

Ms Jenny Carter,  
Financial Reporting Council,  
8<sup>th</sup> Floor,  
125 London Wall,  
London,  
EC2Y 5AS,  
United Kingdom.

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[Submitted via email to: [ukfrs@frc.org.uk](mailto:ukfrs@frc.org.uk)]

Dear Jenny,

**Subject: FRED 74 - Draft amendments to FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' - Interest rate benchmark reform (Phase 2) ('FRED 74')**

The Accounting Committee of Chartered Accountants Ireland (AC) welcomes the opportunity to comment on FRED 74 and is pleased to say that it is generally supportive of the changes being proposed. AC agrees with the FRC's approach of basing its proposed amendments in FRED 74 on the IASB's ED/2020/1 *Interest Rate Benchmark Reform – Phase 2: Proposed amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16* ('ED/2020/1'), with certain simplifications and changes to reflect the scope of FRS 102.

AC notes that the IASB, in addressing certain matters raised in comment letters it received on ED/2020/1, has now included a number of changes in its finalised IFRS amendments to clarify the requirements. The FRC notes, in paragraph 9 of the Basis for Conclusions in FRED 74, its intention to consider those finalised IFRS amendments when finalising its own FRS 102 proposals. AC welcomes this, as it will assist in keeping FRS 102 broadly aligned with IFRS when dealing with interest rate benchmark reform (IBOR reform) matters. AC, having itself reviewed the revisions to the original IFRS proposals, is totally supportive of the FRC making similar amendments to FRS 102, subject to any necessary adjustments to recognise differences between the requirements of FRS 102 and IFRS.

Therefore, based on the assumption that the FRC intends to reflect those IFRS clarifications, AC suggests certain areas for the FRC to consider, with more detail on these matters set out in AC's response to Question 1 in Appendix 1:

1. The proposed amendments in FRED 74 to FRS 102.20 *Leases* ('FRS 102.20') do not include any changes to a lessor's accounting for a finance lease where the lease's cash flows are affected by IBOR reform. While the finalised IFRS amendments did not include specific changes to IFRS 16 *Leases* ('IFRS 16') in this area either, AC is of the view that this is because the existing IFRS 16 already included a cross reference to IFRS 9 *Financial Instruments* ('IFRS 9') which it appears will now incorporate the finalised IBOR reform revisions of IFRS 9. AC therefore suggests the FRC considers making an amendment to the Section 20 lessor accounting, to ensure a general consistency of outcomes with that arising under IFRS 16, specific to IBOR reform matters.

2. In the area of hedge accounting, IFRS 9 requires that an entity amends a hedging relationship, including its documentation, when various temporary exceptions from applying specified hedge accounting requirements cease to apply, with such amendments to be made by the end of the reporting period during which a change required by IBOR reform is made to the hedged risk, hedged item or hedging instrument. AC suggests that the FRC consider allowing a degree of flexibility here such that the documentation of those amendments instead be made no later than the date of authorisation of the affected financial statements. This relief would then be similar to that permitted in Section 35 of FRS 102 for first time adopters that had pre-existing hedging relationships when transitioning to FRS 102.
3. Finally, as a broader point than IBOR reform, AC notes that unlike IFRS 9, FRS 102 does not include requirements on the accounting for non-substantial modifications of financial assets or financial liabilities that fall in scope of either FRS 102.11 or FRS 102.20. This is highlighted in FRED 74, when comparing those proposals to the finalised IFRS 9 amendments on requirements where there are additional changes to the basis for determining the contractual cash flows of a financial asset or liability beyond those required by IBOR reform. While both the finalised IFRS 9 amendments and FRED 74 refer to their respective pre-existing requirements in the case of substantial modifications, only the IFRS 9 amendments go on to cross refer to its pre-existing requirements on non-substantial modifications. AC would therefore welcome consideration of including requirements on this matter in FRS 102.

If you would like to discuss this response further, please contact me at [barbara.mccormack@charteredaccountants.ie](mailto:barbara.mccormack@charteredaccountants.ie).

Yours sincerely

**Barbara McCormack**  
**Secretary to the Accounting Committee of Chartered Accountants Ireland**

## **Appendix 1**

### **Question 1**

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

As noted in the cover letter, AC is generally supportive of the changes being proposed and the FRC's plan to consider the finalised IFRS IBOR reform related amendments. However, AC suggests certain areas where it may be appropriate to give further consideration, as set out below.

#### **1.1 FRS 102.20 – No proposed IBOR reform amendments relating to lessor finance lease accounting**

The proposed amendments in FRS 102.20 relate to the accounting for changes in the basis for determining the contractual cash flows as a result of IBOR reform, with these amendments incorporating the same practical expedient as applies to amortised cost accounted financial assets and financial liabilities in FRS 102.11. However, these FRS 102.20 proposals only relate to a lessee's finance lease liability (proposed FRS 102.20.11A and FRS 102.20.11B in FRED 74), with no similar proposals included to address a lessor's net investment in a finance lease.

