

To the Point

FASB – final guidance

FASB defers sunset date of reference rate reform relief

The amendments defer the sunset date of ASC 848 by two years to 31 December 2024.

What you need to know

- ▶ The FASB issued final guidance that defers the sunset date for applying the reference rate reform relief in ASC 848 to 31 December 2024 from 31 December 2022.
- ▶ The FASB decided not to amend the Master Glossary to redefine the SOFR Swap Rate to include all SOFR-based swap rates, such as term SOFR, as benchmark interest rates eligible to be hedged.
- ▶ The guidance is effective upon issuance.

Overview

The Financial Accounting Standards Board (FASB or Board) issued **final guidance**¹ that defers the sunset date for applying the reference rate reform relief in Accounting Standards Codification (ASC) 848² to 31 December 2024 from 31 December 2022.

The guidance addresses stakeholder concerns that without the deferral the relief may not cover the period when a significant number of modifications could take place, given the decision by the United Kingdom's Financial Conduct Authority and the administrator of the London Interbank Offered Rate (LIBOR) to publish the overnight, one-, three-, six- and 12-month USD LIBOR settings through 30 June 2023 rather than 31 December 2021.

The FASB had also proposed amending the Master Glossary to redefine the Secured Overnight Financing Rate (SOFR) Swap Rate so that it would no longer be limited to the SOFR Overnight Index Swap (OIS) rate. That would have allowed all SOFR-based swap rates, including term SOFR, to be considered benchmark interest rates eligible to be hedged.

However, the Board decided against changing the definition, noting that the US marketplace continues to be in a state of transition with respect to reference rates. In the Background Information and Basis for Conclusions of the Accounting Standards Update, the Board also said it would be preferable to develop a principle for identifying benchmark interest rates that could be applied broadly, instead of having to maintain a list of specified benchmark interest rates eligible to be hedged. While the Board had a project on its technical agenda to develop such a principle, it was recently removed, given the ongoing market transition.

Based on the Board's decisions, the SOFR OIS rate will continue to be the only SOFR-based swap rate eligible to be designated as the hedged risk in a fair value hedge of a recognized fixed-rate financial instrument or in a cash flow hedge of a forecasted issuance or purchase of a fixed-rate financial instrument.

Key considerations

The new guidance defers the sunset date of the transition relief in ASC 848 to 31 December 2024 from 31 December 2022.

The FASB issued the optional guidance in ASC 848 in 2020 to ease the financial reporting burdens related to the transition away from LIBOR and other interbank offered rates to alternative reference rates, such as SOFR. The relief in ASC 848 is temporary and generally only intended to be applied by entities during the transition period.

How we see it

We believe the deferral of the sunset date will provide entities with sufficient time to navigate the transition away from all USD LIBOR settings.

Transition and effective date

The guidance is effective immediately upon issuance.

Endnotes:

- ¹ Accounting Standards Update 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848*.
- ² ASC 848, *Reference Rate Reform*.

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