Draft Comment Letter

You can submit your comments on EFRAG's draft comment letter by using the 'Express your views' page on EFRAG's website, then open the relevant news item and click on the 'Comment publication' link at the end of the news item.

Comments should be submitted by 15 May 2020.

International Accounting Standards Board
7 Westferry Circus, Canary Wharf
London E14 4HD
United Kingdom

[XX Month 201X]

Re: Exposure Draft ED/2020/1 Interest Rate Benchmark Reform—Phase 2

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on the Exposure Draft *Interest Rate Benchmark Reform—Phase 2: Proposed amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16,* issued by the IASB on 9 April 2020 (the 'ED').

This letter is intended to contribute to the IASB's due process and does not necessarily indicate the conclusions that would be reached by EFRAG in its capacity as advisor to the European Commission on endorsement of definitive IFRS Standards in the European Union and European Economic Area.

EFRAG generally supports the proposed amendments in the ED, as it will enable entities to reflect the effects from transitioning from IBOR to alternative benchmark rates without giving rise to accounting impacts that would not provide useful information to users of financial statements.

EFRAG notes that the IASB proposes to clarify that a change in the basis on which the contractual cash flows are determined that alters what was originally anticipated constituted a modification of a financial instrument in accordance with IFRS 9 *Financial Instruments*. As an assessment of the impact of this clarification is not possible within the limited timeframe available for this urgent project, EFRAG agrees with limiting the scope of this clarification to the changes solely related to the IBOR reform.

EFRAG agrees with providing a practical expedient requiring an entity to apply paragraph B.5.4.5 of IFRS 9 to account for modifications related to IBOR reform. EFRAG considers that this practical expedient would provide more useful information to users of financial statements and is also expected to significantly reduce the operational burden on preparers.

EFRAG notes that under the current IFRS requirements, a hedging relationship would have to be discontinued solely because of transitioning from IBOR to an alternative benchmark rate by way of a modification of contractual terms of the underlying financial instruments as directly required by the reform. This may be because the entities would have to update the hedge documentation to redefine the hedged risk or to redefine the characteristics of the hedged item or the hedging instrument, or because it would be impracticable to apply the same method of effectiveness measurement after transition. EFRAG observes that the IASB's proposals addresses such accounting consequences appropriately by enabling entities to continue their hedging relationships to reflect the transition to an alternative benchmark rate. EFRAG agrees that such relief is available provided that the modifications are done on an economically equivalent basis. In addition, EFRAG agrees with the proposed amendments in relation to groups of hedged items.

EFRAG suggests that the IASB consider the following when finalizing the standard:

1) IASB's tentative decision to amend IAS 39 to require an entity changing the hedged risk in the hedge documentation for a portfolio hedge of interest rate risk to assume that all items included in the portfolio of financial assets or financial liabilities share the risk being hedged is not reflected in the ED: EFRAG suggests including such amendment to the final standard;

2) clarifying the wording used in paragraph BC49 of the ED: "If the additional changes do not result in discontinuation of hedge accounting, the designation of the hedging relationship would be amended only as required by paragraph 6.9.7 and paragraph 102O of this ED." EFRAG suggests clarifying these words in that the "only" is not meant to say that the additional changes were not to be reflected in the documentation;

3) the current wording used in the ED could imply that remeasurement of both the hedging instrument and the hedged item was required at the time the hedge documentation is amended, regardless of whether the underlying financial instruments are already based on the alternative benchmark rate or still based on IBOR. Hence EFRAG suggests to clarify the wording in the final amendments to require remeasurement of a financial instrument only if it is actually based on alternative benchmark rate;

4) the IASB might consider clarifying the wording used in paragraph BC92 of the ED, that the expectation should always relate to the end of 24-month period, regardless of whether this expectation is made either during or at the end of the 24-month period.

In relation to the proposed amendment to IAS 39 *Financial Instruments: Recognition and Measurement* to reset the cumulative fair value changes to zero for the purpose of effectiveness measurement, EFRAG agrees that this amendment will avoid recognising ineffectiveness that would otherwise arise because the of the differences between IBOR and the alternative benchmark rate.

EFRAG also supports the proposed amendments on IFRS 16 *Leases* and IFRS 4 *Insurance Contracts*, noting that these amendments are proposed for similar reasons as the proposed amendments to apply paragraph B.5.4.5 of IFRS 9 and hence increase comparability.

EFRAG agrees with the proposed disclosures as they will assist users of financial statements in understanding the effects of IBOR reform for an entity to the extent they reflect the entity-specific impacts from transitioning from IBOR to an alternative benchmark rate.

The proposed temporary relief in the context of non-contractually specified risk components on the "separately identifiable" requirement is also supported by EFRAG.

EFRAG agrees that the proposed amendments should be mandatory in order to increase comparability across entities. EFRAG also agrees that no specific end of application requirements need to be specified, because this allows application of the proposed amendments under the different transition paths of IBOR reforms.

EFRAG supports the proposed effective date and transition requirements. Although entities may have to discontinue hedging relationships when transitioning to an alternative benchmark rate before the proposed amendments become applicable, EFRAG considers that both the possibility to early adopt the proposed amendments and the requirement to reinstate hedging relationships that had to be discontinued due to modifications required as direct consequences of the IBOR reform will enable entities to limit the impact of having to discontinue such hedging relationships.

EFRAG's detailed comments and responses to the questions in the ED are set out in the Appendix.

If you would like to discuss our comments further, please do not hesitate to contact Didier Andries, Galina Borisova, Almudena Alcala or me.

Yours sincerely,

Jean-Paul Gauzès
President of the EFRAG Board

Appendix - EFRAG's responses to the questions raised in the ED

Question 1: (paragraphs 6.9.1–6.9.6 of the [Draft] amendments to IFRS 9, paragraphs 20R–20S and 50–51 of the [Draft] amendments to IFRS 4 and paragraphs 104–106 and C1A–C1B of the [Draft] amendments to IFRS 16)

Paragraphs 6.9.2–6.9.6 of the draft amendments to IFRS 9 propose that:

(a) a financial asset or financial liability would be modified if the basis for determining the contractual cash flows is changed after the initial recognition of the financial instrument. In this context, a modification can arise even if the contractual terms of the financial instrument are not amended.

(b) an entity would apply paragraph B5.4.5 of IFRS 9 as a practical expedient to account for a modification of a financial asset or financial liability that is required by interest rate benchmark reform.

(c) a modification is required by interest rate benchmark reform if and only if

    (i) it is required as a direct consequence of interest rate benchmark reform; and

    (ii) the new basis for determining the contractual cash flows is economically equivalent to the previous basis (i.e. the basis immediately preceding the modification).

