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October 7, 2019

Technical Director, File Reference No. 2019-770  
FASB  
401 Merritt 7,  
P.O. Box 5116  
Norwalk, CT 06856-5116

Re: File Reference No. 2019-770: FASB Exposure Draft, Reference Rate Reform (Topic 848)

The American Council of Life Insurers (ACLI) greatly appreciates the opportunity to provide comments on the FASB Exposure Draft, Reference Rate Reform (Topic 848) (ED). The Financial Accounting Standards Board’s (FASB) efforts to respond to reference rate reform and the impending challenges that are created as a result of the current accounting requirements with regard to contract modifications in various accounting topics are commendable. It is clear that a significant amount of time and effort was invested in covering the accounting impact of various types of contract modifications. We specifically appreciate the fact that an explicit reference was made to different impacted contract types (including insurance contracts under ASC 944), to communicate that the guidance should be applicable to a broad range of contracts impacted by reference rate reform, beyond those explicitly noted in the proposed ED.

Overall, we agree with the proposed guidance, and we believe that it will provide significant relief to all companies that have entered into contracts that reference LIBOR (or another reference rate expected to be discontinued due to reference rate reform).

However, an area of concern that we want to bring to your attention is related to the sunset provision, which terminates the relief outlined in the proposed ED after December 31, 2022. We are concerned that including a hard termination date after which the relief outlined in the proposed ED would not be available would put significant pressure on the markets unnecessarily, and we do not believe that the December 31, 2022 deadline for all market participants to complete the modification of all contracts that reference LIBOR (or another reference rate expected to be discontinued due to reference rate reform) is realistic, or necessary.

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1 The American Council of Life Insurers (ACLI) advocates on behalf of 280 member companies dedicated to providing products and services that promote consumers’ financial and retirement security. 90 million American families depend on our members for life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, dental and vision and other supplemental benefits. ACLI represents member companies in state, federal and international forums for public policy that supports the industry marketplace and the families that rely on life insurers’ products for peace of mind. ACLI members represent 95 percent of industry assets in the United States. Learn more at www.acli.com.
Through various discussions with member companies, the following outlines the most significant (but potentially not all) challenges that are created from the sunset provision in the guidance, as it is currently proposed:

- The pure volume of contracts for which multiple counterparties will be required to negotiate and modify within a strict timeframe will likely create significant pressure to all impacted entities.
- Various counterparties will need to agree on an appropriate replacement reference rate for contract modification, creating challenges considering the ever-changing market environment during the period of reform over the coming years, and these negotiations could be time-consuming and market dependent.
- Certain transactions that are in a hedging relationship will have at least 3 counterparties involved (including: 1) the hedging company; 2) the counterparty to the hedged instrument; and, 3) the counterparty to the derivative contract). If there is time pressure to complete all contract modifications by a specified date, there may be an increased risk that the hedging company may not be able to modify both independent contracts with independent counterparties in such a way that each respective contract references the same new reference rate. Based on our interpretation of the sunset termination provision in the current ED, in this situation, if these underlying modified contracts do not meet the hedge effectiveness requirements under ASC 815-20 and 815-30, the derivative may no longer meet the criteria for hedge effectiveness, if the hedging company is using a short-cut method or other methods that assume perfect hedge effectiveness, which requires all terms to match.
- The market is ever-changing, and it is difficult to 1) anticipate the expected date(s) after which banks will actually stop quoting LIBOR (or another reference rate expected to be discontinued due to reference rate reform)2, and 2) monitor the various new markets that are being created within which new reference rates are maturing. If companies are forced to complete all contract modifications within a specific window, absent consideration of the ever-changing market conditions, this could cause significant tension in the marketplace, causing companies to either:
  a) Modify contracts at an inopportune time economically (based on market conditions) simply to complete the modifications within the timeframe to obtain beneficial accounting relief, thereby causing the company to suffer economically, or
  b) Be forced to modify some contracts subsequent to the sunset termination date outlined in the exposure draft (December 31, 2022), therefore suffering from the negative (and unintended) accounting implications.

In response to the challenges outlined above, we have two recommended options to simplify the guidance and ease the pressure on the markets.

