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STAFF PAPER

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Project	IBOR Reform and its Effects on Financial Reporting		
Paper topic	Summary of feedback from comment letters		

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Purpose of this paper

1. On 3 May 2019 the International Accounting Standards Board (Board) published the Exposure Draft *Interest Rate Benchmark Reform* (proposed amendments to IFRS 9 and IAS 39) (ED). The purpose of this Agenda Paper is to provide a summary of feedback received on the ED from comment letters.

2. This paper is structured as follows:

   (a) Background and proposals on the ED (paragraphs 3–7);

   (b) Overview of feedback (paragraphs 8–11);

   (c) Feedback on the objective (paragraphs 12–15);

   (d) Feedback on the scope (paragraphs 16–21);

   (e) Feedback on the specific questions on the ED (paragraphs 22–66);

   (f) Other comments (paragraphs 67–69); and

   (g) Appendix A – Questions asked on the ED

Background and proposals on the ED

3. As described in the Agenda Paper 14 for this meeting, the proposals in the ED address issues affecting financial reporting in the period before the replacement of

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an existing interest rate benchmark with an alternative interest rate (pre–replacement issues).

4. More specifically, the proposals addressed only the following hedge accounting requirements in IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement*:

   (a) the highly probable requirement;

   (b) prospective assessments[1]; and

   (c) separately identifiable risk components.

5. The following is a summary of the proposals for hedges of interest rate risk that are affected by interest rate benchmark reform (reform):

   (a) when determining whether a forecast transaction is highly probable or whether it is no longer expected to occur, an entity would apply those requirements assuming that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the reform.

   (b) an entity would assume that the interest rate benchmark on which the hedged cash flows are based, and/or the interest rate benchmark on which the cash flows of the hedging instrument are based, are not altered as a result of the reform when the entity determines whether:

      (i) there is an economic relationship between the hedged item and the hedging instrument applying IFRS 9; or

      (ii) the hedge is expected to be highly effective in achieving offsetting applying IAS 39.

   (c) when the benchmark component of interest rate risk is not contractually specified, an entity applies the requirement—that the designated risk component or designated portion is separately identifiable—only at the inception of the hedge accounting relationship.

[1] In the Exposure Draft *Interest Rate Benchmark Reform* (proposed amendments to IFRS 9 and IAS 39) (ED), the requirements in paragraph 6.4.1(c)(i) of IFRS 9 *Financial Instruments* (the existence of an economic relationship) and paragraph AG105(a) of IAS 39 *Financial Instruments: Recognition and Measurement* (whether the hedge is expected to be highly effective) are collectively referred to as 'prospective assessments'.

(d) entities would be required to apply the proposed exceptions to all hedge accounting relationships that are affected by the reform.

(e) entities would prospectively cease applying the proposed amendments (except for the separate identification requirement) at the earlier of:

(i) when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows; and

(ii) when the hedge accounting relationship is discontinued, or if paragraph 6.8.9 of IFRS 9 or paragraph 102I of IAS 39 applies,[2] when the entire amount accumulated in the cash flow hedge reserve with respect to that hedge accounting relationship is reclassified to profit or loss.

(f) the Board did not propose an end of application in relation to the separate identification requirement.

6. The Board proposed that entities provide specific disclosures about the extent to which hedge accounting relationships are affected by the proposed amendments and that the effective date of the amendments is for annual periods beginning on or after 1 January 2020. The amendments are required to be applied retrospectively, and earlier application is permitted.

7. Appendix A reproduces the specific questions asked in the ED.

Overview of feedback

8. Most respondents welcomed the Board's timely response to address the pre-replacement issues and broadly supported the amendments proposed in the ED.

9. Nonetheless, some respondents said the Board should further specify the objective and extend the scope of the proposed exceptions in the ED. In particular, they suggested the Board extend the scope of the proposed exceptions beyond hedge accounting relationships of interest rate risk, for example to include hedge

[2] Paragraph 6.8.9 of IFRS 9 and paragraph 102I of IAS 39 state that an entity shall prospectively cease applying paragraph 6.8.5 of IFRS 9 respectively paragraph 102E of IAS 39, to a hedge accounting relationship at the earlier of: (a) when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedged item; and (b) when the entire amount accumulated in the cash flow hedge reserve with respect to that hedge accounting relationship is reclassified to profit or loss.

accounting relationships for currency risk and propose exceptions that would apply to hedges in the context of macro hedge accounting relationships (hereinafter referred as ‘macro hedges’).

