

This paper provides the technical advice from EFRAG TEG to the EFRAG Board, following EFRAG TEG's public discussion. The paper does not represent the official views of EFRAG or any individual member of the EFRAG Board. This paper is made available to enable the public to follow the EFRAG's due process. Tentative decisions are reported in EFRAG Update. EFRAG positions as approved by the EFRAG Board are published as comment letters, discussion or position papers or in any other form considered appropriate in the circumstances.

IBOR – Update on Phase 2 Issues Paper

Objective

- 1 The objective of this paper is to provide the EFRAG Board with an update on the IASB's work on Phase 2 of the *Interest Rate Benchmark Reform* project as well as a work plan on the upcoming IASB and EFRAG Secretariat activities.

Project Background and IASB project plan

- 2 The IASB split the project in two phases in order to focus, in the first phase, on a narrow set of issues related to hedge accounting requirements as a result of uncertainty arising from IBOR reform that were particularly urgent and for which a solution was needed in time for the 2019 financial reporting.
- 3 The IASB published the Amendments to IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement* relating to Phase 1 of the *Interest Rate Benchmark Reform* project on 26 September 2019. EFRAG Endorsement Advice on the Amendments to Phase 1 was issued on 16 October 2019.
- 4 As a reminder, the following topics were mentioned in EFRAG's final comment letter on Phase 1 of the project as a suggestion for the IASB to consider (without EFRAG having formed a view on these):
 - (a) Derecognition, including the additional consequential topics of SPPI-criterion, business model and Hedge accounting discontinuation;
 - (b) Modification;
 - (c) Recalibration of hedging relationship;
 - (d) Hedge documentation; and
 - (e) IFRS 17 *Insurance Contracts* – interest guarantees in insurance contracts.
- 5 The IASB has started its deliberations on Phase 2 in October 2019. This phase covers classification and measurement, hedge accounting, interaction with other IFRS standards, disclosures and any other issues if they will arise. Similar to Phase 1, Phase 2 of the project addresses the issues with a similar level of urgency.
- 6 The timing of the IASB discussions is presented below:

22-23 October 2019	11-12 December 2019	27-31 January 2020
Classification and measurement	Hedge accounting	Hedge accounting – end of application Phase 1 Other IFRS Standards

22-23 October 2019	11-12 December 2019	27-31 January 2020
		Other/new issues identified Disclosures

- 7 The IASB tentative decisions on the above topics will be discussed with EFRAG FIWG, EFRAG TEG and EFRAG TEG-CFSS working groups. The EFRAG IAWG will also be informed on project developments. EFRAG FIWG members will lead the discussion being the subject matter experts and EFRAG IAWG would step into the discussion if there are specific additional issues for the industry to consider.
- 8 The IASB plans to issue the exposure draft during the first half of 2020 and the final amendments in the beginning of second half of 2020.

The IASB tentative decisions taken in October

- 9 The IASB tentatively decided to amend IFRS 9 to:
 - (a) Clarify IFRS 9 that a change in the basis on which the contractual cash flows are determined, constitutes a modification even in the absence of an amendment to the contractual terms.
 - (b) Provide a practical expedient to allow ‘modifications that are related to the reform’ and made on an economically equivalent basis, to be accounted for as an update to effective interest rate (no profit or loss or balance sheet impact) rather than a modification gain or loss.
 - (c) Clarify that an entity should first account for modifications related to the reform, before accounting for other modifications.
- 10 The IASB also tentatively decided that, in the context of IBOR reform, current requirements in IFRS 9 provide sufficient guidance to determine the appropriate accounting treatment for derecognition of financial assets and liabilities, SPPI test, business model, recognising the expected credit losses for a new financial asset and accounting for embedded derivatives for financial liabilities.

Summary of the EFRAG FIWG and TEG discussions¹

- 11 EFRAG FIWG and EFRAG TEG discussed the IASB tentative decisions in respect of classification and measurement in their respective meetings on 15 November and 5 December.
- 12 EFRAG TEG members supported the IASB tentative decisions on classification and measurement, except for the approach to the modification, i.e. to clarify that even in the absence of an amendment to the contractual terms, a change in the basis on which the contractual cash flows are determined constitutes a modification. EFRAG TEG members in particular expressed concerns about the possible unintended consequences of the IASB’s proposed approach to define what a “modification” is and to shift the emphasis from the contractual to the methodology changes.
- 13 Some EFRAG TEG members pointed out that the proposed clarification would interfere with the conclusions that the preparers had reached in the application of Amendments (Phase 1).
- 14 Some EFRAG TEG members mentioned that the real focus should be on the hedge accounting relief.

¹ The approval procedure of the Summary of Discussions and Decisions of December EFRAG TEG meeting is still in progress, accordingly the EFRAG TEG views reported in this paper are subject to change following eventual remarks from the EFRAG TEG members.

Questions for EFRAG Board

- 15 Does EFRAG Board has any comments on the IASB project plan?
- 16 Does EFRAG Board has any comments on the outcome of FIWG and TEG discussion?