(d) an entity would also apply the practical expedient proposed in paragraph 6.9.3 if an existing contractual term is activated that results in a change in the basis for determining the contractual cash flows of a financial asset or a financial liability, and particular other conditions are met.

Paragraphs BC10–BC36 of the Basis for Conclusions describe the IASB's reasons for these proposals.

(e) The ED proposes to make corresponding amendments to IFRS 4 that would require insurers applying the temporary exemption from IFRS 9 to apply the same practical expedient as described above.

(f) The ED proposes amendments to IFRS 16 that would require entities to apply paragraph 42 of IFRS 16 to account for a lease modification that is required by interest rate benchmark reform.

Paragraphs BC39–BC41 and paragraphs BC118–BC125 of the Basis for Conclusions describe the IASB's reasons for these proposals.

Do you agree with these proposals? Why or why not? If you agree with only parts of the proposals, please specify what you agree and disagree with. If you disagree with the proposals, please explain what you propose and why.

Notes to constituents – Summary of proposals in the ED

Modifications of financial assets and financial liabilities

2 *During its work on Phase 1 of the project, the IASB received requests from stakeholders to address, as a priority, issues relating to modifications of financial instruments resulting from the reform. In particular, how to account for changes resulting from the reform to financial instruments, including which changes constitute a modification of a financial asset or a financial liability applying IFRS 9.*

3 *To meet the objective of Phase 2, the IASB concluded that the scope of potential proposals would need to include changes to financial instruments as a result of the reform, regardless of the legal form triggering those changes.*

What constitutes a 'modification' of financial assets and financial liabilities (paragraph 6.9.2)

4 *IFRS 9 does not describe what constitutes a 'modification' of a financial asset or financial liability. The IASB acknowledged that the lack of a description and the use of different wording in IFRS 9 could lead to diversity in practice and considered that if the requirements in IFRS 9 for the modification of financial instruments were applied only when the contractual terms are amended, the form rather than the substance of the change would determine the appropriate accounting treatment.*

5 *In the IASB view the change in the basis for determining the contractual cash flows constitutes a modification, even if the contractual terms of the financial instrument are not amended. The IASB considers that it would reflect the economic substance of such a change and would therefore provide useful information to users of financial statements.*

6 *Consequently, the IASB proposed that a financial instrument is modified if the basis for determining the contractual cash flows is changed, after the initial recognition of that financial instrument. In this context, a modification would arise even if the contractual terms of the financial instrument are not amended.*

7 *However, for the purposes of this ED the IASB decided to limit the scope of the proposed amendment only to changes made as a result of the IBOR reform and to consider proposing a narrow-scope amendment to IFRS 9 at a later stage.*

Modifications of financial assets and financial liabilities required by the reform (paragraphs 6.9.3–6.9.4)

8 *The IASB proposed to provide a practical expedient (paragraph 6.9.3) allowing an entity to apply paragraph B5.4.5 of IFRS 9 to account for modifications of a financial instruments directly related to IBOR reform.*

9 *Furthermore, because the objective of the reform is limited to transition to alternative benchmark rates i.e. it does not encompass other changes that would lead to value transfer between parties to the financial instrument, the IASB decided that the scope of the practical expedient would apply only to modifications that satisfy both conditions:*

(a) *they are required as a direct consequence of the reform (a modification is required by the reform, if and only if, the modification is required as a direct consequence of the reform and the new basis on for determining the contractual cash flows is economically equivalent to the previous basis (i.e. the basis immediately preceding the modification); and*

(b) *the new basis for determining the contractual cash flows is economically equivalent to the previous basis (a modification would be economically equivalent if it only involved replacing an interest rate benchmark with an alternative benchmark rate plus a fixed spread that compensated for the basis difference between the interest rate benchmark preceding replacement, and the alternative benchmark rate).*

10 *Applying the practical expedient, an entity would account for a modification required by the reform as a 'movement in the market rates of interest' applying paragraph B5.4.5 of IFRS 9. As a result, an entity would not derecognise the financial instrument, would not adjust its carrying amount or recognise a modification gain or loss (paragraphs 5.4.3 or B5.4.6 of IFRS 9). The IASB concluded that this accounting would provide useful information about the effect of the reform on an*

entity's financial instruments in the circumstances to which the practical expedient applies.

11 *The IASB included some examples of modifications in paragraph 6.9.4 of the ED.*

Changes arising from existing contractual terms (paragraph 6.9.5)

12 *Some entities may effect the reform through the activation of contractual terms that exist in the contract, such as fallback provisions. A fallback provision could specify the hierarchy of rates to which an interest rate benchmark would revert in case the existing benchmark rate ceases to exist. In this case the proposed practical expedient in paragraph 6.9.3 of this ED would not apply, because the fallback provisions, and an associated change in the basis for determining contractual cash flows, are specified and had been contemplated in the existing contract and hence do not constitute a modification.*

13 *To avoid a diversity of accounting outcomes for contracts with and without fallback clauses, the IASB decided to propose in paragraph 6.9.5 of this ED that the practical expedient also apply to revisions to an entity's estimates of future cash payments or receipts arising from the activation of existing contractual terms that are required by the reform.*

14 *The IASB decided that extending the application of the practical expedient to these situations would result in the increased comparability and more useful information.*

Changes that are not required by the reform (paragraph 6.9.6)

15 *If there are changes to the basis for determining the contractual cash flows of a financial instrument other than those required by the reform, an entity would apply the relevant requirements in IFRS 9 to determine if those other changes would result in the derecognition of the financial instrument. If these changes do not result in derecognition, the IASB proposes that an entity would first account for changes required by the reform (i.e. meeting the conditions in paragraph 6.9.3 of this ED) by updating the effective interest rate based on the alternative benchmark rate. Then the entity would account for changes not required by the reform by applying, respectively, paragraph 5.4.3 or paragraph B5.4.6 of IFRS 9.*

Other classification and measurement issues

16 *The IASB concluded that IFRS 9 provides adequate basis to determine the required accounting and therefore no amendments are needed on the matters listed below:*

(a) *derecognising a financial asset or a financial liability from the statement of financial position and the recognition of the resulting gain or loss in profit or loss following a substantial modification;*

(b) *determining whether derecognition of a financial asset following modifications resulting from the reform affects the entity's business model for managing its financial assets;*

(c) *assessing the contractual cash flow characteristics of a financial asset that refers to an alternative benchmark rate;*

(d) *assessing whether the potential derecognition of an existing financial asset and the recognition of a new financial asset, as a result of the reform, would affect the recognition of expected credit losses; and*

