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Mr Hans Hoogervorst, Chairman
International Accounting Standards Board (IASB)
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Mr. Hoogervorst,

On behalf of the Austrian Financial Reporting and Auditing Committee (AFRAC), the privately organised standard-setting body for financial reporting and auditing standards in Austria, we appreciate the opportunity to comment on IFRS Standards Exposure Draft ***Interest Rate Benchmark Reform***, issued by the International Accounting Standards Board (IASB) in May 2019 (the 'ED').

Principal authors of this comment letter were Peter Bitzyk, Michael Hammer, Peter Häfliger, Philip Kudrna, Roland Nessmann and Caroline Pranzl. In order to assure a balanced Austrian view on the ED, the professional background of these authors is diverse.

Our detailed comments and responses to the questions raised in the ED are set out in the Appendix.

If you would like to discuss our comments further, please do not hesitate to contact us.

Kind regards,

Romuald Bertl

EXPOSURE DRAFT INTEREST RATE BENCHMARK (IBOR) REFORM

GENERAL REMARKS

AFRAC welcomes and supports the initiative of IASB to address reforming interest rate benchmarks such as IBORs (subsequently: IBORS) which have been the cornerstone of financial markets for over 40 years.

The impact of the reform will be tremendous and we expect numerous second- and third-order effects due to this complex transition not just from an accounting point of view. However, the impact on accounting will definitely be significant.

Given that authorities consider this transition to be self-regulated by market participants each individual currency area and benchmark reform initiative will establish or has already established, repectively, different approaches and benchmarks.

Some of the benchmarks will be replaced and for some benchmarks the methodology will further develop.

We highly appreciate if the IASB provided information already at early stages of each individual transition phase in order to avoid unintended disruptions due to accounting consequences not yet anticipated by the various transition initiatives, such as Alternative Reference Rates (ARR) resulting in financial instruments which are not compliant to SPPI.

Therefore, we consider the ED as a first step of the IASB to address the imminent implications on Hedge Accounting and would appreciate if the IASB addresses the great number of accounting aspects of IBOR reforms as soon as possible. EFRAG already compiled a list of issues that should be addressed in its drafted ED comment letter.

With regard to this ED we are of the view that it is basically appropriate for the issues raised with the only exception that the ED frequently refers to the term “uncertainty” without an appropriate guidance how this may be understood within the context.

This is crucial because for some IBORs the replacing rates were already determined (€STR, SONIA, SOFR,…) and trading volumes exist.

In the following sections, we want to provide answers to the specific questions posted in the EDP. We only posted an answer, if we saw a relevant issue:

Question 1 [paragraphs 6.8.4–6.8.6 of IFRS 9 and paragraphs 102D–102F of IAS 39]

Highly probable requirement and prospective assessments

For hedges of interest rate risk that are affected by interest rate benchmark reform, the Board proposes amendments to IFRS 9 and IAS 39 as described below.

(a) For the reasons set out in paragraphs BC8–BC15, the Board proposes exceptions for determining whether a forecast transaction is highly probable or whether it is no longer expected to occur. Specifically, the Exposure Draft proposes that an entity would apply those requirements assuming that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of interest rate benchmark reform.

(b) For the reasons set out in paragraphs BC16–BC23, the Board proposes exceptions to the hedge accounting requirements in IFRS 9 and IAS 39 so that an entity would assume that the interest rate benchmark on which the hedged cash flows are based, and/or the interest rate benchmark on which the cash flows of the hedging instrument are based, are not altered as a result of interest rate benchmark reform when the entity determines whether:

(i) there is an economic relationship between the hedged item and the hedging instrument applying IFRS 9; or

(ii) the hedge is expected to be highly effective in achieving offsetting applying IAS 39.

Do you agree with these proposals? Why or why not? If you agree with only parts of the proposals, please specify what you agree and disagree with. If you disagree with the proposals, please explain what you propose instead and why.

AFRAC´s response:

AFRAC agrees that there shall be a relief for the uncertainties related to the benchmark reform for the highly probable requirement and the prospective assessment test.

The uncertainty concerns the timing AND the amount of cash flows arising from a change in an interest rate benchmark.

