



Audit



Risks



Business

SEC staff issues statement on LIBOR transition

November 11, 2019

The staffs of the SEC's Division of Corporation Finance (CorpFin), Division of Investment Management (IM), Division of Trading and Markets, and Office of the Chief Accountant (OCA) issued a statement to highlight certain risks associated with the expected discontinuation of LIBOR past 2021 and to encourage market participants to proactively manage the transition away from LIBOR.



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The staffs also encouraged market participants to begin identifying contracts that extend past 2021 to determine their exposure to LIBOR and outlined certain questions to help them understand and address the risks resulting from such transition. Further, the staffs noted that market participants should consider whether new contracts should reference an alternative rate to LIBOR or include effective fallback language, if applicable.

The statement further includes division-specific guidance, portions of which are summarized here.

Division of Corporation Finance

CorpFin staff reiterated the importance of keeping investors informed about the registrant's progress toward the identification and mitigation of risks associated with transitioning away from LIBOR, as well as any anticipated impact on the company, if material.

CorpFin staff reminded registrants that the evaluation and mitigation of associated risks could span over time and also encouraged them to consider disclosure requirements where they have identified a material exposure to LIBOR, but do not yet know or cannot yet reasonably estimate the expected impact.

Division of Investment Management

IM staff indicated that the discontinuation of LIBOR may impact the functioning, liquidity and value of investments in instruments, such as floating rate debt that references LIBOR and LIBOR-linked derivatives.

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Further, IM staff stated that funds and advisers should consider whether the impact and other consequences of the discontinuation of LIBOR are risks that warrant disclosure and encouraged affected funds to provide tailored risk disclosures describing the specific impact of the transition on their holdings.

Office of the Chief Accountant

OCA staff stated that transitioning from one benchmark rate to another benchmark rate might impact the accounting and financial reporting for changes to the terms of debt instruments, hedging activities, and income taxes, as well as valuation model inputs.

OCA staff previously expressed views related to the potential impact of transitioning from LIBOR on existing cash flow hedging relationships. Further, OCA staff noted standard-setting activities, including the FASB's recently initiated project to address issues related to the potential transition away from LIBOR, recent FASB guidance establishing the Secured Overnight Financing Rate Overnight Index Swap Rate as a benchmark interest rate for hedge accounting purposes, and an IASB Exposure Draft addressing certain hedge accounting issues in the period leading up to the replacement of an existing interest rate benchmark.

Source:

Grant Thornton, On the Horizon July 18, 2019.

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