1. **Remove the sunset provision completely**: One approach would be to remove the sunset termination date from the guidance, which would reduce the pressure and allow companies more time to complete their contract modifications within a reasonable time period that is most economically beneficial to them. While we recognize that reference rate reform is a short-term market condition, we also recognize that there will be certain times throughout the reform process where it may be more or less economically beneficial for many companies to focus their time and efforts on contract modification, taking into consideration 1) the wind-down of LIBOR (or another reference rate expected to be discontinued due to reference rate reform), 2) the maturation of newly created reference rate markets, 3) counterparty sentiment and negotiations, and 4) the sheer volume of contracts and the required bandwidth within an organization. By removing the sunset provision completely, it removes the pressure and prevents the

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2 Through discussions, it is noted that various bank counterparties have such a significant volume of contracts referencing LIBOR (or another reference rate expected to be discontinued due to reference rate reform) that they plan to continue quoting LIBOR beyond December 31, 2021, with no indication of when they will stop quoting the reference rate.
accounting rules from dictating economic market transaction timing. Due to the factors already noted, it will likely be beneficial for most companies to plan for a timely and smooth transition of their contracts to reference another rate. This guidance could then remain in the codification to be used for future potential reference rate reform environments, and it would eliminate the need for the FASB to issue additional guidance, depending on the unpredictable ever-changing market conditions throughout the reference rate reform process.

2. **Modify the sunset provision:** If the FASB has additional information not outlined in the proposed ED that would support why it would be detrimental to the objectives of accounting and financial reporting to not have a sunset termination date on the relief guidance, and the FASB feels strongly that a sunset provision is required, then we would recommend both of the following modifications to the currently proposed sunset termination provision:

   a) A reassessment of the currently proposed termination date for the guidance of December 31, 2022, as this date seems overly aggressive, based on the challenges outlined earlier in this letter.

   b) Specific to derivatives in a hedging relationship (including the relief outlined related to the optional expedient for application of the shortcut method and other methods that assume perfect hedge effectiveness), a modification to the sunset provision to make it clear that the relief elections within the guidance could continue to be utilized and would only end prospectively when one of the following conditions occur:
      
      i. When the uncertainty arising from interest rate benchmark reform is no longer present within the contract (i.e. when the contract(s) is modified to specify the timing and amount of cash flows in the contract based on an alternative rate), or
      ii. When the hedging relationship that the hedged item is part of is discontinued.

The modification in b) above would ensure that derivative contracts in a hedging relationship which include uncertainty as a result of reference rate reform can still qualify as effective hedges and would not be subject to the sunset termination date. This would allow sufficient time for counterparties to work through negotiations to achieve the proper matching of terms to continue to achieve the appropriate hedging effectiveness under the current accounting requirements without undue pressure.

Please see our explicit responses to the questions outlined in the proposed ED on the following pages.

We welcome the opportunity to discuss our views and recommendations in greater detail should you have any questions.

Sincerely,

Mike Monahan
Senior Director, Accounting Policy

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3 The concepts outlined in this recommended modification related to derivatives in a hedging relationship are consistent with the concepts outlined in the IFRS exposure draft from May 2019 related to Interest Rate Benchmark Reform (proposed amendments to IFRS 9 and IAS 39).
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?

We believe that the amendments in this proposed Update are operable, with the exception of our concerns around the currently proposed termination date. Please see our comments outlined in the letter above for our views on the challenges created by the currently proposed termination date.

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.

We are not aware of any additional accounting issues or optional expedients related to reference rate reform. We believe that the generic guidance outlined in the proposed ED, including the examples, makes it clear that the expectation would be for the proposed guidance to apply to any contract that may be impacted by reference rate reform.

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.

We agree with the proposed expedients outlined in the proposed ED.

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?

No Comment.

Hedge Accounting

Question 5—Change in Critical Terms: Do you agree with the proposed exceptions to the requirement in Topic 815 to de-designate 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.

See our comments above with regard to the interaction between derivatives in a hedging relationship and the currently proposed sunset provision.

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.

See our comments above with regard to the interaction between derivatives in a hedging relationship and the currently proposed sunset provision.

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.

See our comments above with regard to the interaction between derivatives in a hedging relationship and the currently proposed sunset provision.
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.

See our comments above with regard to the interaction between derivatives in a hedging relationship and the currently proposed sunset provision.

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?

No Comment.

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?

No Comment.

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

No Comment.

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?

We agree with this transition approach.

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?

See our comments outlined in the letter above for our views on the proposed termination date, including our proposed modifications to this aspect of the exposed guidance.