

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG Board or EFRAG TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the 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.

Interest Rate Benchmark Reform – Phase 2 – EFRAG’s FEA - Summary and analysis of the comment letters received

- 1 Based on the comments received, the EFRAG Secretariat has developed a revised draft EFRAG final endorsement advice that is presented as agenda paper 01-04.

Structure of the paper

- 2 This comment letter analysis contains:
 - (a) Background;
 - (b) Summary of respondents;
 - (c) Summary of respondents’ views;
 - (d) Appendix 1 - detailed analysis of responses to questions in EFRAG’s draft endorsement advice, EFRAG Secretariat’s recommendations and questions to EFRAG TEG; and
 - (e) Appendix 2 – list of respondents.

Background

- 3 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:
 - (a) 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
 - (b) 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).
- 4 In September 2019, the IASB Board amended IFRS 9, IAS 39 and IFRS 7, to address Phase 1.
- 5 The objective of Phase 2 of the project 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.
- 6 To address issues affecting financial reporting during the reform of the interest rate benchmark, the IASB issued Exposure Draft ED/2020/1 *Interest Rate Benchmark Reform – Phase 2 (Proposed amendments to IFRS 9, IAS 39, IFRS 4, IFRS 7 and IFRS 16)* (the 'ED') on 9 April 2020. EFRAG published a final comment letter on the ED on 26 May 2020 where it generally agreed with the amendments proposed in the ED and made several suggestions for the IASB to consider when finalising the standard.

Summary of respondents

- 1 At the time of writing, 9 comment letters have been received. The comment letters can be found on the [EFRAG project page](#).
- 2 In addition, on 7 September 2020, EFRAG conducted a public outreach event on the endorsement of the Amendments which was attended by 23 participants. All the participants who voted recommended the endorsement of the Amendments.

Summary of respondents' views

- 3 Respondents agreed with EFRAG's DEA, the detailed analysis of the responses is presented in Appendix 1.

Question to EFRAG TEG

- 4 Does EFRAG TEG agree with EFRAG Secretariat's recommendations in *Appendix 1: Analysis and Summary of Comments received*?
- 5 Does EFRAG TEG agree to recommend the final endorsement advice to the EFRAG Board for approval?

Appendix 1 - Detailed analysis of responses to questions in EFRAG's draft endorsement advice, EFRAG Secretariat recommendations and questions to EFRAG TEG

EFRAG's initial assessment with respect to the technical criteria for endorsement

- 6 EFRAG's initial assessment of the Amendments is that they meet the technical criteria for endorsement. In other words, the Amendments are not contrary to the principle of true and fair view and meet the criteria of understandability, relevance, reliability, comparability and lead to prudent accounting. EFRAG's reasoning is set out in Appendix 2 of the accompanying *Draft Letter to the European Commission* regarding endorsement of the Amendments.

Summary of constituents' comments

Comment Letters

- 7 All nine constituents agreed with EFRAG's view.
- 8 One constituent stressed the utmost importance of the amendments being endorsed by the European institutions as speedily as possible given the demand from preparers to progress with their transition to the new benchmark interest before December 2020.

Outreach event

- 9 Out of the 14 participants to the outreach who voted on this question, 13 agreed and one participant disagreed with the EFRAG's assessment of the endorsement criteria.

Question 3: Do you agree with EFRAG's assessment of the technical criteria for endorsement in Appendix 2 (that Amendments meet the criteria of the true and fair view, understandability, relevance, reliability, comparability and lead to prudent accounting)?

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Yes



No



10 One participant to the outreach who disagreed noted that in his opinion the proposed disclosures would not really contribute to the greater understanding of the financial statements and therefore would not

provide relevant information to the users.

EFRAG Secretariat's recommendations to EFRAG TEG on EFRAG's proposed final position

- 11 EFRAG Secretariat proposes to confirm the text in the DEA.

The European public good

- 12 In its assessment of the impact of the Amendments on the European public good, EFRAG has considered a number of issues that are addressed in Appendix 3 of the accompanying *Draft Letter to the European Commission* regarding endorsement of the Amendments.

Improvement in financial reporting

- 13 EFRAG has identified that in assessing whether the endorsement of the Amendment is conducive to the European public good it should consider whether the Amendments are an improvement over current requirements across the areas which have been subject to changes (see paragraphs 3 to 5 of Appendix 3 of the accompanying *Draft Letter to the European Commission*). To summarise, EFRAG's

initial assessment is that the Amendments will improve the quality of financial reporting.

