**AASB Standard** **AASB 2019-3**

October 2019

# Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform

## [AASB 7, AASB 9 & AASB 139]

Australian Government

Australian Accounting Standards Board

## Obtaining a copy of this Accounting Standard

This Standard is available on the AASB website: www.aasb.gov.au.

Australian Accounting Standards Board
PO Box 204
Collins Street West
Victoria 8007
AUSTRALIA

Phone: (03) 9617 7600
E-mail: standard@aasb.gov.au
Website: www.aasb.gov.au

## Other enquiries

Phone: (03) 9617 7600
E-mail: standard@aasb.gov.au



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Australian Accounting Standard AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform* is set out on pages 5 – 10. All the paragraphs have equal authority.

# Preface

## Standards amended by AASB 2019-3

This Standard makes amendments to AASB 7 *Financial Instruments: Disclosures* (August 2015), AASB 9 *Financial Instruments* (August 2015) and AASB 139 *Financial Instruments: Recognition and Measurement* (August 2015).

These amendments arise from the issuance of International Financial Reporting Standard *Interest Rate Benchmark Reform* (Amendments to IFRS 9, IAS 39 and IFRS 7) by the International Accounting Standards Board (IASB) in September 2019.

## Main features of this Standard

### Main requirements

The Standard amends AASB 7, AASB 9 and AASB 139 to modify some specific hedge accounting requirements to provide relief from the potential effects of the uncertainty caused by the interest rate benchmark reform. In addition, the amendments require entities to provide additional information about their hedging relationships that are directly affected by these uncertainties.

### Application date

This Standard applies to annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted.

# Accounting Standard AASB 2019-3

The Australian Accounting Standards Board makes Accounting Standard AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform* under section 334 of the *Corporations Act 2001*.

Dated 14 October 2019

Kris Peach
Chair – AASB

# Accounting Standard AASB 2019-3
# *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform*

## Objective

This Standard amends Australian Accounting Standards AASB 7 *Financial Instruments: Disclosures* (August 2015), AASB 9 *Financial Instruments* (August 2015) and AASB 139 *Financial Instruments: Recognition and Measurement* (August 2015) as a consequence of the issuance of International Financial Reporting Standard *Interest Rate Benchmark Reform* (Amendments to IFRS 9, IAS 39 and IFRS 7) by the International Accounting Standards Board in September 2019.

## Application

The amendments set out in this Standard apply to entities and financial statements in accordance with the application of AASB 7, AASB 9 and AASB 139 set out in AASB 1057 *Application of Australian Accounting Standards*.

This Standard applies to annual reporting periods beginning on or after 1 January 2020.

This Standard may be applied to annual reporting periods beginning before 1 January 2020. When an entity applies this Standard to such an annual period, it shall disclose that fact.

This Standard uses underlining, striking out and other typographical material to identify some of the amendments to a Standard, in order to make the amendments more understandable. However, the amendments made by this Standard do not include that underlining, striking out or other typographical material. Ellipses (…) are used to help provide the context within which amendments are made and also to indicate text that is not amended.

## Amendments to AASB 9 *Financial Instruments*

Paragraphs 6.8.1–6.8.12 and 7.1.8 are added. A new heading is added before paragraph 6.8.1. New subheadings are added before paragraphs 6.8.4, 6.8.5, 6.8.6, 6.8.7 and 6.8.9. These paragraphs have not been underlined for ease of reading.

Paragraph 7.2.26 is amended. New text in this paragraph is underlined.

## Chapter 6 Hedge accounting

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## 6.8 Temporary exceptions from applying specific hedge accounting requirements

6.8.1 An entity shall apply paragraphs 6.8.4–6.8.12 and paragraphs 7.1.8 and 7.2.26(d) to all hedging relationships directly affected by interest rate benchmark reform. These paragraphs apply only to such hedging relationships. A hedging relationship is directly affected by interest rate benchmark reform only if the reform gives rise to uncertainties about:

(a) the interest rate benchmark (contractually or non-contractually specified) designated as a hedged risk; and/or

(b) the timing or the amount of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument.

