



EFRAG DRAFT COMMENT LETTER ON DRAFT ED/2020/1 INTEREST RATE BENCHMARK REFORM—PHASE 2

Issued 20 May 2020

ICAEW welcomes the opportunity to comment on the EFRAG Draft Comment Letter to the IASB ED/2020/1 *Interest Rate Benchmark Reform—Phase 2 (proposed amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)* published by EFRAG in April 2020, a copy of which is available from this [link](#).

We are currently in the process of finalising our response to the IASB's Exposure Draft ED/2020/1 *Interest Rate Benchmark Reform- Phase 2 (proposed amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)*. Although we are not yet able to confirm our detailed comments on the IASB's proposals, we do not expect to make substantive changes at this stage. On this basis we are pleased to provide comments on EFRAG's Draft Comment Letter.

This response of 20 May 2020 has been prepared by the ICAEW Financial Reporting Faculty. Recognised internationally as a leading authority on financial reporting, the Faculty, through its Financial Reporting Committee, is responsible for formulating ICAEW policy on financial reporting issues and makes submissions to standard setters and other external bodies on behalf of ICAEW. The Faculty provides an extensive range of services to its members including providing practical assistance with common financial reporting problems.

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KEY POINTS

1. In our draft response to the IASB, we support the objectives of phase 2 of the interest rate benchmark reform project ie, to assist entities with providing useful information to users of financial statements and to support preparers in applying IFRS Standards when changes are made to contractual cash flows or hedging relationships as a result of the transition to alternative benchmark rates. IAS 39 and IFRS 9 were not drafted with these changes in mind and amendments are required to the standards so that the objectives (as noted above) can continue to be achieved. We agree with the IASB that it remains important to finalise and issue the amendments on a timely basis.
2. We highlight in our draft response how the IASB decided to limit their interpretation of what constitutes a ‘modification’ of a financial asset or liability to the circumstances of the interest rate benchmark reform. We believe that it is unnecessary to make such an interpretation in order to achieve the objective of the amendments. A simpler way of getting to the same conclusion would be by applying the practical exemption to all financial assets and financial liabilities that are modified, or have changes in the basis for determining their contractual cash flows, as a result of benchmark reform, so that paragraph 6.9.2 is not necessary. Nevertheless, in our draft response we support the IASB in getting these amendments completed on a timely basis. We believe that any decision to revisit the definition of a modification should be part of a separate project.

ANSWERS TO SPECIFIC QUESTIONS

Question 1

Do you have concerns about the level of details required in paragraph 24J(b) of IFRS 7? Can this disclosures be prepared without undue costs and efforts, considering the timeline of these Amendments?

3. In our draft response to the IASB we broadly support the proposed disclosure requirements outlined in the exposure draft. However, we recommend that comparative information should not be required for the disclosures in 24J(b) on initial adoption of the amendments. In our view, such comparative information is of less value in the context the ongoing benchmark reform and its collection for prior periods would be onerous, particularly where early adoption is desired.