



October 7, 2019

VIA Email: director@fasb.org

Mr. Shayne Kuhaneck
Technical Director, FASB
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

**Re: File Reference No. 2019-770. Proposed Accounting Standards Update Reference Rate Reform
(Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting.**

Dear Mr. Kuhaneck,

The Alternative Reference Rates Committee (“ARRC”)¹ and its Accounting and Tax working group and its member firms and the Accounting Committees of the Securities Industry and Financial Markets Association (“SIFMA”)² appreciate the opportunity to respond to the Financial Accounting Standards Board’s (“FASB’s”) request for comment on the proposed Accounting Standards Update (“ASU”) *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*.

We greatly appreciate the FASB’s extensive outreach, thoughtful policy approach, and the urgency with which they have addressed this unique situation. We believe the FASB’s efforts will help minimize any negative impacts of reference rate reform.

¹ ARRC is a group of private-market participants convened to help ensure a successful transition from USD LIBOR to a more robust reference rate, its recommended alternative, the Secured Overnight Financing Rate (SOFR). It is comprised of a diverse set of private-sector entities, each with an important presence in markets affected by USD LIBOR, and a wide array of official-sector entities, including banking and financial sector regulators, as ex-officio members. The opinions expressed and statements made in this letter on behalf of the ARRC and its Accounting and Tax Working Group represent the views of their private-sector members only

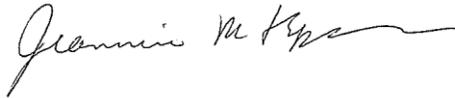
² SIFMA is the leading trade association for broker-dealers, investment banks and asset managers operating in the U.S. and global capital markets. On behalf of our industry’s nearly 1 million employees, we advocate for legislation, regulation and business policy, affecting retail and institutional investors, equity and fixed income markets and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. We also provide a forum for industry policy and professional development. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA).

Our comments on the proposed ASU, including our responses to the Questions for Respondents, are included in the attached appendices, which are organized as follows:

- Appendix A – Contract Modifications
- Appendix B – Hedge Accounting
- Appendix C – Transition and Effective Date
- Appendix D – Questions for Respondents

We thank the FASB for their extensive effort and serious attention to this issue and hope that you will find our comments helpful. Should you have any questions or require further information concerning any of the matters discussed in this letter, please do not hesitate to contact the undersigned Jeannine Hyman (jeannine.hyman@citi.com) or Mary Kay Scucci (mscucci@sifma.org).

Regards,



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APPENDIX A – Contract Modifications

Identifying Changes to Terms Related to the Replacement of the Reference Rate

The objective of this Subtopic is to provide optional expedients for accounting for contract modifications when one or more terms are modified due to reference rate reform. In order to operationalize the relief, we request the following clarifications to ensure that the definitions and words more clearly represent and capture the spirit of the amendments. Therefore, our comments reflect clarifications to avoid the unintentional exclusion of contracts from the scope of the relief.

We recommend amending ASC 848-20-15-5 to include a rebuttable presumption that changes in terms made to contracts that reference an IBOR rate that is subject to rate reform are related to the replacement of the reference rate, and that there is no inherent intent to create leverage when replacing reference rates. While some of the US cash products have identified voluntary replacement language through the ARRC consultations, there may be diversity in practice. We suggest clarifying in ASC 848-20-15-5(b) that changes to a spread adjustment in connection with the replacement of an existing reference rate are permitted because as written, this paragraph implies that there will be no change in fair value. While this is the intent of the modification, providing support that no fair value change was made may be operationally burdensome. Therefore, a rebuttable presumption may be the most effective application to operationalize this relief.

848-20-15-5 Edit: “Changes to terms that are related to the replacement of the reference rate are those that are made to effect the transition for reference rate reform. Unless there is substantive evidence to the contrary, changes made to IBOR-based contracts that are included in the list below are presumed to be related to the replacement of a reference rate and not intended to provide leverage. Examples of changes to terms ...”

