November 5, 2019

David Bean
Director of Research
Project No. 26-8
Governmental Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Mr. Bean:

On behalf of the Tennessee Division of State Audit, we thank the GASB for the opportunity to comment on its proposed Exposure Draft (ED), *Replacement of Interbank Offered Rates*. We generally agree that this Statement will benefit users because the guidance will maintain the relevance, reliability, consistency, and comparability of reported information by providing guidance specific to reference rate uncertainty, the use of nearly risk-free reference rates, and the transition from IBORs. We also agree the usefulness of reported information will be maintained by requiring that agreements with effectively the same economic substance continue to be accounted for in the same manner as before replacement of a reference rate. However, we believe the board should consider clarifying in ¶2 (broadly) or ¶4 (specifically) that the exception is only allowed when the hedge is effective before (as of the end of the reporting period of the change) and after the change in reference rate. Paragraph B4 (“…when and IBOR is replaced, the continuation of hedge accounting should be limited to those circumstances in which an existing effective hedging relationship continues and certain other criteria are met.”) states this more clearly than the current language in ¶4, and thus could result in different interpretations.

In addition, we have the following suggested comments for the board’s consideration:

1. On page iii (Summary), the third bullet appears to be an incomplete thought related to “probable” (i.e., “Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether a hedged expected transaction is probable”). Should “probable” refer to “probable of occurrence” or something else?

2. On page iii (last bullet), we suggest that the except to lease modifications is “solely to replace an IBOR.” Other modifications would appear to be outside the exception scope and would result in a termination of the existing lease agreement if significant.

3. For ¶B19, the first sentence should state, “… the occurrence of the expected transaction should be probable.”
Should you have questions or need clarification on any of our comments, please contact Gerry Boaz or me at (615) 747-5262.

Sincerely,

Deborah V. Loveless, CPA
Director, Division of State Audit