October 7, 2019

Mr. Shayne Kuhaneck
Acting Technical Director
FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856

Re: File Reference No. 2019-770

Dear Mr. Kuhaneck:

We appreciate the opportunity to comment on the Board’s Proposed Accounting Standards Update, Reference Rate Reform (Topic 848) (“Proposed ASU”). We support the Board’s efforts to provide relief for the possible financial reporting effects of reference rate reform. The optional relief proposed by the Board should reduce the costs and complexities related to the financial reporting effects of reference rate reform, especially for those entities with significant exposure to LIBOR. However, we have identified several matters for the Board to consider before issuing a final ASU, as discussed below.

Understandability of Practical Expedients

We believe stakeholders will have difficulty understanding how to apply the optional practical expedients unless additional clarification is provided in the final ASU. We acknowledge that part of the complexity in drafting understandable relief may stem from the underlying complexity of the accounting models to which the relief relates (e.g., hedge accounting). However, we believe this fact underscores the need for the final ASU to use “plain English” language as much as possible—in both the Summary section and the amendments to the Codification—to describe what each of the optional practical expedients entails and, where applicable, how the various expedients interact with each other.

We are especially concerned about the understandability of the practical expedients that apply to hedging relationships. Given the complexity of the underlying hedge accounting models, and the added complexity of having two or more instruments involved that require modification, we recommend the Board consider the following changes to the Proposed ASU:

- Include a table in the Summary section that clearly describes each practical expedient applicable to hedge accounting and how they interact with each other.
- Clearly emphasize that certain hedging practical expedients can expire prior to the “end of application” date (December 31, 2022) – for example, the scenario described in paragraph 848-50-35-17(a).
- Revise the paragraph group header preceding paragraph 848-50-35-17 to clarify that the referenced guidance applies beyond “failed” situations (for example, the header could be amended as follows: “Failure to Meet the Criteria to Apply a Conditions that Require Discontinuance of Practical Expedient for Assessing Hedge Effectiveness and Reversion to Subtopics 815-20 and 815-30”).
Clarifications to Contract Modification Practical Expedient

The Proposed ASU provides that the contract modification practical expedient applies to contract modifications if the terms that are modified directly replace, or have the potential to replace, an eligible reference rate. Although contract modifications commonly result from changes initiated by one or more of the parties to the contract, they can also result from changes to laws that govern a contract. We recommend the Board clarify, in the final ASU, that a change in law that has the potential to replace an eligible reference rate is eligible to be treated as a continuation (i.e. contract modification) of the affected contract and not result in the derecognition (or extinguishment) of the contract and the recognition of a new contract.

The final ASU should also explicitly address if the contract modification practical expedient would apply to a modification of an equity-classified instrument whose dividends are indexed to LIBOR. If the Board agrees, the final ASU should include adequate guidance on how to account for such modifications, including how to account for any upfront cash payments made to compensate for differences in reference rates (e.g., that the cash payment be treated as a deemed dividend or otherwise expensed).

We also recommend the Board modify paragraph 848-20-15-6 to include the examples of ineligible contract modifications addressed in paragraph BC26. If the Board believes changes to collateral arrangements, order of priority, and debt covenants are ineligible, this should be explicitly stated in the Codification, not solely contained in the Basis for Conclusions.

Transition Disclosures

As proposed, the transition disclosure requirements contained in paragraph 848-10-65-1 provide for entities to disclose “the nature of and reason for applying [the Proposed ASU]”. We believe it would be of benefit to financial statement users if the Board revised the proposed transition disclosure requirement contained in paragraph 848-10-65-1 to explicitly require that an entity disclose which practical expedients it has elected, what the elected expedients permit, and to which instruments or transactions the expedients have been applied.

Please contact Scott Lehman at (630) 574-1605 (scott.lehman@crowe.com) should you have any questions or would otherwise like to discuss our response.

Sincerely,

Crowe LLP

cc: James A. Dolinar, Partner, Crowe LLP