



7 May 2019

To: Members of the Hong Kong Institute of CPAs
All other interested parties

**INVITATION TO COMMENT ON IASB EXPOSURE DRAFT
ED/2019/1 Interest Rate Benchmark Reform
Proposed amendments to IFRS 9 and IAS 39**

Comments to be received by 3 June 2019

The Financial Reporting Standards Committee (FRSC) of the Hong Kong Institute of Certified Public Accountants (Institute) is seeking comments on IASB ED/2019/1. The Exposure Draft is available on the Institute's website:

<http://www.hkicpa.org.hk/en/standards-and-regulations/standards/financial-reporting/exposure-drafts/>

Interest rate benchmarks, such as interbank offer rates, play a key role in global financial markets. In response to cases of attempted manipulation of interest rate benchmarks and to the decline in liquidity in key interbank unsecured funding markets, the Financial Stability Board undertook a fundamental review of major interest rate benchmarks and set out its recommendations to reform some interest rate benchmarks. Since then, there has been a clear steer towards replacing existing interest rate benchmarks with alternative, nearly risk-free rates that are based, to a greater extent, on transaction data in many jurisdictions.

IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement* require entities to use forward-looking information to apply hedge accounting. While interest rate benchmark reform is ongoing, uncertainty exists about when the current interest rate benchmarks will be replaced and with what interest rate. This uncertainty could result in a company having to discontinue hedge accounting solely because of the reform's effect on its ability to make forward-looking assessments. This, in turn, could result in reduced usefulness of the information in the financial statements for investors.

In light of this, the International Accounting Standards Board (IASB) proposes to amend IFRS 9 and IAS 39 to provide relief from specific hedge accounting requirements that could have resulted in the discontinuation of hedge accounting solely due to the uncertainty arising from interest rate benchmark reform. The proposals will affect entities that apply the hedge accounting requirements of IFRS 9 or IAS 39 to hedges of interest rate risk affected by the reform, and those who use their financial statements.

The IASB is considering the accounting implications arising from the reform in two stages. The ED relates to the effects of uncertainty in the period leading up to the replacement of interest rate benchmarks. As more information becomes available about the replacement, the IASB will assess the potential accounting implications of the reform and determine whether to take further action.

The FRSC invites your comments on the proposal as set out in the ED by **3 June 2019** to allow your comments to be considered in developing its response to the IASB. Comments should be supported by specific reasoning and should be submitted in written form.

Comments may be sent by mail, fax or e-mail to:

Standard Setting Department
Hong Kong Institute of Certified Public Accountants
37th Floor, Wu Chung House
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Comments will be acknowledged and may be made available for public review unless otherwise requested by the respondent.