The Association of Accountants and Financial Professionals in Business

October 16, 2019

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

Re: File Reference No. 2019-770, Proposed Accounting Standards Update *Facilitation of the Effects of Reference Rate Reform on Financial Reporting*

Dear Mr. Kuhaneck:

The Financial Reporting Committee (FRC) of the Institute of Management Accountants (IMA) is writing to share its views on the Financial Accounting Standards Board's (FASB or Board) Proposed Accounting Standards Update *Facilitation of the Effects of Reference Rate Reform on Financial Reporting* (Proposed Update).

The IMA is a global association representing over 140,000 accountants and finance team professionals. Our members work inside organizations of various sizes, industries and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities, and multinational corporations. The FRC is the financial reporting technical committee of the IMA. The FRC includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics, and analysts. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals, and other documents issued by domestic and international agencies and organizations. Additional information on the FRC can be found at www.imanet.org (About IMA, Advocacy, Financial Reporting Committee).

The FRC appreciates the Board's ongoing efforts to address the impacts of reference rate reform. We applaud the Board for issuing the Proposed Update and we are supportive of providing relief to ease the potential burden on financial reporting related to the discontinuance and anticipated discontinuance of specific interest rates. We believe that the Proposed Update largely achieves that objective and will reduce the costs and complexity of accounting for contract modifications and hedging relationships impacted by reference rate reform. The FRC has identified certain targeted improvements that we believe will further enhance the Proposed Update as outlined below.

Scoping Criteria

The FRC agrees that contract modifications related to reference rate reform should allow preparers to continue accounting for affected contracts as a continuation of the existing contract. Providing the optional expedient for the modification of terms will allow preparers to avoid unnecessary reassessments and measurements that could be overly burdensome. We understand that the Board's intent is to provide relief only to contract modifications that relate to reference rate reform and not to those that occur in the ordinary course of business that include new underwriting or credit decisions or are otherwise unrelated to reference rate reform. However, we are concerned that basing the scoping criteria on a distinction between changes to terms that are related and unrelated to the replacement of the reference rate in the Proposed Update paragraphs 848-20-15-5 and 848-20-15-6 may result in additional application issues. For example, as the Board has noted, contract modifications related to reference rate reform may include spread changes that capture market-related differences between LIBOR and the successor rate. These spread adjustments are presumably intended by the parties to the contract to eliminate any value transfer as a result of the modification. However, due to the implied necessity to isolate and determine which changes are related and unrelated to the replacement of the reference rate, preparers may be required to quantify or otherwise demonstrate that a spread change is due solely to reference rate reform, rather than to credit spread adjustments or other adjustments. We do not believe that such a requirement would be operable and would significantly decrease the intended benefits of the Proposed Update.

We recommend that the scoping criteria for contract modifications include a presumption that changes to contracts such as those provided in Proposed Update paragraph 848-20-15-5 relate solely to reference rate reform unless substantive evidence exists to the contrary. Similarly, we recommend that the scoping criteria in Proposed Update paragraph 848-20-15-6 also include a rebuttable presumption that the example of changes provided are unrelated to reference rate reform unless substantive evidence exists to the contrary. This will ease the burden on preparers and auditors while allowing preparers to use reasonable judgment in determining whether changes to contract terms relate to reference rate reform, consistent with the Board's views expressed in paragraph BC 30 of the Proposed Update.

Subsequent Measurement

ASC 470-50-40-12(f) indicates that if a modification is completed within a year of a preceding modification and the debt instrument resulting from the preceding modification was not deemed to be substantially different, then the modifications should be combined for purposes of determining whether the subsequent modification results in an extinguishment. The FRC believes that the language in ASC 848-20-35-9 was intended to allow entities to consider only the contractual terms that were in effect immediately following a modification that was accounted for under the optional expedient even when a subsequent modification occurs within a year of the optional expedient election. The FRC requests that the Board clarify the language in ASC 848-20-35-9 to indicate that modifications that occur subsequent to the election of the optional expedient for contract modifications should not consider contractual terms that were in effect before the optional expedient was elected.

Changes to a Fixed Rate

Paragraph BC 24 of the Proposed Update suggests that a contract modification involving a change from a variable rate to a fixed rate is unrelated to reference rate reform unless the fixed rate is predetermined on the basis of the most recent reset of a variable rate affected by reference rate reform. The scoping criteria in Proposed Update paragraphs 848-20-15-5 and 6 do not include changes from a reference rate to fixed rate as a change in term that is related or unrelated to reference rate reform.

