October 18, 2019

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

Re: File Reference No. 2019-770 Reference Rate Reform

Dear Mr. Kuhaneck:

The staff of the Board of Governors of the Federal Reserve System ("Board") appreciate the opportunity to comment on the Proposed Accounting Standards Update - Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting ("proposed update").

Board staff support the FASB's timely response to the market to facilitate reference rate reform by providing optional expedients and exceptions for applying Generally Accepted Accounting Principles to contracts, hedging relationships, and other transactions affected by reference rate reform. We believe the proposed update will alleviate the operational burden of entities facing large-scale contractual changes and encourage market participants to move toward transitioning to alternative rates. This aligns with the Board's objectives of upholding financial stability and mitigating the risk of market disruption resulting from the expected discontinuation of LIBOR.

Board staff appreciate the FASB's efforts in determining the scope of relief for future events and striking the appropriate balance between prescriptive and principle-based rules to respond quickly to the issues that may arise in the market due to reference rate reform. We believe the FASB's proposed update will provide greater clarity on the accounting implications of the transition to the market participants.
Contract modifications

Board staff agree with the proposed optional expedients for contract modifications to be a continuation of existing contracts if one or more terms are modified due to reference rate reform. Board staff expect that the optional expedients would reduce operational burden and complexity of accounting while still capturing the economic substance of the contract modifications.

Board staff appreciate FASB’s approach of providing examples of changes that are considered related or unrelated to the replacement of the reference rate. This will assist entities with determining whether certain changes are qualified for the proposed expedients.

Hedge accounting

Board staff support the optional expedients provided for allowing hedging relationships to continue when one or more of the critical terms of the hedging relationship change due to transition to the new reference rates. We agree that the volatility in earnings that would result from the termination of hedge accounting due to the market-wide transition away from LIBOR would not be consistent with the entities’ hedging strategies over this period of transition and would not provide useful information to users of financial statements. We believe the optional expedients for fair value and cash flow hedges better reflect an entity’s intended risk management strategy.

As hedge accounting is highly complex and there is uncertainty about how new reference rate indices and discount rate curves will be developed in the future, Board staff expect that further clarification of the proposed update in this area will be needed to assist in entities’ implementation.

Sunset provision

Board staff agree that the proposed optional expedients and exceptions should be applied on a prospective basis and support having a termination date. Both these measures will encourage market participants to act early rather than wait. Board staff also appreciate the FASB’s flexibility in reconsidering the termination date should the market evolve differently from current expectations.

Board staff appreciate your consideration of our comments on the proposed update. If you have any questions concerning our comments, please feel free to contact us.

Sincerely,

Michael Gibson
Director of Supervision and Regulation
Board of Governors of the Federal Reserve System