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

20 September 2019

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

Dear Ms Carter

Subject: *FRED 72 – Draft amendments to FRS 102 – Interest rate benchmark reform*

The Accounting Committee of Chartered Accountants Ireland (AC) welcomes the opportunity to comment on the FRC's Exposure Draft (FRED) on interest rate benchmark reform (IBOR reform). AC appreciates the timely manner in which the FRC is planning to deal with the potential hedge accounting issues that may arise due to the uncertainties caused by the impact of IBOR reform.

As the current hedge accounting requirements of FRS 102 are based on IFRS 9, AC is supportive of the FRC's plans to monitor the progress of the IASB's equivalent exposure draft (ED), ED/2019/1, thereby ensuring that the finalised IASB amendments are taken into account when completing the FRS 102 amendments. AC notes that the IASB in its latest meeting (August 2019) indicated a number of areas where it plans to make changes to its original ED proposals. While some of these are not relevant for the FRS 102 amendments (for example, reliefs from IAS 39's 80-125% retrospective hedging test as well as other reliefs specific to macro hedging), certain others appear to be relevant and of interest, as outlined in our response to Question 1.

AC's specific responses to the questions asked are set out in the attached Appendix 1.

AC also attaches, for your information, its response to the IASB on ED/2019/1, relating to both the proposed IAS 39 and IFRS 9 amendments. (Appendix 2).

Separately, IASB has now started its work on Phase 2 of its IBOR reform project, which focusses on financial reporting issues arising following the implementation of IBOR reform. This project is likely to consider matters including, for example, the accounting implications of changes in the contractual terms of financial instruments driven by IBOR reform (loan modifications), as well the possible impact on accounting more broadly where discounting arises using market interest rates. AC would welcome FRC's development of a similar initiative to thereby ensure FRS 102 is amended/clarified to mitigate, where appropriate, the impacts of IBOR reform on financial reporting.

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If you would like to discuss this response further, please contact me at + 353 1 637 7236 or at barbara.mccormack@charteredaccountants.ie.

Yours sincerely

Barbara McCormack
Secretary to the Accounting Committee of Chartered Accountants Ireland

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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 supports the proposal to provide temporary reliefs to specific hedge accounting requirements arising in Section 12 of FRS 102. Set out below are certain matters for your consideration prior to finalising the proposals.

(i) Cross currency hedges

The IASB now plans to clarify that its proposed amendments (to both IAS 39 and IFRS 9) apply to *all* hedges that include interest rate benchmark-based cash flows for the hedged item and/or hedging instrument, for example, including cross currency interest rate hedges that are directly affected by uncertainties arising from the reform.

AC thinks that this clarification would also need to be reflected in FRS 102 as the current wording in the FRED's paragraphs 12.25B – 12.25G (on the temporary amendments to specific hedge accounting requirements), suggest the reliefs will only be available to interest rate hedging instruments/hedged risks.

(ii) Disclosures

AC notes that while the IASB now plans to scale back the extensive level of disclosures it had originally proposed in its ED, its planned disclosures specifically include (i) a description of the significant interest rate benchmarks to which the entity's hedging relationships are exposed and (ii) the nominal amount of the hedging instruments and the extent of risk exposure the entity manages that is impacted by IBOR reform. AC is of the view that information on these two matters would also be helpful to the users of FRS 102 financial statements to allow them to better understand the exposures and uncertainties an entity faces. It is not clear based on the wording in FRED 72's paragraph 12.30 on disclosures (even with its cross reference to paragraphs 8.6 and 8.7 on judgements and estimates), that the information in (i) and (ii) above would necessarily form part of the disclosures.

Also, AC is of the view that including examples may be helpful to understanding the implications of the temporary reliefs and would be of practical assistance and potentially reduce any costs of application.

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.

While AC does not have specific information on the costs and benefits arising, it would appear that given the proposals are providing temporary relief from various requirements of FRS 102, there is unlikely to be significant costs involved for preparers. While there is a small amount of new disclosure needed, it would appear likely to be information that is fairly readily available to entities. As for benefits, the certainty around the ability to continue hedge accounting will be helpful to both preparers and users. Also keeping FRS 102, in principle, aligned to IFRS 9's requirements in this area is helpful.

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Appendix 2

Mr Hans Hoogervorst
IASB Chairman
IFRS Foundation
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

7 June 2019

[Submitted via email to: commentletters@ifrs.org]

Dear Mr Hoogervorst

Subject: *IASB Exposure Draft ED/2019/1: Interest Rate Benchmark Reform – Proposed amendments to IFRS 9 and IAS 39*

The Accounting Committee of Chartered Accountants Ireland (AC) welcomes the opportunity to comment on the IASB's Exposure Draft (ED) relating to Interest Rate Benchmark Reform (IBOR reform) matters. AC appreciates the timely manner in which the Board is seeking to deal with the potential hedge accounting issues that may arise due to the uncertainties caused by the commercial changes arising from the IBOR Reform initiative.