Summary of constituents' comments

Comment letters

- 14 Eight constituents agreed with EFRAG's view and one did not express an opinion on EFRAG's assessment.

EFRAG Secretariat's recommendations to EFRAG TEG on EFRAG's proposed final position

- 15 No change proposed.

Costs and benefits

- 16 EFRAG is also assessing the costs that are likely to arise for preparers and for users on implementation of the Amendments in the EU, both in year one and in subsequent years.

- 17 The results of the initial assessment of costs are set out in paragraphs 6 to 13 of Appendix 3 of the accompanying *Draft Letter to the European Commission* regarding endorsement of the Amendments. To summarise, EFRAG's initial assessment is that the Amendments will not result in significant undue costs for preparers and for users they will likely be cost neutral.

Summary of constituents' comments

Comment letters

- 18 Eight constituents agreed with EFRAG's view and one did not express an opinion on EFRAG's assessment.

EFRAG Secretariat's recommendations to EFRAG TEG on EFRAG's proposed final position

- 19 No change proposed.

- 20 In addition, EFRAG is assessing the benefits that are likely to be derived from the Amendments. The results of the initial assessment of benefits are set out in paragraph 14 to 16 of Appendix 3 of the accompanying *Draft Letter to the European Commission* regarding endorsement of the Amendments. To summarise, EFRAG's initial assessment is that the benefits resulting from the Amendments are likely to outweigh costs associated with their implementation.

Summary of constituents' comments

Comment letters

- 21 Eight constituents agreed with EFRAG's view and one did not express an opinion on EFRAG's assessment.

EFRAG Secretariat's recommendations to EFRAG TEG on EFRAG's proposed final position

- 22 No change proposed.

Impact on financial stability

- 23 EFRAG is assessing an impact on financial stability including the international level playing field. The results of the initial assessment are set out in paragraphs 18 to 22 of Appendix 3 of the accompanying *Draft Letter to the European Commission* regarding endorsement of the Amendments. To summarise, EFRAG's initial assessment is that the Amendments have a positive effect on financial stability and increase the level playing field and comparability of financial statements.

Summary of constituents' comments

Comment letters

- 24 Eight constituents agreed with EFRAG's view and one did not express an opinion on EFRAG's assessment.

EFRAG Secretariat's recommendations to EFRAG TEG on EFRAG's proposed final position

- 25 No change proposed.

Overall assessment with respect to the European public good

- 26 EFRAG has initially concluded that endorsement of the Amendments would be conducive to the European public good (see paragraphs 23 to 27 of Appendix 3 of the accompanying *Draft Letter to the European Commission*).

Summary of constituents' comments

Comment letters

- 27 Eight constituents agreed with EFRAG's view and one did not express an opinion on EFRAG's conclusion.

Outreach event

- 28 All 17 participants to the outreach event who voted on this question agreed with EFRAG's view.

Question 4: Do you agree with the EFRAG's conclusion that endorsement of the Amendments would be conducive to the European public good?

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Yes



No

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EFRAG Secretariat's recommendations to EFRAG TEG on EFRAG's proposed final position

- 29 No change proposed.

Appendix 2 – List of respondents

Table 1: List of respondents

| Name of constituent | Country | Type / Category |
|----------------------------|----------------|--------------------------|
| Accountancy Europe | Europe | Audit organisation |
| ISDA | Global | Preparers organisation |
| FRC | UK | National Standard Setter |
| Deutsche Bank | Germany | Preparer |
| Allianz | Germany | Preparer |
| EBF | Europe | Preparers organisation |
| ANC | France | National Standard Setter |
| OIC | Italy | National Standard Setter |
| ASCG | Germany | National Standard Setter |

Table 2: Total respondents by country and by type

| Respondent by country: | | Respondent by type: | |
|-------------------------------|---|----------------------------|---|
| UK | 1 | National Standard Setters | 4 |
| Germany | 3 | Audit organisations | 1 |
| Italy | 1 | Preparers | 2 |
| France | 1 | Preparer organisations | 2 |
| European organisations | 2 | | |
| Global organisations | 1 | | |

The profiles of participants in the EFRAG outreach event are represented below:

