EFRAG Outreach

Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 4, IFRS 16 and IFRS 7)

07 September 2020

EFRAG
European Financial Reporting Advisory Group

AGENDA

EFRAG Outreach on the Draft Endorsement Advice to *Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 4, IFRS 16 and IFRS 7)*

- Background and Timetable
- Overview of the IBOR Phase 2 Amendments
  - ✓ Practical expedient for particular changes to contractual cash flows
  - ✓ Relief from specific hedge accounting requirements
  - ✓ Disclosure requirements
  - ✓ Effective date and transition
- Draft Endorsement Advice
  - ✓ Assessment of the technical endorsement criteria
  - ✓ Conduciveness to the European public good
- Closing remarks

IBOR - PHASE 2

ACCELERATED ENDORSEMENT PROCEDURE

	IASB DOC ISSUED	EFRAG DEA	EFRAG FEA	APPLICATION
IBOR PHASE 2	27 August	28 August	Expected 15 September	In time for year-end-2020 approval

OVERVIEW TO THE IBOR AMENDMENTS

KEY AREAS ADDRESSED BY IBOR PHASE 2 AMENDMENTS

- Practical expedient for particular changes to contractual cash flows
- Relief from specific hedge accounting requirements
- Disclosure requirements
- Effective date and transition

PRACTICAL EXPEDIENT FOR IBOR-RELATED CHANGES

Applying the practical expedient, an entity accounts for a change in the contractual cash flows that are required by the IBOR reform by updating the effective interest rate to reflect, for example, the change in an interest rate benchmark from IBOR to an alternative benchmark rate.

For the purpose of the Phase 2 Amendments, a change in the basis for determining the contractual cash flows is required by the reform only if:

a) the change is necessary as a direct consequence of the reform; and
b) the new basis for determining the contractual cash flows is economically equivalent to the previous basis.

RELIEF FROM SPECIFIC HEDGE ACCOUNTING REQUIREMENTS

Entities are required to amend their hedging relationships to reflect:

- designating an alternative benchmark rate as the hedged risk
- changing the description of the hedged item, including the designated portion, or of the hedging instrument or
- changing the description of how the entity would assess hedge effectiveness (IAS 39 only)

In addition, the Amendments change IFRS 9 and IAS 39 regarding:

- Amounts accumulated in the cash flow hedge reserve
- Separately identifiable requirement
- Groups of items designated as hedged items
- Retrospective effectiveness assessment (IAS 39 only)

DISCLOSURE REQUIREMENTS

Entities are required to provide disclosures that enable investors to understand:

- the nature and extent of risks to which the entity is exposed arising from financial instruments that are subject to interest rate benchmark reform, and how the company manages those risks and
- the entity's progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition

The disclosures should include quantitative information by significant interest rate benchmark about non-derivative financial assets, non-derivative financial liabilities and derivatives, each shown separately, that have yet to transition to an alternative benchmark rate as at the end of the reporting period.

EFFECTIVE DATE AND TRANSITION

The Amendments apply for annual periods beginning on or after 1 January 2021. Earlier application is permitted.

The Amendments apply retrospectively, but companies are not required to restate comparative information.

Additionally, an entity is required to reinstate a discontinued hedging relationship if, and only if:

- the company discontinued the hedging relationship solely because of changes required by the IBOR reform and
- at the date of initial application of the amendments, that discontinued hedging relationship meets all qualifying criteria for hedge accounting

DRAFT ENDORSEMENT ADVICE

ASSESSMENT OF THE AMENDMENTS AGAINST THE IAS REGULATION TECHNICAL ENDORSEMENT CRITERIA

Relevance

- Practical expedients on modifications;
- Amendments to existing hedging relationships;
- Application of hedge accounting;
- Hedge accounting – reflecting the spread;
- Disclosure requirements;
- Effective date and transition requirements

Reliability

- Mandatory application of the Amendments;
- Discontinuation of hedging relationships

Comparability

- Documentation of hedging relationships;
- Transition requirements;
- Cash flow hedge: resetting cumulative fair values to zero

Understandability

- Practical expedients on modifications;
- Documentation of hedging relationships;
- Disclosure requirements;
- Transition requirements

DRAFT ENDORSEMENT ADVICE

ASSESSMENT OF THE AMENDMENTS AGAINST THE IAS REGULATION TECHNICAL ENDORSEMENT CRITERIA

EFRAG has concluded that the Amendments **meet the qualitative characteristics of relevance, reliability, comparability and understandability** required to support economic decisions and the assessment of stewardship and raise no issues regarding **prudent accounting**.

EFRAG has also assessed that the Amendments do not create any distortion in their interaction with other IFRS Standards and that all necessary disclosures are required. Therefore, EFRAG has concluded that the **Amendments are not contrary to the true and fair view principle**.

The Amendments meet technical requirements for EU Endorsement

DRAFT ENDORSEMENT ADVICE

ARE THE AMENDMENTS CONDUCIVE TO THE EUROPEAN PUBLIC GOOD?

EFRAG has assessed that the Amendments would **improve quality of financial reporting** and would **reach an acceptable cost-benefit trade-off**. EFRAG has not identified that the Amendments could have any adverse effect on the European economy, including **financial stability,** economic growth and the international level playing field.

Endorsement of the Amendments is conducive to the European public good

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THANK YOU

EFRAG
Aisbl - ivzw
35 Square de Meeûs
B-1000 Brussel
Tel. +32 (0)2 207 93 70
www.efrag.org