Bloomberg L.P. 731 Lexington Ave New York, NY 10022 Tel +1 212 318 2000 bloomberg.com

Bloomberg

June 1, 2021

**Via electronic mail**

Richard R. Jones
Chairman
Financial Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

RE: FASB's Approach to Benchmark Interest Rates for Fair Value Hedge Accounting

Dear Chairman Jones:

I am the Global Head of Index Linked Products of Bloomberg Index Services Limited ("BISL").[1] We write to discuss FASB's approach to fair value hedge accounting. BISL administers the Bloomberg Short-Term Bank Yield Index ("BSBY"), a credit-sensitive reference rate index that incorporates a systemic bank credit spread and defines a forward term structure. BSBY seeks to measure average yields at which large, global banks access USD senior unsecured marginal wholesale funding. The systemic credit-sensitive spread included within BSBY is designed to be used to support the market's transition away from LIBOR.

We, and our hundreds of participating clients, very much appreciate FASB's participation in our December 2020 webinar on "Navigating the LIBOR/SOFR Transition." I'd like to share a couple of recent developments over the past few weeks relative to BSBY, as well as some observations and market color since December.

**The Bloomberg Short-Term Bank Yield Index**

BSBY uses an advanced curve-fitting methodology to calculate overnight, 1-month, 3-month, 6-month, and 12-month yields and publishes them daily at 8:00 am NYT. The published rates are based on instruments that have averaged over a three-day rolling window more than $165 billion in transactions. Each tenor has shown strong historical correlation with the corresponding USD LIBOR rate setting, supporting the role of BSBY as an appropriate representation of the US wholesale-unsecured funding market.

---

[1] Bloomberg Index Services Limited (BISL) is an authorized benchmark administrator and subsidiary of Bloomberg L.P. BISL licenses BSBY for use as a financial benchmark. In addition to BSBY, BISL administers the Bloomberg Barclays flagship family of fixed income indices, the Bloomberg Commodity Index (BCOM), and Bloomberg's Global Equity Index family. BISL provides robust governance and oversight over its benchmark offerings, which will soon include a dedicated oversight function for BSBY composed of a balanced set of market stakeholders.

Bloomberg is fully committed to an offering that aligns with the robust standards of the IOSCO Principles for Financial Benchmarks (the "IOSCO Benchmark Principles") as well as the EU and UK Benchmark Regulations. On April 6th, Bloomberg announced that an independent assurance review confirmed BSBY aligns with the IOSCO Benchmark Principles.[2] The review was conducted by a global, independent accounting firm, and the final report is available on our website Bloomberg.com/bsby. In addition, on May 6, ISDA published Supplement 73 to the 2006 ISDA Definitions to add a Rate Option for BSBY. Going forward, market participants will be able to enter into BSBY swap trades governed by ISDA's standard form documentation. On May 24, CME Group announced plans to launch BSBY interest rate futures.[3]

**Fair Value Hedge Accounting**

On July 29, 2020, the Financial Accounting Standards Board reached a tentative decision to pursue a principles-based approach to benchmark interest rates. We applaud that decision and urge the Board to proceed quickly in this work and publish the principles-based standards as soon as reasonably practical.

We have heard from numerous customers and market participants that fair value hedge accounting in connection with the use of credit-sensitive rates is important, and we believe there is market demand for the use of BSBY in fair value hedging. Because FASB currently recognizes only a limited set of benchmark interest rates eligible for use in fair value hedge accounting, the quality of financial reporting by those preparers who would use BSBY, or any other credit-sensitive rate, will suffer.

On November 6, 2020, the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation issued a joint statement to emphasize that "a bank may use any reference rate for its loans that the bank determines to be appropriate for its funding model and customer needs."[4] The banking agencies have since affirmed this guidance a number of times, most recently during an April 15 hearing on LIBOR transition held before the House Financial Services Committee. At the same hearing, the SEC underscored that both FASB and IASB "have updated their accounting standards to address potential accounting implications arising from the anticipated transition away from LIBOR, and continue to monitor this area for other potential accounting and financial reporting implications that may need to be addressed through standard setting."[5] It is apparent that not everyone's needs will be met by SOFR, and additional work in this space is necessary.