AC's specific responses to the questions asked are set out in the attached Appendix 1.

AC would also welcome the timely publication of proposals relating to the expected phase two of the Board's project arising from IBOR reform matters. This is because it would appear very likely that various financial instrument contracts will be modified prior to the full implementation of the reform initiatives. Therefore, the publication of further details on the next phase would be very helpful, to ensure there is a good understanding of both the potential accounting implications, as well as the Board's IFRS amendments being proposed to assist in mitigating the impacts of IBOR reform on financial reporting. For example, AC sees a need to develop guidance in/amendments to IFRS to deal with matters such as loan modification accounting when assessing whether revisions to contractual terms caused by IBOR reform are substantive and result in derecognition.

If you would like to discuss this response further, please contact me at + 353 1 637 7236 or at barbara.mccormack@charteredaccountants.ie.

Yours sincerely

[redacted]

Barbara McCormack
Secretary to the Accounting Committee of Chartered Accountants Ireland

Appendix 1

Question 1 [paragraphs 6.8.4–6.8.6 of IFRS 9 and paragraphs 102D–102F of IAS 39]

Highly probable requirement and prospective assessments

For hedges of interest rate risk that are affected by interest rate benchmark reform, the Board proposes amendments to IFRS 9 and IAS 39 as described below.

(a) For the reasons set out in paragraphs BC8–BC15, the Board proposes exceptions for determining whether a forecast transaction is highly probable or whether it is no longer expected to occur. Specifically, the Exposure Draft proposes that an entity would apply those requirements assuming that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of interest rate benchmark reform.

(b) For the reasons set out in paragraphs BC16–BC23, the Board proposes exceptions to the hedge accounting requirements in IFRS 9 and IAS 39 so that an entity would assume that the interest rate benchmark on which the hedged cash flows are based, and/or the interest rate benchmark on which the cash flows of the hedging instrument are based, are not altered as a result of interest rate benchmark reform when the entity determines whether:

- **(i) there is an economic relationship between the hedged item and the hedging instrument applying IFRS 9; or**
- **(ii) the hedge is expected to be highly effective in achieving offsetting applying IAS 39.**

Do you agree with these proposals? Why or why not? If you agree with only parts of the proposals, please specify what you agree and disagree with. If you disagree with the proposals, please explain what you propose instead and why.

AC agrees that in circumstances where IBOR reform uncertainties are considered to cause the discontinuance of hedge accounting, it would not result in particularly useful information for the primary users of financial statements. AC therefore agrees with the Board's initiatives aimed at providing some greater clarity and certainty to thereby ensure that hedge accounting can continue without interruption.

At this time, AC is of the view that there is still a basis within the current accounting standards (IAS 39, IFRS 9) to support the case that cash flows based on current benchmark rates remain highly probable. The basis for this lies in the fact that as long as effectiveness can be measured appropriately, the standards allow a portion of the cash flows of a financial asset or financial liability to be designated as the hedged item (IAS 39.81, IFRS 9.6.3.7 and related IFRS 9.B6.3.10(d)). There is then an argument that says the existing interest rate benchmarks are a risk component of the general current pricing by market participants in the marketplace. As it appears that financial instruments are still priced based on those existing benchmark rates, the uncertainties regarding the future removal of those rates are not currently impacting the ability to meet the forward-looking requirements in the current accounting standards. At present, then, the rationale for being able to continue with hedge accounting is based on this view of the current marketplace and, therefore, alleviates the concern and focus on the fact that the cash flows associated with the existing interest rate benchmarks will not actually exist for the full term of certain hedge relationships. In addition, while there may be some unavoidable differences in timing of amendment of hedging instruments and hedged items to reflect the appropriate new benchmark rate, both will in due course change which also lends support to the continuance of hedge accounting.

However, as we move closer to the occurrence of the IBOR reform, issues may emerge and therefore it is useful to have some greater clarity that hedge accounting may in fact continue through that period of uncertainty.

AC also notes that the ED focuses mainly on cash flow hedges, but also appears applicable to fair value hedges. AC would welcome the applicability to fair value hedges being clarified.

Separately, AC notes that throughout the ED there is no reference to the hedging of foreign currency risks, which may also be affected by IBOR reform, e.g. certain cross currency interest rate swap arrangements used in net investment hedging and elsewhere. It would be helpful if the Board was able to clarify if these also fall in scope of the ED's requirements and, if not, the rationale for that position.

Finally, AC notes that no relief is proposed where, due to IBOR reform, a hedge relationship fails IAS 39's 80% - 125% retrospective effectiveness test. Failure may occur where, for example, an interest rate hedging derivative moves to a new benchmark rate before the related hedged item does, thereby causing ineffectiveness on a temporary basis. AC would welcome the Board's consideration of this to see if an additional relief could be given in this situation.

