

November 13, 2019

Sagar S. Teotia,
SEC Chief Accountant
Office of the Chief Accountant
US Securities and Exchange Commission
Accounting Interpretations via email
OCARequest@sec.gov

cc: Financial Accounting Standards Board

On November 13, 2019, the SEC staff (“the Staff”) communicated that they have considered the ARRC Proposal for Relief on Preferred Shares dated August 21, 2019 (the “letter”) and have concluded that the Staff does not object to the conclusions that certain amendments to preferred shares would be accounted for as a modification, rather than an extinguishment, and that such a modification would not result in the recognition of an exchange of value, based on the specific facts and circumstances described in the letter and clarified in a phone call on October 9, 2019.

Specifically, we understand that the Staff does not object to the view that an entity may apply a qualitative assessment when evaluating whether amendments made to permanent equity-classified preferred stock instruments related to reference rate reform are a modification or extinguishment of the preferred stock instrument. Further, the SEC does not object to the conclusion that amendments to permanent equity-classified preferred stock instruments, with the characteristics identified in the letter, that are accounted for as a modification do not require the recognition of incremental fair value nor presentation through equity as a deemed dividend.


The Staff clarified that its views are applicable only if the following conditions are met:

- The preferred shares must have LIBOR linked dividends
- The amendments must replace the current LIBOR index with a replacement index upon the cessation of LIBOR (in anticipation of the cessation of LIBOR)
- The sole business purpose of the amendments made to the preferred shares is to designate a new variable index to replace LIBOR that is currently being used to determine the preferred share dividend amounts, as opposed to transferring value from one party to another
- No cash is exchanged between issuer and investor

In addition, the Staff clarified that its views are based upon US GAAP that is effective as of the date of this letter and does not reflect proposed, but not yet finalized changes to US GAAP currently being discussed by the FASB (i.e., Topic 848).

We appreciate the SEC’s review and response in this matter.

Sincerely


Jeannine Hyman
Citigroup Inc.
Chair of the ARRC Accounting and Tax Subgroup