ANNEX

HKAB's Comments on IASB 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

No	IASB Question	HKAB Comments / Feedback
1.	**Modifications of financial assets and financial liabilities (paragraphs 6.9.1–6.9.6 of the [Draft] amendments to IFRS 9, paragraphs 20R–20S and 50–51 of the [Draft] amendments to IFRS 4 and paragraphs 104–106 and C1A–C1B of the [Draft] amendments to IFRS 16)** Paragraphs 6.9.2–6.9.6 of the draft amendments to IFRS 9 propose that: (a) a financial asset or financial liability would be modified if the basis for determining the contractual cash flows is changed after the initial recognition of the financial instrument. In this context, a modification can arise even if the contractual terms of the financial instrument are not amended. (b) an entity would apply paragraph B5.4.5 of IFRS 9 as a practical expedient to account for a modification of a financial asset or financial liability that is required by interest rate benchmark reform. (c) a modification is required by interest rate benchmark reform if and only if (i) it is required as a direct consequence of interest rate benchmark reform; and (ii) the new basis for determining the contractual cash flows is economically equivalent to the previous basis (ie the basis immediately preceding the modification). (d) an entity would also apply the practical expedient proposed in paragraph 6.9.3 if an existing contractual term is activated that results in a change in the basis for determining the contractual cash flows of a financial asset or a financial liability, and particular other conditions are met.	We agree with the proposal since it provides useful information to financial statement users, avoids unnecessary modification of financial instruments or introduction of new definition under IFRS 9, and reduce the operational burden on financial statement preparers.

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	Paragraphs BC10–BC36 of the Basis for Conclusions describe the Board's reasons for these proposals. (e) The Exposure Draft proposes to make corresponding amendments to IFRS 4 that would require insurers applying the temporary exemption from IFRS 9 to apply the same practical expedient as described above. (f) The Exposure Draft proposes amendments to IFRS 16 that would require entities to apply paragraph 42 of IFRS 16 to account for a lease modification that is required by interest rate benchmark reform. Paragraphs BC39–BC41 and paragraphs BC118–BC125 of the Basis for Conclusions describe the Board's reasons for these proposals. 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 and why.	
2.	**Amendments to hedging relationships (paragraphs 6.9.7–6.9.10 of the [Draft] amendments to IFRS 9 and paragraphs 102O–102R of the [Draft] amendments to IAS 39)** Paragraphs 6.9.7–6.9.10 of the draft amendments to IFRS 9 and paragraphs 102O–102R of the draft amendment to IAS 39 propose that an entity would amend the formal designation of the hedging relationship only to make one or more of the changes specified in paragraph 6.9.7 and paragraph 102O as and when uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk and/or the timing and the amount of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument.	We agree with the proposal as it enables entities to continue hedge relationships with modifying hedged items and hedging instruments as a direct consequence of the IBOR reform. This is in line with the economic substance of the transactions. Regarding paragraph 6.9.7 of IFRS 9 and paragraph 102O of IAS 39, in cases where there is a structural market change as a result of the IBOR reform (i.e. overnight floating rate IBOR cash products are replaced with overnight fixed rate cash products), we seek clarification whether such structural market change is permitted. If so, we suggest the IASB to specify such permitted change in the respective paragraphs of IFRS 9 and IAS 39. In respect of the amendments to IAS 39, one of the tentative decision made by the IASB during the meeting held on 11-12 December 2019 previously was not included in the ED, which being the requirement on an entity changing the

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	Paragraphs BC42–BC50 of the Basis for Conclusions describe the Board's reasons for these proposals. 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 and why.	hedged risk in the hedge documentation for a portfolio hedge of interest rate risk to assume all items included in the portfolio of financial assets or financial liabilities share the risk being hedged. Accordingly, we suggest this requirement to be added in the final amendments to IAS 39.
3.	**Accounting for qualifying hedging relationships and groups of items (paragraphs 6.9.11–6.9.15 of the [Draft] amendments to IFRS 9 and paragraphs 102S–102X of the [Draft] amendments to IAS 39)** Paragraphs 6.9.11–6.9.15 of the draft amendments to IFRS 9 and paragraphs 102S–102X of the draft amendments to IAS 39 propose that: (a) the requirements in IFRS 9 and IAS 39 would be applied when the designation of a hedging relationship is amended to remeasure the hedging instrument and the hedged item based on the alternative benchmark rate and recognise any resulting ineffectiveness in profit or loss. (b) the amount accumulated in the cash flow hedge reserve at the date the entity amends the description of the hedged item would be deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined. (c) when there is a change in the basis for determining the contractual cash flows of a financial asset or a financial liability previously designated as a hedged item in a hedging relationship that has been discontinued, the amount accumulated in the cash flow hedge reserve for the discontinued hedging relationship would be deemed to be based on the alternative benchmark rate on which the hedged future cash flows will be based. (d) when applying paragraph 6.9.7 or paragraph 102O to groups of items designated as hedged items, the hedged items would be allocated to sub-	We agree with the proposal as this reflects the underlying economic substance of the transaction properly. We suggest the IASB to provide illustrative examples to elaborate the application for each type of hedging relationship upon the transition to alternative benchmark rate. Also, in cases where the hedge has been regarded as highly effective (i.e. actual results of the hedge are within the range of 80-125 per cent) during Phase 1 of the Interest Rate Benchmark Reform, resetting cumulative effectiveness when assessing retrospective effectiveness in Phase 2 is considered not necessary. Therefore, we suggest the IASB to consider permitting instead of requiring entities to reset cumulative effectiveness when assessing retrospective effectiveness as required by IAS 39.

