October 7, 2019

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

File Reference No. 2019-770

Dear Mr. Kuhaneck:

RSM US LLP is pleased to provide feedback on the proposed Accounting Standards Update (ASU), Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. We appreciate the proactive efforts the Financial Accounting Standards Board is putting forth to ease the accounting burden associated with the phase out of LIBOR and other reference rates, as well as to prevent the financial statement distortion that would otherwise occur without the proposed hedge accounting expedients. Our responses to the specific questions raised in the proposed ASU follow, as well as a discussion of certain other matters we would like to bring to your attention.

Responses to Questions for Respondents

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 the proposed amendments are operable and auditable for the most part. We believe it would be beneficial for the Board to elaborate on the intended meaning of proposed paragraph 848-10-15-4, which includes “initiatives of market participants to move away from the reference rate” as justification for an expectation of the discontinuance of a rate. As currently worded, one may conclude that if one or two market participants move away from a reference rate that would be justification for an expectation of its discontinuance. If this is not the intended meaning, it would be good to clarify that, as well as what is meant by the use of the words market participant in this context (i.e., would it include major lenders, derivative dealers, end users?).

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 expedients related to reference rate reform that should be considered.
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 amendments for contract modifications, as we believe the outcome will be logical and the expedients will permit reporting entities to avoid complex analyses.

**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?

We agree with the proposed application, as we believe requiring consistency at these levels is reasonable and should help to mitigate the risk of selective application to specific contracts to achieve a desired earnings result.

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.

We agree with the proposed exceptions related to changes in critical terms and the requirement to dedesignate a hedging relationship.

**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.

We generally are in agreement with the expedients proposed for fair value hedge accounting, but we question why an entity should not be required to periodically evaluate the conditions in paragraph 815-20-25-104 for the remaining life of the hedging relationship if the practical expedient for an existing fair value hedge for which the shortcut method is applied is elected (proposed paragraph 848-40-25-8). We question whether this should be qualified to indicate that only the conditions in 25-104(d) and 25-104(g) no longer need to be evaluated.

**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.

We agree with the proposed optional expedients for cash flow hedge accounting.

**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.

We agree that the flexibility to apply the proposed exceptions and expedients on an individual hedging relationship basis should be provided.

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 it would be helpful to provide disclosures that include a general discussion of the magnitude and type of contracts that will be impacted by reference rate reform, as well as the resolution when known. Additionally, significant ramifications to the financial statements, if any, should be quantified and disclosed.

**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?

We believe it would be helpful to require a general discussion of any significant ramifications, such as an indication of the extent to which the entity availed itself of expedients.

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

We agree that the proposed transition disclosure requirements would provide decision-useful information.

**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 believe that reporting entities should be permitted to apply the proposed optional expedients not only to contract modifications that are made and hedging relationships existing as of or entered into on or after the date of adoption and through December 31, 2022, but also to those modifications that may occur and for those hedging relationships for periods preceding the date the standard is issued for which financial statements have not yet been issued.

**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?

We do not take exception to the proposed termination date, given that the Board intends to monitor developments and adjust if necessary.

**Other Matters**

We believe it would be beneficial if the following excerpt from paragraph BC24, as well as the related examples in paragraphs 848-20-15-5 through 15-6, could be clarified to aid in distinguishing between modifications from a variable rate to a fixed rate that are not eligible for the optional expedients versus those modifications that are.

A change from a variable rate to a fixed rate would not be eligible for application of the optional expedients for contract modifications. The Board reached that decision because it believes that a negotiated fixed rate in a loan, debt instrument, or over-the-counter derivative could include spread components that would reflect a credit decision that is separate from reference rate reform. However,
the Board does not intend to exclude modifications of the reference rate from applying the optional expedients if a fixed rate is predetermined on the basis of the most recent reset of a variable rate affected by reference rate reform.

Additionally, paragraph BC26 mentions changes to collateral arrangements, changes in the priority of an obligation, and changes to debt covenants as examples of changes in terms that could have a potential effect on future cash flows. We believe it would be beneficial to include these examples in the list at paragraph 848-20-15-6 to clarify that the intent is to consider not only direct changes to payment terms that could have a potential effect on future cash flows, but also indirect changes.

We appreciate this opportunity to provide feedback on the proposed ASU and would be pleased to respond to any questions the Board or its staff may have concerning our comments. Please direct any questions regarding this letter to Rick Day at 563.888.4017 or Faye Miller at 410.246.9194.

Sincerely,

RSM US LLP

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