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March 30, 2018

Via email to director@fasb.org

Susan M. Cosper
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Proposed Accounting Standards Update, Inclusion of the Overnight Index Swap (OIS) Rate Based on the Secured Overnight Financing Rate (SOFR) as a Benchmark Interest Rate for Hedge Accounting Purposes (File Reference No. 2018-220)

Dear Ms. Cosper:

We are pleased to provide comments on the proposed update to Topic 815, Derivatives and Hedging.

BDO supports the Board's proposal to add the OIS rate based on SOFR as a benchmark rate. We agree that the proposal is consistent with the deliberations and basis of the recently issued Accounting Standards Updates (ASU) 2017-12[1] in regards to identifying new benchmark rates in a timely manner. However, because of concerns about the sustainability of LIBOR, we believe that providing clarity in the transition provisions of a final standard may be key to continuing current LIBOR-based hedge accounting, as well as wider and earlier acceptance of the proposed new benchmark rate in the marketplace.

Our responses to the Board's specific questions, including suggested clarifications, are provided in the Appendix to this letter.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Adam Brown at (214) 665-0673 or Gautam Goswami at (312) 616-4631.

Very truly yours,

BDO USA, LLP

BDO USA, LLP

[1] Targeted Improvements to Accounting for Hedging Activities

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Appendix

Question 1: The Board decided to propose that the OIS rate based on SOFR should be added as a U.S. benchmark interest rate. Should the OIS rate based on SOFR be included as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815? Why or why not?

Yes, we note from the Alternative Reference Rates Committee (ARRC) report earlier this month that recently the United Kingdom's Financial Conduct Authority and other public sector officials have cautioned that LIBOR may not be available after 2021. We agree that this knowledge makes it an imperative for market participants to actively prepare for this possibility in order to mitigate their risks, including ramifications to hedge accounting.

We note that the current definition of a benchmark interest rate as defined in the Master Glossary of the Codification does not, on a plain English reading, appear to contemplate an emerging rate that is yet to be widely recognized and quoted in an active financial market. While we note that paragraphs BC14 to BC17 of the proposal discuss why the mechanics of arriving at this rate may indirectly meet the current definition, we suggest that the Board consider amending the guidance to directly incorporate this concept in the definition.

Question 2: The Board's proposal to add the OIS rate based on SOFR, rather than a broader SOFR swap rate that would be the equivalent of the LIBOR swap rate, is based on the ARRC's paced transition plan, which indicates that OIS swaps referencing SOFR are expected to begin trading in 2018. Over a longer term horizon, swaps referencing a SOFR term rate (that is, tenors greater than overnight) may be developed in the marketplace. Should a broader SOFR swap rate be included as a U.S. benchmark interest rate instead of the OIS rate based on SOFR?

Maybe. While we believe the definition of a benchmark interest rate should allow a broader SOFR swap rate to be included as a U.S. benchmark interest rate, we note that the ARRC is yet to develop a transactions-based rate that is longer than overnight. In contrast, we note that the proposed OIS rate based on SOFR is soon to be published on a daily basis per the ARRC's report earlier this month. We also observe that the current definition of a benchmark rate does not appear to allow for such an addition. Further, the proposal's basis does not deliberate this matter in detail except for noting that a broader swap rate is still to be developed. Therefore, we believe this matter merits additional Board deliberation.

Question 3: For hedging relationships of benchmark interest rate risk for which the designated hedged risk will be changes in fair values or cash flows attributable to changes in the OIS rate based on SOFR, should the Board consider providing any transition relief upon designation of SOFR as a benchmark rate? If so, please describe the specific types of relief needed and whether relief is necessary for existing hedging relationships based on LIBOR that will transition to SOFR or newly designated hedging relationships based on SOFR.

We believe that guidance may be needed on transitioning LIBOR-based hedges in case LIBOR is no longer available for hedging relationships before the hedge maturity date, given recent concerns about the sustainability of LIBOR. We acknowledge that ASU 2017-12 allows for continuation of the hedging relationship if the hedging instrument provides a highly effective offset in relation to a revised hedged risk e.g., a change from LIBOR to OIS based on SOFR. We also note that the proposal is expected to be finalized and adopted prior to any potential discontinuation of LIBOR. However,

unforeseen questions may arise about transitioning away from LIBOR. As such, we recommend monitoring the transition period through dialogue with ARRC, ISDA and other stakeholders to determine whether specific forms of transition relief become necessary in the future.

Separately, we note that for cash flow hedges e.g., of interest rate risk, the occurrence of the forecasted transaction needs to be probable. Considering the uncertainty regarding the availability of LIBOR after 2021, we request that the Board provide clarifying guidance in this regard for new or existing hedges that extend beyond 2021. ASU 2017-12 allows for continuation of the hedging relationship if the hedging instrument provides a highly effective offset in relation to a revised hedged risk. Under the proposal, does that potential revision need to be specifically contemplated in the initial hedge documentation for new hedges or upon transition to ASU 2017-12 for existing hedges? In this context, we note that the rejected alternative in BC 66 of ASU 2017-12 contemplated not only a revision of the initial hedged risk, but also performing effectiveness tests associated with multiple hedged risks each period. As such, we recommend confirming the initial hedge documentation would not need to encompass all of the possible hedged risks that might exist in the actual transaction(s) when it occurs, including replacement of LIBOR, considering that ASU 2017-12 allows for continuation of the hedging relationship if the hedging instrument provides a highly effective offset in relation to a revised hedged risk.

Further, since the proposal indicates that OIS based on SOFR may eventually replace LIBOR both for the cash flows and the discount rates used in assessing the effectiveness of LIBOR-based hedging relationships, we request that the Board also clarify whether and why the current benchmark Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) is expected to continue to meet the definition of a benchmark interest rate. This question arises because one reason for adding the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a benchmark rate was due to its use in practice for valuating collateralized derivatives, even those based on LIBOR, and also in determining the interest rates of certain individual financial instruments e.g., in lieu of LIBOR.[2] However, if the OIS (or a longer tem rate) based on SOFR is expected to be used for the same purposes, it raises the question as to whether the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) would continue to meet the definition of a benchmark rate.

Question 4: Should additional disclosures be required? If yes, please explain what specific additional disclosures should be required and why.

We believe this question can be better responded to, after the comments in Question 3 are deliberated.

Question 5: Should the proposed amendments be applied on a prospective basis only for qualifying new or redesignated hedging relationships? If not, please explain why.

We generally agree with prospective transition. However, if specific forms of transition relief become necessary (see our response to Question 3), they may give rise to specific transition questions to be assessed at that time.

Question 6: Should the effective date of the proposed amendments coincide with the effective date of Update 2017-12? If not, when should the proposed amendments be effective? Please explain why.

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[2] See basis for conclusions in ASU 2013-10, Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes, paragraphs BC6 through BC8.

We believe that the proposed amendments should be effective upon issuance. We also believe that entities should be permitted to make use of the SIFMA Municipal Swap Rate as a benchmark rate at the same time. In other words, we recommend permitting early adoption of that element of ASU 2017-12, separate from the other provisions of that standard. We believe this would be consistent with the Board's objective to simplify hedge accounting and better portray the results of an entity's risk management activities in its financial statements and may also be less confusing to users.