(e) *determining potential effects on the accounting for embedded derivatives for financial liabilities in the context of the reform.*

<u>Insurance companies applying the temporary exemption from IFRS 9 (paragraphs 20R–20S of IFRS 4)</u>

17 *Paragraph 20A of IFRS 4 permits an insurer that meets specific criteria to apply IAS 39 for annual periods beginning before the effective date of IFRS 17 (temporary exemption from applying IFRS 9).*

18 *Because of the temporary nature of IFRS 9 exemption, a version of IAS 39 (except for its hedge accounting requirements) would not be updated for any subsequent amendments to other IFRS Standards. This would mean that an insurer applying the temporary exemption would have to apply the requirements in IAS 39 and would therefore not be able to apply the amendments in paragraphs 6.9.1–6.9.5 of this ED.*

19 *Therefore, the IASB decided to propose an amendment to IFRS 4 to require insurers applying the temporary exemption from IFRS 9 to apply requirements that are comparable to paragraphs 6.9.1–6.9.5 of IFRS 9 to financial instruments that are modified as a result of the reform.*

Potential effects of the reform when applying other IFRS Standards

<u>IFRS 16 Leases (paragraphs 104–106)</u>

20 *The IASB proposes a practical expedient to account for a lease modification required by the reform applying paragraph 42 of IFRS 16. The proposed practical expedient requires remeasurement of the lease liability using a discount rate that reflects the change to the basis for determining the variable lease payments as required by the reform. This practical expedient would apply to all lease modifications that change the basis for determining future lease payments as a result of the reform (see paragraphs 6.9.1–6.9.4 of this ED). For this purpose, consistent with the draft amendments to IFRS 9, a lease modification required by the reform is a lease modification that satisfies both conditions—the modification is required as a direct consequence of the reform and the new basis for determining the lease payments is economically equivalent to the previous basis (i.e. the basis immediately preceding the modification.*

21 *The IASB decided not to specify the order of accounting for lease modifications required by the reform and other lease modifications. This is because the accounting outcome would not differ regardless of the order in which an entity accounts for lease modifications required by the reform and other lease modifications.*

<u>IFRS 17 Insurance Contracts</u>

22 *The IASB is not proposing an amendment to IFRS 17 to account for modifications to insurance contracts required by the reform because it does not expect that the estimated fulfilment cashflows would change significantly at the time of a modification required by the reform. However, if an entity renegotiates other terms of the insurance contract with the policyholder in addition to making modifications required by the reform, those other modifications could be made in a way that results in derecognition of the contract applying paragraph 72 of IFRS 17. The IASB concluded that applying the relevant requirements IFRS 17 in accounting for all modifications including those required by the reform, would faithfully represent the economic effects of the reform and therefore, decided that no amendment to IFRS 17 is necessary.*

<u>IFRS 13 Fair Value Measurement</u>

23 *The IASB noted that the classification of instruments in the fair value hierarchy required by IFRS 13 provides useful information to users of financial statements about the valuation techniques and inputs used to develop fair value measurements and the significance of unobservable inputs in the valuation. A reclassification as a consequence of changes in the observability of inputs reflects an economic*

difference. The IASB concluded that proposing any amendments to the requirements relating to the fair value hierarchy would result in a loss of useful information being provided to users of financial statements and would therefore be inconsistent with the objective of Phase 2. The IASB is therefore not proposing amendments to the requirements in IFRS 13.

Discount rates

24 *The reform could have an indirect effect on the calculation of discount rates as required by IFRS Standards in general and could therefore have consequential effects on fair value measurements. Similarly, interest rate benchmarks are often a key component of the discount rate required by other IFRS Standards and a change in the calculation of discount rates resulting from the reform might affect valuations other than fair value. Examples of potential areas that might be affected include provisions applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets, defined benefit obligations applying IAS 19 Employee Benefits, and value-in-use models for the impairment assessment of non-financial assets applying IAS 36 Impairment of Assets.*

25 *In the IASB view, applying the requirements in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors for accounting for changes in estimates when there is a change in a discount rate as a result of the reform provides an appropriate basis to determine the appropriate accounting treatment and provides useful information to users of financial statements. Consequently, the IASB is not proposing any amendments to the requirements pertaining to discount rates in IFRS Standards.*

EFRAG's response

EFRAG notes the proposed amendment that a financial asset or a financial liability would be modified if the basis for determining the contractual cash flows is changed after the initial recognition of the financial instrument, even if the contractual terms of the financial instrument are not amended.

As an assessment of the impact of this clarification is not possible within the limited timeframe available for this urgent project, EFRAG agrees with limiting the scope of this clarification to the changes solely due to the IBOR reform.

EFRAG agrees with providing a practical expedient allowing an entity to apply paragraph B5.4.5 of IFRS 9 to account for modifications related to IBOR reform. This is because EFRAG considers that this practical expedient has the potential to provide more useful information to users of financial statements and is also expected to significantly reduce the operational burden on preparers.

The proposed amendments would also apply to fallback provisions. EFRAG agrees with this proposal because the accounting consequences would then be similar to those under a modification of contractual terms when no fallback provisions exist. However, EFRAG suggests to clarify why activation of fallback provision would be in scope of the requirements added by these Amendments.

EFRAG agrees with the clarification that an entity should first apply paragraph B5.4.5 of IFRS 9 to account for modifications related to IBOR reform to which the practical expedient applies; and thereafter, apply the current IFRS 9 requirements to determine if any other modifications that are not directly required by IBOR reform are substantial; if those modifications are not substantial, the entity should apply paragraphs 5.4.3 or B5.4.6 of IFRS 9.

EFRAG agrees with the proposed amendments on IFRS 16 and IFRS 4. EFRAG observes that these amendments are proposed for similar reasons as the proposed amendments in paragraph 1(b) and hence increase comparability.

EFRAG also agrees that no amendments on other IFRS Standards are necessary because the current requirements already provide a sufficient basis to determine the appropriate accounting.

26 EFRAG notes the proposed amendment that if the basis for determining the contractual cash flows is changed after the initial recognition of the financial instrument, it constitutes a modification of a financial instrument, even if the contractual terms of the financial instrument are not amended.

27 EFRAG agrees with the IASB proposal to limit the scope of the clarification solely to the changes directly related to the IBOR reform. EFRAG considers in particular that broadening the scope of such a clarification could have possible unintended consequences whose implications would require a separate project with sufficient time for due consideration to be assessed which would run counter to the efforts to issue the proposed amendments expeditiously. As an assessment of the impact of this clarification is not possible within the limited timeframe available for this urgent project, EFRAG agrees with limiting the scope of this clarification to the changes directly related to the IBOR reform and considers that the implications of such clarification will be limited.

