Think Ahead ACCA

Interest rate benchmark reform: proposed amendments to IFRS 9 and IAS 39

Exposure draft issued for comment by the IASB

Comments from ACCA
20 June 2019

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants, offering business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

ACCA supports its 208,000 members and 503,000 students in 179 countries, helping them to develop successful careers in accounting and business, with the skills required by employers. ACCA works through a network of 104 offices and centres and more than 7,300 Approved Employers worldwide, who provide high standards of employee learning and development. Through its public interest remit, ACCA promotes appropriate regulation of accounting and conducts relevant research to ensure accountancy continues to grow in reputation and influence. More information is here: www.accaglobal.com

Further information about ACCA's comments on the matters discussed here can be requested from:

Yen-pei Chen	Richard Martin
Manager, Corporate Reporting and Tax	Head of Corporate Reporting
yen-pei.chen@accaglobal.com	richard.martin@accaglobal.com
+ 44 (0) 207 059 5580	+44 (0)20 70595748

ACCA

+44 (0)20 7059 5000

info@accaglobal.com

www.accaglobal.com

The Adelphi 1/11 John Adam Street London WC2N 6AU United Kingdom

GENERAL COMMENTS

ACCA welcomes the opportunity to provide views in response to the IASB's proposed amendments to IFRS 9 and IAS 39. This has been done with the assistance of members of ACCA's Global Forum for Corporate Reporting. If further information is needed, please get back to us.

We welcome the IASB's swift response to provide relief for the hedge accounting challenges posed by the uncertainty that arises before the transition to alternative interest rates. We recommend that the IASB consider providing exceptions for the retrospective assessment requirement under IAS 39, and allowing entities to apply the proposed reliefs to hedging relationships which have already been discontinued purely as a result of the uncertainty arising from IBOR reform.

We would encourage the IASB to address the accounting issues that arise after the replacement of the current interest rate benchmark as soon as possible.

AREAS FOR SPECIFIC COMMENT

Question 1 - 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.

ACCA welcomes the relief proposed from uncertainties arising from IBOR reform. We agree with the exceptions for determining whether a forecast transaction is highly probable. We also agree with the exceptions for prospective assessments required by IFRS 9 and IAS 39.

However, we disagree with the IASB's decision not to provide an exception for the effects of interest rate benchmark reform on 'retrospective assessments' required by IAS 39. The lack of such an exception could cause hedge relationships to be discontinued for cash flow hedges, despite there being an expectation that the changes to the future cash flows on the hedged item as a result of the IBOR reform will be offset by corresponding changes on the hedging instrument.

Where the contractual terms on the hedging instrument have been updated to reflect the alternative interest rate, and the contractual terms of the hedged item have not been amended but are expected to be, the hedging relationship would be correctly deemed to be effective under the exceptions proposed under IFRS 9, but would not be deemed to be effective under IAS 39 due to the retrospective assessment. This would give rise to discrepancies in accounting outcomes if not addressed.

Question 2 - 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.

We agree that the assessment of whether the hedged risk component is separately identifiable should be done only at the inception of the hedging relationship. It is important that the IBOR reform should not cause hedge accounting to be discontinued solely due to a non-contractually specified IBOR component.

Question 3 - 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.

ACCA agrees that the exceptions should be mandatory for all hedging relationships to which they are applicable.

We also agree that the proposed exceptions should be temporary, and cease to apply once the uncertainty regarding the timing and amount of cash flows arising from IBOR reform has lifted.

The amendments to IFRS 9 and IAS 39 propose an end of application to the exceptions 'when the uncertainty arising from interest rate benchmark reform is no longer present.' Given that transition paths can vary greatly, the non-existence of uncertainty could pose a very high threshold to the end of application. Where cash flows from one hedged item is hedged with multiple hedging instruments, for example a bond hedged with several different swaps, the contracts for which may be amended in different periods, some uncertainty is likely to persist for a long time. The IASB may wish to consider lowering the threshold to the end of application, for example to the point in time when the timing and amount of the interest rate benchmark-based cash flows have become highly likely.

Question 4 – 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?

Although the costs of disclosure would not be onerous, we are not convinced that the separate disclosure of information relating to hedging relationships to which the reliefs apply would provide useful information. Instead, more targeted disclosure about the impact of replacement benchmark rates on the effectiveness of specific affected hedging relationships could be more helpful.

Question 5 – 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.

We agree with the proposed effective date with early application permitted. In some jurisdictions, an earlier effective date than 1 January 2020 could be beneficial. We also agree that the amendments should apply retrospectively, with no designation in hindsight.

However, we believe that retrospective application should allow for discontinued hedging relationships to be reinstated, where they have been discontinued purely because the proposed exceptions in the Exposure Draft are not yet available. There may be a risk that permitting reinstatement could give rise to structuring opportunities. However, these could be countered by requiring additional disclosure about hedging relationships which have been discontinued and reinstated as a result of the IBOR reform.