November 27, 2019

Mr. David R. Bean
Director of Research and Technical Activities
Project No. 26-8
Governmental Accounting Standards Board
Via email: director@gasb.org

Dear Mr. Bean,

cfX Incorporated is pleased to respond to the Governmental Accounting Standards Board (GASB) Exposure Draft (ED) document, Replacement of Interbank Offered Rates (IBOR).

cfX Incorporated is a leading Municipal Advisory firm serving many state housing finance agencies (HFA) nationwide that use LIBOR based swaps to hedge their variable rate debt.

As part of our review of the ED we noticed that GASB has allowed that a replacement rate may require a coefficient and/or a spread adjustment to achieve the economic substance of the original hedging instrument. cfX encourages GASB to also include the option of a one-time lump sum payment as compensation for reduction in payments attributable to the differences between LIBOR and the replacement rate.

On October 9, 2019 the Internal Revenue Service (IRS) published in the Federal Register the Guidance on the Transition From Interbank Offered Rates to Other Rates. In that guidance the IRS will allow either a coefficient, spread or a one-time lump sum payment to maintain that a debt instrument and one or more hedges may be treated as an integrated instrument for certain tax purposes.

As many HFAs may pursue a one-time lump sum payment and be able to preserve their tax integration status we recommend respectfully that GASB also allow for this one-time lump sum option with the understanding that the new derivative instrument would still be required to pass any effective hedge testing in order to continue hedge accounting.

We thank the Board for the opportunity to comment on this matter and welcome any questions or requests for additional information.

Respectfully submitted for cfX Incorporated by:

Jeremy C. Obaditch
Managing Director

Optimizing Affordable Housing Finance