28 EFRAG agrees with the proposed amendment to apply paragraph B5.4.5 of IFRS 9 instead of modification accounting. This would provide more useful information to users of financial statements by better reflecting the economics of a floating-rate financial instrument transitioning to an alternative benchmark on an economically equivalent basis. Such an approach is also expected to significantly reduce the

operational burden on preparers as they would apply the well-known accounting requirement of updating the effective instrument rate for floating-rate instruments.

29 The proposed amendments would also apply in relation to fallback provisions as outlined in paragraph 6.9.5 of the ED even though these changes are not meeting the description of a modification in paragraph 6.9.2 of the ED as they arise from already existing contractual terms. EFRAG agrees with this proposal because the accounting consequences would then be similar to those under a modification of contractual terms when no fallback provisions exist.

30 EFRAG agrees with the IASB's proposal to clarify that an entity should first apply paragraph B5.4.5 of IFRS 9 to account for changes required by the IBOR reform (meeting the conditions in paragraph 6.9.3 of this ED) to which the practical expedient applies. As a second step, the entity should apply the paragraphs 5.4.3 or B5.4.6 of IFRS 9. EFRAG observes that this would enable entities to reflect the transition to an alternative benchmark rate in the same way regardless of whether the transition was connected with other modifications. The proposed amendment is limited to modifications as directly required by IBOR reform, hence EFRAG agrees that it should not apply to those other modifications. Applying the proposed amendment first will also enable entities to use the updated effective interest rate, i.e. based on the alternative benchmark rate, to recalculate the cash flows of the modified financial instrument, which will avoid using the original IBOR rate for purposes of subsequent measurement after the transition to the alternative benchmark rate took place.

31 EFRAG agrees with the IASB's conclusions in paragraphs BC37-BC38 of the ED to retain the current requirements of IFRS Standards that apply when a modification results in derecognition. The same applies in case of a modification that does not result in derecognition and is not required as a direct consequence of IBOR reform or is not done on an economically equivalent basis. This is because EFRAG observes that the proposed amendments in the ED are limited to IBOR reform, hence any other modifications that are not directly required by IBOR reform, including their accounting impacts, should be dealt with under the current IFRS requirements in the same way as any other modifications.

32 The proposed amendments would also apply in relation to fallback provisions as outlined in paragraph 6.9.5 of the ED even though these changes are described as not meeting the description of a modification in paragraph 6.9.2 of the ED. EFRAG agrees with this proposal because the accounting consequences would then be similar to those under a modification of contractual terms when no fallback provisions exist. However, the description of a modification says that a modification exists when the basis for determining the contractual cash flows is changed after the initial recognition of the financial instrument and can arise even if the contractual terms of the financial instrument are not amended. EFRAG suggests that the IASB clarifies why activation of fallback provisions would not meet the proposed description of a modification. As the activation of a fallback actually changes the basis for determining the contractual cash flows without changing the underlying contractual terms, it would be beneficial to clarify that the reasons why the activation of a fallback provision would be in scope of the requirements added by the Amendments.

33 EFRAG observes that the proposed amendment in paragraph 6.9.6 reflects the wording currently included only in the Basis for Conclusions to IFRS 9, paragraph BC4.253. Including the requirement to apply paragraph B5.4.6 of IFRS 9 to account for a (additional, i.e. changes not required by interest rate benchmark reform) modification of a financial liability that does not result in the derecognition into the main body of the standard will increase clarity on the applicable accounting requirements in such instances and is therefore supported by EFRAG.

34 EFRAG observes that the proposed amendments on IFRS 16 and IFRS 4 enable entities to arrive at an accounting outcome for lease liabilities of a lessee or insurance contracts similar to the proposed amendment to apply paragraph B5.4.5 of IFRS 9 to financial instruments. Hence, the effect of modifications made as a direct consequence of IBOR reform will be reflected in a similar way in entities' financial statements. This will increase comparability of the effects of the IBOR reform across entities and items affected.

35 EFRAG agrees with the IASB's conclusions in paragraphs BC126-BC135 of the ED that the current requirements in other IFRS Standards provide sufficient and adequate guidance to determine the appropriate accounting treatment for potential consequences of the IBOR reform.

Question 2: Amendments to hedging relationships (paragraphs 6.9.7–6.9.10 of the [Draft] amendments to IFRS 9 and paragraphs 102O–102R of the [Draft] amendments to IAS 39)

> Paragraphs 6.9.7–6.9.10 of the draft amendments to IFRS 9 and paragraphs 102O–102R of the draft amendment to IAS 39 propose that an entity would amend the formal designation of the hedging relationship only to make one or more of the changes specified in paragraph 6.9.7 and paragraph 102O as and when 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 interest rate benchmark-based cash flows of the hedged item or of the hedging instrument.
>
> Paragraphs BC42–BC50 of the Basis for Conclusions describe the IASB's reasons for these proposals.
>
> Do you agree with these proposals? Why or why not? If you agree with only parts of the proposals, please specify what you agree and disagree with. If you disagree with the proposals, please explain what you propose and why.

Notes to constituents – Summary of proposals in the ED

Hedge accounting

Amendments to hedging relationships (paragraphs 6.9.7–6.9.10 and paragraphs 102O–102R)

36 Amending the formal designation of a hedging relationship to reflect changes required by the reform would result in the hedging relationship being discontinued. This is because both IFRS 9 and IAS 39 require the formal designation of a hedging relationship to be documented at inception as part of the qualifying criteria for hedge accounting to be applied. Although in limited circumstances, IFRS 9 permits the hedge documentation to be updated without resulting in the discontinuation of hedge accounting, IAS 39 requires hedge accounting to be discontinued when any amendments are made to the hedge designation.

37 The IASB considered that discontinuing hedge accounting solely due to effects of the reform would not always reflect the economic effects of the changes to a hedging relationship and therefore would not always provide useful information to users of the financial statements.

