



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

November 19, 2019

Via email to drbean@gasb.org

RE: Invitation to Comment: Exposure Draft relating to the Governmental Accounting Standard Board Proposed Statement on Replacement of Interbank Offered Rates

Dear David:

The National Federation of Municipal Analysts (NFMA) is pleased to respond to the request for comments on the Exposure Draft relating to the Governmental Accounting Standards Board (GASB) Proposed Statement on Replacement of Interbank Offered Rates (IBOR).

The NFMA is a not-for-profit association with nearly 1,300 members in the United States, comprising a broad range of municipal bond analysts from the buy-side, sell-side, rating agencies and bond insurers. The mission of the NFMA is to enhance the professional development and analytical contributions of municipal market participants through best-in-class educational programs, networking opportunities and targeted advocacy that supports improved disclosure to benefit the industry. The NFMA has published an extensive library of Best Practices in Disclosure and White Papers which are available on our website, www.nfma.org.

The NFMA supports the GASB's efforts to improve the transparency and quality of financial information available to help users of financial statements more accurately evaluate the credit attributes, trends and fiscal health of governmental entities. The comments that follow are made in recognition of the clear alignment of interests that exists between the GASB's mission of good financial disclosure to users, and our professional needs as analysts of municipal credit risk.

The Proposed Statement seeks to address the accounting implications resulting from the termination of London Inter-bank Offered Rate (LIBOR) that would require governments to amend or replace existing financial arrangements to switch to another reference rate or add or alter rate fallback provisions.

The NFMA is generally supportive of the Proposed Statement. GASB's proposed approach, which allows an exception to hedge accounting rules under Statement No. 53, Accounting and Financial



Reporting for Derivative Instruments, for the replacement of an IBOR if certain criteria are met, will better align the economics of a government's actions with the accounting treatment. Applying Statement No. 53, in its current form, could result in the immediate recognition of a loss or gain to investment income based on necessary actions to amend a derivative transaction to maintain the hedging relationship in the absence of LIBOR. This outcome would add complexity in financial statement analysis for users as the impact of the transaction would likely be reversed by municipal analysts to better reflect the financial and credit position of the affected government.

The NFMA also concurs with the proposed modifications to Statement No. 87, Leases, which similarly allows an exception under the lease modification guidance to address the pending discontinuation of LIBOR.

Additionally, we would also like to pass along that a few of the organization's members questioned whether the GASB should consider allowing other rates/indices as appropriate benchmark rates and broadening the exception to account for the potential discontinuation of other rates or indices.

Adjustments in governmental accounting and reporting to align the economic substance and accounting of transactions in circumstances such as the replacement of LIBOR is very important to the NFMA membership. The industry-wide transition away from LIBOR is unique and using current accounting rules could distort financial information and perhaps, lead to sub-optimal decision-making to minimize the accounting impact. The NFMA appreciates the GASB's efforts to facilitate the LIBOR transition in a thoughtful manner.

We thank you for the opportunity to provide our comments on the Proposed Statement on Replacement of Interbank Offered Rates and would be happy to discuss our feedback in follow-up communications.

Sincerely,

/s/

Lisa Washburn
NFMA Representative to GASAC

