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GASB Proposes Guidance On Replacement Of Interbank Offered Rates With New Reference Rates.

Norwalk, CT, September 26, 2019 — The Governmental Accounting Standards Board (GASB) today proposed new accounting and financial reporting guidance to assist state and local governments in the transition away from existing interbank offered rates (IBORs) to other reference rates.

Some governments have entered into agreements in which variable payments made or received depend on an IBOR, most notably the London Interbank Offered Rate (LIBOR). As a result of global reference rate reform, LIBOR is expected to cease to exist in its current form in 2021. That is prompting governments to amend or replace financial instruments tied to LIBOR.

The provisions of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, require that governments terminate hedge accounting if they change a critical term of a hedging derivative instrument, such as the reference rate of its variable payment. In addition, replacement of the rate on which variable payments depend in a lease contract would require, under Statement No. 87, *Leases*, that a government apply the provisions for lease modifications, including remeasurement of the lease liability or lease receivable.

The objective of the [Exposure Draft, Replacement of Interbank Offered Rates](#), is to address the accounting and financial reporting implications that result from IBOR replacement. The proposed Statement would:

- Allow governments to continue using hedge accounting for certain hedging derivative instruments that are amended or replaced to change the reference rate from an IBOR
- Clarify the hedge accounting termination provisions when an IBOR is replaced as the reference rate of a hedged item
- Clarify that the uncertainty associated with reference rate reform does not, by itself, affect the probability that an expected transaction will occur
- Remove LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap
- Add the Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates
- Clarify the definition of reference rate, and
- Provide an exception to the lease modifications guidance in Statement 87 for certain IBOR-related lease contract amendments.

Removal of LIBOR as an appropriate benchmark interest rate as proposed would be effective for reporting periods beginning after December 15, 2020. All other requirements of this proposed Statement would be effective for reporting periods beginning after June 15, 2020. Earlier application would be encouraged.

The Exposure Draft is available on the GASB website, www.gasb.org. The GASB invites stakeholders

to review the proposal and provide comments by November 27, 2019.

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