When looking at the paragraphs that were amended in IFRS 16, on which FRED 74's proposals are based, they also only focus on lessees. However, AC is of the view that this is because the existing IFRS 16 requirements for a lessor's lease modifications already included a cross reference to IFRS 9 (IFRS 16.79 – IFRS 16.80, with IFRS 16.80 (b) including the cross reference). This means that, under IFRS 16, IFRS 9 applies (through this cross reference) where a modification to a finance lease is neither required to be accounted for as a separate lease nor indicates a revision in classification to an operating lease. AC is of the view that this cross reference will then result in finance lessors under IFRS using the new modification requirements within IFRS 9 when dealing with changes in the basis for determining the contractual cash flows as a result of IBOR reform.

On review then of the current lessor finance lease accounting paragraphs in FRS 102.20.17 – FRS 102.20.22, they neither include any specific requirements on modifications, nor any cross reference to FRS 102.11 that might then ensure that a similar position to that arising under IFRS 16 occurs. AC therefore suggests the FRC considers making an amendment to the lessor finance lease accounting in FRS 102.20 to ensure consistency of outcomes with that arising under IFRS 16.

#### **1.2 Temporary amendments to specific hedge accounting requirements – timing for amendment of hedging documentation (proposed paragraphs FRS 102.12.25I to FRS 102.12.25S)**

AC notes that finalised IFRS 9.6.9.4 states that an entity shall amend a hedging relationship (including its documentation), when various temporary exceptions from applying specified hedge accounting requirements cease to apply. It also clarifies that an entity is required to make these amendments by the end of the reporting period during which a change required by IBOR reform is made to the hedged risk, hedged item or hedging instrument.

AC considered whether FRS 102 should now include an equivalent requirement on this matter or whether some leeway might be permitted. AC notes that FRS 102.35 *Transition to this FRS* ('FRS 102.35'), allows a degree of flexibility as regards the timeframe for documenting a hedging relationship that exists when first transitioning to

FRS 102. It notes that, at transition to FRS 102, where there is a pre-existing hedging relationship, the application of hedge accounting is permitted on a retrospective basis, as long as the hedge documentation requirements are met no later than the date of authorisation of those first FRS 102 financial statements. (FRS 102.35.10(t)(i), FRS 102.12.18(d)).

AC considers that affording a similar relief as regards the timeframe for amending hedging documentation arising from IBOR reform might be helpful to preparers.

### **1.3 Consider the inclusion of non-substantial modification requirements within both FRS 102.11 and FRS 102.20**

AC notes that the FRC's proposals include a requirement in paragraph FRS 102.11.20D that says 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 IBOR reform, an entity shall first apply the practical expedient in paragraph FRS 102.11.20B to the changes required by IBOR reform, with the entity then applying the applicable requirements of FRS 102 to any other changes. This paragraph FRS 102.11.20D then says that the de-recognition requirements in FRS 102.11 apply where a substantial modification has arisen.

This approach is aligned to the requirements in new IFRS 9.5.4.9, except that this IFRS paragraph also includes a cross-reference to pre-existing IFRS requirements on what the accounting should be where a non-substantial modification arises (found in IFRS 9.5.4.3 and IFRS 9.B5.4.6 relating to changes in estimated cash flows in contracts). It is however unclear that FRS 102.11.20 (which is similar to IFRS 9.5.4.3 and B5.4.6) applies where there is a non-substantial modification of contractual terms.

Therefore, AC suggests that the FRC considers the inclusion of similar requirements on non-substantial modifications for those using Section 11 and 12 for recognition and measurement. This might be achieved by indicating that FRS 102.11.20 applies in the case of such non-substantial modifications, thereby taking a similar approach to that in IFRS.

As regards a finance lease asset of a lessor or a finance lease liability of a lessee, these fall in scope of the requirements in FRS 102.11 when determining if derecognition is required and also the consequential accounting. (FRS 102.11.7(c)). However, similar to instruments directly in scope FRS 102.11, the accounting for non-substantial modifications is unclear and might also then be a matter for consideration by the FRC at this time.

**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.**

AC's view is that the proposals will be beneficial in allowing entities (i) to avoid the need for a derecognition assessment of financial assets and financial liabilities that are modified due to IBOR reform and (ii) to avoid discontinuation of hedge accounting when changes to hedge documentation arise from changes in benchmark rates. The proposals will assist in ensuring that there is a consistency of approach applied by entities in dealing with these IBOR changes. AC is also of the view that, while it has not undertaken any detailed analysis, it seems likely that the reliefs proposed will assist in reducing the financial reporting costs when accounting for changes to financial instruments and leases arising as a result of IBOR reform.