EFRAG
European Financial Reporting Advisory Group

*Interest Rate Benchmark Reform – Phase 2: Proposed amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16*

# Feedback to respondents – EFRAG Final Comment Letter

## November 2020

## Summary of contents

# 1 Introduction

EFRAG published its final comment letter on the Exposure Draft 2020/1 *Interest Rate Benchmark Reform – Phase 2: Proposed Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16* ('the ED') on 26 May 2020. This feedback statement summarises the main comments received by EFRAG on its draft comment letter and explains how those comments were considered by EFRAG during its technical discussions leading to the publication of EFRAG's final comment letter.

## 1.1 Background to the ED

In 2018, the IASB Board decided to add a project to its agenda to consider the financial reporting implications of interest rate benchmark reform. The IASB Board identified two groups of issues:

- issues affecting financial reporting in the period before the reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark rate (pre-replacement issues, Phase 1); and
- issues that might affect financial reporting during the reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark rate (replacement issues, Phase 2).

In September 2019, the IASB Board amended IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*, to address Phase 1.

The objective of Phase 2 was to assist entities with providing useful information to users of financial statements and to support preparers in applying IFRS Standards when changes are made to contractual cash flows of financial instruments and the impact on hedging relationships, as a result of the transition to alternative benchmark rates.

## 1.2 EFRAG's draft comment letter

EFRAG published a draft comment letter on the proposals on 23 April 2020. In the draft comment letter, EFRAG generally supported the proposed amendments and noted 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 constitutes a modification of a financial instrument in accordance with IFRS 9.

EFRAG agreed with providing a practical expedient requiring an entity to account for modifications related to the IBOR reform and limiting the scope of the practical expedient to modifications directly required by the IBOR reform. In addition, EFRAG agreed with the proposed amendments in relation to hedge accounting. However, EFRAG was concerned about the amendments on the "separately identifiable" requirement as the wording seemed to introduce application guidance to the current hedge accounting requirements that may result in a narrower scope for hedge designation and proposed to adapt the wording in order to avoid unintended consequences.

EFRAG made several suggestions for the IASB to consider when finalising the standard.

EFRAG also supported the proposals on IFRS 16 *Leases* and IFRS 4 *Insurance Contracts*. EFRAG agreed with the proposed disclosures as they will assist users of financial statements in understanding the effects of the IBOR reform.

EFRAG agreed that the proposed amendments should be mandatory in order to increase comparability across entities. EFRAG also agreed 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 the IBOR reforms.

EFRAG supported the proposed effective date and transition requirements.

## 1.3 Comments received from respondents

EFRAG has received and considered eleven comment letters from respondents. These comment letters are available on the EFRAG website.

The comment letters received came from national standard setters, business associations, an audit association, a preparer and a regulator.

EFRAG received positive feedback on its draft comment letter and most constituents supported the proposals made. In addition, some constituents encouraged EFRAG to consider particular additional aspects that were not covered in the draft comment letter.

## 1.4 EFRAG's final comment letter

EFRAG issued its final comment letter on 26 May 2020. EFRAG generally supported the proposed amendments in the ED.

EFRAG agreed with limiting the scope of the clarification - that a change in the basis on which the contractual cash flows are determined that alters what was originally anticipated constitutes a modification of a financial instrument in accordance with IFRS 9 - to the changes solely related to the IBOR reform.

EFRAG also agreed with providing a practical expedient requiring an entity to apply paragraph B.5.4.5 of IFRS 9 to account for modifications related to the IBOR reform.

EFRAG agreed with providing a practical expedient requiring an entity to account for modifications related to the IBOR reform. In addition, EFRAG agreed with the proposed amendments in relation to groups of hedged items.

EFRAG made several suggestions for the IASB to consider when finalising the standard.

EFRAG further agreed with the amendment to reset the cumulative fair value changes to zero for the purpose of effectiveness measurement.

The proposed temporary relief in the context of non-contractually specified risk components on the "separately identifiable" requirement was also supported by EFRAG. However, EFRAG was concerned that the proposals introduced application guidance to the current hedge accounting requirements that may result in a narrower scope for hedge designation. EFRAG, therefore, recommended to reword the guidance to avoid unintended consequences.

Against the background of the current market disruption linked to the COVID-19 pandemic, EFRAG recommended that the IASB continues to monitor future developments of alternative rate markets to assess whether it may become necessary to extend the 24-month temporary relief period for the separately identifiable assessment.

EFRAG also supported the proposals on IFRS 16 *Leases* and IFRS 4 *Insurance Contracts*.

