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Berne, June 6, 2019

Comment Letter on the Exposure Draft "Interest rate benchmark reform"

Dear Madam, dear Sir

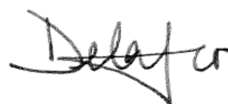
SwissHoldings, the Swiss Federation of Industrial and Services Groups in Switzerland, represents 58 Swiss groups, including most of the country's major industrial and commercial enterprises. We very much welcome the opportunity to provide comments to this Discussion Paper (DP).

Our detailed response (in the appendix) has been prepared in conjunction with our member companies.

We agree that IFRS 9 and IAS 39 should be amended in anticipation of interest rate benchmark reform and we support the approach to amending those standards which the IASB have taken in the ED. However, we believe the end of application proposals should be further clarified. Detailed end of application requirements are unusual in standard setting documents. We agree that they are required in this particular case, but in order to provide clarity and ensure they are applied consistently, illustrative examples should be added to the final amendments to the standards, covering all the main scenarios which are likely to arise in practice for companies which apply hedge accounting in their financial statements. In our view, these scenarios are not limited to those described in scenarios A-E in paragraphs BC35-BC40 of the ED. In this context, please see our detailed responses below.

Yours sincerely

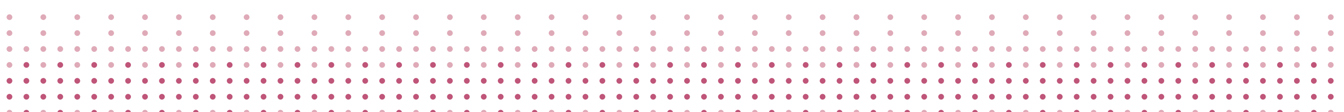
SwissHoldings
Federation of Industrial and Service Groups in Switzerland



Dr Gabriel Rumo
Director

Denise Laufer
Member Executive Committee

cc SH Board



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APPENDIX

ANSWERS TO SPECIFIC QUESTIONS IN INVITATION TO COMMENT

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.

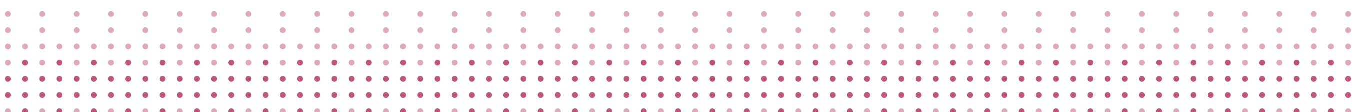
These proposals are clear and we agree with them.

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.

These proposals are clear and we agree with them.



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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.

We agree.

(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

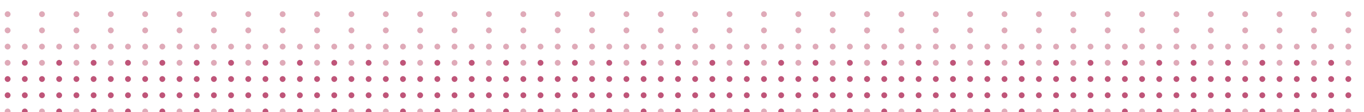
(ii) when the hedging relationship is discontinued, or if paragraph 6.8.9 of IFRS 9 or paragraph 102I of IAS 39 applies, when the entire amount accumulated in the cash flow hedge reserve with respect to that hedging relationship is reclassified to profit or loss.

In our view, in order that preparers and auditors are able to understand this requirement clearly and apply it consistently, it is essential that the final amendments to the standards are accompanied by examples illustrating all scenarios that have a reasonable possibility of applying widely in practice. These include all of scenarios A-E described in paragraphs BC35-BC40 of the ED. These should not be mentioned only in the Basis for Conclusions, but should be presented in the form of illustrative examples as well. Each example should explain in which periods entities should calculate ineffectiveness in the hedge accounting relationship by reference to the interest rate in the original designation and contracts and in which periods they should calculate it by reference to the new benchmark rate.

Also, in our view, reasonably possible scenarios with wide application are not limited to scenarios A-E. Illustrative examples should be included for the following additional scenarios to clarify how the proposed amendments would be applied to them

1. There is never a contract amendment, either because the reporting entity and its respective counterparty(ies) decide not to amend, or because they cannot agree terms of an amendment to:
    a. the contract for the hedged financial instrument, whereas the contract for the hedging instrument is amended to refer to the new benchmark rate; or
    b. the contract for the hedging instrument, whereas the contract for the hedged item is amended to refer to the new benchmark rate; or
    c. both contracts.
2. The contract for the hedged financial instrument is amended, not to substitute the new benchmark rate for the original rate, but to add a prepayment option for the borrower, with a prepayment date contingent on the effective date for the new benchmark interest rate.
3. Interest rate benchmark reform which specifies the new benchmark rate and the date from which it will become effective has been enacted, but that effective date is in the future. The reporting entity and its counterparties expect to amend their contracts, but have not finalized negotiations in this respect. The hedge accounting relationship as originally designated, based on the old benchmark rate, is still considered to meet the criteria in IFRS 9 paragraph 6.4.1(c) .

In our above example 3, in our view, as long as the originally designated hedge relationship is still effective and it is probable that contract amendments will be executed before the IBOR reform effective date, hedge accounting based on the original designation should still be permitted.



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Only when the new benchmark has entered into force and the old benchmark has been withdrawn without contract amendments having been finalized should hedge accounting based on the original designation no longer be permitted.

(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.

We agree.

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?

We agree with the Board's proposals.

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.

We agree with the Board's proposals.