38 For these reasons the IASB decided to propose that, as and when the respective Phase 1 requirements cease to apply, an entity is required to amend the formal designation of the hedging relationship as previously documented to make one or more of the following changes:

(a) *designating the alternative benchmark rate (contractually or non-contractually specified) as a hedged risk;*

(b) *amending the description of the hedged item so it refers to the alternative benchmark rate;*

(c) *amending the description of the hedging instrument so it refers to the alternative benchmark rate; or*

(d) *amending the description of how the entity will assess hedge effectiveness (for IAS 39 only).*

39 *If several changes are made to the hedging relationship, the IASB proposals require an entity to first apply the requirements in IFRS 9 and IAS 39 to determine if those additional changes result in discontinuation of hedge accounting. Equally, if an entity amends the hedge designation beyond what is described in paragraphs 6.9.7 and paragraph 102O of this ED (for example, if it extends the term of the hedging relationship), the entity would first determine if those additional changes to the hedge designation result in the discontinuation of hedge accounting. If they do not, the designation of the hedging relationship would be amended only as required by paragraph 6.9.7 and paragraph 102O of this ED.*

40 *As the Phase 1 exceptions may cease to apply to different hedging relationships and to the different elements within a hedging relationship at different times, the applicable Phase 2 exceptions proposed in this ED may therefore need to be applied at different times, resulting in the designation of a particular hedging relationship being amended more than once.*

EFRAG's response

EFRAG observes that the proposed amendments to hedge accounting will generally enable entities to continue hedging relationships when modifying hedged items and hedging instruments as a direct consequence of the IBOR reform.

EFRAG agrees with the proposed amendments that permit an entity to amend the hedge documentation to reflect the alternative benchmark rate without requiring discontinuation of underlying hedging relationships. EFRAG observes that the IASB's tentative decision to amend IAS 39 to require an entity changing the hedged risk in the hedge documentation for a portfolio hedge of interest rate risk to assume that all items included in the portfolio of financial assets or financial liabilities share the risk being hedged is not reflected in the ED. EFRAG suggests including such amendment to the final standard.

EFRAG observes that the IASB might consider clarifying the wording used in paragraph BC49 of the ED: "If the additional changes do not result in discontinuation of hedge accounting, the designation of the hedging relationship would be amended only as required by paragraph 6.9.7 and paragraph 102O of this ED." EFRAG suggests clarifying these words in that the "only" is not meant to say that the additional changes were not to be reflected in the documentation.

41 EFRAG agrees that a discontinuation of hedge accounting would not provide useful information if this would only be caused by modifications to the hedging relationship directly required by IBOR reform. This corresponds with the rationale of the amendments the IASB has made relating to so-called pre-replacement issues (IBOR Phase 1), which were supported by EFRAG for the same reason.

42 Against this background, EFRAG observes that the proposed amendments on hedge accounting will generally enable an entity that has modified financial instruments as directly required by IBOR reform to continue the hedging relationships affected.

43 EFRAG agrees with the proposed exception from the current requirements so that changes in hedge documentation necessary to reflect modifications that are required as a direct consequence of IBOR reform and are done on an economically equivalent basis do not result in the discontinuation of hedge accounting. This should apply to redefining the hedged risk to refer to an alternative benchmark rate and redefining the description of the hedging instruments or the hedged items to refer to the alternative benchmark rate (paragraphs 6.9.7 and 102O of the ED).

44 EFRAG observes that this exception corresponds with the proposed amendment to apply paragraph B5.4.5 of IFRS 9 to modifications directly required by IBOR reform. When an entity modifies the contractual terms to refer to an alternative benchmark rate accordingly, this will have an impact on the definition of the hedged risk, the description of the hedging instruments and/or the hedged items in the hedge documentation and hedge effectiveness assessment.

45 EFRAG agrees with the IASB's analysis in paragraph BC46 of the ED that discontinuation of hedge accounting and the consequential accounting implications, in particular in terms of ineffectiveness and volatility in profit or loss, would not always provide useful information to users of financial statements. This is because changes in hedge documentation, necessary to reflect modifications directly required by IBOR reform, are not expected to constitute a change in the general risk management strategy and the risk management objective for hedging underlying risks. Instead, these would generally continue to be either hedge of the exposure to variability in cash flows, albeit now associated with movements in alternative benchmark rate (for a cash flow hedge), or hedge of the exposure to changes in fair value, albeit now associated with movements in alternative benchmark rate (for a fair value hedge).

46 Hence, EFRAG agrees with the proposed exception to permit an entity redefining the hedged risk to refer to an alternative benchmark rate and redefining the description of the hedging instruments or the hedged items to refer to the alternative benchmark rate. This will provide clarity to entities that they can reflect the alternative benchmark rate in the hedge documentation without having to discontinue the hedging relationships affected.

47 EFRAG agrees with the proposed amendment to IAS 39 to provide an exception from the current requirements relating to the method used for assessing hedge effectiveness (paragraph 102O(d) of the ED). Under such exception, a change to this method would not result in the discontinuation of hedge accounting when, due to IBOR reform, it is impractical to continue using the same method defined in the hedge documentation at the inception of the hedging relationship. Such an impracticability may arise, for example, when an entity uses regression analysis to assess hedge effectiveness and, at the time that hedging instruments and hedged items are modified to replace IBOR with an alternative benchmark rate, the available historical information for the alternative benchmark rate might not be sufficient to perform the regression analysis.

48 EFRAG observes that the IASB's tentative decision to amend IAS 39 to require an entity changing the hedged risk in the hedge documentation for a portfolio hedge of interest rate risk to assume that all items included in the portfolio of financial assets or financial liabilities share the risk being hedged is not reflected in the ED. EFRAG suggests including such amendment to the final standard because such amendment would be consistent with the objective of the other proposed amendments in that transition from IBOR to an alternative benchmark rate as directly required by the reform should not require an entity to discontinue hedging relationships.

49 EFRAG observes that the IASB might consider clarifying the wording used in paragraph BC49 of the ED: "If the additional changes do not result in discontinuation of hedge accounting, the designation of the hedging relationship would be amended

only as required by paragraph 6.9.7 and paragraph 102O of this ED." EFRAG suggests clarifying these words in that the "only" is not meant to say that the additional changes were not to be reflected in the documentation.

Question 3: Accounting for qualifying hedging relationships and groups of items (paragraphs 6.9.11–6.9.15 of the [Draft] amendments to IFRS 9 and paragraphs 102S–102X of the [Draft] amendments to IAS 39)

Paragraphs 6.9.11–6.9.15 of the draft amendments to IFRS 9 and paragraphs 102S–102X of the draft amendments to IAS 39 propose that:

(a) the requirements in IFRS 9 and IAS 39 would be applied when the designation of a hedging relationship is amended to remeasure the hedging instrument and hedged item based on the alternative benchmark rate and recognise any resulting ineffectiveness in profit or loss.

(b) the amount accumulated in the cash flow hedge reserve at the date the entity amends the description of the hedged item would be deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.

(c) when there is a change in the basis for determining the contractual cash flows of a financial asset or a financial liability previously designated as a hedged item in a hedging relationship that has been discontinued, the amount accumulated in the cash flow hedge reserve for the discontinued hedging relationship would be deemed to be based on the alternative benchmark rate on which the hedged future cash flows will be based.