The ED clarifies that the uncertainty might end when the contracts are amended for the new IBORs but also cites examples when this is not the case as described in BC35-39. Therefore, the ED seems to be rather unclear as to when the relief is no

longer applicable. In a situation where it is evident which new ARR will replace the "old" ones, management - nevertheless -will have to follow the mandatory relief until the contracts are effectively amended in accordance with the relief.

Question 2 [paragraph 6.8.7 of IFRS 9 and paragraph 102G of IAS 39]

Designating a component of an item as the hedged item

For the reasons set out in paragraphs BC24–BC27, the Board proposes amendments to the hedge accounting requirements in IFRS 9 and IAS 39 for hedges of the benchmark component of interest rate risk that is not contractually specified and that is affected by interest rate benchmark reform. Specifically, for such hedges, the Exposure Draft proposes that an entity applies the requirement—that the designated risk component or designated portion is separately identifiable—only at the inception of the hedging relationship.

Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you propose instead and why.

AFRAC´s response:

AFRAC agrees that the benchmark risk component should only be separately identifiable at inception of the hedging relationship. However, the effects remain unclear in cases when it becomes obvious that the hedged risk component is going to be replaced by a new ARR.

Question 3 [paragraphs 6.8.8–6.8.10 of IFRS 9 and paragraphs 102H–102J of IAS 39]

Mandatory application and end of application

(a) For the reasons set out in paragraphs BC28–BC31, the Board proposes that the exceptions are mandatory. As a result, entities would be required to apply the proposed exceptions to all hedging relationships that are affected by interest rate benchmark reform.

(b) For the reasons set out in paragraphs BC32–BC42, the Board proposes that the exceptions would apply for a limited period. Specifically, an entity would prospectively cease applying the proposed amendments at the earlier of:

(i) when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows; and

(ii) when the hedging relationship is discontinued, or if paragraph 6.8.9 of IFRS 9 or paragraph 102I of IAS 39 applies, when the entire amount accumulated in the cash flow hedge reserve with respect to that hedging relationship is reclassified to profit or loss.

(c) For the reasons set out in paragraph BC43, the Board is not proposing an end of application in relation to the separate identification requirement.

Do you agree with these proposals? Why or why not? If you agree with only parts of the proposals, please specify what you agree and disagree with. If you disagree with the proposals, please explain what you propose instead and why?

AFRAC´s response:

AFRAC agrees that the application of the relief should be mandatory. Voluntary application could give rise to a selective application of the relief. Discontinuation or reclassification of hedge relationships with amounts reclassified from/into other comprehensive income might lead to significant distortions.

As mentioned above, the end of the mandatory application might be unclear, because the uncertainty criterion is not precise.

Question 4 [paragraph 6.8.11 of IFRS 9 and paragraph 102K of IAS 39]

Disclosures

For the reasons set out in paragraph BC44, the Board proposes that entities provide specific disclosures about the extent to which their hedging relationships are affected by the proposed amendments.

Do you agree with these proposed disclosures? Why or why not? If not, what disclosures would you propose instead and why?

AFRAC´s response:

AFRAC agrees that specific disclosures about the application of the relief are helping users of financial statements to identify the impact of the relief on the hedging relations.

Question 5 [paragraphs 7.1.9 and 7.2.26(d) of IFRS 9 and paragraph 108G of IAS 39]

Effective date and transition

For the reasons set out in paragraphs BC45–BC47, the Board proposes that the amendments would have an effective date of annual periods beginning on or after 1 January 2020. Earlier application would be permitted. The Board proposes that the amendments would be applied retrospectively. No specific transition provisions are proposed.

Do you agree with these proposals? Why or why not? If you disagree with the proposals, please explain what you propose instead and why.

AFRAC´s response:

AFRAC agrees that the application of the relief should be effective as soon as possible. Otherwise the negative consequences of the uncertainty regarding the IBOR transitions might force major disruptions in financial statements. We also agree that earlier application might be permitted and that amendments would be applied retrospectively.

But we see that preparers might discontinue hedge relations in 2019, if the relief is not applied earlier and the application of the relief retrospectively in 2020 results in a restatement of the same discontinued hedge relations.