848-20-15-5(b) Edit: “Changes for a spread adjustment for the ~~difference between an existing reference rate and the~~ replacement of a reference rate (for example...)”.

We also suggest amending ASC 848-20-15-5(a) to permit a change to a fixed rate, as the ARRC’s voluntary consultation already permits this, and we don’t believe that a contract that follows the ARRC’s suggestion should be immediately scoped out of the relief. Additionally, we suggest amending ASC 848-20-15-5(c) to remove “with the same payment frequency” as there may be variations between existing reference rates and successor rates (e.g., three-month LIBOR versus overnight SOFR).

848-20-15-5 (a) Edit: “...from London Interbank Offered Rate [LIBOR] to another interest rate index or a fixed rate.”

848-20-15-5 (c) Edit: “Changes to reset period, reset dates, day-count, business-day conventions, payment dates, and repricing calculation (for example, a change from a forward-looking term rate to an overnight rate or a compounded overnight rate in arrears ~~with the same payment frequency~~.)”

Identifying Changes to Terms Unrelated to the Replacement of the Reference Rate

The following comments and edits are for terms that are unrelated to the replacement of the reference rate and indicative of new underwritings or business decisions. Our comments and related edits identify potentially unintentionally overlooked areas (i.e., novations), provide technical clarifications to reduce operational inefficiencies with leverage features, and suggest a provision to address unknown future situations based on facts and circumstances.

While we understand the FASB's purpose for creating a list of contract modifications that would not be in the scope of the proposed relief, we believe it is necessary to allow a facts and circumstances evaluation to determine whether the modification may actually be related to replacement of a reference rate. As such, we suggest clarification in ASC 848-20-15-6 that the included items are presumed to be unrelated to a rate change, but that presumption could be overcome based on specific facts and circumstances. For example, it may be reasonable for parties to agree to add a prepayment feature to a debt instrument that provides the parties with the ability to accelerate the arrangement if certain elements of transition do not come to fruition as currently expected (e.g., term rates do not fully develop). In such case, an entity should be able to overcome this indicator and deem the contract modification to be within the scope of the proposed relief.

848-20-15-6 Edit: "Changes to terms that are unrelated to the replacement of the reference rate include those that are made as a result of a new underwriting or business decision that is separate from or in addition to changes to the terms of a contract to effect the transition for reference rate reform. While the modifications in the list below are generally presumed to be unrelated to the replacement of the reference rate, this presumption can be overcome based on a facts and circumstances assessment of the modification. Examples of changes to terms ..."

Further, ASC 848-20-15-6(d) implies a requirement to distinguish between counterparty credit spread and the spread adjustment. Therefore, in contemplation with our suggested edits to ASC 848-20-15-5(b), we suggest amendment of paragraph 15-6(d) in order to avoid unintended consequences or operational burden. Additionally, we suggest updating ASC 848-20-15-6(i) to state that addition or removal of a leverage feature is unrelated to the replacement of the reference rate.

848-20-15-6(d) Edit: "Changes to the counterparty credit spread risk ~~(other than an adjustment of the overall spread to include the spread adjustment described in paragraph 848-20-15-5(b)).~~"

848-20-15-6(i) Edit: "The addition or removal of a leverage feature that is intended to provide leverage."

We believe the special role of the novation markets may have unintentionally been overlooked with respect to changes in counterparties, as firms currently can change counterparties in accordance with ASU 2016-05, *Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships*. Therefore, we recommend that the transition guidance be consistent with this novation guidance. In existing GAAP, a counterparty change to a derivative that has been designated as a hedging instrument in and of itself is not considered a change to the critical terms of the hedging relationship, and a counterparty change, in and of itself, does not trigger a termination of the derivative instrument (ASC 815-20-55-56A and 815-30-40-1A). Counterparty classifications can change

resulting from novations of counterparties, changing classification of derivative transactions between bilateral versus cleared, or a change where the central counterparty clearing house (“CCP”) becomes the counterparty. We believe the FASB’s intent is not to scope a contract out of the relief in these situations.