EFRAG agreed with the proposed disclosures but noted that the disclosure requirements based on carrying amounts may be perceived by some of our respondents as unbalanced in terms of cost/benefit. EFRAG suggested the IASB to allow alternatively disclosing quantitative information.

EFRAG agreed that the proposed amendments should be mandatory in order to increase comparability across entities. EFRAG also agreed that no specific end of application requirements need to be specified.

Finally, EFRAG supported the proposed effective date and transition requirements.

# 2 Detailed analysis of issues, comments received and changes made to EFRAG's final comment letter

**EFRAG's tentative views expressed in the draft comment letter and respondents' comments**

## 2.1 Modifications for financial assets and liabilities

### 2.1.1 Proposals in the ED

*What constitutes a modification?*

In the IASB's 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.

Modifications of financial assets and financial liabilities required by the reform

The IASB proposed a practical expedient allowing an entity to apply paragraph B5.4.5 of IFRS 9 to account for modifications of a financial instruments directly related to the IBOR reform. The following conditions applied:

- they are required as a direct consequence of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis.

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

**EFRAG's response to respondents' comments**

### 2.1.4 EFRAG final position

EFRAG noted 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 agreed with limiting the scope of this clarification to the changes solely due to the IBOR reform.

EFRAG suggested relocating the paragraphs proposed on modifications of financial assets and financial liabilities to section 5.4 rather than section 6 of IFRS 9 so that the scope of the requirements is clarified.

EFRAG agreed with providing a practical expedient allowing an entity to apply paragraph B5.4.5 of IFRS 9 to account for modifications related to the IBOR reform.

The proposed amendments would also apply to fallback provisions. EFRAG agrees with this proposal. In this context, EFRAG suggested to the IASB to clarify that there may be instances of historical fallback terms where the economic equivalence can be assessed at the date when the fallback clauses were included.

financial instrument, would not adjust its carrying amount or recognise a modification gain or loss

*Changes arising from existing contractual terms*

Some entities may effect the reform through the activation of contractual terms that exist in the contract, such as fallback provisions. To avoid a diversity of accounting outcomes for contracts with and without fallback clauses, the IASB decided to propose 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.

*Insurance companies applying the temporary exemption from IFRS 9*

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.

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 the amendments to financial instruments that are modified as a result of the reform.

*IFRS 16 Leases*

The IASB proposed 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.

EFRAG agreed with the proposed amendments to IFRS 16 and IFRS 4, EFRAG also agreed that no amendments to other IFRS Standards were necessary.

*Summary of how EFRAG considered the views of respondents in arriving at this final position*

EFRAG proposed to include a suggestion to the IASB to reconsider the term "required" for modifications or activation of fallback provisions activated as a direct consequence of the IBOR reform.

During the EFRAG's discussions, a further potential issue with fallback rates was discussed. Some members were concerned that not all historical fallback terms would have been amended before transition takes place, and that these historical fallbacks might not qualify for the practical expedient since the new cash flows may not be economically equivalent when the fallback rate is triggered but were economically equivalent when it was included in the underlying contract.

EFRAG suggested the IASB clarified in the Basis for Conclusions of the final amendments that economic equivalence can be assessed when the fallback clause is included in the contract and not at the time when it is triggered.

EFRAG proposed to address the concerns on application of the practical expedient to financial instruments not measured at amortised cost by a suggestion to relocate the proposed amendments on modifications to section 5.4 instead of section 6 of IFRS 9.

EFRAG observed that the SPPI issue was not related to IBOR only but related to the general application of the requirements in IFRS 9. Any clarification in the context of the IBOR reform could have an impact on the current practice in general and hence would go beyond the scope of amendments.

*IFRS 17 Insurance Contracts*

The IASB did not propose 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.

*IFRS 13 Fair Value Measurement*

The IASB did not propose amendments to the requirements in IFRS 13 because 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.

*Discount rates*

In the IASB's 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 did not propose any amendments to the requirements pertaining to discount rates in IFRS Standards.

### 2.1.2 EFRAG's tentative position

EFRAG noted 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 the 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.

EFRAG agrees with the clarification that an entity should first apply paragraph B5.4.5 of IFRS 9 to account for modifications related to the 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 the 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 to IFRS 16 and IFRS 4, EFRAG also agrees that no amendments to other IFRS Standards are necessary.

EFRAG suggests to reconsider the wording in paragraph BC35 (as it may be interpreted as contradicting the order of the application of the requirements in paragraph 6.9.6) and of paragraphs BC24 and BC25 (as it seems to provide guidance for modification that may have unintended consequences).

