

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG Board or EFRAG TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

## **Interest Rate Benchmark Reform – EFRAG’s FEA - Summary and analysis of the comment letters received**

- 1 Based on the comments received, the EFRAG Secretariat has developed a revised draft EFRAG final endorsement advice that is presented as agenda paper 01-04.

### **Structure of the paper**

- 2 This comment letter analysis contains:
  - (a) Background;
  - (b) Summary of respondents;
  - (c) Summary of respondents’ views;
  - (d) Appendix 1 - detailed analysis of responses to questions in EFRAG’s draft endorsement advice, EFRAG Secretariat’s recommendations and questions to EFRAG TEG; and
  - (e) Appendix 2 – list of respondents.

### **Background**

- 3 The IASB has split its work on the *Interest Rate Benchmark Reform* in two phases. The first phase is addressing issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and a second phase that deals with issues that might affect financial reporting when an existing interest rate benchmark is replaced with an alternative interest rate.
- 4 To address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate, the IASB issued Exposure Draft ED/2019/1 *Interest Rate Benchmark Reform (proposed amendments to IFRS 9, IAS 39 and IFRS 7)* (the 'ED') on 3 May 2019. EFRAG provided a final comment letter on this ED on 20 June 2019. EFRAG generally supported the direction of the project. However, EFRAG recommended that the amendments should also:
  - (a) provide relief from including the uncertainties of IBOR reform in the retrospective assessment;
  - (b) permit the application of the proposed amendments retrospectively to hedges that were discontinued because entities were unable to apply the proposed reliefs;
  - (c) clarify the application of the proposed amendments to a portfolio fair value hedge of interest rate risk and the use of cross-currency swaps; and
  - (d) reconsider the proposed disclosure, as qualitative disclosures are sufficient in this phase.

- 5 The IASB took on board three out of the four EFRAG's comments in the final Amendments.

**Summary of respondents**

- 6 At the time of writing, 20 comment letters have been received.

**Summary of respondents' views**

- 7 Respondents agreed with EFRAG's DEA and suggested limited drafting changes which are detailed in Appendix 1.

**Question to EFRAG TEG**

- 8 Does EFRAG TEG agree with EFRAG Secretariat's recommendations in *Appendix 1: Analysis and Summary of Comments received*?
- 9 Does EFRAG TEG agree to recommend the final endorsement advice to the EFRAG Board for approval?

## Appendix 1 - Detailed analysis of responses to questions in EFRAG's draft endorsement advice, EFRAG Secretariat recommendations and questions to EFRAG TEG

### EFRAG's initial assessment with respect to the technical criteria for endorsement

1 EFRAG's initial assessment of the Amendments is that they meet the technical criteria for endorsement. In other words, the Amendments are not contrary to the principle of true and fair view and meet the criteria of understandability, relevance, reliability, comparability and lead to prudent accounting. EFRAG's reasoning is set out in Appendix 2 of the accompanying *Draft Letter to the European Commission* regarding endorsement of the Amendments.

#### *Summary of constituents' comments*

2 Twenty-one constituents agreed with EFRAG's view.

3 One constituent provided the following drafting comments:

- (a) Page 2 of the DEA: Adding the word "some" before preparers in the following sentence: "Otherwise, *some* preparers might have to discontinue some hedges during 2019 before being able to apply the reliefs provided by the Amendments during 2020.";
- (b) Page 9, paragraph 27: Adding the words "if needed" after the sentence "for some preparers that publish their financial statements very early in the year there is a risk of not being practically able to apply the Amendments to their 2019 financial statements";
- (c) Adding a comment that preparers which have a different year-end, i.e. which publish their financial statements between the date of publication of the Amendments (26 September 2019) and the EU endorsement can also not early adopt the Amendments without EU endorsement;
- (d) Adding that the FASB is also preparing reliefs from the IBOR-transition for US GAAP which affects comparability and level playing field between EU and US; and
- (e) Flagging that scope of the Amendments is still under discussion (e.g. whether Euribor is included in the scope or not).

4 One constituent welcomed the proactive approach taken by EFRAG in ensuring an expeditious EU endorsement process and asked for a similar approach for phase II issues.

5 One constituent noted that providing disclosures about the extent of information that is prevented from not being useful does not generate useful information in itself.

6 One constituent noted it will be necessary for preparers to get the coming amendments (Phase II) endorsed on timely basis for the 30th June closing date, allowing a level playing field with other jurisdictions.

#### *EFRAG Secretariat's recommendations to EFRAG TEG on EFRAG's proposed final position*

7 The EFRAG Secretariat proposes the following changes:

- (a) Changing page 2 in accordance with the comment provided in paragraph 3(a);
- (b) Changing page 9 in accordance with the comment provided in paragraphs 3(b) and 3(c); and
- (c) Changing Appendix III, including an assessment on the FASB Reference rate reform.

## The European public good

- 8 In its assessment of the impact of the Amendments on the European public good, EFRAG has considered a number of issues that are addressed in Appendix 3 of the accompanying *Draft Letter to the European Commission* regarding endorsement of the Amendments.

### *Improvement in financial reporting*

- 9 EFRAG has identified that in assessing whether the endorsement of the Amendment is conducive to the European public good it should consider whether the Amendments are an improvement over current requirements across the areas which have been subject to changes (see paragraphs 3 to 5 of Appendix 3 of the accompanying *Draft Letter to the European Commission*). To summarise, EFRAG's initial assessment is that the Amendments are likely to improve the quality of financial reporting.

