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GASB Issues Guidance for Transition from Interbank Offered Rates.

Norwalk, CT, April 2, 2020—The Governmental Accounting Standards Board (GASB) today issued new accounting and financial reporting guidance in Statement No. 93, *Replacement of Interbank Offered Rates*, 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 from either derivative counterparties or parties associated with lease agreements 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 at the end of 2021, prompting governments to amend or replace financial instruments tied to LIBOR.

Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, previously required a government to terminate hedge accounting when it changes the reference rate of a hedging derivative instrument's variable payment. In addition, Statement No. 87, *Leases*, previously required a government that replaced the rate on which variable payments depend in a lease contract to apply the provisions for lease modifications, including remeasurement of the lease liability or lease receivable.

The objective of Statement 93 is to address those and other accounting and financial reporting implications of the replacement of an IBOR by:

- Providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment
- Clarifying the hedge accounting termination provisions when a hedged item is amended to replace the reference rate
- Clarifying that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable
- Removing LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap
- Identifying the Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap
- Providing an exception to the lease modifications guidance in Statement 87 for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend.

The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of Statement 93 are effective for reporting periods beginning after June 15, 2020. Earlier application is encouraged.