### 2.1.3 Respondents' comments

Respondents generally supported the proposed amendments and EFRAG's position in the draft comment letter.

Three respondents noted that their agreement to the proposed definition of a modification is based on ringfencing it to IBOR-related modifications and should not be taken as silent consent also for modifications that are not related to the IBOR reform. One respondent suggested that the IASB may clarify how the proposed practical expedient to apply paragraph B5.4.5 of IFRS 9 should be applied to financial instruments not measured at amortised cost, i.e. measured at fair value either through other comprehensive income or through profit or loss or alternatively review the scope of the relief.

One respondent suggested changes to the wording used on whether a modification or activation of fallback clauses has to be "required" because entities may also modify contractual cash flows on a voluntary basis.

One respondent suggested to align the wording used in the basis for conclusions with the requirements in the main body of the standard regarding the order in which requirements should be applied in case the contractual cash flows of a financial instruments is modified not only as a direct consequence of the IBOR reform. This topic was already addressed by EFRAG draft comment letter.

Two respondents raised the issue of assessing the criterion of solely payments of principal and interest (SPPI) when an alternative benchmark rate is not a forward-looking rate but is compounded. For example term rates based on SARON using averages of the overnight SARON rates.

Respondents expressed concern about the potential need to apply the so-called benchmark test due to interest mismatches because there is a time lag between the time the rate effectively relates to and the start of the interest period. The respondents asked for a relief from application of the so-called benchmark test to avoid failure of SPPI test and instead developing an exception similar to paragraph B4.1.9E of IFRS 9 on regulated rates.

## 2.2 Amendments to hedging relationships

### 2.2.1 Proposals in the ED

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.

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.

For these reasons the IASB proposed 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:

- designating the alternative benchmark rate (contractually or non-contractually specified) as a hedged risk;
- amending the description of the hedged item so it refers to the alternative benchmark rate;
- amending the description of the hedging instrument so it refers to the alternative benchmark rate; or
- amending the description of how the entity will assess hedge effectiveness (for IAS 39 only).

### 2.2.4 EFRAG final position

EFRAG observed 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 agreed 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.

*Summary of how EFRAG considered the views of respondents in arriving at this final position.*

EFRAG discussed whether the IASB should allow adding derivatives (basis swaps) in existing hedging relationships provided they address solely the differences between alternative benchmark rates used for the hedging instrument and the hedged item arising directly as a result of the reform. EFRAG considered that enlarging the scope of changes permitted to the hedge documentation by addressing particular hedging methodologies would go beyond the scope of the IASB amendments and might create unintended consequences.

In addition, it is not possible to assess the magnitude of impact and prevalence of the issue due to the time constraints imposed by the reform.

If several changes are made to the hedging relationship, the IASB's 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.

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 may therefore need to be applied at different times, resulting in the designation of a particular hedging relationship being amended more than once.

### 2.2.2 EFRAG's tentative position

EFRAG observed 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 agreed 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.

### 2.2.3 Respondents' comments

Respondents generally supported the proposed amendments as allowing to continue hedging relationship while hedged item or hedging instrument is modified as a result of the reform.

Two respondents considered that the IASB should allow more flexibility by adding derivatives (basis swaps) in existing hedging relationships which address solely the differences between alternative benchmark rates used for the hedging instrument and the hedged item arising directly as a result of the reform. This would allow complications due to mismatches that may exist

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|---|---|
| between the exact timing of the repricing of the new benchmark rates for the two legs of the hedging relationship. | |

## 2.3 Accounting for qualifying hedging relationships and groups of items

### 2.3.1 Proposals in the ED

*Retrospective assessment*

The IASB proposed 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 did not propose any exception from the measurement requirements in IFRS 9 and IAS 39.

*Prospective assessments*

The IASB considered that, following an amendment to the formal designation of the hedging relationship, 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.

*Remeasurement of the hedged item and hedging instrument*

The IASB proposed 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.

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

### 2.3.4 EFRAG final position

EFRAG agreed 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.

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

In case of fair value hedges of fixed rate financial instruments, EFRAG noted that it has been made aware of the need to remeasure the hedged items to consider the alternative benchmark rate used to remeasure the fair value of the hedging instrument. In absence of such a remeasurement of the hedged item, an impact on profit or loss arises which does not represent real ineffectiveness. EFRAG asked the IASB to clarify that the remeasurement can be seen as part of amending the formal designation of the hedging relationship as previously documented.