(d) when applying paragraph 6.9.7 or paragraph 102O to groups of items designated as hedged items, the hedged items would be allocated to sub-groups within the same hedging relationship based on the benchmark rate to which they are referenced and that the proportionality test would be applied to each sub-group separately.

(e) for the purpose of assessing retrospective effectiveness as required by IAS 39, the cumulative fair value changes of the hedged item and hedging instrument would be reset to zero when paragraph 102G of IAS 39 ceases to apply. Paragraphs BC51–BC79 of the Basis for Conclusions describe the IASB's reasons for these proposals.

Paragraphs BC51–BC79 of the Basis for Conclusions describe the IASB's reasons for these proposals.

Do you agree with these proposals? Why or why not? If you agree with only parts of the proposals, please specify what you agree and disagree with. If you disagree with the proposals, please explain what you propose and why.

Notes to constituents – Summary of proposals in the ED

Accounting for qualifying hedging relationships (paragraphs 6.9.11– 6.9.14 and 102S–102W)

<u>*Retrospective assessment (paragraph 102S)*</u>

50 *The IASB proposes a specific amendment to IAS 39 that would require an entity, for the purpose of the retrospective assessment only, to reset to zero the cumulative fair value changes of the hedging instruments when the exception from the retrospective assessment ceases to apply as required by paragraph 102M of IAS 39. However, the IASB does not propose any exception from the measurement requirements in IFRS 9 and IAS 39.*

<u>Prospective assessments</u>

51 *The collective term 'prospective assessments' is used to refer to the requirements in paragraph 6.4.1(c)(i) of IFRS 9 (the existence of an economic relationship between the hedged item and the hedging instrument) and paragraph 88(b) of IAS 39 (the expectation that the hedge will be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk).*

52 *The IASB considered that, following an amendment to the formal designation of the hedging relationship (see paragraphs 6.9.7 and 102O of this ED), the prospective assessments should be performed based on the alternative benchmark rate on which the hedged cash flows and/or the hedged risk will be based. The IASB is therefore not proposing any exceptions from the prospective assessments for the period after the Phase 1 exceptions to prospective assessments cease to apply.*

<u>Remeasurement of the hedged item and hedging instrument (paragraphs 6.9.11–6.9.12 and paragraphs 102T–102U)</u>

53 *The IASB proposes that for the purpose of applying the hedge accounting requirements in IFRS 9 and IAS 39 to a **fair value hedge**, the hedged item and hedging instrument are remeasured as if the items had been based on the alternative benchmark rate and a corresponding gain or loss is recognised in profit or loss.*

54 *The IASB also proposes that for a **cash flow hedge**, the cumulative amount recognised in the cash hedge reserve is remeasured to the lower of:*

(a) *the cumulative gain or loss on the hedging instrument calculated taking into consideration the change to the alternative benchmark rate; and*

(b) *the cumulative change in fair value of the hedged cash flows on the hedged item (i.e. the 'hypothetical derivative') as if the hedged cash flows had been based on the alternative benchmark rate.*

<u>Cash flow hedges (paragraphs 6.9.13–6.9.14 and paragraphs 102V–102W)</u>

55 *As hedge accounting would not be discontinued for changes required by the reform applying the proposals in this ED, the IASB decided to propose that an entity deems the amount accumulated in the cash flow hedge reserve to be based on the alternative benchmark rate. Therefore, in applying paragraph 6.5.11(d) of IFRS 9 or paragraph 97 of IAS 39, the amount accumulated in the cash flow hedge reserve would be reclassified to profit or loss in the same period (or periods) during which the hedged cash flows based on the alternative benchmark rate affect profit or loss.*

56 *For the previously discontinued hedging relationships, the IASB decided to propose the similar exception: an entity deems the amount accumulated in the cash flow hedge reserve to be based on the alternative benchmark rate. That amount is reclassified to profit or loss in the same period(s) in which the hedged future cash flows based on the alternative benchmark rate affect profit or loss.*

Groups of items (paragraph 6.9.15 and paragraph 102X)

57 *During the transition period the financial instruments might transition to a new rate at different times. Therefore, for cash flow hedges of groups of items, the hedged items could consist of items still referenced to the interest rate benchmark as well as items that are already referenced to the alternative benchmark rate. Therefore, the IASB proposed that when amending the description of the hedged items applying paragraph 6.9.7 and paragraph 102O of this ED, the entity would allocate the hedged items to subgroups based on the benchmark rate to which they are referenced and designate the benchmark rate for each sub-group as the hedged risk. The entity would apply the proportionality test to each subgroup separately.*

58 *In the IASB's view, by performing the proportionality test separately for each sub-group referencing a different benchmark rate (subject to the hedging relationship satisfying the other qualifying criteria for hedge accounting), the 'hypothetical derivative' used to measure the change in the fair value of the hedged items would be representative of the hedged cash flows of the group of hedged items.*

59 *This proposal represents an exception to hedge accounting requirements in IFRS 9 and IAS 39. However in the IASB's view this exception would not affect the robustness of the hedge accounting requirements, because all other hedge accounting requirements are applied to the hedging relationship in its entirety, therefore if any sub-group fails to meet the requirements despite this proposed relief, hedge accounting for the hedging relationship in its entirety would be discontinued.*

EFRAG's response

EFRAG agrees that the requirements in IFRS 9 and IAS 39 would be applied when the designation of a hedging relationship is amended to remeasure the hedging instrument and hedged item based on the alternative benchmark rate and recognise any resulting ineffectiveness in profit or loss. This should take place when each underlying financial instrument is modified. However, EFRAG observes that the current wording used in the ED could imply that remeasurement of both the hedging instrument and the hedged item is required at the time the hedge documentation is amended.

EFRAG agrees with the proposed amendment to IAS 39 to provide an exception from the current requirements relating to the method used for assessing hedge effectiveness.

Moreover, EFRAG agrees with the proposed amendments in relation to hedges of groups of items and portfolio hedges because these amendments are consistent with the objective to continue hedging relationships when transitioning from IBOR to an alternative benchmark rate.

60 EFRAG agrees that an entity is (subject to paragraph 102S of this ED) generally required to continue to apply requirements in IFRS Standards to measure the hedging instrument and the hedged item and to recognise in profit or loss hedge ineffectiveness that may arise due to any consequential valuation adjustments required by IFRS 9 and IAS 39. EFRAG observes that this reflects the economics of the hedging relationships and its underlying items and hence provides useful information to users of financial statements. This also corresponds with EFRAG's view on Phase 1 where no corresponding relief was supported either.