We recommend that changes from a reference rate to a fixed rate be explicitly included as an example of a change in term that is related to reference rate reform. The Alternative Reference Rates Committee has established industry fallback language to be included in contracts in anticipation of the discontinuance of the reference rate that provides for a fixed replacement rate. We believe that the type of successor rate should not impact whether the affected contract is within the scope of relief. As markets for certain replacement rates are still developing, the inclusion of other potential replacement rates, including fixed rates, in the scope of relief is necessary and appropriate.

The FRC agrees with the Board's concern that changes to a fixed rate could include spread components that reflect a new credit decision. However, we believe that the rebuttable presumption addition suggested in our comments on the scoping criteria above should mitigate these concerns such that a modification that includes substantive credit decisions would provide contrary evidence to the presumption that the change in term is related to reference rate reform.

Inclusion of Net Investment Hedges

The FRC agrees with the optional expedients related to hedge accounting relationships and the flexibility provided to preparers in applying the optional expedients to hedge accounting relationships. We understand that the Board's intent is to include fair value, cash flow and net investment hedges within the scope of the Proposed Update. However, the Proposed Update includes discussions related to the accounting for fair value hedges and cash flow hedges but does not include a discussion related to net investment hedges.

The FRC recommends that the Board include a reference or discussion related to net investment hedges to clarify the Board's intent to include such hedge relationships within the scope of the Proposed Update.

Sunset Provision

The FRC agrees that the relief provided by the Proposed Update should be temporary and should be discontinued once the events that have potential for causing accounting burden related to reference rate reform have subsided. However, the FRC believes that the sunset date in the Proposed Update may prove to be too early for either US or non-US jurisdictions and may unnecessarily mitigate some of the benefits of the relief provided by the Proposed Update. Though LIBOR is expected to be discontinued by the end of 2021, there is still much uncertainty related to the timing of when LIBOR and other reference rates will no longer be published. Further, given the global implications of reference rate reform and the number of institutions that are impacted, the FRC believes that the December 31, 2022 sunset date may not provide enough relief to certain entities. Further, the inclusion of the sunset date provision may have the unintended consequence of reversing a portion of the relief provided by the Proposed Update during periods beyond the sunset date.

The FRC suggests that the Proposed Update exclude a sunset date and instead allow for the relief to extend indefinitely pending further Board action. This would enable the Board to discontinue relief related to reference rate reform based on the status and resolution timing of reference rate reform as it progresses.

If the Board is unwilling to remove the sunset provision, the FRC suggests that the sunset date be extended through December 31, 2023. Further, the Board should continue to evaluate the progress of reference rate reform across all jurisdictions and consider further extending this sunset date if necessary.

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Disclosures

The FRC agrees with the requirement to include disclosure related to the nature of and reason for electing the optional expedients related to reference rate reform to allow users to better understand an entity's decision to apply specific relief to contracts and hedging relationships. However, the FRC believes that the additional qualitative and quantitative disclosures considered in Questions 9 and 10 for Respondents are unnecessary and may result in a substantial burden on preparers.

The relief provided by the Proposed Update related to contract modification is not expected to substantially impact accounting results. Under existing guidance, contract modifications related to reference rate reform would generally qualify for modification accounting, resulting in the continuation of the original instrument. The relief provided by the Proposed Update allows the preparer to apply modification accounting to contracts without the requirement to demonstrate that the modification qualifies for such accounting. The disclosures contemplated by the Proposed Update would place additional burdens on the preparer even though the relief did not have a significant impact on financial reporting.

The relief provided by the Proposed Update related to hedge accounting relationships provides a similar effect in allowing for modified contracts to continue in an existing hedge accounting relationship. As the expedients are primarily provided to allow for a continuation of hedge accounting and to alleviate operational consequences of reference rate reform, we have not identified financial reporting impacts of the expedients that would not already be evident in existing disclosures. The FRC notes that the existing disclosure requirements related to derivative instruments and hedging activities are already very detailed and the addition of further disclosure requirements would be disproportionate to any marginal benefit provided.

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We appreciate the opportunity to provide comments on the Proposed Update and would be pleased to discuss our comments with the FASB or its staff at your convenience.

Sincerely,

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Institute of Management Accountants
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