*Summary of how EFRAG considered the views of respondents in arriving at this final position.*

EFRAG was sympathetic with the respondent's proposals to recommend that the IASB clarifies the possibility to remeasure the cash flows on the hedged

- the cumulative gain or loss on the hedging instrument calculated taking into consideration the change to the alternative benchmark rate; and
- 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.

*Cash flow hedges*

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 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.

For previously discontinued hedging relationships, 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*

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 proposes that when amending the description of the hedged items, the entity would allocate the hedged items to subgroups based on the benchmark rate to which they are referenced and

item at the date of the hedging instrument's remeasurement using adequate parameters, and especially an adjusted credit margin, consistent with the alternative benchmark rate. This would avoid showing in P&L gain or losses that do not represent real hedge ineffectiveness. However, suggesting that the IASB includes in a standard such a granular level of detail seems not ideal, as it is also not aligned with the current principles-based nature of the requirements.

EFRAG agreed to remove the reference to the regression analysis in the draft comment letter as this was a mere example.

designate the benchmark rate for each sub-group as the hedged risk. The entity would apply the proportionality test to each subgroup separately.

### 2.3.2 EFRAG's tentative position

EFRAG agreed 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.

EFRAG agreed 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 agreed with the proposed amendments in relation to hedges of groups of items and portfolio hedges.

### 2.3.3 Respondents' comments

Respondents supported the ED proposals on cash flow hedges and groups of items.

Respondents had different views about the impact for fair value hedges in particular the remeasurement of hedged items at the moment the underlying benchmark rate of the hedging instrument is modified. Some noted that the proposed amendments allow for the remeasurement of the hedged items leading to day one gain or loss which does not represent hedging ineffectiveness, while others looked at both legs of the hedge separately and were of the view that each leg of the hedge is only remeasured when that leg is modified. In the former view, the usefulness of the day one gain or loss is questioned, and it is suggested to remeasure the credit risk margin of the hedged item to avoid the impact. In the latter view, insofar any ineffectiveness occurs, it is to be recorded in profit or loss.

Two respondents suggested that the requirement of resetting the cumulative fair value changes to zero be made optional; and/or it could be clarified that it is applicable for entities using the cumulative dollar offset method. In fact, they reported that setting to zero in all cases may create unintended consequences.

## 2.4 Designation of risk components and portions

### 2.4.1 Proposals in the ED

The IASB proposed that a non-contractually specified risk component in respect of an alternative benchmark rate may be designated even it fails to meet the requirement to be separately identifiable when this risk component is designated. However, an entity must have reasonable expectation that the risk component will become separately identifiable within a period of 24 months. The IASB proposed no exception to the requirement that the risk component must be reliably measureable.

To avoid 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.

The IASB acknowledged that the proposed 24-month period 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.

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.

### 2.4.4 EFRAG final position

EFRAG agreed with the IASB's proposal to provide temporary relief in the context of non-contractually specified risk components on the "separately identifiable" criterion. However, EFRAG was concerned about some of the guidance as it seemed to introduce application guidance to the current hedge accounting requirements that may be perceived inconsistent with some practices that exist in European jurisdictions.

EFRAG observed that the IASB might consider clarifying the wording used to explain 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.

EFRAG recommended that the IASB continues to monitor future developments of alternative rate markets to assess whether it may become necessary to extend the 24-month temporary relief period for the separately identifiable assessment.

*Summary of how EFRAG considered the views of respondents in arriving at this final position.*

EFRAG proposed to incorporate in the EFRAG comment letter a suggestion to analyse the time frame prior to the final ballot when more information would be available due to the uncertainty that arises from the current COVID-19 pandemic situation.

### 2.4.2 EFRAG's tentative position

EFRAG agreed with the IASB's proposal to provide temporary relief in the context of non-contractually specified risk components on the "separately identifiable" criterion. However, EFRAG was concerned about some of the guidance introduced which was inconsistent with some practices that exist in European jurisdictions.

EFRAG observed that the IASB might consider clarifying the wording used to explain 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.

### 2.4.3 Respondents' comments

Respondents noted that assessing separately the measurement criterion may prove to be difficult, as this criterion is closely related with the criterion of reliable measurement.

One respondent noted that adverse consequences affecting the implementation of the reform cannot be excluded due to uncertainty that arises from the current COVID-19 pandemic situation. It was alternatively suggested that the identification criterion could be presumed to be met, provided measurement is performed on a reliable basis. The entity would subsequently have to check whether this presumption is not negatively challenged within the following 24 months.

