Australian Government
Australian Accounting Standards Board

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Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
Columbus Building
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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. However, the AASB suggests that the IASB consider the scope and future application of the amendments made to IFRSs as a result of IBOR reform. A future market-wide benchmark reform in a particular jurisdiction would result in all the same issues that the IASB is seeking to address with the amendments in ED/2020/1. For example, in Australia the Bank Bill Swap Rate (BBSW) and the Cash Rate (also known as AONIA) will co-exist. At some point a reform may change this practice and eliminate the use of BBSW, however, there is currently no plan for such a reform. The AASB suggests the IASB consider how to future-proof these amendments. For example, IASB should consider the permanency of these amendments and consider adding appropriate guidance describing circumstances when its use may or may not be appropriate.

The AASB welcomes the proposed amendment to clarify what constitutes a "modification of a financial instrument" should apply only to changes made as a result 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 made as a result 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@aasb.gov.au).

Yours sincerely,

Dr. Keith Kendall
AASB Chair