SAS Quadra 05. Bloco J. CFC
Brasília, Distrito Federal – Brazil
http://www.cpc.org.br

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commentletters@ifrs.org

IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London

Reference: Exposure Draft ED 2019/1 – Interest Rate Benchmark Reform

The Comitê de Pronunciamentos Contábeis - CPC (Brazilian Accounting Pronouncements Committee)[1] welcomes the opportunity to respond to the ED 2019/1 – Interest Rate Benchmark Reform.

We are a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidance for Brazilian companies.

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If you have any questions about our comments, please do not hesitate to contact us at operacoes@cpc.org.br.

Yours sincerely,

Rogério Lopes Mota
Chair of International Affairs
Comitê de Pronunciamentos Contábeis (CPC)

[1]The Brazilian Accounting Pronouncements Committee (CPC) is a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidances for Brazilian companies. Our members are nominated by the following entities: ABRASCA (Brazilian Listed Companies Association), APIMEC (National Association of Capital Market Investment Professionals and Analysts), B3 (Brazilian Stock Exchange and Mercantile & Future Exchange), CFC (Federal Accounting Council), FIPECAFI (Financial and Accounting Research Institute Foundation) and IBRACON (Brazilian Institute of Independent Auditors).

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.

CPC agrees with the treatment proposed, specially because the consideration of a new interest rate, which will still be provided by the Financial Stability Board (FSB), can create some hedge accounting misspecifications in the current hedging accounting.

However, we also would like to bring to the Board's attention the fact that in some cases when an interest rate is no longer used as a market reference, this index is no longer disclosed by an official agent and begins to be obtained from individual calculations, which can lead to diversity in practice.

We would like to suggest to the Board to elaborate in the final standard on how to deal with this issue.

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.

CPC supports this amendment, but would like to propose to the Board that other types of financial instruments that could be impacted by the reform, besides hedging contracts, be also considered under the proposed exceptions.

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.

CPC agrees with the mandatory application of these exceptions for all of those who have this type of hedge accounting designation. CPC believes that this enforcement can avoid some diversity in practice.

Furthermore, we also consider suitable treating these exceptions as temporary permissions since new transactions or future deals, most likely, will be performed considering the new interest rate that is going to be provided by the different jurisdictions.

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?

CPC agrees with this disclosure requirement and it is important to determine the total amount and the critical terms of such hedge accounting designations.

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. N0 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.

CPC agrees with the effective date and transition proposals.