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For the attention of: Jenny Carter

October 2020

Dear Ms Carter

FRED 74: Draft amendments to FRS 102 – Interest rate benchmark reform (phase 2)

We welcome the opportunity to comment on FRED 74: Draft amendments to FRS 102 – Interest rate benchmark reform (phase 2). We have set out our detailed responses to the questions raised in the FRED in Appendix 1 to this letter.

We support the FRC's efforts in responding to the accounting challenges posed by interest rate benchmark reform. We encourage the FRC to make further changes to the draft amendments in line with those made by the IASB in their final amendments (Interest Rate Benchmark Reform—Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16). However, in making these further changes we believe it is important that the FRC recognises that existing practice for accounting non-substantial modifications under FRS 102 is different to that under IFRS.

Please contact Colin Martin or Sam Roberts on 0207 311 1896 should you wish to discuss any of our comments further.

Yours sincerely

KPMG LLP

Appendix 1 – Responses to FRC questions

Question 1

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

We are supportive of the FRC's efforts to address the accounting implications of interest rate benchmark reform. However, we note that the IASB has made several important refinements to their proposals included in their final amendments (Interest Rate Benchmark Reform—Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16). We encourage the FRC to include similar refinements in the proposed amendments to FRS 102.

In making these refinements, we believe it is important that the principle conveyed in paragraph 11.20D is not lost. It should remain clear that "if there are changes to the basis for determining the contractual cash flows of a financial asset or liability in addition to changes required by interest rate benchmark reform, an entity shall first apply the practical expedient in paragraph 11.20B to the changes required by interest rate benchmark reform. The entity *shall then apply the applicable requirements of this FRS* to the additional changes." We believe this wording is important as it avoids creating additional requirements for accounting for non-substantial modifications which are not related to interest rate benchmark reform. We note that FRS 102 is silent on accounting for non-substantial modifications and current practice under FRS 102 is normally to account for non-substantial modifications by adjusting the effective interest rate prospectively, rather than recognising a gain or loss in the income statement by discounting the revised cash flows at the original effective interest rate in order to revise the amortised cost.