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November 12, 2020

Via email to director@fasb.org

Ms. Hillary H. Salo, Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Re: Reference Rate Reform (Topic 848): Scope Refinement

Dear Ms. Salo:

We appreciate the opportunity to respond to the Board's exposure draft on scope refinements related to reference rate reform.

We support the proposal and believe that it will mitigate the operational challenges in accounting for contract modifications and hedging relationships due to modifications in interest rates used for margining, discounting, or contract price changes as a result of reference rate reform ("discounting transition"). Our detailed responses and suggestions to the Questions for Respondents are contained in the attached Appendix.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Gautam Goswami at (312) 616-4631 or Tim Kviz at (703) 245-8685.

Very truly yours,

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Appendix

Question 1—Scope Refinement: Do you agree that the scope of Topic 848 should be refined to include contracts that do not reference a rate expected to be discontinued as a result of reference rate reform but that are affected by the discounting transition? Why or why not?

Yes, we agree.

Question 2—Operability: The Board is proposing amendments in this Update to the expedients and exceptions in Topic 848 to capture the incremental consequences of the proposed scope refinement and tailor the existing guidance to derivative instruments affected by the discounting transition. Are those proposed amendments complete and operable? If not, what suggestions do you have and why?

We generally agree that the amendments are operable. However, we suggest cross-referencing or clarifying the subsequent documentation requirements for entities that elect to apply the amendments - for instance, whether and when formal hedge documentation would need to be updated if an entity subsequently removes one or more basis swaps that were initially added in response to the discounting transition. While the subsequent documentation requirements can be inferred from the existing guidance in Topic 815, Derivatives and Hedging and Topic 848, Reference Rate Reform, explicitly cross-referencing or clarifying such guidance would mitigate any inadvertent noncompliance.

We suggest clarifying whether any adjustments to a fair value hedge basis or accumulated other comprehensive income (AOCI) for a cash flow hedge due to discounting transition could be recognized in income immediately, instead of having to use a time-based approach. An optional immediate reclassification may provide relief to preparers from ongoing accounting in this regard, especially as the discounting transitions are expected to be a one-time modification. Further,it would reflect the hedged item in a fair value hedge and AOCI for a cash flow hedge at the appropriate post-discounting transition values immediately, instead of over a period of time. Similarly, it will be helpful if the Board clarifies whether the adjustments due to dscounting transition could be recognized using a different approach than that applied for other basis adjustments or reclassifications from AOCI.

Question 3—Effective Date and Transition: Do you agree with the proposed effective date and transition guidance? Why or why not?

We agree, also noting that the proposal is consistent with the existing reference rate reform transition guidance in Topic 848. However, considering that private companies may not be issuing interim financial statements, we suggest clarifying in the basis that the amendments can be applied retrospectively to annual periods that includes or is subsequent to March 12, 2020, and not only to interim periods.

Question 4—Ongoing Monitoring: Are there other accounting consequences related to reference rate reform that the Board should consider?

It will be helpful if the Board clarifies whether the optional expedients related to reference rate reform can be availed, even if other concurrent contract modifications are not within the scope of Topic 848.

We are currently not aware of other accounting consequences related to reference rate reform. We support the Board's continued commitment to monitor developments in the marketplace to consider whether future developments warrant additional guidance.