

Explanatory Statement

Accounting Standard AASB 2020-8 ***Amendments to Australian Accounting Standards –*** ***Interest Rate Benchmark Reform – Phase 2***

September 2020



Australian Government

**Australian Accounting
Standards Board**

EXPLANATORY STATEMENT

Standards Amended by AASB 2020-8

This Standard makes amendments to the following Australian Accounting Standards:

- (a) AASB 4 *Insurance Contracts* (August 2015);
- (b) AASB 7 *Financial Instruments: Disclosures* (August 2015);
- (c) AASB 9 *Financial Instruments* (December 2014);
- (d) AASB 16 *Leases* (February 2016); and
- (e) AASB 139 *Financial Instruments: Recognition and Measurement* (August 2015).

These amendments arise from the issuance of International Financial Reporting Standard *Interest Rate Benchmark Reform—Phase 2* by the International Accounting Standards Board (IASB) in August 2020.

Marked-up Text

This Standard incorporates marked-up text to clearly identify an amendment to AASB 139. Amendments inserting new text into the Standards are otherwise not marked-up. All amendments are incorporated using clean text into the compilations of those Standards when they are prepared, based on the legal commencement date of the amendments.

Power to Make Amendments

Under subsection 33(3) of the *Acts Interpretation Act 1901*, where an Act confers a power to make, grant or issue any instrument of a legislative or administrative character (including rules, regulations or by-laws), the power shall be construed as including a power exercisable in the like manner and subject to the like conditions (if any) to repeal, rescind, revoke, amend, or vary any such instrument. Accordingly, the AASB has the power to amend the Accounting Standards that are made by the AASB as legislative instruments under the *Corporations Act 2001*.

Main Features of AASB 2020-8

Main Requirements

This Standard amends the Standards listed to help entities to provide financial statement users with useful information about the effects of the interest rate benchmark reform on those entities' financial statements.

As a result of these amendments, an entity:

- (a) will not have to derecognise or adjust the carrying amount of financial instruments for changes required by the reform, but will instead update the effective interest rate to reflect the change to the alternative benchmark rate;
- (b) will not have to discontinue its hedge accounting solely because it makes changes required by the reform, if the hedge meets other hedge accounting criteria; and
- (c) will be required to disclose information about new risks arising from the reform and how it manages the transition to alternative benchmark rates.

Application Date

AASB 2020-8 applies to annual reporting periods beginning on or after 1 January 2021. Earlier application is permitted.

References to Other AASB Standards

References in this Standard to the titles of other AASB Standards that are legislative instruments are to be construed as references to those other Standards as originally made and as amended from time to time and incorporate provisions of those Standards as in force from time to time.

Consultation Prior to Issuing this Standard

The AASB issued Exposure Draft ED 299 *Interest Rate Benchmark Reform—Phase 2* in April 2020 for comment by 15 May 2020. ED 299 incorporated IASB Exposure Draft ED/2020/1 *Interest Rate Benchmark Reform—Phase 2*. No formal submissions were received by the AASB in respect of the proposals in ED 299, however informal feedback was obtained via discussions with the AASB's Financial Instruments Project Advisory Panel. The AASB made a submission to the IASB on ED/2020/1 that generally supported the proposals, whilst also suggesting that the IASB consider extending the scope of the amendments to IFRS Standards as a result of the IBOR reform to address similar interest rate

reforms in the future. Three Australian stakeholders made submissions directly to the IASB, generally agreeing with the proposals.

The IASB analysed the feedback it received on the proposed amendments and decided to finalise the amendments after making some minor changes. The IASB set an effective date for the amendments of annual periods beginning on or after 1 January 2021, with earlier application permitted. The AASB considered and adopted the amendments made by the IASB to IFRS Standards in finalising AASB 2020-8 and the amendments to the Australian Accounting Standards.

A Regulation Impact Statement (RIS) has not been prepared in connection with the issue of AASB 2020-8 as the amendments made do not have a substantial direct or indirect impact on business or competition.

Statement of Compatibility with Human Rights

Prepared in accordance with Part 3 of the
Human Rights (Parliamentary Scrutiny) Act 2011

Accounting Standard AASB 2020-8 Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform – Phase 2

Overview of the Accounting Standard

This Standard makes amendments to the following Australian Accounting Standards:

- (a) AASB 4 *Insurance Contracts* (August 2015);
- (b) AASB 7 *Financial Instruments: Disclosures* (August 2015);
- (c) AASB 9 *Financial Instruments* (December 2014);
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These amendments arise from the issuance of International Financial Reporting Standard *Interest Rate Benchmark Reform—Phase 2* by the International Accounting Standards Board (IASB) in August 2020.

Human Rights Implications

This Standard is issued by the AASB in furtherance of the objective of facilitating the Australian economy. It does not diminish or limit any of the applicable human rights or freedoms, and thus does not raise any human rights issues.

Conclusion

This Standard is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.