

Snapshot

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Reference rate reform: deferral of sunset date

In December 2022, the FASB deferred the sunset date of the temporary guidance in ASC 848, *Reference Rate Reform*, from December 31, 2022 to December 31, 2024. The deferral allows entities that are still transitioning from LIBOR to another interest rate index to apply the relief in ASC 848, which simplifies the accounting for certain contract modifications through the end of 2024. The amendments do not change any other provisions of ASC 848.

Accounting relief

In 2020, the FASB [issued](#) ASU 2020-04, *Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which, for a limited period of time, adds ASC 848 to the Codification providing entities with certain practical expedients and exceptions from applying modification accounting if certain criteria are met. The amendments are designed to reduce operational challenges that entities will face in applying modification accounting to all contracts that will be revised due to reference rate reform.

The guidance in ASC 848 was triggered by the pending discontinuation of certain benchmark reference rates and, in some cases, their replacement by new rates that are more observable or transaction-based and, therefore, less susceptible to manipulation, than certain interest-rate benchmark reference rates commonly used today, including the London Interbank Offered Rate (LIBOR). This process of reference rate reform will require entities to modify certain contracts by removing the discontinued rates and including new rates.

Sunset provision

The guidance in ASC 848 was initially codified with a sunset date of December 31, 2022, since at that time LIBOR was expected to be discontinued by the end of 2021. However, during 2021, a key regulator announced that the intended cessation date of several USD LIBOR tenors would instead be June 30, 2023, prompting the FASB to [issue](#) ASU 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848*, which defers the effective date for ASC 848 to December 31, 2024.

With the updated sunset date, the guidance in ASC 848 will not apply to any contract modifications made after December 31, 2024 or to any hedging relationships entered into or evaluated after December 31, 2024, except for those hedging relationships existing as of December 31, 2024 for which an entity has elected certain optional expedients that are retained through the end of the hedging relationship. The deferred sunset date was effective upon issuance of ASU 2022-06 in December 2022.

Further information

Further discussion of ASC 848 as codified by ASU 2020-08 can be [found](#) in Grant Thornton's New Developments Summary, "Reference rate reform."

Additionally, in January 2021, the FASB [issued](#) ASU 2021-01, *Reference Rate Reform (Topic 848): Scope*, which, among other things, expanded the scope of ASC 848 to include derivative modifications affecting the interest rate used for margining, discounting, or contract price alignment.

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