61 EFRAG agrees that the requirements in IFRS 9 and IAS 39 would be applied when the designation of a hedging relationship is amended to remeasure the hedging instrument and hedged item based on the alternative benchmark rate and recognise any resulting ineffectiveness in profit or loss. This should take place only when the underlying financial instrument is modified and should relate only to this financial instrument. However, EFRAG observes that the current wording used in the ED could imply that remeasurement of both the hedging instrument and the hedged item was required at the time the hedge documentation is amended, regardless of whether the underlying financial instruments are already based on the alternative benchmark rate or still based on IBOR. Hence EFRAG suggests to clarify the wording in the final amendments to require remeasurement of a financial instrument only if it is actually based on alternative benchmark rate.

62 EFRAG agrees with the IASB tentative decisions with regard to hedges of a group of items. The IASB proposed to amend IFRS 9 and IAS 39 that apply when items within a designated group are amended for modifications that are required as a direct consequence of IBOR reform and are done on an economically equivalent

basis. If so, as described in paragraph 6.9.15 of the ED, an entity would be permitted to amend the hedge documentation to define the hedged items by way of two subgroups within the designated group of items and apply the requirements for group designations to each group separately. One group would be referencing the original interest rate benchmark and the other would be referencing the alternative benchmark rate. In addition, both rates would be treated as if they share similar risk characteristics (but only in relation to a group of items designated under IAS 39).

63 EFRAG observes that these proposed amendments are consistent with the objective to continue hedging relationships when transitioning from IBOR to an alternative benchmark rate. EFRAG observes that the proposed two subgroups would enable entities to do so without a need to amend key requirements that apply when designating groups of items, the so-called proportionality test and the requirement of similar risk characteristics under IAS 39. Hence, EFRAG agrees with the proposed amendments on subgroups because this will enable entities to reflect the transition to an alternative benchmark rate within a group of hedged items without amending the key requirements that apply in such cases.

Question 4: Designation of risk components and portions (paragraphs 6.9.16–6.9.18 of the [Draft] amendments to IFRS 9 and paragraphs 102Y–102Z1 of the [Draft] amendments to IAS 39)

Paragraphs 6.9.16–6.9.18 of the draft amendments to IFRS 9 and paragraphs 102Y–102Z1 of the draft amendments to IAS 39 propose that:

(a) an alternative benchmark rate designated as a non-contractually specified risk component that is not separately identifiable at the date it is designated, would 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 a period of 24 months from the date the alternative benchmark rate is designated as a risk component.

(b) if subsequently, an entity reasonably expects that the alternative benchmark rate will not be separately identifiable within 24 months from the date it was designated as a risk component, an entity would cease applying the requirement in paragraph 6.9.16 and paragraph 102Y and discontinue hedge accounting prospectively from the date of that reassessment.

Paragraphs BC87–BC97 of the Basis for Conclusions describe the IASB's reasons for these proposals.

Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you propose and why.

Notes to constituents – Summary of proposals in the ED

Designation of risk components and portions (paragraphs 6.9.16–6.9.18)

64 The IASB noted that both IFRS 9 and IAS 39 require risk components to be separately identifiable and reliably measurable to qualify for hedge accounting.

65 The objective of the reform is to modify some interest rate benchmarks or replace them with alternative benchmark rates, an entity might expect that even though it may not be the case at the point of designation, the volume and liquidity of debt instruments referenced to an alternative benchmark rate in a particular market or jurisdiction will be sufficient to meet the requirements in IFRS 9 and IAS 39.

66 To avoid the complexity the IASB proposed that an entity must cease to apply the requirement for a 24-month period if and only if the entity reasonably expects that the alternative benchmark rate will not meet the separately identifiable requirement within a 24-month period. If the hedging relationship fails to meet any other criteria *to apply hedge accounting as set out in IFRS 9 or IAS 39, the entity must discontinue hedge accounting.*

67 The IASB decided that proposing an amendment only for the separately identifiable requirement would achieve the objective described in paragraph BC6.

68 The IASB acknowledged that the proposed 24-month period, to apply the relief in paragraphs 6.9.16 and 102Y of the ED, may seem inconsistent with the Phase 1 exception for which the IASB did not require a specific end date. However, the IASB noted that the Phase 1 exception from the separately identifiable requirement, applied to hedging relationships in which the non-contractually specified risk component had met the separately identifiable requirement, both at inception and during the life of the hedging relationship until the Phase 1 exceptions were applied.

69 For that reason, the Phase 2 proposal is different from the Phase 1 exception because the alternative benchmark rates have not yet satisfied the separately identifiable requirement as a non-contractually specified risk component.

EFRAG's response

EFRAG agrees with the IASB's tentative decision to provide temporary relief in the context of non-contractually specified risk components on the "separately identifiable" criterion.

EFRAG observes that the IASB might consider clarifying the wording used in paragraph BC92 of the ED, that the expectation should always relate to the end of 24-month period, regardless of whether this expectation is made either during or at the end of the 24-month period.

70 EFRAG observes that limiting the temporary relief to a 24-month period is not expected to be an impediment for timely transition to alternative benchmark rates.

71 EFRAG observes that, in absence of such a relief period or if the relief period would be significantly shorter than the proposed 24-month period, it could be more complex for entities to designate such risk component when transitioning to alternative benchmark rates in the early stages of an IBOR reform.

72 EFRAG observes that the IASB might consider clarifying the wording used in paragraph BC92 of the ED: "When an entity reasonably expects that an alternative benchmark rate will not meet the separately identifiable requirement, either during, or at the end of, the 24-month period, the entity must discontinue hedge accounting prospectively." EFRAG suggests clarifying these words in that the expectation should always relate to the end of 24-month period, regardless of whether this expectation is made either during or at the end of the 24-month period.

73 EFRAG observes that the IASB does not propose an equivalent relief on the requirement of a risk component being reliably measurable. EFRAG notes that usually both criteria for designating a risk component are intertwined so that generally either both or none are met. Granting a relief only in relation to the criterion of a risk component being separately identifiable may therefore not ensure that a particular alternative benchmark interest rate will be eligible as being a designated risk component.

74 EFRAG considers that reliable measurement is one of the key principles of hedge accounting and, consequently, any exception from a component being reliably measurable could undermine the objective and discipline of hedge accounting and result in information with little, or no, information value to users of financial statements. Against this background, EFRAG agrees that, from a conceptual perspective, it is difficult to grant a robust relief in relation to this basic principle of reliable measurement.

