

November 13, 2020

Ms. Hillary Salo  
Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

By email: [director@fasb.org](mailto:director@fasb.org)

Re: File Reference No. 2020-900, Exposure Draft, *Reference Rate Reform (Topic 848) Scope Refinement*

Dear Ms. Salo,

Chatham Financial Corp. ("Chatham") is pleased to comment on the Financial Accounting Standards Board's ("FASB" or "Board") Proposed Accounting Standards Update, *Reference Rate Reform (Topic 848) Scope Refinement* (the "Exposure Draft" or "Proposal"). Chatham serves as a hedging advisor to more than 3,000 clients annually across the globe and in many industries. Chatham assists more than 600 clients with the application of the hedge accounting provisions of Accounting Standards Codification ("ASC") 815, International Accounting Standards ("IAS") 39, or International Financial Reporting Standards ("IFRS") 9. In addition, Chatham's involvement with clients often leads to discussing the application of the hedge accounting guidance with their audit teams and respective National office derivative experts. As a result, we believe we are well positioned to provide helpful feedback related to the Board's efforts to refine the scope of Topic 848.

We appreciate the Board's efforts to address emerging reference rate reform issues in a timely manner by refining the scope of Topic 848 and we support the Proposed changes. We have included feedback and responses to the Board's questions within this submission. We thank the Board for its consideration of our comments and would be pleased to discuss these issues in more detail with the Board or staff. Please do not hesitate to contact me at (484) 731-0228 or at [dgentzel@chathamfinancial.com](mailto:dgentzel@chathamfinancial.com).

Sincerely,

Dan Gentzel  
Managing Director, Global Hedge Accounting  
Chatham Financial Corp.

Our responses to the specific questions posed by the Board are below.

**Question 1—Scope Refinement:** Do you agree that the scope of Topic 848 should be refined to include contracts that do not reference a rate expected to be discontinued as a result of reference rate reform but that are affected by the discounting transition? Why or why not?

Yes, we agree. We are aware of many situations in which entities centrally clear interest rate swaps that do not reference a rate expected to be discontinued as a result of reference rate reform but are affected by the discounting transition that occurred recently at central clearing counterparties. Specifically, many financial institutions have interest rate swaps based on the Effective Federal Funds Rate ("EFFR") that are centrally cleared and recently experienced a switch from using EFFR to Secured Overnight Financing Rate ("SOFR") for margining, discounting, or contract price alignment.

Our understanding is the discounting transition could be considered either of the following: 1) a contractual term change resulting in a financial instrument modification that could cause an entity to reassess accounting determinations for the instrument; or 2) a change in a critical term of a hedging relationship that could lead to a dedesignation. We agree with the Board's conclusions in paragraphs BC10 and BC11 and accordingly believe it is necessary to refine the scope of Topic 848 to provide relief.

**Question 2—Operability:** The Board is proposing amendments in this Update to the expedients and exceptions in Topic 848 to capture the incremental consequences of the proposed scope refinement and tailor the existing guidance to derivative instruments affected by the discounting transition. Are those proposed amendments complete and operable? If not, what suggestions do you have and why?

We believe the primary issues relate to the impact of the discounting transition on 1) reassessment of contractual terms of impacted financial instruments; 2) continuation of existing hedging relationships; and 3) activity occurring to facilitate the discounting transition. We agree with the Board's observations in paragraph BC13 of the Proposal that "the discounting transition, in and of itself, should not cause entities to reassess previous accounting conclusions or result in the discontinuation of hedge accounting if those hedge relationships would otherwise continue to be highly effective". As a result, we believe the proposed guidance would sufficiently permit entities to elect optional expedients that would allow them to avoid reassessing financial instruments and avoid the need to dedesignate a highly effective hedging relationship due to a discounting transition.

The Board notes in BC15(b) that entities may be required to enter into basis swaps with a central counterparty as part of the discounting transition. Entities may desire to add these basis swaps to existing hedging relationships. We agree with the Board's conclusion that permitting entities to add these basis swaps to existing hedging relationships is in alignment with existing guidance in Topic 848 and we agree with the proposal to extend the guidance to basis swaps related to the discounting transition. We understand many of these basis swaps were allocated on an aggregate basis rather than a 1:1 basis, which will likely make it challenging for entities to add these basis swaps to existing hedging relationships. As a result, we believe this accommodation may be of limited usefulness in practice.

We agree with the Board's observations in paragraphs BC16 and BC17 related to the valuation and accounting impact of a cash compensation payment (or equivalent) on a hedged item in a fair value shortcut hedge or in accumulated other comprehensive income for a derivative in a cash flow hedging relationship. We agree with the proposed guidance in 848-30-25-11B and 848-30-25-11C and

believe these proposals would provide entities with elections to appropriately account for the cash adjustment.

**Question 3—Effective Date and Transition:** Do you agree with the proposed effective date and transition guidance? Why or why not?

Yes, we agree. We believe the Proposal provides sufficient flexibility for entities to choose appropriate dates to begin applying chosen elections. Further, we agree with the proposed guidance in 848-10-65-2(a)(2) that would require any adjustments as a result of those elections to be reflected as of the application date of the election and recognized in accordance with Subtopics 848-30, 848-40, and 848-50 (as applicable).

**Question 4—Ongoing Monitoring:** Are there other accounting consequences related to reference rate reform that the Board should consider?

We are not aware of other accounting consequences related to reference rate reform that the Board should consider at this time. We appreciate the Board's willingness to address emerging issues in a timely manner and encourage continued monitoring of reference rate reform activities that may warrant further guidance.