November 27, 2019

Mr. David Bean, Director of Research and Technical Activities
Project Number 26-8
Governmental Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

Submitted via email to director@gasb.org

Dear Mr. Bean:

Thank you for the opportunity to provide these comments regarding the proposed statement of the Governmental Accounting Standards Board (GASB, the Board), Replacement of Interbank Offered Rates (ED, the ED). The Board is to be commended for proposing timely guidance for those governments affected by the expected cessation of the London Interbank Offered Rate (LIBOR) as a benchmark reference rate in late 2021. I appreciate this opportunity to respond and my comments reflect my views as a former government finance officer (involved in transactions using LIBOR as a reference rate) and a current academician responsible for teaching undergraduate and graduate level courses in governmental accounting and auditing.

Generally, I believe the proposed requirements provide clear accounting and reporting guidance to governments having agreements with variable payments made or received based on LIBOR. I also agree with the broad-based approach to address changes resulting from replacement of not only LIBOR but any other interbank offered rate (IBOR). Additionally, I agree with the proposed exception for certain hedging derivative instruments when an IBOR is replaced as the reference rate and for removing LIBOR as an appropriate benchmark interest rate.

My concerns with the ED are minor and relate to some of the terms used in the ED. I could not determine from the Codification Instructions in Appendix C of the ED if a definition will be provided for “Secured Overnight Financing Rate (SOFR)”, “Effective Federal Funds Rate (EEFR)”, and “interbank offered rate (IBOR)”. Also, I could not find where these terms were defined in GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments. Definitions for these terms may be helpful to governments in applying the requirements of the final standard as well as in understanding complexities associated with derivative instruments. If definitions are included for these terms, I would suggest the terms and definitions used by the Financial Accounting Standards Board (FASB) in Accounting Standards Update 2018-16, Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes. Using these terms and definitions would provide consistency between governmental and nongovernmental entities and therefore assist analysts and other stakeholders in evaluating transactions relating to derivative instruments.

As for the effective date and transition, I do not believe the requirements of the proposed standard should be retroactively applied. Since the cessation of LIBOR as a reference benchmark rate is a specific act expected to occur in late 2021, it will only affect agreements as of this date. As such this is likely a “subsequent event” for governments with fiscal years ending prior to the cessation date. The proposed effective date (for all except the requirements of paragraph 8b) is for reporting periods beginning after June 15, 2020. This equates primarily to fiscal years ending June 30, 2021 and September 30, 2021 which are before the currently expected cessation date for LIBOR. Therefore, the cessation of LIBOR in
late 2021 will result in a Type II\(^1\) subsequent event for these governments where amounts at the end of the fiscal period are not adjusted for the new information. In other accounting literature, an example of a Type II event is the change in value of assets due to a change in the exchange rate which I believe is similar in concept to the cessation of LIBOR as a reference benchmark rate.

As always, thank you for the opportunity to respond to this due process document. Should you have any questions regarding the above, please contact me at (321) 277-1536 or lkmdennis@gmail.com.

Sincerely,

Lynda M. Dennis, CPA, CGFO, PhD
University of Central Florida

\(^1\) A Type II subsequent event is an event which provides new information relating to conditions which did not exist as of the end of the fiscal/calendar year.