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

July 8, 2019

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/2019/1 Interest Rate Benchmark Reform Proposed amendments to IFRS 9 and IAS 39

Thailand Federation of Accounting Professions (TFAC) would like to show our appreciation on the opportunity to response on ***IFRS Standards Exposure Draft ED/2019/1 Interest Rate Benchmark Reform Proposed amendments to IFRS 9 and IAS 39***. Overall, we agree with the proposed exceptions for hedges of interest rate risk that are affected by interest rate benchmark reform as well as we agree with other proposals on the exposure draft including the disclosures and effective date and transition.

Please find our responses to the specific survey raised in ***IFRS Standards Exposure Draft ED/2019/1 Interest Rate Benchmark Reform Proposed amendments to IFRS 9 and IAS 39*** 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.

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

Yours sincerely,

Associate Professor Dr.Somchai Supattarakul
Chairman of Thai Accounting Standards Board
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Bangkok, Thailand

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IFRS Standards Exposure Draft ED/2019/1 Interest Rate Benchmark Reform Proposed amendments to IFRS 9 and IAS 39

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.

TFAC: We agree with these proposals because there is the uncertainty of which new interest rate should be used instead of inter-bank rate (IBOR) and what effect would occur. Hence, we should retain the cash flow hedge reserve in other comprehensive income in equity and release when the uncertainty arising from interest rate benchmark reform is no longer present or the hedging relationship is discontinued. Interest rate benchmark reform should not cause to fluctuation in profit or loss that the uncertainty would not provide useful information to users of financial statement.

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.

TFAC: We agree with these proposals because the requirement should apply to only non-contractually interest rate risk that has been designated as separately identifiable at the inception date will be in line with end of application section.

We have no further proposal on paragraphs 6.8.7 of IFRS 9 and paragraphs 102G of IAS 39.

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.

Question 3 [paragraphs 6.8.8–6.8.10 of IFRS 9 and paragraphs 102H–102J of IAS 39]
(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.

TFAC: We agree with these proposals about the end of application for highly probable requirement for cash flow hedges, reclassification of the amount in the cash flow hedge reserve to profit or loss and assessment of the economic relationship between the hedged item and the hedging instrument. Exception should be abolished, if the uncertainty no longer exists or hedging relationship is discontinued. This paragraph does not conflict with general approach and give more understanding to user.

We have no further proposal on paragraphs 6.8.8–6.8.10 of IFRS 9 and paragraphs 102H–102J of IAS 39.

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.

Question 4 [paragraph 6.8.11 of IFRS 9 and paragraph 102K of IAS 39]
Do you agree with these proposed disclosures? Why or why not? If not, what disclosures would you propose instead and why?

TFAC: We agree with the proposed disclosures which will be additionally required only when the entity applies the exceptions. We support that the disclosures provide users with useful information regarding proportion of existing hedging transactions which are subject to uncertainties due to the interest rate benchmark reform. Additionally, it would not require much additional cost for the entity to disaggregate information for the disclosures.

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.

TFAC: We agree with the proposed effective date and transition; as well as the permitted earlier application due to the urgency of the issue. We support the retrospective application so that the entity could also apply the exceptions to the previously designated hedging relationship which are affected by the uncertainties of the interest rate benchmark reform.