Brussels, 25 May 2020
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Mr Hans HOOGERVORST
Chairman
International Accounting Standards Board

Mr Jean-Paul GAUZÉS
President of the Board
European Financial Reporting Advisory Group

SUBJECT: IASB Exposure Draft Interest Rate Benchmark Reform – Phase 2

Dear Mr Hoogervorst, dear Mr Gauzés,

We are very pleased to provide our comments to the IASB Exposure Draft ED/2020/1 "the ED" concerning *"Interest Rate benchmark Reform – Phase 2"* which sets out proposed amendments to accounting standards under IFRS9, IAS39, IFRS7. IFRS4 and IFRS16.

Financial institutions predominantly use the daily-published IBOR reference rates and implied forward rates thereof as the basis to determine the interest cash flows of client loans and deposits and the ALM hedges thereof. We acknowledge that IBOR reform is necessary and we remark that it is taking place at a rapid pace under challenging conditions.

We fully support the IASB's programme to amend accounting standards to be able to accurately and timely represent changes brought about by IBOR reform. Owing to the short period until LIBOR is no longer supported, we recognise that it was necessary that the IASB made an early start in considering how to account for IBOR reform, even before the nature of such changes were known. Our letter is intended to highlight some key revisions that our members recommend including:

- Clarification on permitted changes to the hedge documentation to enable hedge accounting to be continued in order to avoid undue volatility in the income statement in our response to Question 2 and also;
- Address that the proposed disclosures would be excessively burdensome to provide, as the underlying data would not typically be available in the accounting systems. In addition, we question the usefulness of such detailed disclosures to the users of financial statements in our response to Question 6.

Our responses are structured to answer the six specific questions in the IASB ED and are aligned with the response guidance in the Invitation to comment section of the ED.

We stay at your disposal for any clarification or additional information you may need for your analysis.

Yours sincerely,

Wim MIJS
Chief Executive Officer

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Question 1—Modifications of financial assets and financial liabilities (paragraphs 6.9.1–6.9.6 of the [Draft] amendments to IFRS 9, paragraphs 20R–20S and 50–51 of the [Draft] amendments to IFRS 4 and paragraphs 104–106 and C1A–C1B of the [Draft] amendments to IFRS 16)

EBF members agree with the proposals, with the exception of:

Concerning changes in methods for determining cash flows - We ask that paragraph 6.9.2 be deleted along with the reference to it in paragraph 6.9.5 as we do not believe it is necessary to re-define modifications in this way at this time. If a change is needed, we believe this should be part of a separate project.

Concerning historical fall-back terms – Paragraph 6.9.5 proposes that the practical expedient is applied to the activation of existing fall-back terms as long as the new basis for determining contractual cash flows is 'economically equivalent' to the previous basis. We are concerned that it is possible that not all historical fall-back terms (typically temporary fixes) have been amended by the time of transition. We ask that the practical expedient is extended to address such situations where the use of the fall-back will be temporary.

Concerning IFRS9 chapter positioning of modifications amendments - The phase 2 amendments have a broader impact than just hedge accounting seen in Phase 1 and so should not all be included in chapter 6. For entities applying IAS 39 hedge accounting, the modification amendments will not be available if they are included in chapter 6 of IFRS 9. The amendments proposed in paragraphs 6.9.1 to 6.9.6 should therefore be included in Chapter 3 Recognition and De-recognition as a new section. Those amendments which relate to hedge accounting could remain in section 6.9.

Question 2—Amendments to hedging relationships (paragraphs 6.9.7–6.9.10 of the [Draft] amendments to IFRS 9 and paragraphs 102O–102R of the [Draft] amendments to IAS 39)

EBF members agree with these proposals allowing an entity to amend the hedge documentation to reflect the alternative benchmark rate, when the hedged items and hedging instruments are modified as a direct consequence of the IBOR reform, without requiring an entity to discontinue hedge accounting for the underlying hedging relationships. The EBF agrees to this view given both fair value and cash flow hedge accounting relationships under which hedges and hedged items might change simultaneously or after one another.

Furthermore, we noted that the permitted changes to the hedge documentation in paragraph 6.9.7 and paragraph 102O(a)–(c) of the ED are limited to the alternative benchmark rate that replaced the existing benchmark rate as described in the example of paragraph 6.9.4(a) of the ED.