848-20-15-6(l) Edit: “Changes to the counterparty to the agreement except where contemplated by other guidance (for example, ASU 2016-05, 815-20-55-56A and 815-30-40-1A).”

Subsequent Measurement

ASC 848-20-35-9 should be amended such that the evaluation of any subsequent modification of terms within twelve months of applying the optional expedients should not consider terms that existed before the optional relief was applied nor the terms that were amended as part of the relief application.

848-20-35-9 Edit: “If the optional expedient in paragraph 848-20-35-7 is elected, an entity that applies the 10 percent cash flow test described in paragraph 470-50-40-10 for any subsequent contract modification shall consider only terms and provisions that were in effect immediately following election of the optional expedient for the particular instrument ~~a modification in paragraph 848-20-35-7 to be substantially different from other exchanges or modifications within a year for the purpose of paragraph 470-50-40-12(f).~~”

In addition, we believe Topic 320 and Subtopic 815-15 should be specifically referenced in the guidance, and the relief in ASC 848-20-35-13 should not require an entity to reassess whether there is an embedded derivative. As such, we suggest the following edits with conforming changes to the subsequent measurement guidance throughout (paragraphs 35-7 and 35-8).

848-20-35-2 Edit:

“... b. Topic 470 on debt and Topic 320 on investments
c. Topic 842 on leases”

848-20-05-1 Edit: “... It specifically addresses the accounting for modifications of contracts within the scope of Topics 310 on receivables, 320 on investments, 470 on debt, 815 on derivatives and 842 on leases. ...”

Finally, we suggest the following editorial change to ASC 848-20-35-13 to clarify that an entity is not required to reassess contract modifications that are in scope of the relief. As written, “shall not change an entity’s conclusion” implies that an entity is performing a reassessment.

848-20-35-13 Edit: “... ~~shall not change an entity's conclusion~~ shall not require the entity to reassess its original conclusion about whether that contract contains...”

In addition to our substantive comments above, please see the following editorial suggestion for the Contract Modifications relief.

848-20-15-2 Edit: “For the purposes of this Subtopic, terms that may be modified related to the replacement of a reference rate are those that change...”

APPENDIX B – Hedge Accounting

General Comments

The committee members agree with the proposal included in the Exposure Draft that allows for an optional expedient to apply the relief to hedging relationships. We note that the introduction to the proposed ASU includes net investment hedges, but there is no other mention of net investment hedges in the Exposure Draft. We recommend the following to incorporate net investment hedges into the guidance.

848-10-05-1 Edit: “The Reference Rate Reform Topic includes the following Subtopics:

f. Net Investment Hedges”

As currently written, the description of changes to critical terms of hedging instruments references ASC 848-20-15-2 and 15-3. The committee would like to explicitly include float-to-float cross currency swaps as an example meeting the requirements of ASC 848-30-25-5, as the potential changes to each leg of the swap may occur at different times, and we believe this would be in scope of the relief. We suggest the following edits:

848-30-25-5 Edit: “An entity may modify the contractual terms of an existing hedging instrument (e.g., a cross currency swap) that is affected or expected to be affected by reference rate reform and not be required to designate the hedging relationship if the changes to the hedging instrument’s contractual terms meet the scope of paragraphs 848-20-15-2 through 15-3.”

Cross-Currency Basis Spread for Cross-Currency Swaps

We believe that cross-currency swaps should also be eligible for the optional relief in the ASU. When a cross-currency swap is designated in a fair value hedge relationship, an entity may elect to exclude changes in cross-currency basis from the assessment of effectiveness for the hedge relationship and further may elect to record prospective changes in the cross-currency basis in other comprehensive income (OCI), while recognizing the initial cross-currency basis in earnings using a systematic and rational basis.

