The Japanese Institute of
Certified Public Accountants
4-4-1, Kudan-Minami, Chiyoda-ku, Tokyo 102-8264 JAPAN
Phone: +81-3-3515-1128 Fax: +81-3-5226-3355
e-mail: kigyokaikei@jicpa.or.jp
http://www.hp.jicpa.or.jp/english/

June 13, 2019

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Comments on the Exposure Draft *Interest Rate Benchmark Reform (Proposed Amendments to IFRS 9 and IAS 39)*

To the Board Members:

The Japanese Institute of Certified Public Accountants ("we" and "our") appreciates the continued efforts of the International Accounting Standards Board on this project, and welcomes the opportunity to comment on the Exposure Draft *Interest Rate Benchmark Reform (Proposed Amendments to IFRS 9 and IAS 39)* ("ED").

We also commend the IASB on having maintained continuous discussion of interest rate benchmark reform for some time already and on releasing this ED to address issues occurring in the period before an alternative interest rate replaces an existing benchmark for hedge accounting.

However, it is not only hedge accounting that is impacted by interest rate benchmark reform, and more wide-ranging impacts are anticipated. We understand that these impacts will be addressed in the second stage of discussions. Furthermore, as BC35 Scenario A indicates, it is possible that a contract could, for example, be amended so that the existing interest rate benchmark is replaced by an alternative interest rate even before the end of 2021, when it is expected that LIBOR will cease to be maintained. That would raise the issue of whether or not it would be appropriate to require the discontinuation of hedge accounting by applying the current hedge accounting requirements.

Accordingly, we ask the IASB to commence the second stage of discussions as soon as possible with a view to identifying the issues and determining whether accounting-based responses are available.

Please find below our comments to the questions raised in the ED.

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 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.

Comment:

We agree with the proposals.

The proposals in the ED could be expected to address concerns relating to hedge accounting in the period before replacement of an existing interest rate benchmark with an alternative interest rate.

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 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.

Comment:

We agree with the proposal.

For the amendment to the requirement for hedges of the benchmark component of interest rate risk that is affected by interest rate benchmark reform, we think it is sufficient for an entity to apply the requirement that the designated risk component be 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.

Comment:

We agree with what is proposed for the first stage of discussions.

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?

Comment:

We agree with the proposal regarding disclosures.

It is unlikely that separate disclosures would involve excessive cost, while separate disclosures would be helpful in gauging how many financial instruments could be affected by interest rate benchmark reform.

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.

Comment:

We agree with the proposals.

The effective date and permission for earlier application will be helpful in enabling the proposals in this ED to be applied at the right time.

Furthermore, we understand that first-time adopters will apply the amendments proposed in this ED in the same way as entities that have already adopted IFRSs. According to the provisions of IFRS 1 B4 to B6, they will do so with reference to this ED's proposed amendments to IFRS 9 regarding hedge accounting. It should therefore be made clear that the amendments proposed in this ED will be applied in the same way by first-time adopters.

Yours faithfully,

Yoshio Yukawa
Executive Board Member－Accounting Standards and Practice/IFRS
The Japanese Institute of Certified Public Accountants