Accounting Task Force of the Working Group
on Sterling Risk Free Reference Rates

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Financial Reporting Council
8th Floor
125 London Wall
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30 September 2020

Dear Madam

FRED 74 Draft amendments to FRS 102 Interest rate benchmark reform (Phase 2)

We are responding to the FRC's invitation to comment on FRED 74 Interest rate benchmark reform (Phase 2) on behalf of the Accounting Task Force of the Working Group on Sterling Risk Free Reference Rates[1]**.**

We welcome the FRC's prioritisation of this important issue and are very supportive of your efforts to assist entities with providing useful information to users of financial statements and to support preparers in applying FRS 102 when changes are made to contractual cash flows or hedging relationships, as a result of the transition to alternative benchmark rates.

We note that our comments on the FRC's proposals are consistent with the feedback we provided to 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 1*****6 upon which the proposals in FRED 74 are based. We understand that the FRC intends to review any changes made by the IASB to its own proposals when finalising the amendments to FRS 102. We agree with that approach and therefore recommend that the FRC conform the wording in the draft amendment to FRS 102, to the relevant updated main paragraphs as published in the final IASB amendment. We consider that this alignment of the accounting frameworks will be beneficial to preparers in avoiding the need to consider and conclude on the impact (if any) of differences to the equivalent IFRS text.**
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Our detailed responses to the questions in FRED 74 are included in Appendix I to this letter.

If you have any questions in relation to this letter please do not hesitate to contact Frances Hinden (+ 44 7894838020), or Jessica Taurae (+ 44 7740166459) co-chairs of the accounting task force.
Yours faithfully,

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[1] Please note the views expressed in these responses are that of the Task Force on behalf of the Working Group on Sterling Risk-Free Reference Rates and are not necessarily endorsed by the Bank of England (including the PRA) or the FCA nor the firms they represent.

Appendix I

Questions for respondents

Question 1 **Do you agree with the proposed amendments to FRS 102? If not, why not?**

We generally agree with the proposed amendments to FRS 102 to address accounting issues arising from the effects of interest rate benchmark reform on an entity's financial statements. As noted in the cover letter we think it is important that FRC conform the wording in FRED 74 to the relevant updated main paragraphs as published in the IASB's amendments in August 2020. However, we have an additional comment regarding the proposal for updating hedging documentation as discussed below.

The draft amendments currently do not provide a specified time frame by when updates to hedge documentation should be made, whereas the final IFRS amendments require that updates to hedge documentation be made by the end of the reporting period in which the relevant change is made to the hedged risk, hedged item or hedging instrument. We consider there is a risk of FRS 102 preparers overlooking the need to make hedge documentation changes within such a time frame. Therefore, consistent with the approach taken to documenting hedges when FRS 102 was first adopted, we recommend that, if a time frame is specified, updates should be made by the date the financial statements are authorised for issue, rather than the end of the reporting period in order to give preparers suitable 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.**

We agree that the proposed amendments will minimise the financial reporting costs of accounting for changes to financial instruments and leases arising as a result of interest rate benchmark reform.