



March 29, 2018

Ms. Susan M. Cospers
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06855-5116
By e-mail: director@fasb.org

File Reference: 2018-220, Exposure Draft of a Proposed Accounting Standards Update, *Derivatives and Hedging (Topic 815) – 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*

Dear Ms. Cospers:

The 11 Federal Home Loan Banks (the “FHLBanks”) appreciate the opportunity to comment on the Financial Accounting Standards Board’s (the “FASB” or “Board”) Exposure Draft of a Proposed Accounting Standards Update, *Derivatives and Hedging (Topic 815) – 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* (hereinafter referred to as the “proposed Update”). The FHLBanks are government-sponsored enterprises that serve the public by enhancing the availability of credit for residential mortgages and targeted community development. The FHLBanks are financial cooperatives and SEC registrants. Derivative instruments are an integral part of each FHLBank’s financial and risk management strategies and most of our derivatives utilize LIBOR as a benchmark interest rate for hedge accounting purposes. As such, we are supportive of the addition of SOFR as an eligible U.S. benchmark interest rate for hedge accounting purposes under Topic 815. This letter provides our responses to the questions for respondents and our views on the proposed Update.

Responses to FASB’s Questions for Respondents:

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?

The FHLBanks support the Board’s decision to add the OIS rate based on SOFR as a U.S. benchmark interest rate. As indicated by the Alternative Reference Rates Committee’s (ARRC) transition plan, SOFR is intended to be a replacement of LIBOR, which is considered a benchmark interest rate under Topic 815, so the rate used to replace LIBOR should be considered a benchmark interest rate. In addition, and as discussed in our response to Question 2, we recommend that a

broader SOFR swap rate be included as a U.S. benchmark interest rate in order to accommodate longer tenors.

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?

Yes, the FHLBanks believe that a broader SOFR swap rate be included as a U.S. benchmark interest rate instead of just the OIS rate based on SOFR. It is widely believed that SOFR is intended to be a replacement of the LIBOR swap rate so upfront inclusion of a broader SOFR swap rate will reduce uncertainty as LIBOR is phased out and will provide flexibility as the financial markets begin to use a different reference rate. Future amendments to the codification will not be necessary if the need for additional tenors is recognized and built into this proposed Update, and accounting standards will not hinder the efficient development of a SOFR swap market similar to the existing LIBOR swap market.

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.

Yes, relief should be provided in the guidance to reduce the burden of transitioning LIBOR-indexed contracts, specifically that the transition from one benchmark rate to another due to obsolescence would not result in a termination of the hedge relationship. The Board should also provide transition relief and guidance for hedges that are assessed for effectiveness using regression methods, as there will likely be insufficient historical data points upon adoption of the SOFR.

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

The FHLBanks do not believe that additional disclosures should be required, as current disclosure requirements are sufficient to provide information about risk management objectives, hedging strategies, and effects of the transition from LIBOR to SOFR.

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.

The FHLBanks believe that the proposed amendments should not only be applied on a prospective basis for qualifying new or redesignated hedging relationships, but perhaps more critically, the

proposed amendments should be applied to existing hedge relationships due to the significant number of LIBOR-based swaps expected to be outstanding at LIBOR's sunset, and the operational burden it would create to dedesignate and redesignate those hedge relationships.

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.

The FHLBanks agree that the effective date of the proposed amendments should coincide with the effective date of Update 2017-12. If aligned with Update 2017-12, we would encourage the Board to permit early adoption in any interim period after the issuance of this Update regardless of an entity's election to early adopt Update 2017-12.

We thank the Board for its consideration of our views and welcome the opportunity to discuss this topic further with the Board and its staff. Please do not hesitate to contact me at (404) 888-8142.

Sincerely,



William Shaw
First Vice President and Controller
Federal Home Loan Bank of Atlanta
(On behalf of the Federal Home Loan Banks as Chair of the Controllers' Committee)