

Comment on Exposure Draft for amendments to
Guidance Note on Accounting for Derivative Contracts
w.r.t IBOR Phase 2 Replacement Issues

1. Major Interest Rate benchmarks have been given a global deadline till December, 2021 pursuant to ongoing reforms in IBOR. This bears a direct consequence on the accounting of Financial Statements with regard to Hedge Accounting. Thus, Guidance Note on Accounting for Derivative Contracts has been modified to give effect to the replacement phase. Para 62 has been inserted with subsequent reference to Appendix IV which deals with Phase 2 Replacement issues.

2. Para 1 of Appendix IV specifies “An entity shall prospectively cease applying paragraph 7 of ICAI Announcement (Appendix III)”. For better understanding of the impact of non application of Para 7, it may be added to allow optional presentation of past period data with retrospective cessation of application of Para 7 to help understand the comparative figures.

3. Para 2 of Appendix IV states As and when the requirements in paragraphs 4-7 of the ICAI Announcement (Appendix III) cease to apply to a hedging relationship (see paragraphs 8-11 of the ICAI Announcement (Appendix III) and paragraph 1), an entity shall amend the formal designation of that hedging relationship as previously documented to reflect the changes required by interest rate benchmark reform. Such changes need to be made in a time bound manner and preferable a time period not exceeding by the end of reporting period may be specified.

4. Para 9(b) of Appendix IV contemplates The basis for determining the contractual cash flows of a financial asset or financial liability can change (b) in a way that was not considered by—or contemplated in—the contractual terms at the initial recognition of the financial instrument, without amending the contractual terms (for example, the method for calculating the interest rate benchmark is altered without amending the contractual terms). At times when financial instruments are amended during the period of operation, such occasion may also be accounted for.

5. Para 16 of Appendix IV states that An alternative benchmark rate designated as a non-contractually specified risk component that is not separately identifiable at the date it is designated shall be deemed to have met that requirement at that date, if, and only if, the entity reasonably expects the alternative benchmark rate will be separately identifiable within 24 months. Such an agreement requires proper disclosure in order for the users to derive meaningful interpretation.