10. In addition, when responding to the specific questions in the ED, many respondents suggested the Board reconsider its decision not to propose any exception for the effects of the reform on the ‘retrospective assessments’ required by IAS 39, simplify disclosure requirements and clarify how the transition requirements would apply in practice (also see paragraphs 27–66 of this paper).

11. Most respondents also suggested that the Board addresses issues that might affect financial reporting when an existing interest rate benchmark is replaced with an alternative interest rate (ie replacement issues) as soon as possible and in parallel to the finalisation of the pre-replacement issues.

Feedback on the objective

12. As summarised in paragraphs 4–6 of this paper, the Board proposed exceptions to specific hedge accounting requirements in IFRS 9 and IAS 39 to prevent discontinuation of hedge accounting relationships during the period of uncertainty leading to the interest rate benchmark reform solely due to such uncertainties. This is because in the Board’s view, discontinuing hedge accounting relationships and consequently recognising gains or losses in profit or loss would not provide useful information to users of financial statements.

13. Most respondents agreed with this view. They said the proposed amendments and the approach taken to divide the project into pre-replacement and replacement issues is reasonable and pragmatic.

14. Most respondents also acknowledged the inherent difficulty of undertaking standard-setting activities to address a range of issues that arise at different points in time coupled with different approaches to replacement and different interest rate benchmarks being considered in different markets. In this context, a few respondents suggested that the Board consider:

    (a) specifying the underlying objective of the proposed amendments to assist entities apply the amendments and to mitigate any risk of unintended consequences.

(b) developing principles that would accommodate market-wide reforms of varying natures and timelines as well as different hedge accounting designations. This approach would avoid the need for standard setting each time similar reforms occur.

(c) addressing the proposals in the ED through interpretations of the hedge accounting requirements in IFRS 9 and IAS 39 rather than as exceptions to those requirements.

(d) aligning to the extent possible, the proposed amendments with other standard-setters (for example, Financial Accounting Standards Board) that are also undertaking standard-setting activities to address similar matters. Doing so would benefit both preparers and users of financial statements.

15. Additionally, many respondents said the Board should provide additional application guidance. This would promote consistent application and facilitate both implementation and enforceability. Furthermore, some respondents noted that some of the considerations included in the Basis for Conclusions to the ED (eg paragraphs BC35–BC41 which provide the Board's considerations on the end of application to scenarios in which a contract is amended in anticipation of the reform) should be provided as application guidance. This is because, in some jurisdictions such as the European Union, the Basis for Conclusions does not form part of the content of the endorsed standards.

Feedback on scope of proposals

Hedge accounting relationships other than those of interest rate risk

16. The proposed amendments in paragraphs 6.8.1 of IFRS 9 and 102A of IAS 39 explain that an entity applies the proposed exceptions to all *hedge accounting relationships of interest rate risk* that are affected by interest rate benchmark reform and *only* to such hedge accounting relationships. These paragraphs also explain that the reform refers to the *market-wide* replacement of an existing interest rate benchmark with an alternative interest rate that results from the recommendations set out in the Financial Stability Board's July 2014 report, 'Reforming Major Interest Rate Benchmarks' (FSB's report).

17. Some respondents observed that as set out in the ED, the scope of the proposed amendments only includes hedge accounting relationships of interest rate risk and does not extend to hedge accounting relationships for other risks which may be affected by the reform—for example, foreign currency hedges, contractually identified inflation hedges and split designation hedges where a floating interest rate benchmark is one of the terms inherent in the hedging instrument or hedged item.

18. These respondents noted that these hedge accounting relationships will also be affected by the uncertainties arising from the reform and therefore suggested the Board extend the scope of the proposed amendments so that such amendments would apply to all hedge accounting relationships affected by the reform.