When a cross-currency swap changes from an IBOR to an alternative reference rate, the cross-currency basis spread that exists at the time of transition may not reflect the previous IBOR cross-currency basis spread relationship. Float to float cross-currency swaps with new reference rates do not yet trade in the market, and it is not yet known what, if any, change to the existing cross currency basis in float to float IBOR cross currency swaps will occur. In order to avoid any excluded-component basis spread amounts remaining in OCI at the end of the hedging relationship that would need to be immediately written off to earnings, we recommend that FASB provide a solution that gives entities flexibility to address any changes in the cross-currency basis spread that may arise in connection with reference rate reform. Specifically, entities should be able to amend their accounting policy application regarding the systematic and rational method used for amortizing the excluded cross-currency basis spread to ensure amounts are not stranded in OCI at the end of the hedging relationship. This would include allowing an election for an entity to take the difference between the cross-currency basis spread under IBOR and the alternative reference rate immediately to earnings.

The changes that are permitted, which do not result in a change in critical terms, appear to apply to centrally cleared derivatives only, while there are also hedging derivatives executed in the over the counter market. We believe the intent of the Board was to include all derivatives in the relief. Therefore, we suggest the following edits:

848-30-25-6 Edit: “A change to the interest rate used for margining, discounting, ~~and or~~ contract price alignment for a ~~centrally cleared~~ derivative that is an existing hedging instrument shall not be considered a change to the critical terms of the hedging relationship that requires de-designating the hedging relationship due to that change.”

Optional Expedient: Changes to the Method Designated for Use in Assessing Hedge Effectiveness in a Cash Flow Hedge

We believe the documentation application in ASC 848-30-25-7 should be applied under the requirements of ASC 815-20-25-3(b)(iv)(02). This would reduce the operational burden of documenting all amendments at once but would provide entities with time to meet the documentation requirements before financial reporting deadlines. See suggested edit below.

848-30-25-7 Edit: “...hedge effectiveness and documented at hedge inception in accordance with ASC 815-20-35-3(b)(iv)(02) if both of the following criteria are met ...”

Optional Expedient: Changes to the Proportion of a Hedged Item or a Hedging Instrument in a Fair Value Hedge and to the Hedging Instrument That Are Designated in a Fair Value Hedge or a Cash Flow Hedge

We believe a technical correction is needed for the references in ASC 848-30-25-10(b). Therefore, we propose the following edits:

848-30-25-10(b) Edit: “An optional expedient from the subsequent assessment methods for assuming perfect effectiveness in accordance with paragraphs 848-50-35-~~46~~ through 848-50-35-9”

Fair Value Hedges

Change in Fair Value Item due to a Change in the Designated Benchmark Interest Rate

We agree that the proposed guidance should be applied on an individual hedge relationship basis in accordance with ASC 848-30-25-2. However, we believe election on a similar hedge basis in ASC 848-40-25-5 is inconsistent with the ability to elect the remaining hedging relief on a hedge relationship basis. We believe the intent was to be consistent with other elections at similar units of account and propose that this election should be made on a hedging relationship basis.

848-40-25-5 Edit: “This Subtopic does not specify a single method for applying those approaches. The method shall be reasonable, and an entity shall apply this optional expedient in accordance with 848-30-25-2. ~~shall use a similar method for similar hedges and shall justify the use of different methods for similar hedges.~~”

Optional Expedient: Assessment of Hedge Effectiveness When Assuming Perfect Hedge Effectiveness in a Hedge with an Interest Rate Swap (Shortcut Method)

Under ASC 848-40-25-8, if an entity elects the practical expedient for an existing fair value hedge for which the shortcut method is applied, the entity will not be required to periodically evaluate the conditions in ASC 815-20-25-104 for the remaining life of the hedging relationship. We note that there is no similar “grandfathering” with respect to the conditions in ASC 815-20-25-104 for cash flow hedges that apply the shortcut method in accordance with ASC 815-20-25-104 and 106.