#### *Summary of constituents' comments*

- 10 Twenty-one constituents agreed with EFRAG's view.
- 11 One constituent noted that the amendments do not deal with all issues which may arise during the replacement phase. In relation to the reclassification period for discontinued hedges, we have some concerns that the date specified in IFRS 9.6.8.10 and IAS 39.102K could give rise to outcomes which would not be useful to a user of the financial statements. In particular, due to the end date for the relief, immediate reclassification of amounts in a cash flow hedged reserve could be implied for discontinued hedges where the previously hedged loan is amended from IBOR to a risk-free rate. We anticipate that such issues would be dealt with during the replacement phase. This highlights the importance of the IASB also considering such replacement issues on a time critical basis.

#### *EFRAG Secretariat's recommendations to EFRAG TEG on EFRAG's proposed final position*

- 12 No change proposed.

### *Costs and benefits*

- 13 EFRAG is also assessing the costs that are likely to arise for preparers and for users on implementation of the Amendments in the EU, both in year one and in subsequent years. Some initial work has been carried out, and the responses to this invitation to comment will be used to complete the assessment.
- 14 The results of the initial assessment of costs are set out in paragraphs 6 to 13 of Appendix 3 of the accompanying *Draft Letter to the European Commission* regarding endorsement of the Amendments. To summarise, EFRAG's initial assessment is that the Amendments will not result in significant undue costs for preparers and for users they will likely be cost neutral.

#### *Summary of constituents' comments*

- 15 Twenty-one constituents agreed with EFRAG's view.

#### *EFRAG Secretariat's recommendations to EFRAG TEG on EFRAG's proposed final position*

- 16 No change proposed.
- 17 In addition, EFRAG is assessing the benefits that are likely to be derived from the Amendments. The results of the initial assessment of benefits are set out in paragraph 14 to 17 of Appendix 3 of the accompanying *Draft Letter to the European Commission* regarding endorsement of the Amendments. To summarise, EFRAG's initial assessment is that the benefits resulting from the Amendments are likely to outweigh costs associated with their implementation.

*Summary of constituents' comments*

- 18 Twenty-one constituents agreed with EFRAG's view.

*EFRAG Secretariat's recommendations to EFRAG TEG on EFRAG's proposed final position*

- 19 No change proposed.

- 20 EFRAG's initial assessment is that the benefits to be derived from implementing the Amendments in the EU, are likely to outweigh the costs involved.

*Summary of constituents' comments*

- 21 Twenty-one constituents agreed with EFRAG's view.

*EFRAG Secretariat's recommendations to EFRAG TEG on EFRAG's proposed final position*

- 22 No change proposed.

*Other factors*

- 23 EFRAG has identified a number of other factors that could be considered in assessing whether the endorsement of the Amendments is conducive to the European public good (see Appendix 3, paragraphs 18 to 20).

*Summary of constituents' comments*

- 24 Twenty-one constituents agreed with EFRAG's view.

- 25 One constituent stressed the importance of having the Amendments endorsed as soon as possible with a view of being available for early application in 31 December 2019 year-end financial statements.

*EFRAG Secretariat's recommendations to EFRAG TEG on EFRAG's proposed final position*

- 26 No change proposed.

- 27 Do you agree that there are no other factors to consider in assessing whether the endorsement of the Amendments is conducive to the European public good?

*Summary of constituents' comments*

- 28 Twenty-one constituents agreed with EFRAG's view.

- 29 One constituent believed the Amendments promote enhanced transparency about the impact of IBOR reform through the disclosure requirements and thereby support the European public good.

*EFRAG Secretariat's recommendations to EFRAG TEG on EFRAG's proposed final position*

- 30 The EFRAG Secretariat proposes to clarify that the disclosures help to enhance transparency about the impact of IBOR reform.

*Overall assessment with respect to the European public good*

- 31 EFRAG has initially concluded that endorsement of the Amendments would be conducive to the European public good (see paragraphs 21 to 24 of Appendix 3 of the accompanying *Draft Letter to the European Commission*).

*Summary of constituents' comments*

- 32 Twenty-one constituents agreed with EFRAG's view.

*EFRAG Secretariat's recommendations to EFRAG TEG on EFRAG's proposed final position*

33 No change proposed.

## Appendix 2 – List of respondents

<b>Name of constituent</b>	<b>Country</b>	<b>Type / Category</b>
PWC	Global	Audit firm
ISDA	Global	Preparers organisation
FRC	UK	National Standard Setter
Swedish Financial Reporting Board	Sweden	National Standard Setter
Fresenius Medical Care	Germany	Preparer
Siemens	Germany	Preparer
Allianz	Germany	Preparer
BMW	Germany	Preparer
Innogy SE	Germany	Preparer
ProSiebenSat1 Media	Germany	Preparer
Accounting Committee of Chartered Accountants Ireland	Ireland	Audit organisation
Accountancy Europe	Europe	Audit organisation
AFME	UK	Preparers organisation
EBF	Europe	Preparers organisation
BASF	Germany	Preparer
Grant Thornton International	Global	Auditor
EFFAS	Germany	User organisation
Deutsche Bank	Germany	Preparer
BNP Paribas	France	Preparer
OIC	Italy	National Standard Setter
ANC	France	National Standard Setter

**Table 2: Total respondents by country and by type**

<b>Respondent by country:</b>		<b>Respondent by type:</b>	
UK	2	National Standard Setters	4
Germany	9	Auditors	2
Sweden	1	Audit organisations	2
Ireland	1	Preparers	9
Italy	1	User organisation	1
France	2	Preparer organisations	3
European organisations	2		
Global organisations	3		
	21		21