Hedge accounting for macro hedges

19. Some respondents suggested the Board propose exceptions to specific hedge accounting requirements or clarify the application of the amendments proposed in the ED to macro hedges. More specifically, these respondents suggested the Board provide relief from the separately identifiable requirement for macro hedges (also see paragraphs 36–38 of this paper) and clarify how an entity applies the end of application of the proposed amendments to macro hedges (also see paragraph 47(b)).

Description of the reform

20. A few respondents also said that describing the reform with reference to the *market-wide replacement* of an existing interest rate benchmark with an alternative interest rate that *results from the FSB's report* may lead to confusion on the extent to which the proposed amendments apply. For example, some respondents said the Euro Interbank Offered Rate (EURIBOR), although included in FSB's report, is not being replaced but instead only its estimation methodology is changing. According to these respondents, the proposed amendments do not apply in this situation but the description in the ED may suggest otherwise. Accordingly, they suggest:

    (a) replacing the term 'market-wide' with 'widespread' to recognise that not all financial instruments in the market might be affected; and

(b) the reference to the FSB's report is instead provided as an example in order to accommodate similar initiatives in other markets that may not be included in FSB's report.

Other scope considerations

21. Other scope considerations raised by respondents, included:

(a) proposing similar exceptions to relevant hedge accounting requirements in IFRS for Small and Medium-sized Entities (SMEs). [3]

(b) clarifying whether the proposals in the ED apply to entities preparing IFRS financial statements for the first time ('first-time adopters'). In their view, provided the entity has documented its hedge accounting relationships in accordance with IFRS Standards, the proposed amendments should apply as if they had always reported under IFRS Standards.

Feedback on the specific questions on the ED

22. This section summarises feedback on the specific questions asked on the ED. Appendix A to this paper reproduces those questions.

Question 1—Highly probable requirement and prospective assessments

Highly probable requirement

23. Almost all respondents agreed with the Board's proposed relief—when determining whether a forecast transaction is highly probable or whether it is no longer expected to occur, an entity applies highly probable requirement assuming that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the reform.

24. These respondents highlighted the importance of allowing entities to maintain hedge accounting relationships that, other than due to the effects of the uncertainty arising from the reform, would have met the hedge accounting requirements and observed that the proposed amendments to IFRS 9 and IAS 39 achieve that objective.

[3] Paragraphs 12.15–12.25 of IFRS for Small and Medium-sized Entities (SMEs) set out hedge accounting requirements for SMEs.

25. Most respondents also said that without the proposed relief, the uncertainties about the timing and amount of future cash flows could affect an entity's ability to meet hedge accounting requirements for highly probable and prospective assessments.

Prospective assessments

26. Almost all respondents broadly supported the proposed relief in relation to the prospective assessments in IFRS 9 and IAS 39 as summarised in paragraph 5(b) of this paper. However, many respondents made the following comments:

    (a) disagreed with and expressed concerns over the Board's decision not to propose any relief for the effects of the reform on the retrospective effectiveness assessment required by IAS 39, which according to them will lead to discontinuation of hedge accounting relationships for some hedges.

    (b) suggested that the proposed relief also refers to the hedged risk and not just to the hedged item and hedging instrument.

    (c) suggested that the Board further clarify the effects of the reform on the measurement of hedge effectiveness.

Retrospective effectiveness assessment required by IAS 39

27. Paragraph BC23 of the Basis for Conclusions on ED explains that the Board decided not to propose any relief for the effects of the reform on the 'retrospective assessments' required by IAS 39. This paragraph notes that those assessments are based on the actual results of the hedge accounting relationship and that for the purposes of the retrospective assessments, changes in fair values of the hedged item and the hedging instrument is determined based on actual market movements. When applicable, in estimating the change in fair values at the reporting date, the cash flows used are determined based on the contractual terms without considering the impact of possible future amendments to the contract (including any resulting from the reform). Since such measurement is already based on existing contractual terms and market inputs, for example, market yield, the Board decided that no amendment to the Standards with respect to retrospective assessment was necessary as existing IFRS Standards already provide an adequate basis for such measurement.

28. However, most respondents disagreed with the Board's view and said that in absence of such an exception, hedge accounting relationships will discontinue solely due to uncertainties arising from the reform, which would undermine the sole objective of the Board's proposed relief.

