

CPA Australia Ltd
ABN 64 008 392 452
Level 20, 28 Freshwater Place
Southbank VIC 3006 Australia
GPO Box 2820 Melbourne
VIC 3001 Australia
T 1300 737 373
Outside Aust +613 9606 9677
cpaaustralia.com.au

25 May 2020

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

By online submission: www.ifrs.org

Dear Hans

Exposure Draft and comment letters: Interest Rate Benchmark Reform—Phase 2: Proposed amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

CPA Australia represents the diverse interests of more than 166,000 members working in over 100 countries and regions around the world. We make this submission on behalf of our members and in the broader public interest.

CPA Australia supports the IASB's proposed amendments that have been developed to assist entities account for transactions that include Interbank Offer Rates (IBOR) as a variable when transitioning from IBOR to alternative benchmark rates.

In the attachment to this letter, we have provided responses to specific questions raised in the Exposure Draft. If you require further information on the views expressed in this submission, please contact Ram Subramanian, Policy Adviser – Reporting, on +61 3 9606 9755 or at ram.subramanian@cpaaustralia.com.au.

Your sincerely



Dr. Gary Pflugrath
Executive General Manager, Policy and Advocacy

Attachment

Specific questions/ comments

Question 1 – Modifications of financial assets and financial liabilities (paragraphs 6.9.1–6.9.6 of the [Draft] amendments to IFRS 9, paragraphs 20R–20S and 50–51 of the [Draft] amendments to IFRS 4 and paragraphs 104–106 and C1A–C1B of the [Draft] amendments to IFRS 16)

We are supportive of the provision of a practical expedient that allows entities to apply paragraph B.5.4.5 of IFRS 9 *Financial Instruments* to account for modifications related to IBOR reform. We are of the view that the practical expedient has the potential to provide more useful information to users of financial statements and is also expected to significantly reduce the operational burden on preparers.

As the definition of the term modification is well established under IFRS 9, we recommend avoiding any inadvertent broader redefinition of the term as a result of the narrow-scope amendments that may arise from the proposals in this ED. We appreciate the intention here may have been to provide clarification of the term “modifications” in situations arising from changes to the bases for calculating reference rates and other variables. If this is the case, we suggest that the IASB consider a separate project to clarify the term “modifications”, that is subject to wider consultation at a later stage.

Although paragraph 6.9.2 indicates that a “modification can arise even if the contractual terms of the financial instrument are not amended”, the terminology in paragraph 6.9.3 and 6.9.5 could lead to a conclusion that the practical expedient is only applicable if there is a contractual change resulting from IBOR reform. There may be circumstances where a modification or activation in contracts to affect the new benchmarks may not always be required by law, regulations or existing contractual terms. To provide clarification, we recommend clarifying that the practical expedient also applies to instances where there is no contract change resulting from IBOR reform.

We considered whether there are any conflicts arising from the interaction between the proposals in this ED to amend IFRS 16, and the proposals in ED/2020/2 *COVID-19 related rent concessions*. We note that this ED presupposes that any changes to leases arising from IBOR reform will be “lease modifications”, whilst ED/2020/2 provides relief to a lessee from considering whether or not a COVID-19 related rent concession is a lease modification. This indicates that there is no conflict between the proposals in the two EDs and accordingly we support the proposed amendments to IFRS 16.

Question 2 – Amendments to hedging relationships (paragraphs 6.9.7–6.9.10 of the [Draft] amendments to IFRS 9 and paragraphs 102O–102R of the [Draft] amendments to IAS 39)

Question 3 – Accounting for qualifying hedging relationships and groups of items (paragraphs 6.9.11–6.9.15 of the [Draft] amendments to IFRS 9 and paragraphs 102S–102X of the [Draft] amendments to IAS 39)

Question 4 – Designation of risk components and portions (paragraphs 6.9.16–6.9.18 of the [Draft] amendments to IFRS 9 and paragraphs 102Y–102Z1 of the [Draft] amendments to IAS 39)

We agree with the amendments proposed in Questions 2-4.

Question 5 – Effective date and transition (paragraphs 7.1.9 and 7.2.36–7.2.38 of the [Draft] amendments to IFRS 9 and paragraphs 108H–108J of the [Draft] amendments to IAS 39)

We agree with the proposed effective date of annual periods beginning on or after 1 January 2021 and allowing early adoption of the proposed amendments.

Regarding the transition requirements, we suggest allowing for the requirement proposed in **paragraph 7.2.37** to reinstate hedging relationships to be optional. Our suggestion is based on the assumption that entities may choose to, or may be required to, discontinue hedging relationships altogether for a number of reasons unrelated to IBOR reform, and may not wish to reinstate such discontinued hedges.

Question 6 – Disclosures (paragraphs 24I–24J and paragraphs 44HH–44II of [Draft] amendments to IFRS 7)

Generally, we agree with the proposed additional disclosures related to IBOR reform, as we believe that they will provide useful information to users of financial statements.

However, we have identified one proposed disclosure where the cost of preparing and presenting this disclosure is likely to exceed the benefits arising. We believe that the additional disclosure proposed under 24J(b) should not require comparative information. Disaggregating the carrying amount of non-derivative financial assets, the carrying amount of non-derivative financial liabilities and the nominal amount of derivatives by the relevant interest rate benchmark is an onerous task for preparers to perform. We do not believe this level of detail for comparative information will be readily available from existing accounting information systems. In order to extract this data, preparers would be required to undertake costly and time-consuming analysis procedures. From the user perspective, we question the relevance and benefit of such detailed data and argue that the costs may not outweigh the benefits. Therefore, we suggest amending these requirements, to better achieve a balanced cost-benefit equilibrium, by removing the requirement for comparative information.

Additionally, we suggest clarifying the proposed requirement in paragraph 24J(c) by providing a definition of the term “base rate”.