

October 7, 2019

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

By e-mail: director@fasb.org

**Re: Proposed Accounting Standards Update—*Reference Rate Reform (Topic 848):
Facilitation of the Effects of Reference Rate Reform on Financial Reporting***

(File Reference No. 2019-770)

Dear Mr. Kuhaneck:

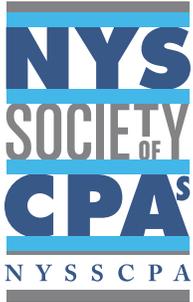
The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 24,000 CPAs in public practice, business, government and education, welcomes the opportunity to comment on the above-captioned exposure draft.

The NYSSCPA's Financial Accounting Standards Committee deliberated the proposed accounting standards update and prepared the attached comments. If you would like additional discussion with us, please contact Jeffrey A. Keene, Chair of the Financial Accounting Standards Committee, at (732) 750-0900, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

Ita M. Rahilly
President

Attachment



**NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS**

COMMENTS ON

**PROPOSED ACCOUNTING STANDARDS UPDATE—*REFERENCE RATE REFORM*
(TOPIC 848): *FACILITATION OF THE EFFECTS OF REFERENCE RATE REFORM ON*
*FINANCIAL REPORTING***

(File Reference No. 2019-770)

October 7, 2019

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New York State Society of Certified Public Accountants

Comments on

Proposed Accounting Standards Update—*Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*

We welcome the opportunity to respond to the Financial Accounting Standards Board's (FASB or the Board) invitation to comment on Proposed Accounting Standards Update—*Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting* (proposed Update).

General Comment

We support the Board's decision to extend relief related to the general market transition away from the London Interbank Offer Rate (LIBOR) and other interbank offer rates. We believe the proposed relief will reduce the cost and complexity of applying existing GAAP to transactions and contracts affected by the change.

Specific Comments

Our responses to the Questions for Respondents are presented below.

Question 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?

Response: We believe the proposed amendments are generally operable and auditable. However, the current wording of the proposed amendments is particularly challenging to understand, especially if the reader does not already have a sound understanding of the related accounting models to which the practical expedients apply. For example, it is not particularly clear whether the proposed practical expedient related to assessing embedded derivatives (815-20-35-13) relates solely to existing embedded derivatives, possible new embedded derivatives that arise from amending the affected contract(s), or both. It also is not clear as to whether the expedient means an entity need not consider the embedded derivative guidance at all, or if it merely means the "clearly and closely related" criterion in that guidance need not be revisited.

We have similar concerns with the wording of the practical expedients that apply to the hedge accounting model. In most cases, the complexity in understanding what the practical expedient permits results from the complexity inherent in the underlying accounting model. As such, we believe the risk of misunderstanding is partly mitigated by the fact that the expedient only would affect entities that currently apply the hedge accounting guidance.

We encourage the Board to try to make the proposed guidance as understandable as possible by using plain English and by supplementing the actual guidance with more summary information within the introduction of the Accounting Standards Update.

Question 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.

Response: At this time, we are not aware of any other issues the Board should consider in its deliberations. In addition, we understand that efforts are under way by various stakeholders to address other accounting matters related to LIBOR reform.

Question 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.

Response: Yes, we agree with the Board's proposed expedient for the accounting for contract modifications. Specifically, we agree that the accounting outcome should be a continuation of the existing contract. We believe the expedient will significantly reduce the cost and complexity of applying GAAP for entities that have a significant number of contracts affected by LIBOR reform.

We encourage the Board to make explicit that a change from a variable rate to a fixed rate is not eligible for application of the relief. While this is currently stated in the Basis for Conclusions (paragraph BC24), it should be added to the Codification (ASC 848-20-15-6).

In addition, we do not fully understand the Board's basis (in paragraph BC29) for designating the inclusion of an in-the-money cap or floor as unrelated to reference rate reform. While we agree that there could be situations where an in-the-money cap or floor contains value unrelated to reference rate reform, we do not believe that is the case in all circumstances. For example, an entity may decide to settle the difference between the original rate and the amended rate not in the form of an upfront cash payment, but rather by including an in-the-money cap or floor.

Question 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?

Response: We generally agree with the Board's position that the expedients, if elected, should be applied to all modifications that fall within the relevant Topic, Subtopic, or Industry Subtopic level. However, we would observe that many practitioners still do not have a firm grasp on navigating the Accounting Standards Codification. As such, they may be unfamiliar what the potential implications are. We would again encourage the Board to use plain English descriptions in the summary of the document to help constituents understand the meaning of the proposed guidance.

Question 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.

Response: We agree with the Board’s proposed exceptions that would permit entities not to dedesignate a hedging relationship for the circumstances outlined in ASC 848-30.

Question 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.

Response: We agree with the proposed optional expedients applicable to fair value hedges.

Question 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.

Response: We agree with the proposed optional expedients applicable to cash flow hedges.

Question 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.

Response: We agree that the proposed exceptions and optional expedients related to hedge accounting should be applied on an individual hedging relationship basis. This approach is consistent with how the hedge accounting model generally applies – that is, to individual hedging relationships.

Question 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?

Response: We do not have a specific view on this matter. We encourage the Board to reach out to users of financial statements to better understand the type of information users would benefit from having regarding an entity’s exposure to reference rate reform. However, we urge the Board to balance users’ requests with the cost of providing the requested information.

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?

Response: We do not have a specific view on this matter. We encourage the Board to reach out to users of financial statements to better understand the type of information users would benefit

from having regarding an entity's exposure to reference rate reform. However, we urge the Board to balance users' requests with the cost of providing the requested information.

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

Response: An entity that elects to apply the optional expedients in Proposed Topic 848 should disclose the following information in each period affected by the modification:

- 1) Which expedients have been applied.
- 2) To which contracts the expedients have been applied.
- 3) The general result or consequence of applying each expedient elected.

While we think the proposed transition disclosure requirement generally captures these items ("nature of and reason for"), we would encourage the Board to be more explicit in what should be disclosed to avoid "boilerplate" disclosures.

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?

Response: We agree that the proposed optional expedients should apply on a prospective basis.

Question 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?

Response: We agree that the proposed relief should be temporary in nature. We have no concerns with the Board's proposed sunset period.