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27 May 2020

International Accounting Standards Board
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Sirs,

RESPONSE TO EXPOSURE DRAFT – INTEREST RATE BENCHMARK REFORM PHASE 2 – PROPOSED AMENDMENTS TO IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 ("ED")

ISCA sought views from its members on the above ED through a three-week public consultation and from the ISCA Financial Reporting Committee which includes experienced technical accounting professionals from large accounting firms, preparers and other stakeholders.

We agree with the Board's plan to propose amendments to the above Standards. In addition, we agree that the proposed practical expedient to allow entities, for modifications of financial assets / liabilities as a result of the interest rate benchmark reform, to update the effective interest rate to reflect the change in an interest rate benchmark from an existing interest rate benchmark to an alternative benchmark rate would provide useful information to primary users of financial statements.

Notwithstanding this, we would like to share the following concerns regarding the proposed amendments:

(i) Provide further guidance on what is meant by "direct consequence of the reform" and "economically equivalent"

We are supportive of the general principles that the practical expedient should be limited to those modifications of financial assets or financial liabilities which are of "direct consequence of the reform" and the new basis for determining the contractual cash flows should be "economically equivalent" to the previous basis. We also note that the proposed paragraph 6.9.4 of IFRS 9 provide examples of modifications which are required by the interest rate benchmark reform and paragraph BC29 of the ED gives an example of modification which would be "economically equivalent".

While we understand it may not be feasible to provide examples for demonstrating these principles for all types of modifications, we suggest that the Board provide a few examples to illustrate the principles of the types of modifications would meet the “direct consequence of the reform” and “economically equivalent” criteria and which would not meet them.

For instance, in order to determine whether the “economically equivalent” criteria is met, would the assessment be based on a fair value or discounted cash flow basis?

In addition, if the Board’s intention is to encourage preparers to assess the “economically equivalent” principle qualitatively, the Board could consider inserting wordings in the amended IFRS 9 to suggest that in most cases, a qualitative assessment would suffice to assess whether the contractual cash flows before and after the modification are “economically equivalent.”

(ii) Remove certain wordings from paragraph 6.9.3 of IFRS 9

Paragraph 6.9.3(b) currently states “the new basis for determining the contractual cash flows is economically equivalent to the previous basis.”

We propose that the Board remove the words in strikethrough as it is self-explanatory that the previous basis refers to the basis before the modification. In addition, entities would typically require time to re-negotiate the basis for determining cash flows and the new basis may only be known a while after the modification. As such, it may not be feasible for entities to know the new basis immediately.

(iii) Clarify whether other changes to hedging item and hedging instrument would result in discontinuation of hedge accounting

We note that the ED proposes that entities amend hedge accounting requirements for the instrument referencing the alternative benchmark rate so that changes to hedge designations and hedge documentation required by the reform would not result in discontinuation of hedge accounting.

During re-negotiation of the hedging instrument and/or hedged item to reference it to an alternative benchmark rate, other elements such as the credit risk of the hedging instrument could be changed as well. We propose that the Board provide clarity on the impact of such changes on hedge accounting, and whether such changes would result in discontinuation of hedge accounting.

(iv) Change phrasing in paragraph 6.9.7 of IFRS 9 and paragraph 102O of IAS 39

Paragraph 6.9.7 of IFRS 9 and paragraph 102O of IAS 39 start off with "As and when uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedge risk and/or timing and the amount of interest rate benchmark-based cash flows of the ledged item or of the hedging instrument…".

We feel that the wordings "as and when" suggest that the entity has to amend the formal designation of the hedging relationship immediately when there is no longer any uncertainty. Amending the formal designation of hedging relationships immediately may be operationally difficult if the entity has a large volume of hedging relationships.

We suggest that the Board amend "as and when" and provide a bit of leeway to allow entities flexibility to amend the designation of their hedging relationships within the financial period.

(v) Provide clarity on what is meant by "separately identifiable" risk component

"Separately identifiable" is currently not defined in the ED and IASB could consider providing guidance on how to determine or what indicators to use to assess if an alternative benchmark rate is deemed as a "separately identifiable" risk component.

Would "separately identifiable" have a similar meaning to "reliably measurable"? For instance, if derivatives whose value is based on new alternative benchmark rates are used for hedge accounting, can it be assumed that the benchmark that the derivative references is separately identifiable since the derivative itself is required to be measured at fair value and hence is reliably measurable?

(vi) Provide a longer period for entities to consider whether the alternative benchmark rate will be separately identifiable

Paragraph 6.9.16 of IFRS 9 proposes that an alternative benchmark rate designated as a non-contractually specified risk component that is not separately identifiable at the date it is designated is deemed as being separately identifiable only when the entity reasonably expects the alternative benchmark rate will be separately identifiable within a period of 24 months from the date the alternative benchmark rate is designated as a risk component.

The Board should consider allowing entities to have a period longer than 24 months, as given the COVID-19 pandemic, it would seem punitive to limit the ability of entities to designate effective hedge relationships when sufficiency of market depth or volume are likely to be outside the entity's control.

(vii) Require disclosures around impact of changing hedge accounting relationships

The current proposed disclosure requirements do not include the financial impact when the hedge accounting relationships have changed as a result of the reform. The Board could consider requiring entities to include such disclosures in their financial statements, such as the financial effects on the change in hedge accounting relationships.

(viii) Not require entities to disclose comparative quantitative information for the requirements in paragraph 24J(b) of IFRS 7

Paragraph 24J(b) of IFRS 7 proposes that entities disclose the carrying amount of non-derivative financial assets and non-derivative financial liabilities and the nominal amount of derivatives that continue to reference interest rate benchmarks subject to interest rate benchmark reform.

We suggest that the Board provide an exemption from providing comparative quantitative information for paragraph 24J(b) in the first year of entities' adoption of the amendments. The most relevant information would likely be current year amounts and such comparative information may not be of much value-add to users of financial statements.

(ix) To provide an exemption from restatement for financial instruments and hedging relationships that had expired/termination in comparative period

As well as providing a choice to restate (if possible without the use of hindsight), as a practical expedient, the Board could consider providing an exemption from restatement for financial instruments and hedging relationships that had already expired or terminated in the comparative period.

Should you require any further clarification, please feel free to contact myself, Mr Marcus Chan, Assistant Manager, TECHNICAL: Financial & Corporate Reporting, from ISCA via email at jumay.lim@isca.org.sg or marcus.chan@isca.org.sg.

Yours faithfully,

Ms Ju May, LIM
Deputy Director
TECHNICAL: Financial & Corporate Reporting;
Ethics & Specialised Industries;
Audit & Assurance