สภาวิชาชีพบัญชี ในพระบรมราชูปถัมภ์
FEDERATION OF ACCOUNTING PROFESSIONS
UNDER THE ROYAL PATRONAGE OF HIS MAJESTY THE KING

June 25, 2020

Mr. Hans Hoogervorst
Chairman
International Accounting Standards Board (IASB)
Columbus Building
7 Westferry Circus, Canary Wharf,
London E14 4HD, United Kingdom

Dear Mr. Hoogervorst,

Response on IFRS Standards Exposure Draft ED/202 0 /1 - Interest Rate Benchmark Reform—Phase 2

The Thailand Federation of Accounting Professions of Thailand would like to show our appreciation on the opportunity to response on ***IFRS Standards Exposure Draft ED/2020/1 - Interest Rate Benchmark Reform—Phase 2***. Overall, we agree with the proposal to the IFRSs amendments from interest rate benchmark reform. However, we remark some practical issues and wording interpretation problems that might arise from these amendments.

Please find our responses to the specific survey raised in ***IFRS Standards Exposure Draft ED/2020/1 - Interest Rate Benchmark Reform—Phase 2*** in an attachment. We believe that these responses will help the practitioners in the future and that our response will contribute positively to the IASB's due process. Should you need more information, please kindly contact the Thailand Federation of Accounting Professions of Thailand.

The Thailand Federation of Accounting Professions avails itself of this opportunity to the International Accounting Standards Board the assurances of its highest consideration.

Yours sincerely,

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IFRS Standards Exposure Draft ED/2020/1 - Interest Rate Benchmark Reform Phase 2

Question 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. 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.

TFAC:

We agreed with these proposals to interest rate benchmark reform affects the basis for determining the contractual cash flows that leads to modification of financial asset or financial liability after the financial instrument is initially recognized. This accounting would provide useful information as it would reflect the economic substance of the reform on an entity's financial instruments in the circumstances to which the practical expedient applies. We agreed the Board's consideration that the lack of a description of what constitutes a "modification" and the use of different wording in IFRS9 to describe a modification of a financial asset or a financial liability could lead to diversity in practice across jurisdictions, products types and contracts when entities determine whether a change resulting from the reform should be treated as a modification applying the requirements in IFRS9. As a result, those examples in paragraph 6.9.4 illustrate the scope of the proposals and assist preparers in applying the practical expedient. Even though these examples are not exhaustive; other modifications could also be required by the reform, adding such examples would support the understandability of the proposed amendments. In addition, we agreed with (e) relate to IFRS4 due to this decision was due to the significance of the potential effect of the reform on insurers and reaffirmed its overall position that it will not update the classification and measurement requirements of IAS 39. We also agreed with (d) relate to IFRS16, the consistent with the draft amendments to IFRS 9, this practical expedient would apply to all lease modifications that change the basis for determining future lease payments as a result of the reform.

Question 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. 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.

TFAC:

We agreed that as and when uncertainty arising from interest rate benchmark reform is no longer present, the formal designation of the hedging relationship shall be amended to make one or more changes as stated in paragraph 6.9.7. We agreed that the amendments in paragraph 6.9.7 itself does not cause neither the discontinuation of the hedging relationship nor the designation of a new hedging relationship. It would be consistent with the objectives of Phase 2 that is to amend the formal designation of the hedging relationship to reflect those changes without requiring discontinuation of that hedging relationship. However, paragraph 6.9.8 stated that an entity shall first apply the applicable requirements to determine whether additional changes other than interest rate benchmark reform results in the discontinuation of hedge accounting, which we agreed with the proposal.

Question 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-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.

TFAC:

We agreed with the proposals due to accounting for qualifying hedging relationships as stated in paragraph 6.9.11 - 14 is in line with the requirement of hedge accounting for fair value hedge and cash flow hedge as stated in IFRS 9. However, we would like the Board to reconsider the exception for hedge ineffectiveness to account for measurement differences. This is due to the fact that, during the period of transition, the measurement adjustment might have substantial impact on profit of loss of the entity on the date of designating an alternative benchmark rate. Especially during the early stage of transition, the market may be still illiquid resulting in concern over price fluctuation and its reliability and that might be able to be alleviated by amortization of measurement adjustment overtime. Even if there is a market price for fair value measurement, the fluctuation and observability of the fair value would still be the key concern and this may lead to level 2 or level 3 classification of fair value hierarchy during the time when market values remain unstable.

For paragraph 6.9.15, we agreed that the entity which designates the benchmark rate for each sub-group as the hedged risk would designate the alternative benchmark rate as the hedged risk for that relevant sub-group of hedged items. The entity would continue to designate the existing interest rate benchmark as the hedged risk for the other sub-group of hedged items until those items are modified to reference the alternative benchmark rate.

Question 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 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.

TFAC:

We agree with the amendment to allow designation of an alternative benchmark rate as non-contractually specified risk component even though it has not met the requirement to be separately identifiable yet. However, we would like to emphasize that each jurisdiction has not concurrently started to develop the alternative benchmark rate resulting in varied stage of development. At the current stage, it seems that 24 month period would not be sufficient enough to have a liquid market in emerging countries to support hedging activities as it depends on several factors such as adaptability of market participants, availability of other benchmark rates. As a result, we would like the Board to consider the relief period to be more flexible; for instance to allow each country to define its own timeframe to match with its circumstances, perhaps not over 36 months to build up transactions in the market. This still aligns with the Board's intention to have a clearly defined end point.

Question 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. (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.

TFAC:

We agree with the proposed effective date due to the urgency of the issue. The entity should be able to apply the amendment at the earliest date possible so that it would not need to discontinue hedging relationships only because of the reform. For consistency, we also support the retrospective application and reinstatement of the discontinued hedging relationships.

Question 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.

TFAC:

We agree with the proposal that requires entities to provide additional disclosures related to interest rate benchmark reform. The information about progress of transition to alternative benchmark rates and changes to risk management strategy due to the reform would be useful for users of financial statements to understand and assess the impact of the reform on an entity. Additionally, we agree with the disclosure of carrying amount of financial instruments that continue to reference interest rate benchmark subject to the reform as it is in line with Phase 1 disclosures. Moreover, we believe that disclosure of information on the alternative base rate determination and adjustments to that rate as well as relevant judgments of applying reliefs would enhance the transparency of financial statements without creating much burden to the preparers.