



Grupo Latinoamericano
de Emisores de Normas
de Información Financiera
Group of Latin American
Accounting Standard Setters

June 17, 2019

IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

RE: ED/2019/1 - Interest Rate Benchmark Reform - Proposed amendments to IFRS 9 and IAS 39

Dear Board Members:

The “Group of Latin American Accounting Standard Setters”¹ – GLASS welcomes the opportunity to comment on **ED/2019/1**, Interest Rate Benchmark Reform - Proposed amendments to IFRS 9 and IAS 39 (the ED).

Due process

The discussions regarding the ED were held within a specified Technical Working Group (TWG) created in May 2019. All GLASS country-members had the opportunity to appoint at least one member to participate in this TWG. Each standard setter represented in the TWG has undertaken different tasks in their respective countries (e.g. surveys, internal working groups). All results were summarized, and this summary was the platform for the TWG discussion process.

The TWG discussed the different points of view, included in a summary, during several conference calls. In those calls the TWG developed a final document based on the agreed-upon responses and the technical points of view of its members. Finally, the TWG document was submitted to and approved by the GLASS Board.

General Comments

We agree with the IASB proposal to include exceptions to determine if a hedge is expected to be highly effective or whether it is no longer expected to occur. In this situation, an entity would apply the requirements assuming that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the interest rate benchmark reform. We agree with the proposed 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.

¹ The overall objective of the Group of Latin American Accounting Standard Setters (GLASS) is to present technical contributions with respect to all Exposure Drafts issued by the IASB. Therefore, GLASS aims to have a single regional voice before the IASB. GLASS is constituted by: Argentina (Vice Chairman), Bolivia, Brazil (Chairman), Chile (Board Alternate), Colombia (Board), Costa Rica (Board), Dominican Republic, Ecuador, Guatemala, Honduras, Mexico (Board), Panama, Paraguay, Peru (Board), Uruguay (Board) and Venezuela (Board Alternate).



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All but one of the country-members of GLASS understand that the IASB is not proposing a change in an accounting policy but rather a suspension of a small portion of the hedge accounting criteria. Therefore, we suggest that this proposal be considered as an interpretation rather than a modification of the hedge accounting presented in IFRS 9 and IAS 39. We agree that the proposed exceptions should be applied retrospectively and believe the IASB should strongly encourage early application in 2019 to avoid the need for restatement of 2019 in 2020.

Attached please find our specific responses to the questions presented in the ED.

Contact

If you have any questions about our comments, please contact glenif@glenif.org.

Sincerely yours,

Eduardo Pocetti
Chairman
Group of Latin American Accounting Standard Setters (GLASS)



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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 the 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.

We agree with the IASB proposal. We believe that the exceptions proposed to determine if a forecast transaction is highly effective or whether it is no longer expected to occur, as a result of which the interest rate benchmark on which hedged cash flows and cash flows of the hedging instrument are based should not change due to the replacement of the interest rate under certain conditions. This proposal is adequate for the issuance of useful information to users, since the discontinuation of all hedge relationships affected solely due to uncertainties of the change in the interest rate would not provide useful information users of the financial statements.

We believe the application of the proposal should be focused in terms of a temporary exception and be fundamentally based on complexity and on cost versus benefit in the issuance of financial information.

We believe that IASB should address urgently how changes in LIBOR might be recorded as the effective date is near.

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



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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.

We agree with the proposal 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.

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.

We agree that the exception (for a limited period) should be mandatory and not optional to prevent preparers of financial information from having the alternative of electing the policy that is most convenient in order to obtain a result in accordance with the needs of their entities through selective discontinuation of hedge accounting and selective reclassification of gains and losses recognized in the other comprehensive income (OCI) to profit and loss as a result of the discontinuation of hedge accounting.



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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?

We agree with the proposal to provide specific disclosures about the extent to which hedging relationships are affected by the proposed amendments as it would help users to understand the effect of a modification of this accounting standard on the financial information provided.

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.

Most members agree with an effective date for annual periods beginning on or after 1 January 2020. All country-members but one understand that a change in an accounting policy is not being proposed but rather a suspension of a small portion of the hedge accounting criteria. Therefore, they believe that the proposal should be an interpretation of the hedge accounting criteria in IFRS 9 and IAS 39. Taking into consideration that this is an interpretation, as suggested, the majority of the members agree to recommend early application in 2019, due to the fact that if the exceptions proposed are applied in 2019, no retrospective application would have been required; on the other hand, if the exceptions are not adopted until 2020, since it is already known that since 2019 there are uncertainties, there would be a need to discontinue hedge accounting in 2019 and restart it again in 2020, with retrospective application.

One member-country understands that the ED intends to deal only with uncertainties that result from the interest rate benchmark reform, applying the proposed exceptions until the uncertainties no longer exist; if scheduled cash flows do not introduce new accounting requirements and if the document it is not considered an interpretation, since the IASB does not propose any transition procedures under IAS 8, the proposed changes should be applied prospectively.