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	groups within the same hedging relationship based on the benchmark rate to which they are referenced and that the proportionality test would be applied to each sub-group separately. (e) for the purpose of assessing retrospective effectiveness as required by IAS 39, the cumulative fair value changes of the hedged item and hedging instrument would be reset to zero when paragraph 102G of IAS 39 ceases to apply. Paragraphs BC51–BC79 of the Basis for Conclusions describe the Board's reasons for these proposals. 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 and why.	
4.	**Designation of risk components and portions (paragraphs 6.9.16–6.9.18 of the [Draft] amendments to IFRS 9 and paragraphs 102Y–102Z1 of the [Draft] amendments to IAS 39)** Paragraphs 6.9.16–6.9.18 of the draft amendments to IFRS 9 and paragraphs 102Y–102Z1 of the draft amendments to IAS 39 propose that: (a) an alternative benchmark rate designated as a non-contractually specified risk component that is not separately identifiable at the date it is designated, would be deemed to have met that requirement at that date, if and only if, the entity reasonably expects the alternative benchmark rate will be separately identifiable within a period of 24 months from the date the alternative benchmark rate is designated as a risk component. (b) if subsequently, an entity reasonably expects that the alternative benchmark rate will not be separately identifiable within 24 months from the date it was designated as a risk component, an entity would cease	We agree with the proposal as it is a practical expedient for hedge accounting application in the context of early stage of the IBOR reform where the market for alternative benchmark rate might not be sufficiently developed. Nonetheless, we suggest the IASB to consider below suggestions: (i) Provide further guidance on the factors or situations which the entities could consider when justifying that they "reasonably expect" the alternative benchmark rate will or will not be separately identifiable; and (ii) Provide clarification on BC87 and BC88 whether an available term structure of zero coupon interest rates is required for a benchmark to be considered separately identifiable. With reference to Paragraph B6.3.14 of IFRS 9, the ability to build a term structure of zero-coupon real interest rates is only relevant to inflation-linked bonds in determining whether inflation risk component is separately identifiable and reliably measurable.

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	applying the requirement in paragraph 6.9.16 and paragraph 102Y and discontinue hedge accounting prospectively from the date of that reassessment. Paragraphs BC87–BC97 of the Basis for Conclusions describe the Board's reasons for these proposals. 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 and why.	The proposed wording in BC 87 and BC 88 may impact the existing application of the standard.
5.	**Effective date and transition (paragraphs 7.1.9 and 7.2.36–7.2.38 of the [Draft] amendments to IFRS 9 and paragraphs 108H–108J of the [Draft] amendments to IAS 39)** (a) The Exposure Draft proposes that the amendments would have an effective date of annual periods beginning on or after 1 January 2021. Earlier application would be permitted. (b) The Exposure Draft proposes that the amendments would be applied retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, except as specified in (ii) below. An entity would: (i) reinstate a discontinued hedging relationship if and only if the entity discontinued that hedging relationship solely due to changes required by interest rate benchmark reform and, therefore, the entity would not have been required to discontinue that hedging relationship if the amendments had been applied at that time.	We agree with the proposal as it is reasonable in view of the urgency of the IBOR reform implementation and in line with the LIBOR transition's effective date. Nonetheless, we suggest the IASB to consider below suggestions: (i) Entities should be "permitted" but not "required" to reinstate the discontinued hedging relationships that have failed solely due to the impact of IBOR reform. An entity may designate the hedging instrument in the discontinued hedging relationship in a new hedging relationship and re-instating the original hedging relationship may cause the new hedging relationship to fail; and (ii) Provide further guidance on how the entities could demonstrate "without the use of hindsight" in order to avoid confusion on the application of reinstatement. We also seek clarification whether the "without use of hindsight" requirement is also applicable when restating the opening position on the first application date.

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	(ii) not be required to restate prior periods to reflect the application of these amendments. However, the entity may restate prior periods if, and only if, it is possible without the use of hindsight. Paragraphs BC110–BC115 of the Basis for Conclusions describe the Board's reasons for these proposals. 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 and why.	
6.	**Disclosures (paragraphs 24I–24J and paragraphs 44HH–44II of [Draft] amendments to IFRS 7)** The Exposure Draft proposes that entities provide specific disclosures in order to provide information about: (a) the nature and extent of risks arising from interest rate benchmark reform to which the entity is exposed, and how it manages those risks; and (b) the entity's progress in completing the transition from interest rate benchmarks to alternative benchmark rates, and how the entity is managing that transition. Paragraphs BC105–BC109 of the Basis for Conclusions describe the Board's reasons for this proposal. Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you propose and why.	We agree with the proposal as the required disclosures provide a better understanding for the reader of the financial statement on the related risk, the entity's action and the transition progress. Nonetheless, we suggest the IASB to consider below suggestions: (i) Provide illustrative examples of the proposed disclosures, especially on the changes to an entity's risk management strategy as required under paragraph 24J(d) where the current requirement is not specific to a point that enables entities to provide adequate information to comply with it; and (ii) Provide clarification that in the first year of adoption, entities are not required to disclose comparative information for the requirements under paragraph 24J(b).