29. Agenda Paper 14B for this meeting includes the detailed comments on this topic, however, their concerns can be summarised as follows:

    (a) It leads to an inconsistent approach—the Board provided relief from reflecting the uncertainty arising from the reform for the purpose of assessment of prospective hedge effectiveness—but required entities to reflect the same uncertainty when the entity does a retrospective effectiveness assessment at the period end. Consequently, while entities may pass the initial test that allows application of hedge accounting (prospective assessment[4]), reflecting the uncertainty from the reform into the retrospective assessments mean they ultimately may not qualify for hedge accounting at the end of the reporting period.

    (b) Because the requirement for retrospective effectiveness assessment only exists in IAS 39 and not in IFRS 9, not providing any relief for the retrospective assessments is effectively giving an advantage to preparers who apply the hedge accounting requirements of IFRS 9. Many financial institutions said that when they first applied IFRS 9 they chose to continue applying the hedge accounting requirements of IAS 39 and consequently they will be significantly affected by this decision.

Hedged risk

30. The proposed amendments in paragraph 6.8.6 of IFRS 9 and paragraph 102F of IAS 39 describe that, for the purpose of prospective assessments, an entity shall assume that the interest rate benchmark on which the *hedged cash flows* (contractual or non-contractually specified) are based, and/or the interest rate benchmark on which the *cash flows of the hedging instrument* are based, are not altered as a result of the reform.

[4] This is because the prospective test of hedge effectiveness is designed to test whether the entity can demonstrate that the hedge relationship is expected to be effective for the forthcoming reporting period.

31. A few respondents suggested that:

    (a) those amendments also include the hedged risk which in their view would clarify that they also apply to fair value hedges involving interest rate risk; and

    (b) the proposed amendment in paragraph 102F of IAS 39 includes the assertion that the hedged risk is presumed to continue to affect the hedged item over the entire hedge horizon.

Measurement of hedge effectiveness

32. Paragraph BC22 of the Basis for Conclusions explain that the proposals in the ED are not intended to change the measurement of hedge effectiveness or to change how hedges are reflected in the financial statements. If the yields on instruments that are linked to the existing interest rate benchmark are affected by the reform, for example, due to decreased liquidity, the entity cannot ignore such a change in the yields in its measurement of hedge effectiveness. In addition, paragraph BC23 of the Basis for Conclusions (summarised in paragraph 27 above) describes how changes in fair values of the hedged item and the hedging instrument are determined for the purpose of 'retrospective assessments' required by IAS 39.

33. Agreeing with the Board that the proposals in the ED should not change the measurement of hedge effectiveness, some respondents suggested the Board clarify the meaning of some statements included in these paragraphs to avoid ambiguity. More specifically, these respondents consider that paragraph BC23 of the Basis for Conclusion could result in two different interpretations:

    (a) that hedge accounting effectiveness should be assessed by reference to the market fair value of the hedged item and the hedging instrument determined applying IFRS 13 *Fair Value Measurement.* This interpretation is based on the statement included in this paragraph which states that for retrospective assessments, changes in *fair values* of the hedged item and the hedging instrument is determined based on *actual market movements*; or

    (b) that it requires the use of the original contractual cash flows (without considering the impact arising from the reform), discounted at the actual market yields that are observable for the instruments (which reflect the

impact arising from the reform)—this will result in values that are different to the fair values determined by applying IFRS 13. This interpretation is based in the statement included in this paragraph which states that when applicable, in estimating the change in *fair values* at the reporting date, the cash flows used are determined based on the contractual terms *without considering the impact* of possible future amendments to the contract including that *resulting from the reform*.

34. Moreover, a few respondents commented on what they consider as the consequential effects of interpreting paragraph BC23 of the Basis for Conclusions as described in paragraph 33(a) and 33(b) above. These included:

    (a) It would lead to increased hedge ineffectiveness. This is because the value of hedging instrument (determined in accordance with IFRS 13) would be affected by the reform but the hedged item would not.

    (b) Different approaches may be applied in recognising hedge ineffectiveness. Some entities may assume that the current benchmark rate will apply when measuring the cumulative changes in fair value of the hedged item in a cash flow hedge—other entities may reflect expectations of the nature and timing of transition to an alternative interest rate benchmark.

