



Australian Government
Australian Accounting Standards Board

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[XX] [May] 2020

Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
Columbus Building
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Canary Wharf
London E14 4HD
UNITED KINGDOM

Dear Hans,

AASB comments on IASB ED/2020/1 Interest Rate Benchmark Reform—Phase 2 (Proposed amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

The Australian Accounting Standards Board (AASB) is pleased to have the opportunity to provide comments on ED/2020/1 *Interest Rate Benchmark Reform—Phase 2* issued on 9 April 2020 (ED/2020/1). In formulating these comments, the views of our Australian constituents were sought and considered.

The AASB acknowledges the efforts of the International Accounting Standards Board (IASB) and broadly supports the direction of ED/2020/1 to address the specific issues that might affect financial reporting during the reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark rate (replacement issues).

The AASB considers that the proposals in ED/2020/1 provide a sufficient solution to address issues in relation to classification and measurement issues and supports the proposed practical expedient to account for changes required by the reform. The AASB welcomes the proposed amendment to clarify what constitutes a “modification of a financial instrument” should apply only to changes made in the context of IBOR reform. The AASB notes that the consideration of whether a change in the basis of which the contractual cash flows are determined that alters what was originally anticipated (other than those in the context of IBOR reform) constitutes a modification of a financial instrument in accordance with IFRS 9 would need to be subject to further assessment that is outside of the scope of this project.

The AASB also supports the proposals in respect of changes to hedge accounting relationships directly related to the reform and agrees that the proposed disclosures will assist users of financial statements in understanding the effects of IBOR reform on an entity.

The AASB’s support is consistent with feedback from a number of Australian constituents that the proposals are expected to help address and minimise many financial reporting issues during the replacement phase.

The AASB also encourages the IASB to proceed without delay in finalising the proposals to enable entities to early adopt the proposals and to limit the impact of IBOR reform on the hedging relationships.

If you have any questions regarding this letter, please do not hesitate to contact Fridrich Housa, Acting Technical Director (fhousa@asb.gov.au).

Commented [FH1]: Note 1 to the Board:

This draft comment letter is based on preliminary limited outreach with members of Financial Instruments Project Advisory Panel prior to the issuance of the ED by IASB and subject to any significant issues raised in submissions to the AASB after the April AASB Board meeting.

Staff will provide summary of the feedback received after April meeting to the Board after the close of comment period.

Commented [TL2]: Note 2 to Board:

Staff also considered impact on Australia specific accounting standards, such as 1023 General Insurance Contracts, 1038 Life Insurance Contracts, AASB 1056 Superannuation Entities.

AASB 1023 (par. 6.1.2) and AASB 1038 (par. 8.8.2) refers to government bond rates as an appropriate starting point to determine discount rate for the purposes of these standards. AASB 1056 (par. AG25(d)) refers to the discount rates to be determined by the reference to the investment returns expected on the relevant portfolios.

Staff therefore believes when the replacement of IBOR with an alternative benchmark rate will not have direct impact on the measurements within the scope of the above referred standards and any indirect impacts on the discount rate or valuation of items in the financial statements (other than those financial instruments specifically in the scope of the IBOR reform project), should continue to be accounted for as a change in an accounting estimate under AASB 108, similar to the current accounting treatment (AASB 108, par. 34) and recognised prospectively in accordance with par. 36 of AASB 108.

Commented [FH3]: Staff recommendation:

Subject to any significant issues raised in submissions to the AASB after the April Board meeting, staff recommend that the Board provides high level feedback to the IASB to expedite their work on the IBOR Reform and its Effects on Financial Reporting - Phase 2 project as Australian constituents:

- generally agree with the proposals; and
- support finalising the amendments addressing “replacement issues” arising from the reform of an interest rate benchmarks as soon as possible.

Question 1 to the Board:

Subject to any significant feedback received after the April Board meeting from constituents (feedback to be shared by staff as per Note 1 to the Board above), does the Board agree with the Comment Letter to be submitted to IASB as currently drafted?

Yours sincerely,

Kris Peach
AASB Chair

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