Question 5: Effective date and transition (paragraphs 7.1.9 and 7.2.36–7.2.38 of the [Draft] amendments to IFRS 9 and paragraphs 108H–108J of the [Draft] amendments to IAS 39)

(a) The ED proposes that the amendments would have an effective date of annual periods beginning on or after 1 January 2021. Earlier application would be permitted.

(b) The ED proposes that the amendments would be applied retrospectively in accordance with IAS 8, except as specified in (ii) below. An entity would:

(i) reinstate a discontinued hedging relationship if and only if the entity discontinued that hedging relationship solely due to changes required by interest rate benchmark reform and, therefore, the entity would not have been required to discontinue that hedging relationship if the amendments had been applied at that time.

(ii) not be required to restate prior periods to reflect the application of these amendments. However, the entity may restate prior periods if, and only if, it is possible without the use of hindsight.

Paragraphs BC110–BC115 of the Basis for Conclusions describe the IASB's reasons for these proposals.

Do you agree with these proposals? Why or why not? If you agree with only parts of the proposals, please specify what you agree and disagree with. If you disagree with the proposals, please explain what alternative you propose and why.

Notes to constituents – Summary of proposals in the ED

75 Acknowledging the urgency of the matter, the IASB proposes that the effective date of these amendments is annual periods beginning on or after 1 January 2021, with earlier application permitted.

76 In addition, the IASB proposes that the amendments be applied retrospectively.

77 The IASB acknowledged that the reinstatement of discontinued hedging relationships is inconsistent with the IASB's previous decisions in respect to hedge accounting in IFRS 9 and IAS 39. This is because hedge accounting is applied prospectively and applying it retrospectively to hedging relationships that have been discontinued usually require the use of hindsight. Therefore, the IASB decided to propose that hedging relationships that were discontinued solely due to changes required by the reform before an entity first applies the proposed amendments are required to be reinstated as specified in paragraph 7.2.37 or paragraph 108I of the ED.

EFRAG's response

> **EFRAG agrees with the tentative decisions taken by the IASB on effective date and transition requirements.**
>
> **EFRAG agrees that the proposed amendments should be mandatory in order to increase comparability across entities. EFRAG agrees that no specific end of application requirements need to be specified, because this allows application of the proposed amendments under the different transition paths of IBOR reforms.**
>
> **Although entities may have to discontinue hedging relationships when transitioning to an alternative benchmark rate before the proposed amendments become applicable, EFRAG considers that both the possibility to early adopt the proposed amendments and the requirement to reinstate hedging relationships that had to be discontinued due to modifications required as direct consequences of the IBOR reform will enable entities to limit the impact of having to discontinue such hedging relationships.**

78 EFRAG agrees that the initial application of the proposed amendments is proposed to be for annual periods beginning on or after 1 January 2021, with earlier application permitted. This corresponds with the current benchmark rate reforms going on mainly in 2020 and 2021.

79 EFRAG observes that mandatory application of the proposed amendments will increase comparability across entities that are affected by the IBOR reform.

80 EFRAG agrees that the proposed amendments can only be applied to modifications of financial instruments and changes to hedging relationships that satisfy the relevant criteria and, as such, no specific end of application requirements need to be specified. This is because, as expressed in EFRAG's comment letter to Phase 1, the transition paths of different IBORs are not identical. EFRAG notes that a specific end date would bear the risk for entities not to be able to apply the proposed amendments if transition under a particular IBOR reform would be ongoing during a specific end date.

81 EFRAG also agrees with the proposed retrospective applications of the proposed amendments, in particular on the requirement to reinstate hedging relationships that had to be discontinued due to modifications required as direct consequences of the IBOR reform.

82 In general, EFRAG observes that the transition from IBOR to an alternative benchmark rate should not be delayed due to accounting considerations. If an entity transitions financial instruments to be based on an alternative benchmark rate as required as a direct consequence of the reform, EFRAG observes that discontinuation of hedging relationships may be required under the current accounting provisions. However, by retrospective application with the requirement to reinstate such hedging relationships, the effect of such discontinuation would only be temporary.

Question 6: Disclosures (paragraphs 24I–24J and paragraphs 44HH–44II of [Draft] amendments to IFRS 7 *Financial Instruments - Disclosures*)

> The ED proposes that entities provide specific disclosures in order to provide information about:
>
> (a) the nature and extent of risks arising from interest rate benchmark reform to which the entity is exposed, and how it manages those risks; and

(b) the entity's progress in completing the transition from interest rate benchmarks to alternative benchmark rates, and how the entity is managing that transition.

Paragraphs BC105–BC109 of the Basis for Conclusions describe the IASB's reasons for this proposal.

Do you agree with this proposal? Why or why not? If you disagree with the proposals, please explain what you propose instead and why.

Notes to constituents – Summary of proposals in the ED

83 The IASB decided not to propose requiring quantitative disclosures of what the effects of the reform would have been in the absence of the proposed amendments because the cost of providing such information could outweigh the benefits provided by the proposed amendments. In addition, the IASB decided not to propose requiring entities to provide the disclosure required by paragraph 28(f) of IAS 8.

84 The IASB decided to propose limited additional disclosure requirements as set out in paragraphs 24I–24J of the ED. Given the objectives of the disclosure requirements as set out in paragraph 24I of IFRS 7, in the reporting period(s) when they apply the proposed amendments to IFRS 9, IAS 39, IFRS 4 or IFRS 16 set out in the ED.

EFRAG's response

EFRAG agrees that the proposed disclosures will assist users of financial statements in understanding the effects of IBOR reform for an entity to the extent they reflect the entity specific impacts from transitioning from IBOR to an alternative benchmark rate.

However, EFRAG observes that the proposed disclosures in paragraph 24J(c) of IFRS 7 may be less helpful to users of financial statements because the disclosures are expected to be less entity specific.

85 As outlined in paragraph 24J(c) of IFRS 7, the IASB proposes disclosing an explanation of how an entity determined the base rate and relevant adjustments to the rate to assess whether the modifications to contractual cash flows were required as a direct consequence of IBOR reform and have been done on an economically equivalent basis. EFRAG observes that transitioning from IBOR to an alternative benchmark rate under a market wide reform will require similar assessments across entities in this regard.

86 In addition, EFRAG observes that an assessment of whether modifications to contractual cash flows were required as a direct consequence of IBOR reform and have been done on an economically equivalent basis is a necessary requirement to apply the proposed amendments.

87 Against this background, the IASB may reconsider whether disclosing information as proposed in paragraph 24J(c) of IFRS 7 will provide entity-specific information that is useful to users of financial statements and not be considered boilerplate.

Question to EFRAG TEG

88 Questions to EFRAG TEG are included in the Cover Note (Agenda Paper 06-01 for this meeting).