Without such grandfathering, many fair value and cash flow hedging relationships that apply the shortcut method will cease to qualify for the shortcut upon any expiry of the practical expedients. Given the generally uncomplicated nature of hedge relationships that qualify for the shortcut method and the fact that entities applying the shortcut method may only have one or a few hedging relationships and a limited ability to apply “long-haul” effectiveness assessment techniques, we believe the grandfathering to not require a periodic evaluation of the conditions under ASC 815-20-25-104 should be expanded to include cash flow hedges under the shortcut method and also should include the conditions in ASC 815-20-25-105 and 106. However, if it is the intent of the FASB to only provide temporary relief for these shortcut method hedges, transition and subsequent measurement guidance should be provided for these hedging relationships.

Additionally, we note that conditions (c) and (d) of ASC 848-50-25-6 may not be possible to meet once IBOR rates cease and suggest clarifying that if you meet criteria (a) through (d), you may apply the relief through the life of the hedging relationship, similar to the guidance in ASC 848-40-25-8.

848-50-25-6 Edit:

“... d. The index on which the variable leg of the interest rate swap is based matches the contractually specified interest rate ...

If a hedging relationship meets criteria (a) through (d), an entity may continue to apply the relief to the hedging relationship through the end of the hedging relationship.”

Based on our comments above, we request that the FASB amend the definition of the shortcut method in a future state in order to make the requirements operable.

848-50-25-6 Edit:

“... c. The repricing dates of the variable-rate asset or liability and the hedging instrument be calculated the same way in accordance with paragraph 815-20-25-106(d)
d. The index on which the variable leg of the interest rate swap is based ~~matches~~ is derived from the contractually specified interest rate ...

Cash Flow Hedges

New Cash Flow Hedges: Optional Expedients for Initial Assessment of Hedge Effectiveness

We note that relief for mirror image cap or floors (a criterion in existing hypothetical derivative guidance) is needed along with the relief proposed for the other hypothetical derivative criteria (repricing dates and index). This edit is intended to align the relief to the permitted changes in ASC 848-50-25-12 where a difference in strike prices is noted as qualifying for relief. We suggest the following edits:

848-50-25-10 Edit:

“... b. The same index in accordance with paragraph 815-30-35-25(b)(3)

c. Mirror image caps or floors”

Subsequent Assessment of Hedge Relationships

When considering facts and circumstances, we believe that a subsequent assessment has been appropriately limited to the criteria in ASC 848-50-35-11. However, in order to clarify the situations that warrant reevaluation, we propose the following edits:

848-50-35-12 Edit: “An entity shall verify and document whenever financial statements or earnings are reported and at least every three months that ~~only~~ the facts and circumstances ~~related to the hedging relationship~~ evaluated in accordance with paragraph 848-50-35-11 have not changed, ~~and therefore such~~ that the entity can assert qualitatively that the hedging relationship ~~was~~ did qualify and continues to qualify for this optional expedient method. No other facts and circumstances need to be assessed as part of this evaluation.”

We believe that paragraphs ASC 848-50-35-13 and 35-14 are duplicative and propose combining the paragraphs as follows:

848-50-35-13 Edit: “If the facts and circumstances change in accordance with paragraph 848-50-35-12 such that an entity no longer can assert qualitatively that the hedging relationship may continue to qualify for hedge accounting under this Subtopic, the entity shall assess hedge effectiveness on a quantitative basis using either the guidance in Subtopics 815-20 and 815-30 or a quantitative optional expedient method in this Subtopic to the extent that the quantitative optional expedient method is eligible to be used. If there is no identifiable event that led to the change in the facts and circumstances of the hedging relationship, the entity may begin performing quantitative assessments of effectiveness in the current period using either the guidance in Subtopics 815-20 and 815-30 or an optional quantitative expedient in paragraphs 848-50-35-15 through 35-16 to the extent that the hedging relationship qualifies. An entity may change its method of assessing hedge effectiveness and amend its hedging documentation to reflect that change in accordance with paragraph 848-30-25-4. In addition, an entity may perform a quantitative assessment of hedge effectiveness in any reporting period, and the results of that quantitative assessment shall not preclude an entity from using the qualitative optional expedient method in paragraphs 848-50-35-11 through 35-12 in a subsequent reporting period.

