Chatham
FINANCIAL

June 2, 2022

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
Re: File Reference No. 2022-001*, Reference Rate Reform (Topic 848) and Derivatives and Hedging (Topic 815) - Deferral of the Sunset Date of Topic 848 and Amendments to the Definition of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap Rate*

Dear Ms. Salo,

Chatham Financial Corp. ("Chatham") is pleased to provide feedback on the Proposed Accounting Standards Update "Reference Rate Reform (Topic 848) and Derivatives and Hedging (Topic 815) - Deferral of the Sunset Date of Topic 848 and Amendments to the Definition of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap Rate" (the "Proposed ASU"). Chatham serves as a hedging advisor to more than 3,000 companies annually across the globe and in many industries. Chatham assists more than 700 companies 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, we have been assisting these companies with applying the relief in Topic 848 since its issuance in 2020. Chatham's involvement with clients includes assisting them with the negotiation of new derivatives and modifications of existing derivatives as well as the accounting, financial reporting and disclosure of their derivative activities. Our assistance often leads to discussing the application of the hedge accounting guidance with their audit teams and respective audit firm national office and subject matter experts. As a result, we believe we are well positioned to provide helpful feedback on the proposed ASU.

We are generally supportive of the changes in the proposed ASU and have provided our responses to the Questions for Respondents herein. We have also provided feedback with respect to an interpretive issue related to applying reference rate reform relief in Topic 848 to hedges of first payments received/made on pools of LIBOR loans.

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.

Sincerely,

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

Questions for Respondents

Issue 1: Deferral of the Sunset Date of Topic 848
Question 1: Do you agree with the Board's decision to defer the sunset date of Topic 848 to a December 31, 2024 sunset date? If not, what date would you choose and why?

We are supportive of the proposed change to defer the sunset date of Topic 848 to December 31, 2024. We believe most organizations will be able to complete modification of their impacted contracts by this date. However, there are reference rates that are not expected to become unrepresentative until closer to this date, which may not give entities with exposure to those rates ample time to facilitate completing their reference rate reform activities. As a result, we believe the Board should continue to monitor global reference rate reform activities and consider extending the sunset date further to provide impacted entities with additional time to modify contracts.

Question 2: Do you agree with the proposed transition guidance and effective date for this issue? If not, please explain why not.

Yes, we believe the proposed transition guidance and effective date are appropriate given the proposed change to the sunset date.

Issue 2: Amendments to the Definition of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap Rate

Question 3: Are the amendments in this proposed Update to the definition of the term *Secured Overnight Financing Rate (SOFR) Overnight Index Swap Rate* clear that other rates based on SOFR, such as SOFR term, are within the scope of the revised definition? If not, what clarifications would you make and why?

We believe the proposed amendments help clarify that a variable rate based on SOFR would satisfy the benchmark definition. However, we believe there will continue to be confusion in practice as to whether specific SOFR indexes are considered a benchmark rate unless the Board provides additional examples beyond references to SOFR Term in the Basis for Conclusions (BC11 – BC14). We believe it would also be helpful to indicate that other SOFR indexes based on the SOFR OIS rate (e.g. NY Fed average SOFR) satisfy the definition of a benchmark interest rate.

Question 4: Do you agree with the proposed transition guidance and effective date for this issue? If not, please explain why not.

Yes, we believe the proposed transition guidance and effective date are appropriate for this issue.

Additional Feedback

We have the following additional comments for the Board related to the application of Topic 848 relief to hedge accounting.

Many large financial institutions utilize a cash flow hedging strategy where they hedge the first payments received from a pool of LIBOR-based loans. In these programs there is an open pool of loans in which loans are paid down prior to maturity and replaced with new loan production. We believe additional clarity is necessary within 848-50-35-19 through 35-24 for practitioners to understand how to apply that relief to these types of hedging relationships.

Paragraph 848-50-35-22 indicates that the assessments of whether the forecasted transactions remain probable are performed without regard to the replacement of the contractually specified interest rate. However, this sentence does not address whether the addition of other terms related to the replacement of the reference rate can also be considered in the assessment. Based on our interaction with financial institutions that employ this type of hedging strategy, some may need to look to replacement loans with different indexes (e.g. SOFR OIS and SOFR Term) and/or several different strike rates on floors embedded in the loans in order to offset the notional of the hedging instrument of impacted hedging relationships. In order to include loans with different indexes or different floor strike rates, an entity must demonstrate the cashflows share the same risk. Although 848-50-25-13 permits entities to ignore performing this assessment while applying relief in topic 848, we believe relief is also needed for these hedging relationships when an entity can no longer apply the relief in Topic 848.

Lack of clarity in Topic 815 on how to perform the similar risk assessment has led to lack of agreement among practitioners and auditors on how to perform the analysis. Further, effectiveness assessments already require a highly effective result using the entity's best estimate of the hedged forecasted transactions, which seems to make the similar risk assessment unnecessary, especially given the ambiguity around how to perform the assessment. Failure to demonstrate that similar risk exists across multiple index and floor strike rate combinations on replacement loans will result in hedging gains/losses deferred in Accumulated Other Comprehensive Income being immediately reclassified into earnings, which we believe will yield misleading and unhelpful financial results for investors. As a result, we believe the Board should permit entities to ignore performing similar risk assessment for a group of transactions impacted by reference rate reform upon transitioning out of the relief. We believe this could be accomplished by modifying 848-50-35-20 through 848-50-35-22 to permit entities to ignore performing a shared risk assessment for transactions impacted by reference rate reform. We believe the Board should also consider incorporating such a change into Topic 815 as part of its project to provide amendments to the Change in Hedged Risk guidance that was issued in ASU 2017-12.