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PAUL RAINWATER
COMMISSIONER OF ADMINISTRATION

State of Louisiana
Division of Administration
Office of Statewide Reporting and Accounting Policy

June 1, 2012

OSRAP MEMORANDUM 12-25

TO: Department Directors
All State Entities

FROM: Afranie Adomako, CPA
Director

SUBJECT: Implementation of Governmental Accounting Standards Board (GASB) Statement 64, *Application of Hedge Accounting Termination Provisions*, an amendment of GASB Statement No. 53 (Effective FY 2012)

In June 2011, GASB issued Statement 64, *Application of Hedge Accounting Termination Provisions*, which is an amendment to GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The provisions of GASB 53 require a government to cease hedge accounting upon termination of the hedged derivative instrument, which results in immediate recognition of the deferred inflows or outflows of resources as a component of investment income. The objective of GASB Statement 64 is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and when hedge accounting should continue to be applied.

GASB Statement 64 applies to any state or local government entity that replaces a swap counterparty or a swap counterparty's credit support provider due to an act of default or termination and the swap agreements entered into with these counterparties being previously reported as hedging instruments. It amends Paragraph 22(d) of Statement 53 as follows:

The hedging derivative instrument is terminated unless an effective hedging relationship continues. An effective hedging relationship continues when all of the following criteria are met:

- (1) Collectability of swap payments is considered to be probable.
- (2) The swap counterparty of the interest rate swap or commodity swap, or the swap counterparty's credit support provider, is replaced with an assignment or in-substance assignment.

- (3) The government enters into the assignment or in-substance assignment in response to the swap counterparty, or the swap counterparty's credit support provider, either commits or experiences an act of default or a termination event as both are described in the swap agreement.

GASB Statement 64 further amends the glossary in GASB 53 by adding definitions of assignment and in-substance assignment as found in paragraph 22d as follows:

Assignment – An assignment occurs when a swap agreement is amended to replace original swap counterparty, or the swap counterparty's credit support provider, but all the other terms of the swap agreement remain unchanged.

In-substance assignment – In-substance assignment occurs when all of the following criteria are met:

- (1) The original swap counterparty, or the swap counterparty's credit support provider, is replaced.
- (2) The original swap agreement is ended, and the replacement swap agreement is entered into on the same date.
- (3) The terms that affect changes in fair values and cash flows in the original and replacement swap agreements are identical. These terms include, but are not limited to, notional amounts; terms to maturity; variable payment terms; reference rates; time intervals; fixed-rate payments; frequencies of rate resets; payment dates; and options, such as floors and caps.
- (4) Any difference between the original swap agreement's exit price and the replacement swap's entry price is attributable to the original swap agreement's exit price being based on a computation specifically permitted under the original swap agreement. Exit price represents the payment made or received as a result of terminating the original swap. Entry price represents the payment made or received as a result of entering into a replacement swap.

GASB Statement 64 is effective for periods beginning after June 15, 2011. You may contact Ms. Kimberly Dwin at (225) 219-4445 or via email at Kimberly.Dwin@la.gov with any questions regarding GASB Statement 64.

AA:kd