~~815-50-35-14 When an entity determines that the facts and circumstances have changed and it no longer can assert that the criteria in paragraph 848-50-35-11 are met, the entity shall begin performing quantitative~~

~~assessments of hedge effectiveness using either the guidance in Subtopics 815-20 and 815-30 or a quantitative optional expedient method in paragraphs 848-50-35-15 through 35-16 to the extent that the entity qualifies as of the period that the facts and circumstances changed. If there is no identifiable event that led to the change in the facts and circumstances of the hedging relationship, the entity may begin performing quantitative assessments of effectiveness in the current period using either the guidance in Subtopics 815-20 and 815-30 or an optional quantitative expedient in paragraphs 848-50-35-15 through 35-16 to the extent that the hedging relationship qualifies. After performing an assessment of hedge effectiveness using a quantitative optional expedient method for one or more reporting periods, an entity may revert to a qualitative optional expedient method of hedge effectiveness under this Subtopic to the extent the qualitative optional expedient method is eligible to be used."~~

We also propose a technical correction to ASC 848-50-35-17(b) because it references a paragraph that does not exist (i.e., 848-10-65-1(d)), and we are unsure of the intended correct reference.

For existing IBOR-based cash flow hedges that have forecasted payments that extend past the date whereby the payments will cease being reflective of the current reference rate and will be based on a replacement reference rate, we believe those future forecasted payments based on a new contractually-specified rate can be used to support the entity's assertion that the hedged forecasted payments remain probable of occurring, even before the new reference rate becomes effective for the forecasted hedged payments. We suggest the following edits to ASC 848-50-35-18:

848-50-35-18 Edit: "If an entity applies an optional expedient method for assessing hedge effectiveness in accordance with paragraphs 848-50-35-1 through 35-16 and the hedging relationship continues after the entity ceases applying the optional expedient method, the entity shall revert to applying the qualifying criteria and hedge assessment methods in Subtopics 815-20 and 815-30. For a hedging relationship that continues after ceasing application of an optional expedient method, an entity shall apply a hedge assessment method in accordance with Subtopics 815-20 and 815-30 both prospectively and retrospectively from the date on which that assessment method begins after the optional expedient is discontinued in accordance with 848-50-35-17. The forecast future payments that will be based on a new contractually-specified rate or rates will be presumed to support the assertion that the hedged forecasted payments remain probable of occurring. For example, an entity that is using the shortcut method optional expedient for a new cash flow hedging relationship in accordance with paragraph 848-50-25-6 or for an existing cash flow hedging relationship in accordance with paragraph 848-50-35-5 shall revert to a hedge assessment method in accordance with Subtopics 815-20 and 815-30 in assessing whether the hedging relationship continues to qualify for hedge accounting from the date that the new assessment method is first applied."

We note that critical terms are only those terms that affect cash flows, and therefore, changing a method of assessment or discount rates are not changes in critical terms. Accordingly, we propose the following edits:

848-50-35-19 Edit: "A change in the method of assessing hedge effectiveness, for an existing cash flow hedge upon ceasing application of an optional expedient method to a hedge assessment method in accordance with Subtopics 815-20 and 815-30 ~~shall be a~~ is not a change in the critical terms that ~~does not results~~ in dedesignation of the hedging relationship. An entity shall amend its hedge documentation to reflect the change in the method of assessing hedge effectiveness in accordance with paragraph 848-30-25-4."

APPENDIX C – Transition and Effective Date

Sunset Provision

We understand the FASB's basis for creating an end date for this transition relief and understand the logic behind proposing a sunset provision. We do not expect this transition relief to be available indefinitely, but we believe a sunset provision is not required, as contracts will no longer be eligible for the relief once a successful transition from the discontinued reference rates to the alternative reference rates has occurred. Such transitions will be market-based events for each affected contract or instrument, and entities will not have a unilateral ability to select a transition date.