Question 2 [paragraph 6.8.7 of IFRS 9 and paragraph 102G of IAS 39]

Designating a component of an item as the hedged item

For the reasons set out in paragraphs BC24–BC27, the Board proposes amendments to the hedge accounting requirements in IFRS 9 and IAS 39 for hedges of the benchmark component of interest rate risk that is not contractually specified and that is affected by interest rate benchmark reform. Specifically, for such hedges, the Exposure Draft proposes that an entity applies the requirement—that the designated risk component or designated portion is separately identifiable—only at the inception of the hedging relationship.

Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you propose instead and why.

AC agrees with the Board's proposal on this matter as it avoids the practical difficulties in achieving hedge accounting caused solely by the IBOR reform initiatives. AC's comments on ensuring currency hedging arrangements are considered also appear relevant here.

Question 3 [paragraphs 6.8.8–6.8.10 of IFRS 9 and paragraphs 102H–102J of IAS 39]

Mandatory application and end of application

(a) For the reasons set out in paragraphs BC28–BC31, the Board proposes that the exceptions are mandatory. As a result, entities would be required to apply the proposed exceptions to all hedging relationships that are affected by interest rate benchmark reform.

(b) For the reasons set out in paragraphs BC32–BC42, the Board proposes that the exceptions would apply for a limited period. Specifically, an entity would prospectively cease applying the proposed amendments at the earlier of:

- **(i) when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows; and**
- **(ii) when the hedging relationship is discontinued, or if paragraph 6.8.9 of IFRS 9 or paragraph 102I of IAS 39 applies, when the entire amount accumulated in the cash flow hedge reserve with respect to that hedging relationship is reclassified to profit or loss.**

(c) For the reasons set out in paragraph BC43, the Board is not proposing an end of application in relation to the separate identification requirement.

Do you agree with these proposals? Why or why not? If you agree with only parts of the proposals, please specify what you agree and disagree with. If you disagree with the proposals, please explain what you propose instead and why.

AC is supportive of the Board's proposals on these matters. In particular, AC agrees with the rationale for imposing the mandatory application of this amendment (in (a) above), to thereby avoid potential arbitrary discontinuance of hedge accounting and reclassifications from other comprehensive income caused by IBOR reform uncertainties.

Also, AC is of the view that the various scenarios guidance in BC35 to BC39 is helpful to understanding the implications of contract amendments in anticipation of IBOR reform. In AC's view, it would be helpful if each of the various scenarios confirmed that they are intended to cover amendments to either or both the hedged item or the hedging instrument. Also, the inclusion of these scenarios within the illustrative examples that will accompany the amendments to IFRS 9/IAS 39 would be of practical assistance.

Question 4 [paragraph 6.8.11 of IFRS 9 and paragraph 102K of IAS 39]

Disclosures

For the reasons set out in paragraph BC44, the Board proposes that entities provide specific disclosures about the extent to which their hedging relationships are affected by the proposed amendments.

Do you agree with these proposed disclosures? Why or why not? If not, what disclosures would you propose instead and why?

AC agrees with the specific disclosures identified as providing helpful information to users.

However, AC also suggests that given the potential significance of IBOR reform, it would be helpful if the Board were to indicate in the amendments that additional disclosures are likely to arise relating to IBOR reform when providing information on an entity's risk management strategy and its management of its risks (IFRS 7.21A, IFRS 7.22A to IFRS 7.22C). We note that precedent for this arose on the issuance of IFRIC 23 *Uncertainty over Income Tax Treatments*. The Interpretation itself did not set any new disclosure requirements but did point out that consideration should be given to the possible need to make disclosures on uncertainties and estimates arising from IAS 1.122 and IAS 1.125 to IAS 1.129, noting particular matters that might be relevant. It would be helpful if the amendments were to do something similar in relation the IFRS 7 risk management related disclosures, including some examples. Such disclosures will then assist in providing some clearer context for the additional proposed disclosures being required in IFRS 9.6.8.11 and IAS 39.102K.

Question 5 [paragraphs 7.1.9 and 7.2.26(d) of IFRS 9 and paragraph 108G of IAS 39]

Effective date and transition

For the reasons set out in paragraphs BC45–BC47, the Board proposes that the amendments would have an effective date of annual periods beginning on or after 1 January 2020. Earlier application would be permitted. The Board proposes that the amendments would be applied retrospectively. No specific transition provisions are proposed.

Do you agree with these proposals? Why or why not? If you disagree with the proposals, please explain what you propose instead and why.

AC is supportive of the Board's plan to finalise the amendments as soon as possible and to have mandatory application from 1 January 2020, with early application permitted.

AC appreciates that in light of the timeline needed to complete the finalisation of any amendments, it is unlikely to be feasible to mandate an earlier application date than 1 January 2020. Also, for countries within the EU, endorsement will be required prior to entities being in a position to apply the amendments. Similar to AC's response to Question 4, it would appear helpful if the amendments were to include some commentary on the application of existing disclosure requirements and how they might apply in relation to IBOR reform, including matters such as IAS 8.30 on forthcoming standards applicable in 2019 financial statements if the amendments are not early adopted, and IFRS 7.23F's disclosures relating to any cessation of hedge accounting as it arises.