6.8.2 For the purpose of applying paragraphs 6.8.4–6.8.12, the term 'interest rate benchmark reform' refers to the market-wide reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark rate such as that resulting from the recommendations set out in the Financial Stability Board's July 2014 report 'Reforming Major Interest Rate Benchmarks'.[1]

6.8.3 Paragraphs 6.8.4–6.8.12 provide exceptions only to the requirements specified in these paragraphs. An entity shall continue to apply all other hedge accounting requirements to hedging relationships directly affected by interest rate benchmark reform.

## Highly probable requirement for cash flow hedges

6.8.4 For the purpose of determining whether a forecast transaction (or a component thereof) is highly probable as required by paragraph 6.3.3, an entity shall assume that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

## Reclassifying the amount accumulated in the cash flow hedge reserve

6.8.5 For the purpose of applying the requirement in paragraph 6.5.12 in order to determine whether the hedged future cash flows are expected to occur, an entity shall assume that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

## Assessing the economic relationship between the hedged item and the hedging instrument

6.8.6 For the purpose of applying the requirements in paragraphs 6.4.1(c)(i) and B6.4.4–B6.4.6, an entity shall assume that the interest rate benchmark on which the hedged cash flows and/or the hedged risk (contractually or non-contractually specified) are based, or the interest rate benchmark on which the cash flows of the hedging instrument are based, is not altered as a result of interest rate benchmark reform.

## Designating a component of an item as a hedged item

6.8.7 Unless paragraph 6.8.8 applies, for a hedge of a non-contractually specified benchmark component of interest rate risk, an entity shall apply the requirement in paragraphs 6.3.7(a) and B6.3.8—that the risk component shall be separately identifiable—only at the inception of the hedging relationship.

6.8.8 When an entity, consistent with its hedge documentation, frequently resets (ie discontinues and restarts) a hedging relationship because both the hedging instrument and the hedged item frequently change (ie the entity uses a dynamic process in which both the hedged items and the hedging instruments used to manage that exposure do not remain the same for long), the entity shall apply the requirement in paragraphs 6.3.7(a) and B6.3.8—that the risk component is separately identifiable—only when it initially designates a hedged item in that hedging relationship. A hedged item that has been assessed at the time of its initial designation in the hedging relationship, whether it was at the time of the hedge inception or subsequently, is not reassessed at any subsequent redesignation in the same hedging relationship.

## End of application

6.8.9 An entity shall prospectively cease applying paragraph 6.8.4 to a hedged item at the earlier of:

(a) 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 of the hedged item; and

1 The report, 'Reforming Major Interest Rate Benchmarks', is available at http://www.fsb.org/wp-content/uploads/r_140722.pdf.

(b) when the hedging relationship that the hedged item is part of is discontinued.

6.8.10 An entity shall prospectively cease applying paragraph 6.8.5 at the earlier of:

(a) 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 future cash flows of the hedged item; and

(b) when the entire amount accumulated in the cash flow hedge reserve with respect to that discontinued hedging relationship has been reclassified to profit or loss.

6.8.11 An entity shall prospectively cease applying paragraph 6.8.6:

(a) to a hedged item, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk or the timing and the amount of the interest rate benchmark-based cash flows of the hedged item; and

(b) to a hedging instrument, 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 of the hedging instrument.

If the hedging relationship that the hedged item and the hedging instrument are part of is discontinued earlier than the date specified in paragraph 6.8.11(a) or the date specified in paragraph 6.8.11(b), the entity shall prospectively cease applying paragraph 6.8.6 to that hedging relationship at the date of discontinuation.

6.8.12 When designating a group of items as the hedged item, or a combination of financial instruments as the hedging instrument, an entity shall prospectively cease applying paragraphs 6.8.4–6.8.6 to an individual item or financial instrument in accordance with paragraphs 6.8.9, 6.8.10, or 6.8.11, as relevant, when the 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 the interest rate benchmark-based cash flows of that item or financial instrument.

