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Interest Rate Benchmark Reform – Update on Phase 2 Cover Note

Objective

- 1 The objective of this session is to provide an update of the IASB's work on Phase 2 of the Interest Rate Benchmark Reform project and to discuss the IASB's tentative decisions on end of phase 1, other IFRS, disclosures, and the next steps.

Next steps

- 2 The IASB has discussed in February 2020:
 - (a) Sweep issue—Modification of financial instruments (AP14A);
 - (b) Hedges of risk components—separately identifiable requirement (AP14B);
 - (c) End of Phase 2 amendments and voluntary versus mandatory application (AP14C);
 - (d) Effective date and transition requirements (AP14D); and
 - (e) Due Process Steps (AP14E).
- 3 At the time this agenda paper was written, the IASB notes for the February meeting have not yet been published. However, EFRAG Secretariat observed that the proposals from the IASB staff in the agenda papers (attached as Appendix I) were approved by the IASB with only limited amendments.
- 4 The EFRAG Secretariat observes that the issues in paragraph 2(a) and 2(d) relate to issues identified by EFRAG FIWG and EFRAG TEG previously:
 - (a) The IASB will limit the scope of the proposed amendment at this time only to changes made in the context of IBOR reform. Following the completion of Phase 2, the IASB will then proceed with proposing a narrow-scope amendment to the permanent structure of IFRS 9, potentially within the annual improvements project.
 - (b) The proposed amendments will have to be applied retrospectively. This will include a requirement of reinstating hedging relationships that have been discontinued before the entity first applies the proposed amendments, solely due to changes directly required by the reform, if and only if, the entity can demonstrate that the hedging relationship would not have been discontinued if the proposed amendments were available at that time and that it can be done without the use of hindsight.
- 5 The IASB Staff received permission to ballot at the February meeting.
- 6 The proposed IASB project timeline is as follows:

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Timeline	Project plan
February/March 2020	Board finishes deliberations, including the comment period, due process steps and permission to ballot. Proceed with drafting those amendments.
April 2020	Publish an Exposure Draft
May 2020	Comment period ends
June 2020 and thereafter	Provide feedback to the Board Board re-deliberations Issue final amendments

Agenda paper

- 7 In addition to this cover note, agenda papers for this session are:
- (a) Agenda paper 09-02 – *Interest Rate Benchmark Reform – End of Phase 1, Other IFRS Standards, Disclosure;*
 - (b) Agenda paper 09-03 – *Overview of tentative decisions*
 - (c) Appendix I – *IASB Agenda Papers - February 2020 meeting.*
 - (d) Appendix II – *FASB materials on Reference Rate Reform*

Feedback from EFRAG FIWG

- 8 The discussion of EFRAG FIWG was based on the IASB Staff proposals as outlined in the IASB Agenda Papers for the IASB February meeting only.
- 9 With reference to the IASB Agenda Paper 14A for the IASB February meeting, EFRAG FIWG members welcomed the IASB Staff's proposal on limiting the scope of the proposed amendment on the definition of a modification of financial instruments (particularly absent a change in contractual terms) at this time only to changes made in the context of IBOR reform and addressing the issue of modifications separately, potentially within the Annual Improvements Project.
- 10 With reference to the IASB Agenda Paper 14B for the IASB February meeting, EFRAG FIWG members observed that separately identifiable and reliably measureable are usually connected, so limiting the proposed relief only in relation to separately identifiable may not be as helpful as intended.
- 11 In addition, EFRAG FIWG members discussed the proposed relief on the requirement to separately identify a component of a hedged item. This was proposed to be limited to a 12 months period in the IASB Agenda Paper. EFRAG FIWG members discussed whether consistency between entities could be improved by referencing to an IBOR reform per se or a fixed date following the effective date. This was due to a concern that with the current proposal there would a disincentive to transition to an alternative benchmark rate sooner, rather than later, given the sooner an entity modifies its contracts the less certain it will know whether the separately identifiable test will be passed in 12 months' time as the entity cannot

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control how the market evolves. It was noted that if in 12 months after modification the separately identifiable test is not met then the hedge would require discontinuation.

- 12 Subject to the IASB Notes, the EFRAG Secretariat observed from the IASB February meeting that the relief period is to be extended to 24 months from the time the hedge documentation is changed.
- 13 With reference to the IASB Agenda Papers 14C and 14D for the IASB February meeting, the IASB Staff's proposals on effective date and transition requirements were welcomed by EFRAG FIWG members.

Questions for EFRAG TEG

- 14 Does EFRAG TEG share the views of EFRAG FIWG?
- 15 Are there comments from EFRAG TEG on the tentative decisions the IASB has taken in February 2021, in particular to those described in paragraphs 4 and 12?
- 16 Are there comments from EFRAG TEG on the project timeline?