



Committee on Corporate Reporting

October 7, 2019

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

Re: File Reference No. 2019-770

Dear Mr. Kuhaneck,

This letter is being submitted by Financial Executives International's (FEI) Committee on Corporate Reporting (CCR) in response to the Financial Accounting Standards Board's (FASB or "the Board") Proposed Accounting Standards Update *Facilitation of the Effects of Reference Rate Reform on Financial Reporting* ("the Update" or "the Proposed Update").

FEI is a leading international organization of more than 10,000 members, including Chief Financial Officers, Controllers, Treasurers, Tax Executives, and other senior-level financial executives. The Committee on Corporate Reporting (CCR) is a technical committee of FEI comprised of 45 Chief Accounting Officers and Corporate Controllers from Fortune 100 and other large public companies — representing approximately \$9.6 trillion in market capitalization. CCR reviews and responds to pronouncements, proposed rules and regulations, pending legislation, and other documents issued by domestic and international regulators and organizations such as the SEC, FASB, and PCAOB.

This letter represents the views of CCR and not necessarily the views of FEI or its members individually.

Executive Summary

CCR sincerely commends the Board's efforts and willingness to provide relief to ease the potential burden of the effects of reference rate reform. We appreciate the Board's attentiveness to the various issues provided by stakeholders, and the Board's promptness in proposing and implementing this relief. Reference rate reform presents operational, legal, information technology and risk management challenges for companies; however, the relief provided by the Board will greatly ease the burden from a financial reporting perspective and will help users by limiting the unnecessary impact that reference rate reform could have on financial statements. We are overall supportive of the amendments included in this proposed Update and offer some suggestions below that we believe will provide clarity as preparers apply the guidance.

Contract Modifications

CCR supports the optional expedients in the proposed Update and believes that the expedients will significantly reduce the burden of reference rate reform. The expedients will also allow preparers to avoid unnecessary reassessments or remeasurements as a result of changes in contracts like debt agreements, lease agreements, and derivative instruments that will need to be modified to replace references to discontinued rates with references to replacement rates. We also support the election level provided by the Board and agree that the optional expedients should be applied at the relevant Topic, Subtopic, or Industry Subtopic level.

We request clarification in ASC 848-20-15-5(a) and the Board's conclusion found in BC24, as we believe any changes to a fixed rate should qualify for the relief. Industry fallback language, as established by the Alternative Reference Rates Committee (ARRC), permits entities to move to a borrower or lender specified rate, which could include a fixed rate. We believe entities should not be unnecessarily excluded from the relief for following industry-established fallback language.

We also believe that a principle should be incorporated within ASC 848-20-15-5 through 15-6, such that the example terms listed are presumed to be related (or unrelated) to reference rate reform unless substantive evidence exists to the contrary. This presumption will increase the ease of application and auditability while simplifying the documentation needed to support that the scoping criteria have been met for individual contracts. For cash products, the anticipated spread that will be added to reflect a change from LIBOR to the Secured Overnight Financing Rate (SOFR) will likely differ somewhat from contract to contract. Given the potential differences between individual contracts, auditors may require preparers to prove the spreads are related solely to reference rate reform and do not contain any element of a change related to a counterparty credit spread. The potential need to quantitatively substantiate small basis point differences to auditors would be significantly burdensome to preparers.

Hedge Accounting

We support the exceptions to Topic 815 related to changes in critical terms of a hedging relationship and the optional expedients for fair value hedges and cash flow hedges. We also agree that the proposed exceptions and optional expedients should be applied on an individual hedging relationship basis allowing preparers the appropriate flexibility. Companies enter hedging relationships for a variety of reasons, and we believe it would be beneficial to companies and to users if companies are allowed to consider the unique circumstances of each hedging relationship when deciding which expectations and expedients to apply.

To help clarify the guidance for preparers, we recommend that the Board add a separate section for net investment hedges. The proposed Update has a section for fair value and cash flow hedges but not net

investment hedges, which some companies may interpret as the update not applying to net investment hedges.

Disclosures

CCR does not believe it is necessary for the FASB to include additional disclosure requirements in the final standard. We agree with the proposed disclosure that would require an entity to disclose the nature and reason for electing the optional expedients. We believe that this disclosure will provide relevant information to users about the effects of reference rate reform and why an entity chose to apply the expedients to its contracts and hedging relationships. To the extent that reference rate reform is material, its effects will be disclosed in the Management Discussion and Analysis (MD&A). Any additional disclosures would create a burden to preparers and negate much of the intended relief offered by the proposal.

Currently, there are no US GAAP disclosure requirements regarding an entity's exposure to specific variable interest rates such as interbank offered rates (IBORs). Qualitative transition information will be provided under existing guidance within company's new accounting pronouncements footnotes. Any quantitative disclosure requirements would be additive to the current information being provided and both costly and onerous for preparers. The following are additional considerations:

- Quantitative disclosures will require the implementation of new and additional SOX controls and implementation of these controls may extend past the end of the proposed relief period for certain international jurisdictions.
- We are not aware of useful disclosures for investors above and beyond already disclosed.
- SEC has already released public statements providing specific disclosure guidance from the SEC's Division of Corporation Finance.
- For contract modifications, a new requirement to quantify and disclose the contracts with exposures to reference rate reform negates the relief that is intended to be provided and would result in significant costs to track and quantify.
- For hedge accounting, requiring disclosure of changes to the reference rate seems unnecessarily duplicative when you consider the robust disclosure regime that already exists for hedge accounting.

Transition and Termination Date

We agree that the proposed optional expedients should be applied on a prospective basis. This will allow for a less onerous transition for preparers and will limit transition amendments and disclosures that may distract users. However, rather than the guidance being effective upon issuance, we recommend that the Board allow companies to apply the exceptions and optional expedients retroactively as of the beginning



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of the period in which the guidance is issued. This will allow companies that have proactively amended existing contracts before the issuance of the guidance to also benefit from the relief.

The scope in paragraph 848-10-15-3 states that this Topic “shall apply to contracts or other transactions that reference the London Interbank Offered Rate (LIBOR) or a reference rate that is expected to be discontinued as a result of reference rate reform.” We note that the Board provided additional guidance in ASC 848-10-15-4 to clarify what an expectation of discontinuance means; however, given the temporary nature of the guidance, it is not clear if this guidance can be elected for interest rates that are not expected to be reformed immediately or if it is not known when the interest rate will be discontinued before December 31, 2022.

We believe it is not necessary to have a pre-determined sunset date given that the guidance already includes sufficient scoping criteria for when the guidance can be applied (ASC 848-10-15-3 to 15-4). In addition, we believe the sunset date of December 31, 2022, does not consider global reference rate reform which is expected to go beyond the sunset date.

We support issuing this guidance without a sunset date. The reasons for the sunset date are driven by market activities that may be difficult to predict at this time. Instead of a sunset date, we would propose using similar language that was codified in ASC 480 from FAS 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*, which allowed for the provisions to apply indefinitely pending further Board action. During that deferral, the Board can monitor the changes in reference rate reform and determine when and if the guidance should be removed.

Conclusion

CCR appreciates the Board’s efforts to facilitate the accounting for reference rate reform. We support the amendments in this proposed Update and believe they will be beneficial to all stakeholders. We stand ready to assist the Board in this effort.

Sincerely,

Prat Bhatt

Prat Bhatt
Chairman, Committee on Corporate Reporting
Financial Executives International