# Chapter 7 Effective date and transition

## 7.1 Effective date

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7.1.8 AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform*, which amended AASB 9, AASB 139 and AASB 7, issued in October 2019, added Section 6.8 and amended paragraph 7.2.26. An entity shall apply these amendments for annual periods beginning on or after 1 January 2020. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.

## 7.2 Transition

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### Transition for hedge accounting (Chapter 6)

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7.2.26 As an exception to prospective application of the hedge accounting requirements of this Standard, an entity:

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(d) <u>shall apply the requirements in Section 6.8 retrospectively. This retrospective application applies only to those hedging relationships that existed at the beginning of the reporting period in which an entity first applies those requirements or were designated thereafter, and to the amount accumulated in the cash flow hedge reserve that existed at the beginning of the reporting period in which an entity first applies those requirements.</u>

# Amendments to AASB 139 *Financial Instruments: Recognition and Measurement*

Paragraphs 102A–102N and 108G are added. A new heading is added before paragraph 102A. New subheadings are added before paragraphs 102D, 102E, 102F, 102H and 102J. These paragraphs have not been underlined for ease of reading.

## Hedging

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### Temporary exceptions from applying specific hedge accounting requirements

102A An entity shall apply paragraphs 102D–102N and 108G to all hedging relationships directly affected by interest rate benchmark reform. These paragraphs apply only to such hedging relationships. A hedging relationship is directly affected by interest rate benchmark reform only if the reform gives rise to uncertainties about:

(a) the interest rate benchmark (contractually or non-contractually specified) designated as a hedged risk; and/or

(b) the timing or the amount of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument.

102B For the purpose of applying paragraphs 102D–102N, the term 'interest rate benchmark reform' refers to the market-wide reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark rate such as that resulting from the recommendations set out in the Financial Stability Board's July 2014 report 'Reforming Major Interest Rate Benchmarks'.[2]

102C Paragraphs 102D–102N provide exceptions only to the requirements specified in these paragraphs. An entity shall continue to apply all other hedge accounting requirements to hedging relationships directly affected by interest rate benchmark reform.

#### Highly probable requirement for cash flow hedges

102D For the purpose of applying the requirement in paragraph 88(c) that a forecast transaction must be highly probable, an entity shall assume that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

#### Reclassifying the cumulative gain or loss recognised in other comprehensive income

102E For the purpose of applying the requirement in paragraph 101(c) in order to determine whether the forecast transaction is no longer expected to occur, an entity shall assume that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

#### Effectiveness assessment

102F For the purpose of applying the requirements in paragraphs 88(b) and AG105(a), an entity shall assume that the interest rate benchmark on which the hedged cash flows and/or the hedged risk (contractually or non-contractually specified) are based, or the interest rate benchmark on which the cash flows of the hedging instrument are based, is not altered as a result of interest rate benchmark reform.

102G For the purpose of applying the requirement in paragraph 88(e), an entity is not required to discontinue a hedging relationship because the actual results of the hedge do not meet the requirements in paragraph AG105(b). For the avoidance of doubt, an entity shall apply the other conditions in paragraph 88,

2 The report, 'Reforming Major Interest Rate Benchmarks', is available at http://www.fsb.org/wp-content/uploads/r_140722.pdf.

including the prospective assessment in paragraph 88(b), to assess whether the hedging relationship must be discontinued.

## Designating financial items as hedged items

102H Unless paragraph 102I applies, for a hedge of a non-contractually specified benchmark portion of interest rate risk, an entity shall apply the requirement in paragraphs 81 and AG99F—that the designated portion shall be separately identifiable—only at the inception of the hedging relationship.

