s). Perhaps proper bookkeeping that is auditable and clarifies the initial use of replacement rates; proper election, and clarification of the disregarded mismatches issue at the entity level.

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. This commenter agrees with the proposed expedients as these provisions allow for proper transition and methodology for financial instrument contract modifications and new application of the proposed guidance to hedges (fair value, cash flow, and derivative.)

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? This commenter agrees that the optional expedients for contract modifications should be applied at the relevant Topic, Subtopic, or Industry Subtopic level. These applications are appropriate given the complexities of, and variations in receivables and debt arrangements, leases, other contracts, hedges and financial instrument contract modifications as illustrated in this proposed Update.

Hedge Accounting

Question 5—Change in Critical Terms: Do you agree with the proposed exceptions to the requirement in Topic 815 to redesignate 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. This commenter agrees with the proposed exceptions to the requirement in Topic 815 that redesignate a hedging relationship for a change in rate(s), and facts and circumstances should also be considered as factors in compliance with the guidance in this proposed Update.

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. This commenter agrees with the proposed optional expedients for fair value hedge accounting for initial application of the optional expedients, and separate measurement and recognition in the accounting treatment of subject matter financial instruments as well as facts and circumstances concerning hedging ineffectiveness.
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. This commenter agrees with the proposed optional expedients for cash flow hedging accounting. The “probable” expedient for the continuance of cash flow hedges under the new replacement rate(s) is fitting and important in consideration of the related criteria for these financial instruments.

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. This commenter agrees that the proposed exceptions and optional expedients related to hedge accounting should be applied on an individual hedging relationship basis.

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?
Language in the entity’s financial statements should be included per the proposed changes encompassed by the proposed Update. Also in order to avoid disruptions, illustration of any mismatch effects and any facts and circumstances that are material to fair value should be disclosed: guidance provisions, methodology in accounting treatment, separate measurement and recognition. For financial statement preparers, alternative sources of information to the financial statements could be used, and summary presentation of these matters in the financial statements should be brief and dependent upon the volume of contracts, hedges and related issues. The amount of work given this for preparers and with additional measurement and recognition questions to resolve is unknown. In the event the entity does not provide proper qualitative and quantitative disclosures, it is possible though it depends upon the end user to compare guidance and its provisions with actual disclosures in the financial statements. Provided, e.g, web and internet – intranet – based information is published on these matters, the information – gathering, processing and analysis costs concerning the entity’s exposure to reference rate reform are unknown though probably minimal or negligible. This commenter agrees the termination date for this guidance should be no later than December 31, 2022 for LIBOR and legacy IBOR disclosures expiration.

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?
Provisions of the proposed Update and related common disclosures, principles and practices should be provided for the entity’s industry and industrial sector in summary form in the entity’s financial statements. The costs of disclosure of these items would depend upon the volume of, and differences
between varietal agreements including hedges and the entity’s experience(s) with hedges and hedging a priori the rate reform(s.) In the event the entity does not provide proper qualitative and quantitative disclosures, it is possible though it depends upon the end user to compare guidance and its provisions with actual disclosures in the financial statements. Provided, e.g, web and internet – intranet – based information is published on these matters, the information – gathering, processing and analysis costs concerning the entity’s exposure to reference rate reform are unknown though probably minimal or negligible. Additionally, disclosures in the financial statements should include a priori, again in summary, the operating status or quality condition of the hedges, the volume of different hedges and initially a measure of the pains an entity goes to in preparing and disclosing, and accurately reporting the hedges at fair value. For financial statement users, there should be an understanding, if not issues – awareness, of the matters presented in the entity’s financial statements concerning this proposed Update and of the presentation of these and related matters in the financial statements that includes an understanding or awareness of the replacement rate(s), separate measurement and recognition of mismatches, transition and implementation methods and practices as well as findings on applicable facts and circumstances. The costs of these might very well fluctuate per entity and are unknown.

Question 11—Transition: Do the proposed transition disclosure requirements provide decision-useful information? If not, what would you recommend and why? The disclosure requirements do provide useful information as an adequate, reasonable and prudent departure from the possible distortions of the LIBOR and legacy IBOR rates.

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, this commenter does agree that the proposed optional expedients should be applied on a prospective basis upon election as adoption of this reform, and as election for new replacement reference rates provides or will, initially and in the future, provide decision – useful information as a point of reference departing from the legacy interbank rate(s) first, then away from the distortions these cause and with greater informational usefulness, especially for variable interest contracts and hedges.

Question 13—Termination Date: Do you agree that the proposed amendments should not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022? If not, when should the proposed amendments expire and why? This commenter agrees that the proposed amendments should not apply to contract modifications and hedging relationships entered into or evaluated after December 31, 2022 as this transition limit date is adequate caeteris paribus.

By,

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