## 2.5 Effective date and transition

### 2.5.1 Proposals in the ED

The IASB proposed that the effective date to be annual periods beginning on or after 1 January 2021, with earlier application permitted. In addition, the IASB proposed that the amendments be applied retrospectively.

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. Therefore, the IASB proposed that hedging relationships that were discontinued solely due to changes required by the reform before an entity first applied the proposed amendments are required to be reinstated.

### 2.5.2 EFRAG's tentative position

EFRAG agreed with the IASB's proposal on effective date and transition requirements.

EFRAG agreed that the proposed amendments should be mandatory in order to increase comparability across entities. EFRAG agreed 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 the IBOR reforms.

Although entities may have to discontinue hedging relationships when transitioning to an alternative benchmark rate before the proposed amendments become applicable, EFRAG considered 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

### 2.5.4 EFRAG final position

EFRAG agreed with the IASB's proposal on effective date and transition requirements.

EFRAG agreed that the proposed amendments should be mandatory in order to increase comparability across entities. EFRAG agreed 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 the IBOR reforms.

Although entities may have to discontinue hedging relationships when transitioning to an alternative benchmark rate before the proposed amendments become applicable, EFRAG considered 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.

*Summary of how EFRAG considered the views of respondents in arriving at this final position*

EFRAG considered whether the IASB should be made aware of situations where reinstatement may be impracticable and hence be asked to clarify in the final amendments that retrospective application was subject to practicability. However, EFRAG noted that the concept of impracticability was an overarching concept that applies to all requirements in IFRS standards and therefore decided not to address the issue in the comment letter.

as direct consequences of the IBOR reform will enable entities to limit the impact of having to discontinue such hedging relationships.

### 2.5.3 Respondents' comments

Respondents generally supported the proposals in the exposure draft and EFRAG's position in the draft comment letter.

One respondent suggested allowing a choice not to respectively reinstate hedging relationships that had to be discontinued because the proposed amendments were not yet available. Another respondent explicitly appreciated mandatory reinstatement because this increased comparability.

## 2.6 Disclosures

### 2.6.1 Proposals in the ED

The IASB proposed that entities provide specific disclosures in order to provide information about:

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

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.

The IASB decided to propose limited additional disclosure requirements.

### 2.6.2 EFRAG's tentative position

EFRAG agreed that the proposed disclosures will assist users of financial statements in understanding the effects of the 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 observed that the some of the proposed may be less helpful to users of financial statements because the disclosures are expected to be less entity specific.

### 2.6.4 EFRAG final position

EFRAG agreed that the proposed disclosures will assist users of financial statements in understanding the effects of the 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 observed that the proposed disclosures should not require comparative information. In addition, an entity should be permitted to disclose alternative quantitative information if information based on carrying amounts is not be available without undue cost or effort.

EFRAG noted that the some of the disclosures may be less helpful to users of financial statements because the disclosures are expected to be less entity specific.

As the new disclosure requirements refer not only to hedge accounting, the IASB should consider a cross-reference to the risk disclosures section of IFRS 7.

*Summary of how EFRAG considered the views of respondents in arriving at this final position*

Against the background of the feedback received, EFRAG decided to make a suggestion to alternatively permit entities disclosing quantitative information used by entities in managing the reform when information based on carrying amounts is not available without undue cost or effort.

### 2.6.3 Respondents' comments

Respondents generally supported the ED proposals on providing entity-specific disclosures.

Two respondents mentioned that some disclosures requirements seem of limited relevance to users, whereas costly and challenging for preparers.

## Appendix 1: List of respondents

*Table 1: List of respondents*

| *Name of respondent*[1] | *Country* | *Type / Category* |
|---|---|---|
| Autorité des Normes Comptables | France | National Standard Setter |
| Danish Accounting Standards Committee | Denmark | National Standard Setter |
| Erste Group | Austria | Preparer |
| European Savings and Retail Banking Group | Europe | Business Association |
| Fédération Bancaire Française | France | Business Association |
| Financial Reporting Council | UK | National Standard Setter |
| Instituto de Contabilidad y Auditoria de Cuentas | Spain | National Standard Setter |
| Organismo Italiano di Contabilità | Italy | National Standard Setter |
| Institute of Chartered Accountants in England and Wales | UK | Audit Association |
| European Banking Federation | Europe | Business Association |
| ESMA | Europe | Regulator |

[1] Respondents whose comment letters were considered by the EFRAG Board before finalisation of the comment letter.