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Interest Rate Benchmark Reform – Update on Phase 2

Overview of tentative decisions

Objective

- 1 This session is to provide an overview to the tentative decisions the IASB has taken during its project so far (subject to the IASB Notes for the February meeting). The tentative decisions taken by the FASB are also included for information purposes.

Issue	Description	EFRAG preliminary view (TEG with input of FIWG)	FASB (see Appendix II)
Modification: Scope	Change in calculation constitutes a modification even if no change to contractual terms To be limited to IBOR-related changes only	Agree with the scope limitation	Modification relates to changes to the terms only
Modification: practical expedient	Apply B5.4.5 instead of modification accounting Applies also to lessees	Supported	Similar proposals No reassessment of embedded derivatives

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Modification: Assessment	No changes to modification or derecognition assessment if modification goes beyond changes directly required by the reform	Supported	Similar proposals
Hedge Accounting: Documentation	Changes in hedging relationships and hedge documentation necessary to reflect modifications to the hedged item or hedging instruments 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	Supported	Similar proposals
Hedge Accounting: Portfolio Hedges	Assume that all items included in the portfolio of financial assets or financial liabilities share the risk being hedged	Supported	Topic not addressed
Hedge Accounting: Effectiveness measurement	In general, no exceptions. Reset fair value changes to zero when uncertainty is resolved (retrospective assessment under IAS 39)	Supported	Topic not addressed (relief granted is similar to Phase 1)

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Hedge Accounting: Groups of items	<p>Define two subgroups</p> <p>Apply proportionality test separately to each subgroup</p> <p>Amend hypothetical derivative to reflect two subgroups</p> <p>Assume two benchmarks share similar risk characteristics</p>	Supported	May ignore requirement that transactions in a group shall share the same risk (CFH)
Hedge Accounting: SIRM	Relief to separately identify a risk component, to be granted for 24 months only.	FIWG: concern on 12 month period (IASB Staff proposal) and interaction with reliable measurement	Topic not addressed
IFRS 4: Deferral approach	Apply the amendments in accounting for modifications directly required by IBOR reform.	Supported by FIWG	No issue
IFRS 13, IFRS 17, other IFRS Standards	<p>No changes</p> <p>Changes in accounting estimates to be applied prospectively</p>	Supported by FIWG	Topics not addressed
IFRS 7 - Disclosures	Focus on nature and extent of risks arising from IBOR reform for each significant benchmark rate, including approach to transition and risk management	FIWG: Concern that some disclosures may be of limited use to users of financial statements	Yet to be discussed

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Effective Date	January 1, 2021 Early application permitted Mandatory application No defined end of application	Supported by FIWG	Once ASB is published (during 2020) Voluntary application, case by case Defined end 31.12.2022 FASB will continue monitoring future developments
Transition	Retrospective application with reinstatement of discontinued hedging relationships due to IBOR reform	Supported by FIWG	Prospective application

Questions for EFRAG TEG

2 Does EFRAG TEG have comments on the tentative decisions by the IASB?