American Bankers Association
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Russell G. Golden
Chairman
Financial Accounting Standards Board
401 Merritt 7
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Via email: director@fasb.org

RE: Derivatives and Hedging (Topic 815) File Reference No. 2018-220

Dear Chairman Golden:

The American Bankers Association[1] (ABA) appreciates the opportunity to comment on the Exposure Draft, *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*. ABA supports the expansion of the indices eligible to be designated a benchmark index for hedge accounting purposes. The use of derivative instruments in managing various financial risks is critical to the operations of many banks and other entities and it is important that in this time of industry transition away from the London Interbank Offered Rate (LIBOR) that the accounting standards are proactive and meet the needs of the developing markets. Therefore, in addition to our support of adding the OIS based on SOFR as a benchmark index rate, ABA asks the Board to strongly consider the following provisions so that additional standard setting will be minimized relative to the transition from LIBOR:

The Broader SOFR Swap Rate Should be Included as a US benchmark Interest Rate

ABA supports adoption of a broader SOFR swap rate as a permissible interest rate index for hedge accounting purposes. This would allow the use of individual term interest rates based on SOFR to be benchmarked as those markets are developed (e.g. 30 day, 90 day, etc.). As described in the ED's basis for conclusions, the AARC's[2] paced transition plan[3] includes the creation of a term reference rate based on SOFR by the end of 2021. Additionally, ABA believes that the inclusion of SOFR as a benchmark interest rate will facilitate the use of the rate in hedging activities, thereby supporting the development of

[1] The American Bankers Association is the voice of the nation's $16 trillion banking industry, which is composed of small, regional and large banks that together employ more than 2 million people, safeguard $12 trillion in deposits and extend more than $8 trillion in loans.
[2] The Alternative Reference Rates Committee (AARC), made up of a consortium of major financial institutions and other market participants, was formed to identify a suitable alternative to LIBOR that is more firmly based on transactions in a robust market.
[3] https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2018/ARRC-Second-report

a liquid market. Depending on the rate of that market development, the ABA believes that it is foreseeable that SOFR term rate structures could be implemented earlier than 2021.

To the extent the Board is not prepared to add a general SOFR swap rate as a benchmark index rate, ABA supports adding the SOFR OIS rate and does not want to stall the Board's progress on this Exposure Draft.

Transition Flexibility is Needed on a Contract-by-Contract Basis

ABA believes transition flexibility commensurate with the broad flexibility available in ASU 2017-12 *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities* is appropriate. Specifically, companies should have the ability to change the designated risk and the designated hedge without requiring dedesignation of the old hedging relationship (e.g. under LIBOR) and subsequent redesignation of the new relationship (e.g. under SOFR). Further, such flexibility will be needed on an ongoing basis, as transition from LIBOR may occur at different times, depending on the instruments, both within and across institutions.

The transition from LIBOR as a reference rate will be significant for the industry. Not only will derivative contracts need to change but contracts related to cash products (loans, securities, etc.) that are hedged will also need to change. These cash product contracts are less standardized and the transition will occur over different schedules based on the needs of the various parties and products involved. Therefore, a specific date transition will likely be unfeasible. For example, contractual language and transition on certain mortgage products may require agency agreement from Freddie Mac and Fannie Mae that would not be required for syndicated loan products for which different constituencies exist. Therefore, ABA asks the Board to consider provisions that allow for flexibility and application on a contract-by-contract basis.

Effective Date

ABA believes an effective date for accounting periods beginning after December 15, 2019 with early adoption permissible is appropriate. Institutions are in the planning stages for the transition and many institutions may not be able to implement these changes prior to that time. However, those institutions that do transition earlier should be allowed early adoption.

Thank you for your attention to these matters and for considering our views. Please feel free to contact me (jstein@aba.com; 202-663-5318) if you would like to discuss this in more detail.

Sincerely,

Joshua Stein