Question 2—Designating a component of an item as the hedged item

35. Almost all respondents agreed with the proposed amendments to the hedge accounting requirements in IFRS 9 and IAS 39—that the separately identifiable requirement is only applied at inception of those hedge accounting relationships affected by interest rate benchmark reform (see paragraph 5(c) of this paper). However, some respondents requested the Board to clarify particular aspects of these proposals, notably the effects of the proposed relief to hedge accounting relationships in the context of macro hedges.

Extend the proposed relief to macro hedge accounting relationships

36. Although almost all respondents agreed with the proposed relief to apply the separately identifiable requirement only at inception of a hedge accounting relationship, some respondents noted that this would not provide any relief for macro hedge accounting relationships and that it could cause discontinuation of

macro hedges as the risk position being hedged changes frequently and is hedged by an open portfolio of changing assets and liabilities (eg portfolio fair value hedges of interest rate risk).

37. This is because, applying the hedge accounting requirements in IAS 39 to macro hedges, it is necessary for an entity to frequently de-designate and re-designate the hedge accounting relationships to re-balance the portfolio. Consequently, when the portfolio is required to be frequently re-designated for interest rate benchmarks such as interbank offer rates (IBORs), each re-designation could be considered as the inception of a new hedge accounting relationship (even though it is still the same relationship) and therefore the separately identifiable requirement will need to be assessed at each re-designation. As such, the proposed relief will not apply to macro hedge accounting relationships. Furthermore, there is a risk that such a portfolio will not meet the separately identifiable requirement in the period leading up to the transition to alternative interest rates because IBORs may become illiquid before that point.

38. Accordingly, these respondents suggested that the Board provide similar relief from the separately identifiable requirement for macro hedges. For example, one suggestion was to add the following sentence to paragraph 102G of IAS 39:

> For macro hedges where the entity revokes the hedge accounting designation per IAS 39.91(c) but concurrently designates a new hedge relationship with the same hedged item but a new hedging instrument, the term 'inception of the hedge' shall be the point in time when the hedged item is initially designated in the hedge accounting relationship.

New hedge accounting relationship and the reliable measurement requirement

39. Paragraph BC27 of the Basis for Conclusions on ED states that the Board decided not to allow entities to designate the benchmark component of interest rate risk as the hedged item in a *new hedge accounting relationship* if the risk component is not separately identifiable at the *inception of the hedge accounting relationship*. This

paragraph also noted that that the Board did not propose any exception from the requirement about the reliable measurement. [5]

40. In response, some respondents suggested the Board consider specifying that the proposed amendments (ie that the designated risk component or designated portion is separately identifiable only at the inception of the hedging), apply:

    (a) to new hedge accounting relationships (in addition to existing hedges) as long as the identified hedged risk references IBORs and the risk is separately identifiable at inception; and

    (b) only to those risk components that are non-contractually specified because the same issue does not arise for risk components that are contractually specified. [6]

41. Some respondents explicitly supported Board's decision not to propose any exception from the requirement about the reliable measurement. In contrast, other respondents suggested the Board provide relief from this requirement because otherwise some hedge accounting relationships will need to be discontinued (eg because the hedged instruments transitioned into new alternative interest rates, but their market is still illiquid).

42. These respondents also highlighted that should hedge accounting relationships discontinue for the reasons described above, the Board should address the accounting treatment for the amounts previously recorded in cash flow hedge reserve for such hedges ie clarify when do such amounts get reclassified to profit or loss.

Question 3—Mandatory application and end of application

Mandatory application

43. Almost all respondents agreed with the Board that the proposed relief in the ED should be mandatory—ie entities should apply the proposed exceptions to all hedge

[5] Paragraph 88(d) of IAS 39 sets out the reliably measurable requirement—the effectiveness of the hedge can be reliably measured, ie the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured—as one of the conditions that needs to be met for a hedge accounting relationship to qualify for hedge accounting under paragraphs 89–102 of IAS 39.

[6] This clarification was made in paragraph BC25 of the Basis for Conclusions on ED, however, respondents suggest specifying in the amendments to IFRS 9 and IAS 39.

accounting relationships affected by the reform. Respondents noted that mandatory application will mitigate the risk of earnings management and as a result, it will provide useful information to the users of financial statements.

