

24 June 2019

International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Dear Sirs,

**RESPONSE TO EXPOSURE DRAFT – INTEREST RATE BENCHMARK REFORM  
(PROPOSED AMENDMENTS TO IFRS 9 AND IAS 39) (“ED”)**

ISCA sought views from its members on the above ED through a two-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 appreciate and support the Board’s decision of adding a project to its agenda to consider the financial reporting implications of the interest rate benchmark reform (“IBOR Reform project”). We also welcome the Board’s proposals to provide relief from meeting specific forward-looking hedge accounting requirements due to the IBOR Reform project so as to allow for the continuation of hedge accounting under IFRS 9 and IAS 39.

We broadly support and agree with the Board’s proposals in the ED except for the following concerns:

- (i) Need for expedition of the Board’s work relating to phase 2

We note that the Board has divided the IBOR Reform project into two phases – phase 1 focuses on issues affecting financial reporting leading up to the IBOR Reform (pre-replacement issues); and phase 2 focuses on issues affecting financial reporting when the IBOR Reform is enacted (post-replacement issues). The amendments proposed in this ED address the pre-replacement issues (i.e. phase 1) and provide relief from certain hedge accounting requirements in IFRS 9 and IAS 39.

We also understand that the Board has not yet considered whether and, if so, how to address any issues that might affect financial reporting when an existing interest rate benchmark is replaced, ie replacement issues (phase 2). This is because the specific conditions and details of the replacement of existing interest rate benchmarks have not been finalised. The Board has, therefore, decided to monitor developments in this area. As more information becomes available, the Board will assess the potential financial reporting implications of the replacement and determine whether it should take any action and, if so, what.

We noted that the Financial Stability Board has recently issued a user guide<sup>1</sup> to overnight risk-free rates (RFRs) which provides details on how RFRs are calculated to clarify how overnight RFRs can be used in cash products and to encourage adoption of these rates where they are appropriate. As this user guide provides an overview of several alternative nearly risk-free reference rates which could potentially be replacements of IBOR, we are of the view that the Board could commence the assessment of potential financial reporting implications using these potential replacements and determine how these implications could be addressed.

This approach would be preferable to waiting till the completion of phase 1 as it provides direction and guidance to the accountancy profession, who could then ready themselves when the replacement benchmark is finalised.

(ii) Principle on when to cease the application of reliefs is unclear

According to paragraphs 6.8.8 to 6.8.10 which are proposed to be added to IFRS 9 and paragraphs 102H to 102J which are proposed to be added to IAS 39, the proposed reliefs would no longer be available when the uncertainty arising from IBOR Reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows.

We are of the view that the principle on when to cease the application of reliefs is unclear and this may present challenges during adoption in practice. However, we do note that the Board has attempted to clarify the principle through the illustration of various scenarios in paragraphs BC35 to BC39. Instead of having this clarification in the Basis for Conclusions, it would be more helpful if these scenarios are included in the Application Guidance which accompanies the IFRS 9 and IAS 39.

(iii) Lack of clarity on what entities should do in the event of a failure of retrospective assessment due to a mismatch between the hedged item and the hedging instrument

According to paragraph AG105 of IAS 39, a hedge is regarded as highly effective only if both the requirements relating to prospective and retrospective assessments are met. If an entity fails either of these assessments, paragraphs 91(b) and 101(b) of IAS 39 require the entity to discontinue hedge accounting.

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<sup>1</sup> <https://www.fsb.org/2019/06/overnight-risk-free-rates-a-users-guide/>

We note that the Board has not proposed any reliefs for retrospective assessments under IAS 39 and the Board has explained its rationale for this decision in paragraph BC23. However, as IBOR Reform is likely to take place over an extended period of time, the hedged item and the hedging instrument may transition to the new benchmark at different times. This may give rise to a mismatch between the hedged item and the hedging instrument and in turn, cause the hedging relationship to fail the retrospective assessment under IAS 39.

Based on the current proposals in the ED, there is a lack of clarity as to what entities should do under such situations. We urge the Board to consider whether this would be addressed in phase 2 or whether additional reliefs should be provided in phase 1.

(iv) Limited circumstances for retrospective application of proposed amendments

We note that the Board has proposed for the amendments to be applied retrospectively. The Board also clarified in BC46 that retrospective application of the amendments would not allow reinstating of hedge accounting that has already been discontinued nor would it allow designation of a hedging relationship in hindsight.

It would be clearer if the above Board's clarifications relating to the retrospective application are included as part of the amendments to IFRS 9 and IAS 39 or Application Guidance which accompanies the IFRS 9 and IAS 39.

We also wish to highlight that the clarification in BC46 that reinstatement of hedge accounting that has been discontinued appears to contradict the retrospective application of the requirements. For instance, Entity A have discontinued a hedging relationship solely due to the impact of the IBOR Reform project. Entity A would not have discontinued hedge accounting had the reliefs proposed in this ED been available. If the reliefs were to be applied retrospectively, the discontinued hedging relationship would have been treated as being continuing (if not for the clarification in BC46 against reinstatement of hedge accounting that has been discontinued).

(v) Potential risk of having to terminate hedging relationship due to inability to complete hedge documentation in a timely manner

As formal designation and documentation must be in place at the inception of the hedge relationship, it is unlikely that the hedge documentation would have envisaged the situation of IBOR Reform. Therefore, existing hedge documentation would need to be updated in accordance with the requirements of IFRS 9 and IAS 39. We are concerned that entities may run the risk of having to terminate the hedging relationship if they are not be able to complete updating their hedge documentation in a timely manner. Hence, we would like to suggest for the Board to consider providing relief in respect of the updating of hedge documentation.

Should you require any further clarification, please feel free to contact myself or Ms Felicia Tay, Manager, TECHNICAL: Financial & Corporate Reporting, from ISCA via email at [jumay.lim@isca.org.sg](mailto:jumay.lim@isca.org.sg) or [felicia.tay@isca.org.sg](mailto:felicia.tay@isca.org.sg).

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'J May', with a stylized flourish at the end.

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