---

[2] https://www.bloomberg.com/company/press/bloomberg-confirms-its-bsby-short-term-credit-sensitive-index-adheres-to-iosco-principles/

[3] https://www.cmegroup.com/media-room/press-releases/2021/5/24/cme_group_to_launchbloombergshort-termbankyieldindexbsbyfuturesi.html

[4] See Federal Reserve Supervision and Regulation Letter 20-25 (November 6, 2020); OCC Bulletin 2020-98 (November 6, 2020); and FDIC Financial Institution Letter 104-2020 (November 6, 2020).

[5] https://financialservices.house.gov/uploadedfiles/hhrg-117-ba16-wstate-coatesj-20210415.pdf

Market participants have expressed a compelling need for regulatory engagement with respect to credit-sensitive rates.[6] The Federal Reserve Bank of New York hosted a series of Credit Sensitivity Group workshops aimed to build a shared understanding of the challenges that banks of all sizes and their borrowers may have in transitioning loan products from LIBOR. The FRBNY recognizes "that innovation is central to the development and evolution of financial markets, and the official sector supports the continued innovation in, and development of, suitable reference rates, including those that may have credit sensitive elements."[7]

There is a compelling need for the Board to act quickly. In November 2020, the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation issued a statement calling on banks to cease entering into new contracts that use USD LIBOR as a reference rate as soon as practicable and in any event by December 31, 2021.[8] In the joint statement, the agencies affirmed prior guidance that a bank may use any reference rate for its loans that the bank determines to be appropriate for its funding model and customer needs.

Given the recent announcement by the Alternative Reference Rates Committee ("ARCC") that the ARCC will not be in a position to recommend a forward-looking SOFR term rate by mid-2021, and possibly not even by the end of the year, it is very important that the Board move forward with its work in this space in a timely fashion.[9] Although a forward-looking SOFR term rate will not be available, market participants are nevertheless strongly encouraged to continue to transition from LIBOR using the tools available now.[10]

Bloomberg understands and supports FASB's desire to explore a principles-based approach to identifying interest rates eligible for fair value hedge accounting. Since USD LIBOR will, in effect, end this year, time is of the essence. While FASB's reluctance to add more reference rates to the list of benchmarks eligible for use in fair value hedges as it explores a principles-based approach is understandable, it is important to strike a balance between the current, practical needs of financial statement preparers and users and the challenges and uncertainties of formulating workable reference rate principles. If FASB concludes that interim recognition of a limited number of additional benchmarks is necessary given current deadlines, we certainly believe that limiting additional rates to those (1) for which there is demonstrable market demand, and (2) that comply with the IOSCO Benchmark Principles, would avoid any risk that FASB would need to address numerous requests.

Accordingly, and in order to provide the market clarity and facilitate an orderly LIBOR transition, we urge the Board to move forward in its planned move to the principles-based approach. If necessary, FASB should consider adding to the list of U.S. benchmark rates for hedge accounting purposes during this interim period. We certainly believe BSBY should be

---

[6] https://www.newyorkfed.org/medialibrary/media/newsevents/events/markets/2020/credit-sensitivity-group-workshops-agenda.pdf
[7] https://www.newyorkfed.org/newsevents/events/markets/2020/0225-2020
[8] https://www.federalreserve.gov/supervisionreg/srletters/SR2027a1.pdf
[9] https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2021/arrc-press-release-term-rate-for-publication
[10] *See* Federal Reserve Supervision and Regulation Letter 20-25 (November 6, 2020); OCC Bulletin 2020-98 (November 6, 2020); and FDIC Financial Institution Letter 104-2020 (November 6, 2020).

added to the list, and we would be happy to provide additional information in support of this request.

Please let us know if you have questions or we can be of additional help.

Sincerely,

Umesh Gajria
Global Head of Index Linked Products

Cc: James Kroeker
Erin Cahill
Sam Tice