44. These respondents also agreed that voluntary application of the proposed amendments could give rise to selective discontinuation of hedge accounting relationships and selective reclassification of the amounts recorded in other comprehensive income related to previously discontinued hedge accounting relationships.

End of application

45. Most respondents agreed with the Board that the proposed exceptions should only apply for a limited period as proposed by the Board, reproduced in paragraph 5(e) of this paper. However, many respondents said the Board should provide further application guidance to assist entities in determining the timing for the end of application.

46. Acknowledging the challenges associated with providing such guidance given the dynamic nature of the reform, a few respondents suggested that the Board emphasise either that entities should exercise judgement based on all available information upon reporting date or alternatively that the proposed exceptions should apply until the entity can estimate the outcome of the reform with a high degree of certainty (eg when a particular outcome is reasonably certain or highly probable).

47. Furthermore, many respondents suggested that the Board further clarify:

   (a) whether an entity applies the proposed exceptions in the ED until any uncertainty arising from the reform is no longer present for the hedged item, the hedging instrument or both? This is because the proposed amendments in paragraph 6.8.9 of IFRS 9 and paragraph 102I of IAS 39 in the ED state that those amendments cease to apply to the hedge accounting relationship when the uncertainty is no longer present with respect to the hedged item, but make no reference to the hedging instrument.

   (b) how an entity applies the end of application for the proposed amendments to macro hedges whereby the hedging instrument or hedged

item may be made up of a group of financial instruments. Respondents suggest that the Board clarify that when the end of application for the proposed amendments (set out in paragraphs 6.8.8 to 6.8.10 of IFRS 9 and paragraphs 102H–102J of IAS 39) refer to a hedged item or a hedging instrument, this should be applied on an instrument-by-instrument basis in the context of macro hedges until every item in the portfolio has been amended.

(c) how an entity accounts for the cumulative amount in the cash flow hedge reserve at the date when application of the proposed relief ends. One view is that immediate reclassification to profit or loss of all amounts accumulated in the cash flow hedge reserve would be required. However, should this be the intent of the proposed amendments respondents view this to be contradictory to the objective of the ED to avoid discontinuation of hedge accounting relationship solely due to the effects arising from the reform.

Comments on paragraphs BC35–BC41 of the Basis for Conclusions to the ED

48. Many respondents said the examples in paragraphs BC35–BC41 of the Basis for Conclusions were useful. These examples provide some scenarios that the Board considered when proposing the amendments on the end of application. However, a few respondents suggested these examples should be more comprehensive and illustrate fact patterns that are expected to occur. Suggestions included: (a) providing guidance whether the proposed amendments would continue to apply until the timing and amount of the market determined *spread over the replacement rate*[7] has been agreed, and (b) adding an example in which the hedging instrument would transition to the alternative interest rates before the hedged item (anticipated by respondents to be a more likely scenario).

49. More specifically, paragraph BC35 of the Basis for Conclusions provides an example whereby an entity amends a contract to include a clause that specifies both (a) the date the existing interest rate benchmark will be replaced by an alternative

[7] These respondents anticipate that a higher spread over the alternative interest rate compared to that over the interbank offer rates is likely to be required to ensure that there is only limited value exchange when a financial instrument is amended. Such spread may be set by reference to historic market spread information over a period up until the date of transition. As a result, the uncertainty of the amount may continue until transition.

interest rate and (b) the alternative interest rate on which the cash flows will be based. In this example, the uncertainty regarding the timing and the amount of cash flows for this contract is eliminated when the contract is amended. A few preparers said this could be interpreted such that the proposed exception ceases to apply when a contract is amended even though the effective date of the amendments in such contract falls on a subsequent future date. They suggested that the Board clarify that the proposed exceptions would continue to apply until the amendments to the contract become effective.

50. Paragraph BC41 of the Basis for Conclusions describes that the Board expects a scenario in which there is significant divergence between hedged items and hedging instruments for an extended period of time to be unlikely because entities must agree to amend both contracts before this divergence can arise. However, a few respondents said this might not necessarily be the case. In particular, they said that contracts on the hedged items will require bilateral negotiations and therefore the period of basis risk will be longer. They also suggested that the Board provide an illustrative example based on this fact pattern.

