



FRED 72 DRAFT AMENDMANET TO FRS 102 - INTEREST RATE BENCHMARK REFORM

Issued 23 September 2019

ICAEW welcomes the opportunity to comment on the FRED 72 *Draft amendments to FRS 102 - Interest rate benchmark reform* published by the Financial Reporting Council (FRC) in July 2019, a copy of which is available from this [link](#).

ICAEW welcomes the proposed amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*. We believe it is important for the amendments to be put in place on a timely basis to avoid the adverse consequences of hedge accounting being discontinued or prevented as a result only of the uncertainties arising from the interest rate benchmark reform.

This response of 23 September 2019 has been prepared by the ICAEW Financial Reporting Faculty. Recognised internationally as a leading authority on financial reporting, the Faculty, through its Financial Reporting Committee, is responsible for formulating ICAEW policy on financial reporting issues and makes submissions to standard setters and other external bodies on behalf of ICAEW. The Faculty provides an extensive range of services to its members including providing practical assistance with common financial reporting problems.

ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of strong economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports and regulates more than 150,000 chartered accountant members in over 160 countries. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical and ethical standards.

© ICAEW 2019

All rights reserved.

This document may be reproduced without specific permission, in whole or part, free of charge and in any format or medium, subject to the conditions that:

- it is appropriately attributed, replicated accurately and is not used in a misleading context;
- the source of the extract or document is acknowledged and the title and ICAEW reference number are quoted.

Where third-party copyright material has been identified application for permission must be made to the copyright holder.

For more information, please contact: representations@icaew.com

KEY POINTS

SUPPORT FOR THE PROPOSALS

1. ICAEW welcomes the proposed amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, which are necessary in order to avoid the discontinuation of hedge accounting solely due to uncertainties about interest rate benchmark reform before its economic effects are known.

TIMING AND ADDITIONAL ISSUES TO BE ADDRESSED

2. We agree with the proposed timescale for introducing the amendments outlined in the exposure draft. It is important for the amendments to be put in place on a timely basis to avoid the adverse consequences of hedge accounting being discontinued or prevented as a result only of the uncertainties arising from the interest rate benchmark reform.
3. We also note that many other issues that might affect financial reporting when an existing interest rate benchmark is replaced with an alternative rate (replacement issues) are equally pressing. Therefore, while we would not want to see delay in the finalisation of the proposals outlined in the exposure draft, we would also urge the FRC not to delay in its consideration of any additional proposals required to deal with these replacement issues.

ANSWERS TO SPECIFIC QUESTIONS

Question 1

Do you agree with the proposed amendments to FRS 102? If not, why not?

4. We agree with the approach taken by the FRC in developing these proposals and are supportive of the proposed amendments to FRS 102 outlined in FRED 72.
5. We note that the FRC will be monitoring the outcome of the IASB's own proposed amendments addressing interest-rate benchmark reform and that the FRC will update the proposals in FRED 72 accordingly. We support this approach and, while assuming consistency between the IASB and FRC's final amendments, we nevertheless take this opportunity to reiterate several points made in our comment letter to the IASB.
6. First, we believe the wording of the amendments could be improved to refer to all hedge accounting relationships which are affected by interest rate benchmark reform; for example, for hedge accounting relationships designated for multiple risks, including interest rate risk as just one of the risks. Second, we believe that consideration should be given as to whether reference should also be made to assuming that the hedged risk is unchanged as a result of interest rate benchmark reform.

Question 2

In relation to the Consultation stage impact assessment, do you have any comments on the costs and benefits identified? Please provide evidence to support your views.

7. We have no comments at this stage on the consultation stage impact assessment.