

Our Ref: STA/001

17 June 2019

IFRS Foundation
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commentletters@ifrs.org

Dear Sir/Madam,

**ED/2019/1 INTEREST RATE BENCHMARK REFORM (PROPOSED AMENDMENTS TO IFRS 9
AND IAS 39)**

The Institute of Certified Public Accountants of Uganda (ICPAU) appreciates the opportunity to respond to **ED/2019/1 Interest Rate Benchmark Reform (Proposed Amendments to IFRS 9 and IAS 39)**

ICPAU is supportive of the Board's proposal to amend IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement 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.

ICPAU's comments on and responses to questions 1-5 in the ED are provided in detail in Appendix 1.

We hope that you find them helpful.

Yours faithfully,



CPA Charles Lutimba
MANAGER STANDARDS AND TECHNICAL SUPPORT
For: SECRETARY/CEO

Encl (ICPAU's Comments on and Responses to the ED/2019/1 Interest Rate Benchmark Reform: Proposed Amendments to IFRS 9 and IAS 39)

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Appendix 1: ICPAU's comments on and responses to ED/2019/1 Interest Rate Benchmark Reform: Proposed Amendments to IFRS 9 and IAS 39

Question 1

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.

ICPAU's Comments

We are in agreement with the Board's proposals for the highly probable requirement and prospective assessment in the ED.

However, we suggest that the Board should consider the fact that variables associated with IBOR may be closely connected in some contracts that the hedging risk is not just interest rate risk, but may also be affected by the interest rate benchmark reform. This arises from our understanding of the fact that various jurisdictions have different IBOR (fixed or floating); as such, different accounting requirements may need to be applied to adopt the Interest Rate Benchmark Reform. We thus propose that some transitional guidance is included in the proposed amendment to provide guidance to entities that are reporting in different jurisdictions.

Also the effectiveness testing under IAS 39 continues to be prominent among preparers of financial statements even with the advent of IFRS 9. The only challenge now relates to the fact that the ED is supposed to apply retrospectively while the effectiveness testing mentioned above is done prospectively. The Board's analysis under BC23 seems unclear and impractical to the extent that it does not advocate for relief for retrospective assessments as permitted under IAS 39. It is thus unclear how any discontinued relationships prior to the effective date should be treated.

Question 2

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.

ICPAU's Comments

We are in agreement with the Board's proposals in the ED that that the designated risk component or designated portion is separately identifiable—only at the inception of the hedging relationship and designating a risk component or a portion as separately identifiable continues on that basis if those relationships exist at the date the amendment is first applied.

Question 3

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.

ICPAU's Comments

We are in agreement with the Board's proposals for mandatory application and end of application in the ED.

Question 4

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?

ICPAU's Comments

We are in agreement with the Board's proposals for disclosures in the ED as specific disclosures provide meaningful information to the constituents therein absence of which would obscure information key for users of financial statements.

Question 5

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.

ICPAU's Comments

The effective date of applying the amendments is proposed to be annual periods beginning on or after 1 January 2020 with earlier application permitted. We propose that since the amendment will be issued at the end of 2019, the Board would provide

for a period of at least six (06) months before the amendments are effectively applied by reporting entities after all a number of jurisdictions have at least made some assurance that in bid to prevent an abrupt ceasing of the LIBOR to exist, they will continue to submit their estimates to sustain LIBOR until the end of 2021.

Other comments

One of the proposed hedge accounting requirements is that entities should only make prospective assessments of hedging relationships. We propose that in addition to prospective assessments, retrospective assessments of hedging relationships should be made to provide a basis for management's decisions since prospective assessments require futuristic information which may not be reliable and readily available in some jurisdictions.

We take note of the Board's observation not to consider whether and, if so, how to address any issues that might affect financial reporting when an existing interest rate benchmark is replaced with an alternative interest rate, i.e replacement issues. We are of the view that the Board considers the second phase covering replacement issues addressed as soon as possible and be discussed concurrently to the finalisation of the first phase. This is because pre-replacement issues are pertinent in assessing the likely implication of implementing the proposed amendments by reporting entities.