End of application for the separate identification requirement

51. Paragraph BC43 of the Basis for Conclusions explains that the Board decided not to propose an end of application in relation to the separate identification requirement. Doing so may have required entities to immediately discontinue hedge accounting relationships because, at some point, as the reform progresses, the component or the portion based on the existing IBOR may no longer be separately identifiable. Such immediate discontinuation of hedge accounting relationships would be inconsistent with the Board's objective.

52. Many respondents did not provide feedback on this part of the question. However, those who responded, agreed with the Board that there should be no end of application in relation to the separately identifiable requirement.

Question 4—Disclosures

53. As described in the ED, the Board noted that IFRS 7 *Financial Instruments: Disclosures* already requires specific disclosures about hedge accounting and, for some specifically identified disclosures, information provided separately for hedge

accounting relationships to which the proposed exceptions apply, would provide useful information to users of financial statements.

54. Most respondents agreed that entities applying the proposed exceptions in the ED should provide some disclosures about the magnitude of the hedge accounting relationships to which the exceptions apply. However, there were mixed views on the nature (qualitative vs quantitative information) and the extent of disclosures that would strike the right balance between costs for preparers and benefits for the users of financial statements.

55. Many respondents expressed the view that disclosure requirements as described in the ED would impose additional costs for preparers because they require disaggregation of information about the carrying amounts and gains and losses between hedge accounting relationships that are and those that are not affected by the reform.

56. These respondents provided the following suggestions:

    (a) clarify the objective of the proposed disclosure requirements.[8]

    (b) disclose only the notional amounts for the population of hedging instruments and hedged items to which the proposed exceptions were applied.

    (c) disclose only qualitative information about the criteria and key judgments applied when determining which hedge accounting relationships, the proposed exceptions should be applied to and the impact arising from the reform on the entity's risk management policies.

    (d) simplify the disclosure requirements for macro hedges. This is because collecting and separately disclosing information for these hedges will be complex and impose significant costs given their continuous changing nature.

[8] For example, it was suggested that the Board clarify whether the intent of information provided separately for hedge accounting relationships to which the proposed exceptions apply is to enable users to get a sense of the impact on the financial statements should the reliefs cease and the hedge accounting relationships are discontinued. If this is not the case then, according to this respondent, it is difficult to see a reason for the separate disclosure.

57. However, a few auditors and regulators agreed with the disclosure requirements as set out in the ED noting that absent separate quantitative information on hedge accounting relationships to which entities applied the proposed exceptions, there is a risk that useful information about the impact of the reform would be obscured through aggregation with other hedges. Moreover, they suggested additional disclosure requirements, for example, disclosure of the jurisdictions/currencies to which the entity applied the proposed exceptions, along with qualitative information about the uncertainties on the timing or amount of benchmark cash flows that affect hedge accounting relationships. In their view, this will allow users of financial statements to fully assess the nature of the relevant uncertainties and the assumptions the entity has made in applying these exceptions.

58. Many respondents also expressed concerns with the disclosure requirements arising from paragraph 28(f) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* which requires entities to disclose for the current period and each prior period presented, to the extent practicable, the amount of the adjustment: (i) for each financial statement line item affected; and (ii) for basic and diluted earnings per share, if IAS 33 *Earnings per Share* applies to the entity.

59. These respondents find this disclosure requirement onerous and consider that it does not provide useful information for the users of financial statements given the proposed amendments in the ED require an entity to continue applying hedge accounting requirements for previously designated hedge relationships. These respondents suggested the Board provide an exception from this disclosure requirement.

Question 5—Effective date and transition

Effective date

60. The Board proposed that the effective date of the amendments set out in the ED is for annual periods beginning on or after 1 January 2020, with earlier application permitted.

61. Almost all respondents agreed with this proposal and were supportive of allowing earlier application given different jurisdictions are following different paths to transitioning to the alternative interest rate benchmarks. However, many respondents, in particular those from Europe and Canada, expressed concerns that

due to the endorsement process required in their jurisdictions they may not be able to benefit from the earlier application, encouraging the Board to finalise the proposed amendments in a timeline that would allow sufficient time for the endorsement process to be completed before the end of 2019.