Once firms elect the optional expedients, they will have until the sunset date to complete transition. However, reference rate reform is a global effort, and global institutions will face transition across multiple jurisdictions, each with its own expected timeline for reference rate reform transition. In many cases, this transition will extend beyond the sunset date. As a result, the current proposed sunset date of December 31, 2022 was selected based on the expected timing of LIBOR rate reform, but it may not provide sufficient time for all jurisdictions to complete transition.

Because it is clear that the FASB intends this optional relief to be relevant for global reference rate reform, we encourage the FASB to remove the sunset date or to incorporate a principles-based approach in lieu of an explicit sunset date. However, if the FASB decides not to incorporate a principles-based approach, as an alternative, we request a provision (modeled after the Statement of Financial Accounting Standard No. 150 - *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*) whereby the Board could decide on an explicit sunset date at a later date with a transition period of one to two years for the expiration of the relief. With this approach, there will be no explicit sunset date for the relief, but the FASB could take action to enact a sunset date, if one is deemed necessary, after more is known about the timing of reference rate reform.

Transition and Effective Date

In order to begin the reference rate reform transition, we suggest that the FASB clarify that early adoption will be permitted and will apply from the beginning of the adoption period. For example, if an entity adopted the reference rate reform relief in Q1 2020, the relief would apply as of January 1, 2020.

Appendix D – Questions for Respondents

- 1. Costs and Complexities: Are the amendments in this proposed Update operable and auditable? If not, which proposed amendment(s) pose operability or auditability issues and why?**

We appreciate the Board's responsiveness to this unique industry issue and believe the relief is operable with the inclusion of our suggested edits and clarifications above.

- 2. Additional Issues: Are there additional accounting issues or optional expedients related to reference rate reform that the Board should consider? Please be as specific as possible and explain why those issues require consideration.**

We believe the Board should consider adding relief related to the cross currency basis spread for cross currency swaps. Our views related to this issue are detailed in Appendix B.

We believe relief related to the transition of price alignment, discounting, and margining of derivatives is also necessary, specifically as it relates to the recognition for affected derivatives of their changes in fair value and corresponding compensating amounts (e.g., cash payments facilitated by central clearing houses to ensure the transition is neutral from a net economic perspective). Allocating this compensation to each derivative may present certain complexities from an operational perspective and, therefore, the relief should allow for the change in discount rates and related compensating amounts to be recognized in a common financial statement line item (e.g., where economic or trading derivatives are presented), regardless of whether the derivatives are designated in hedging relationships. Thereafter, any future changes in fair value would revert to the applicable GAAP.

Finally, we propose specific targeted relief under reference rate reform for certain floating-rate debt securities that reference a to-be-discontinued IBOR that will contractually convert to a fixed-rate coupon. The fixed rate is generally expected to be the reference rate in effect upon the IBOR's discontinuance. Therefore, if an entity has any such debt securities classified as Held-to-Maturity (HTM), the entity will be precluded from selling the security or designating the security in a fair value hedge of its benchmark interest rate risk. As a result, in this situation, for these securities, entities will have no ability to respond to the impact of reference rate reform. To address this unanticipated concern, we recommend that the FASB allow entities a one-time election to transfer any such securities out of the HTM classification, as holding such fixed-rate securities to maturity may be inconsistent with the entity's risk management strategies and objectives. We don't believe this targeted relief will have a significant impact on an entity's HTM portfolios, but this contractual situation exists across many of our firms.

- 3. Expedients: Do you agree with the proposed expedients for the accounting for contract modifications? If not, please explain which proposed amendment(s) you disagree with and why.**

We agree with the proposed expedients for the accounting for contract modifications but believe that further edits are needed to make the relief operable in practice. Please see our commentary in Appendix A above.

- 4. Election Level: Do you agree that the optional expedients for contract modifications should be applied at the relevant Topic, Subtopic, or Industry Subtopic level? If not, what alternative do you suggest and why?**

Yes, we agree that the optional expedients should be applied at the Topic level.

