

Accounting Standards Board of Japan (ASBJ)

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Mr. Hans Hoogervorst

Chair

International Accounting Standards Board

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Comments on the Exposure Draft *Interest Rate Benchmark Reform - Phase 2* **(Proposed amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16)**

1. The Accounting Standards Board of Japan (the “ASBJ” or “we”) welcome the opportunity to provide our comments on the International Accounting Standards Board (the “IASB”)’s Exposure Draft *Interest Rate Benchmark Reform - Phase 2* (Proposed amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16) (the “ED”), issued in April 2020.
2. The objective of hedge accounting is to represent the effect of an entity’s risk management activities in the financial statements (IFRS 9.6.1.1). In this regard, the replacement of interest rate benchmarks is an unavoidable event that is unrelated to the entity’s risk management activities. Accordingly, discontinuing hedge accounting and affecting profit and loss solely due to the events caused by the interest benchmark rate reform would not necessarily provide useful financial information. Therefore, we support the proposal in the ED which states that changes required due to the interest benchmark rate reform would not lead to the discontinuation of hedge accounting (Question 2).
3. On the other hand, we believe that it should be necessary to take into account that there is uncertainty in how the markets for the alternative benchmark rates would develop in the future. In this regard, the ED considers the possibility that a particular market related to the alternative benchmark interest rate might not yet be

sufficiently developed (paragraph BC87 of the ED) and proposes allowing a 24-month moratorium. However, depending on how the markets for the alternative benchmark rates develop in the future, we think that there may be cases where the entity initially changes to one alternative benchmark rate (for example, EURIBOR for Euro or TIBOR for Japanese Yen, because these interest benchmark rates would continue to exist), and subsequently changes to another alternative benchmark rate (for example, a term-structured risk-free rate). Under the proposals in the ED, the initial change to the alternative benchmark rate would be relieved, but the subsequent change would not. We believe that both the initial and subsequent change should be relieved, provided that the changes arise solely from the interest benchmark rate reform.

4. Therefore, we think it is worth considering whether hedge accounting can continue to be applied for a specific period to financial assets and financial liabilities that had referred to LIBOR, provided that they meet the criteria described in paragraph 6.9.3 of IFRS 9 in the ED, even after the uncertainty regarding the timing and the amount of the interest-benchmark-rate-based cash flows of the hedged item or of the hedging instrument arising from interest benchmark rate reform is no longer present.
5. We hope our comments are helpful for the IASB's consideration in the future. If you have any questions, please feel free to contact us.

Yours sincerely,



Atsushi Kogasaka

Chair

Accounting Standards Board of Japan