FÉDÉRATION BANCAIRE FRANÇAISE

Banking supervision
And Accounting issues Unit

The Director

Paris, May 14th, 2020.

FBF comments on EFRAG draft letter on IASB ED/2020/1 Interest Rate Benchmark Reform Phase 2 (Proposed amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

Dear Mr Gauzes,

The French Banking Federation is pleased to share with the EFRAG its comments on the IASB exposure-draft ED/2020/1 *Interest Rate Benchmark Reform Phase 2.*

We appreciate the initiative of the IASB to deal with the phase 2 of the IBOR reform regarding the accounting issues affecting financial reporting when an existing interest rate benchmark is replaced.

We welcome the amendments proposed to IFRS 9 and IAS 39 in addressing the hedge accounting issues relating to the Phase 2 of the IBOR reform. However, we have concerns with certain aspects of the fair value hedge accounting and with the scope and the scale of the disclosures requested.

Having read the paragraphs of the ED related to fair value hedge accounting (IFRS 9.6.9.11, IAS 39.102T and BC61 and BC 63), we question the relevance and the usefulness of remeasuring the hedged item and the hedging instrument that would lead to recognising a day-one profit or loss on the day the underlying benchmark rate of the hedging instrument is modified, as benchmark rate changes are made on an equivalent economic basis and as hedging relationships would not be discontinued for changes required by the IBOR reform applying the proposed amendments.

Mr Jean-Paul GAUZES
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We believe that no day-one profit or loss should be recognised as a result of modifying the hedging instrument by measuring the hedged item using the alternative benchmark rate. Instead, the remeasurement of the hedged items by adjusting the credit margin should be allowed to take into account the alternative benchmark rate used to remeasure the fair value of the hedging instrument. Therefore, we would suggest clarifying the interaction between IFRS 9.6.9.11 and IAS 39.102T and BC61 and BC 63. The IASB should make possible to remeasure the cash flows on the hedged item at the date of the hedging instrument remeasurement using adequate parameters, and especially an adjusted credit margin, consistent with the alternative benchmark rate.

Besides, the ED requests a high level of detailed quantitative disclosures consisting in the disaggregation of all the financial instruments carrying amounts in the balance sheet by benchmark rates. This will generate undue costs as the information (carrying amount per index) is not used for accounting purposes at a so disaggregated level and not available in the accounting systems. Moreover, we question the relevance of such information for the users.

Therefore, we would advocate to disclose the relevant information used by the entity to monitor the IBOR reform progress, i.e. to disclose information that is not of accounting nature, that could differ from the financial instruments' carrying amounts but that is derived from the management information. Such disclosures would be useful to meet the purpose of understanding the entity's progress in completing the transition. This will strike a fair balance between the cost/benefit concerns of preparers that have to provide information for the IBOR reform transitional period that will not last and the cost/ benefit concerns of investors in a context where investors will have to face other more sensitive priorities in the coming months.

We also believe that focus should be put on qualitative disclosures to provide explanation on how the entity manages the transition to the benchmark interest rate reform, on whether and how the reform impact business management strategy and on the progress made to transitioning to alternative benchmark rates.

We hope you find our comments useful and would be pleased to provide any further information you might require.

Yours sincerely,

Bertrand Lussigny