COMMENT LETTER

October 9, 2019

ICI Submits Comment Letter on FASB Proposed Relief for LIBOR Transition (pdf)

October 7, 2019 Mr. Shayne Kuhaneck Acting Technical Director Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116 Re: Reference Rate Reform (Topic 848) File Reference No. 2019-770 Dear Mr. Kuhaneck: The Investment Company Institute1 appreciates the opportunity to comment on the proposed accounting standards update, Facilitation of the Effects of Reference Rate Reform on Financial Reporting. The proposal would provide temporary optional relief to ease the potential burden in accounting for, and recognizing the effects of, reference rate reform on financial reporting. Under the proposal, an entity could choose not to apply certain modification accounting requirements in US GAAP to contracts, including financial instruments, affected by reference rate reform, if certain criteria are met. An entity could, if it meets the specified criteria, present and account for a modified contract as a continuation of the existing contract. The temporary relief would be effective upon issuance of final guidance and would not apply to contract modifications made after December 31, 2022. We agree that the application of existing accounting standards on modifications could be costly and burdensome due to the significant volume of affected financial instruments and the compressed time frame for making modifications due to reference rate changes. We support the proposed temporary optional relief that would allow an entity to account for and present a modified financial instrument as a continuation of the existing instrument rather than derecognition of the modified instrument and initial recognition of a new financial instrument. We believe the proposed temporary optional relief will simplify the analysis to be performed and facilitate the transition to alternative reference rates. 1 The Investment Company Institute (ICI) is the leading association representing regulated funds globally, including mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and similar funds offered to investors in jurisdictions worldwide. ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. ICI's members manage total assets of US$23.4 trillion in the United States, serving more than 100 million US shareholders, and US$7.1 trillion in assets in other jurisdictions. ICI carries out its international work through ICI Global, with offices in London, Hong Kong, and Washington, DC. Disclosure The proposal would require entities to disclose the nature of and reason for electing the optional relief in each interim and annual financial statement period in the fiscal year of application. The proposal indicates that the Board is considering additional qualitative and quantitative disclosures relating to reference rate reform. Qualitative disclosures could include a description of management’s approach and its progress on addressing exposure to discontinued reference rates. Quantitative disclosures could include the percentage of instruments by type that adequately contemplate the discontinuance of the reference rate and the percentage of instruments that do not and would need some degree of additional negotiation. The proposal requests comment on what quantitative and qualitative disclosures would help financial statement users understand the reporting entity’s contracts or holdings that are affected by reference rate reform. SEC registered investment companies disclose their portfolio holdings four times per year. Such disclosures include the name of the issuer and description of each security held, the principal amount or number of shares, and the period end fair value. For variable rate securities the description would include the reference rate and spread, and the period end rate.2 Accordingly, investors can easily assess the proportion of the fund’s securities affected by reference rate reform. To the extent the Board requires disclosure beyond the proposed nature of and reason for electing the optional relief, we encourage the Board to follow a management approach, enabling the entity to describe its process for assessing and responding to reference rate reform and would avoid requiring specific quantitative disclosures. Such disclosures could discourage entities from electing into the optional relief. ****************************** We appreciate the opportunity to comment on the proposal and would be pleased to provide any additional information you may require. If you have any questions on our comments or recommendations, please contact the undersigned at 202/326-5851 or smith@ici.org. Sincerely, Gregory M. Smith Senior Director