https://www.wsj.com/articles/fasb-advances-toward-easing-accounting-burden-for-libor-phaseout-11560967680

CFO JOURNAL

FASB Advances Toward Easing Accounting Burden for Libor Phaseout

U.S. accounting standard-setter is examining how accounting rules need to change to accommodate global reference rate reforms

Financial Accounting Standards Board Chairman Russell Golden. FASB has tentatively decided changes in a a contract's reference rate, such as Libor, would be accounted for as a continuation of that contract, provided it met certain criteria. PHOTO: RALPH ALSWANG FOR THE WALL STREET JOURNAL

By Tatyana Shumsky

June 19, 2019 2:08 pm ET

The Financial Accounting Standards Board on Wednesday took a major step toward removing a potentially costly accounting burden facing companies and organizations affected by global reference rate reforms, including a planned shift away from the London interbank offered rate.

FASB, which sets U.S. accounting standards, tentatively decided that changes in a contract's reference rate, such as Libor, would be accounted for as a continuation of that contract, provided it met certain criteria.

As a result, many companies won't need to go through a complex evaluation process or costly administrative adjustments to change how they account for the shift to a new reference rate, such as the Secured Overnight Financing Rate, which is the benchmark preferred by the Federal Reserve.

Companies currently must assess whether a contract modification such as shifting to a new reference rate will change future cash flows of that contract by 10% or more, and, in that case, account for it as if it were a new contract.

The board's decision would apply to loans, debt, leases and other arrangements. It must still be incorporated in a proposal to amend existing rules, which would undergo a public comment period before being finalized and approved. FASB expects to change the rule in time for the transition away from the Libor at the end of 2021.

Libor underpins an estimated $200 trillion of transactions, including short-term loans, derivatives and other contracts. But after a series of market-rigging scandals, global financial regulators moved to phase out the benchmark as part of wider reforms.

FASB's decision is part of a series of deliberations planned by the board to examine how accounting standards need to change to accommodate the transition away from Libor. The project is expected to culminate in several modifications to U.S. accounting standards.

"Today's decisions will ease, from an accounting standpoint, the transition to a new reference rate for all organizations, thereby reducing accounting cost and complexity," FASB Chairman Russell G. Golden said in a statement.

The FASB last year added SOFR to its list of interest rates permitted for the application of hedge accounting.

As the deadline for Libor's phaseout draws closer, companies have started to share with investors some of the potential fallout from moving to a new interest rate benchmark. These include a potential jump in borrowing costs and challenges around hedging interest and currency rate risk, among others.

And while some companies have sold SOFR-linked debt, the pace of adoption has been slow as companies wait for the market around the new tool to be developed further.

Write to Tatyana Shumsky at tatyana.shumsky@wsj.com