102I When an entity, consistent with its hedge documentation, frequently resets (ie discontinues and restarts) a hedging relationship because both the hedging instrument and the hedged item frequently change (ie the entity uses a dynamic process in which both the hedged items and the hedging instruments used to manage that exposure do not remain the same for long), the entity shall apply the requirement in paragraphs 81 and AG99F—that the designated portion is separately identifiable—only when it initially designates a hedged item in that hedging relationship. A hedged item that has been assessed at the time of its initial designation in the hedging relationship, whether it was at the time of the hedge inception or subsequently, is not reassessed at any subsequent redesignation in the same hedging relationship.

## End of application

102J An entity shall prospectively cease applying paragraph 102D to a hedged item at the earlier of:

(a) 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 of the hedged item; and

(b) when the hedging relationship that the hedged item is part of is discontinued.

102K An entity shall prospectively cease applying paragraph 102E at the earlier of:

(a) 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 future cash flows of the hedged item; and

(b) when the entire cumulative gain or loss recognised in other comprehensive income with respect to that discontinued hedging relationship has been reclassified to profit or loss.

102L An entity shall prospectively cease applying paragraph 102F:

(a) to a hedged item, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk or the timing and the amount of the interest rate benchmark-based cash flows of the hedged item; and

(b) to a hedging instrument, 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 of the hedging instrument.

If the hedging relationship that the hedged item and the hedging instrument are part of is discontinued earlier than the date specified in paragraph 102L(a) or the date specified in paragraph 102L(b), the entity shall prospectively cease applying paragraph 102F to that hedging relationship at the date of discontinuation.

102M An entity shall prospectively cease applying paragraph 102G to a hedging relationship at the earlier of:

(a) when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk and the timing and the amount of the interest rate benchmark-based cash flows of the hedged item or of the hedging instrument; and

(b) when the hedging relationship to which the exception is applied is discontinued.

102N When designating a group of items as the hedged item, or a combination of financial instruments as the hedging instrument, an entity shall prospectively cease applying paragraphs 102D–102G to an individual item or financial instrument in accordance with paragraphs 102J, 102K, 102L, or 102M, as relevant, when the 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 the interest rate benchmark-based cash flows of that item or financial instrument.

## Effective date and transition

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108G AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform*, which amended AASB 9, AASB 139 and AASB 7, issued in October 2019, added paragraphs 102A–102N. An entity shall apply these amendments for annual periods beginning on or after 1 January 2020. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact. An entity shall apply these amendments retrospectively to those hedging relationships that existed at the beginning of the reporting period in which an entity first applies these amendments or were designated thereafter, and to the gain or loss recognised in other comprehensive income that existed at the beginning of the reporting period in which an entity first applies these amendments.

## Amendments to AASB 7 *Financial Instruments: Disclosures*

Paragraphs 24H and 44DE–44DF are added and a subheading is added before paragraph 24H. These paragraphs have not been underlined for ease of reading.

## Hedge accounting

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*Uncertainty arising from interest rate benchmark reform*

24H For hedging relationships to which an entity applies the exceptions set out in paragraphs 6.8.4–6.8.12 of AASB 9 or paragraphs 102D–102N of AASB 139, an entity shall disclose:

(a) the significant interest rate benchmarks to which the entity's hedging relationships are exposed;

(b) the extent of the risk exposure the entity manages that is directly affected by the interest rate benchmark reform;

(c) how the entity is managing the process to transition to alternative benchmark rates;

(d) a description of significant assumptions or judgements the entity made in applying these paragraphs (for example, assumptions or judgements about 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

(e) the nominal amount of the hedging instruments in those hedging relationships.

## Effective date and transition

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44DE AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform*, which amended AASB 9, AASB 139 and AASB 7, issued in October 2019, added paragraphs 24H and 44DF. An entity shall apply these amendments when it applies the amendments to AASB 9 or AASB 139.

44DF In the reporting period in which an entity first applies AASB 2019-3, issued in October 2019, an entity is not required to present the quantitative information required by paragraph 28(f) of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

## Commencement of the legislative instrument

For legal purposes, this legislative instrument commences on 31 December 2019.