The examples in paragraph 6.9.4(b)-(d) are deemed equally relevant and we therefore recommend that they are also included in paragraph 6.9.7 and paragraph 102O as permitted changes to the hedge documentation to enable hedge accounting to be continued. This is in order to provide relevant information to users and avoid undue noise in the income statement it should be clarified that the change in documentation includes the possibility to adjust the hedged cash flows with the adjusted spread resulting from the change of index.

Moreover, during the transition phase, hedging instruments might change earlier (or later) to a new benchmark rate than the hedged items. Entities might want to hedge this mismatch in benchmark rates by transacting for example additional (basis) swaps and include these additional swaps in the original hedge relationship. In our view it should be specifically permitted to include such (basis) swaps in current hedge relationships as part of the hedging instrument as they are clearly a result of the IBOR reform. However, this might not be clear from paragraphs

IAS39 102O and IFRS9 6.9.7. We therefore recommend the IASB to clarify this in paragraphs IAS39 102O and IFRS9 6.9.7.

Question 3—Accounting for qualifying hedging relationships and groups of items (paragraphs 6.9.11–6.9.15 of the [Draft] amendments to IFRS 9 and paragraphs 102S–102X of the [Draft] amendments to IAS 39)

EBF members agree with the proposals, with the exception of the following key revisions:

To IFRS9 paragraph 6.9.11 / IAS39 102T which concerns how to account for an amended fair value hedge accounting relationships as a result of reform. Examples of modifications required by benchmark reform in 6.9.4 (b) – (d) apply here equally to instruments and items as required to reflect the actual 'economically equivalent' nature of the reform in the financial statements.

To IAS39 to either allow continuation of cumulative retrospective effectiveness testing or to reset the cumulative measurement to zero to avoid ineffective relationships solely caused by the changes of IBOR reform. It is noteworthy that paragraph 102G of IAS39 refers to AG105 (b) which appears to pertain to the retrospective effectiveness requirement using the dollar offset measurement method only.

Question 4—Designation of risk components and portions (paragraphs 6.9.16–6.9.18 of the [Draft] amendments to IFRS 9 and paragraphs 102Y–102Z1 of the [Draft] amendments to IAS 39)

EBF members with the proposals, with the exception of the following:

A **key revision** is required to ensure that the accepted practices with respect to the separately identifiable requirements in IAS39 are not changed by these amendments which would otherwise allow the similar but untested wording of IFRS9 to become leading. The text of BC88 should be amended to keep these definitions separate.

A **key revision** is required to allow that the fixed 24-month period can be reviewed in the context of the developing Covid-19 situation.

Question 5—Effective date and transition (paragraphs 7.1.9 and 7.2.36–7.2.38 of the [Draft] amendments to IFRS 9 and paragraphs 108H–108J of the [Draft] amendments to IAS 39)

EBF members broadly agree with the proposals, but suggest a **key revision** that it should not be mandatory to reinstate failed hedge accounting relationships, as operationally the economic hedging relationship might not be still existent and also from a tracking perspective this would be difficult.

Question 6—Disclosures (paragraphs 24I–24J and paragraphs 44HH–44II of [Draft] amendments to IFRS 7)

The disaggregated disclosures requested in the ED will generate undue costs as the information is not used for accounting purposes and thus, not available in the accounting systems. Instead, we support 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 and that could differ from the financial instruments' carrying amounts. Such disclosures would be useful and meet the purpose of understanding the entity's progress in completing the transition.

Key revisions are required to ensure that useful information is provided to users of financial statements without a significant change in the burden on preparers to do so. Specifically:

Paragraph 24j(b) consists of disaggregating substantially all of the balance sheet based on benchmark rates. It would imply collecting at the end of each accounting period, for each contract that has not yet switched to the new reference rate, the outstanding carrying amounts of financial assets and liabilities and the nominal amounts of derivatives.

Paragraph 24j(c) requires each significant index to describe how the entity determines the base rate and adjustments. Providing the information in such a granular manner is highly complicated.

As the underlying information paragraph 24J (d) is not provided in the financial statements, there is limited relevance and usefulness of additional qualitative and quantitative information. Therefore, those requirements should be removed.

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