- 5. Change in Critical Terms: Do you agree with the proposed exceptions to the requirement in Topic 815 to dedesignate a hedging relationship for a change in critical terms of the hedging relationship? If not, please explain which proposed amendment(s) you disagree with and why.**

Yes, we agree with the proposed relief in Topic 815 but note that certain clarifications are needed to make the relief operable. Please see our comments in Appendix B.

We also note that paragraph 26 of the Basis for Conclusions states, *“In proposing that entities would be required to consider whether modifications of terms that affect or have the potential to affect the amount or timing of future cash flows are related to reference rate reform, the Board was intentionally broad such that this criterion would capture any changes in terms that could have a potential effect on future cash flows in certain circumstances, such as changes to collateral arrangements, changes in the priority of an obligation, and changes to debt covenants.”* If a company is changing some of these terms, it is likely that there would be a direct impact to the arrangement’s contractual cash flows (i.e., changing the credit risk of the lender would generally trigger a change in consideration, either that point in time or prospectively) and, therefore, it is not clear how these examples are relevant. Further, we suggest avoiding explicitly mentioning collateral arrangements because under current GAAP, collateral used to secure derivatives is not considered a critical term, and we do not want this to be considered a critical term in the context of the relief or in application of US GAAP.

- 6. Fair Value Hedges: Do you agree with the proposed optional expedients for fair value hedge accounting? If not, please explain which proposed amendment(s) you disagree with and why.**

Yes, we agree with the proposed relief for fair value hedges but note that certain clarifications are needed to make the relief operable. Please see our comments in Appendix B.

- 7. Cash Flow Hedges: Do you agree with the proposed optional expedients for cash flow hedge accounting? If not, please explain which proposed amendment(s) you disagree with and why.**

Yes, we agree with the proposed relief for cash flow hedges but note that certain clarifications are needed to make the relief operable. Please see our comments in Appendix B.

- 8. Election Level: Do you agree that the proposed exceptions and optional expedients related to hedge accounting should be applied on an individual hedging relationship basis? If not, please explain why.**

Yes, we agree that the proposed relief should be applied on an individual hedging relationship basis.

- 9. Contracts or Holdings: What quantitative and qualitative disclosures should be provided to help users understand a reporting entity’s current contracts or holdings (as of the reporting date) that are affected by reference rate reform? For financial statement preparers, what costs would be incurred in providing these disclosures? For financial statement users, what alternative sources of information would be used if a reporting entity does not provide any quantitative and qualitative disclosures? What costs would be incurred to obtain quantitative and qualitative information to better understand a reporting entity’s exposure to reference rate reform? Should the quantitative and qualitative disclosures, if any, have a termination date after December 31, 2022? If not, when should such disclosures expire and why?**

The ARRC is not responding to this question in Appendix D. SIFMA has provided its own comment to this question.

- 10. Hedge Accounting: What quantitative and qualitative disclosures should be provided to help users understand the financial reporting effects of expedients elected by a reporting entity? For financial statement preparers, what costs would be incurred in providing these disclosures? For financial statement users, what costs would be incurred if a reporting entity does not provide any quantitative and qualitative disclosures to help financial statement users understand the financial reporting effects of any hedge accounting expedients elected?**

The ARRC is not responding to this question in Appendix D. SIFMA has provided its own comment to this question.

- 11. Transition: Do the proposed transition disclosure requirements provide decision-useful information? If not, what would you recommend and why?**

The ARRC is not responding to this question in Appendix D. SIFMA has provided its own comment to this question.

- 12. Transition: Do you agree that the proposed optional expedients should be applied on a prospective basis upon election? If not, what alternative do you suggest and why?**

Yes, we agree that the proposed optional expedients should be applied on a prospective basis upon election. However, we would like the ability to apply the relief as of the beginning of the reporting period in which the relief is adopted.

- 13. Termination Date: Do you agree that the proposed amendments should not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022? If not, when should the proposed amendments expire and why?**

Please see our comments in Appendix C above.