Transition

62. The Board proposed that the amendments apply retrospectively while highlighting that retrospective application of the amendments would not allow reinstating hedge accounting relationships that have already been discontinued.

63. While agreeing with the principles underlying the transition requirements for the proposed amendments, most respondents suggested the Board clarify the interaction between its proposal to not allow reinstating hedge accounting that has already been discontinued in previous periods with the proposal for retrospective application of the amendments.

64. This is because, these respondents consider that retrospective application would require applying the proposed amendments as if the proposed relief has always been in place but this approach would conflict with not reinstating hedge accounting relationships that have already been discontinued when the exceptions are applied for the first time. Given the contradictory nature of these two proposals, some respondents consider that the proposed amendments are effectively required to be applied prospectively.

65. In contrast, a few respondents suggested the Board allow reinstating hedge accounting relationships that have already been discontinued when such hedges were discontinued solely due to the impact arising from the reform.

66. Overall respondents suggested the Board further clarify how to apply these transition requirements in practice, for example whether:

    (a) the proposed amendments should apply to all hedge accounting relationships that were in place at the beginning of the adoption period and the new hedges entered into since then (ie similar to the modified retrospective approach applied on application of IFRS 9).

(b) retrospective application is meant to require reversing reclassification of amounts from the cash flow hedging reserve into the statement of profit or loss for previously discontinued cash flow hedges.

Other Comments

67. Many respondents highlighted the fast pace of the regulatory developments and the amendments to contracts in preparation for the transition to alternative interest rates suggesting that the Board should address replacement issues with urgency, possibly simultaneously with finalising the proposed amendments on this ED.

68. These respondents also suggested additional financial reporting issues for the Board to consider—the most common examples included:

    (a) *Hedge documentation.* Applying IFRS 9 and IAS 39 entities will have to update hedge accounting documentation to reflect transition from IBORs to alternative interest rates. This process takes time and may not be completed before the end of application for the proposed exceptions in the ED. It was suggested that the Board consider whether further exceptions could be proposed to prevent discontinuation of hedge accounting relationships solely due to changes to hedge documentation in preparation of the reform or where hedge documentation could not be updated in a timely manner.

    (b) *Reclassification of gains or losses deferred in the cash flow hedge reserve*. Applying the hedge accounting requirements in IFRS 9 and IAS 39, cash flows and forecast transactions that have been specifically identified in the hedge designation must still be expected to occur, so that deferred amounts remain in the cash flow hedge reserve. Following transition from IBORs to alternative interest rates, the amount deferred may need to be released. It was suggested that the Board provide exceptions to allow the continuation of the deferral of amounts recognised in the cash flow hedge reserve upon such transition.

    (c) *Derecognition or modification of financial instruments applying IFRS 9.* It was suggested the Board provides guidance on whether the amendments to the contractual terms of financial instruments, necessary to reflect the new alternative interest rates, lead to derecognition of the old financial instruments and the recognition of the new financial

instruments or whether they represent a modification of the old financial instruments.

(d) *Other replacement issues applying IFRS 9.* These included requirements for solely payments of principal and interest (SPPI) and business model in IFRS 9. It was suggested the Board provides guidance on whether upon transition from IBORs to alternative interest rates the financial instruments still meet the SPPI requirements and in the event that the old financial instruments are derecognised, whether the newly recognised financial instruments still meet the requirements to be within a business model whose objective is to hold financial assets in order to collect.

(e) *Replacement issues applying other IFRS Standards.* Some contracts that are accounted for in accordance with other IFRS Standards could be indexed to IBORs and hence the transition to the alternative interest rates may also affect transactions arising from such contracts. For example, interest guarantees in insurance contracts accounted applying IFRS 17 *Insurance Contracts,* lease payments arising from lease contracts accounted applying IFRS 16 *Leases.*

69. Agenda Paper 14B for this meeting provides further details on the comments received and potential approaches identified for the issues described in paragraph 68(a) and (c) above.

Question for the Board

Question for the Board
Does the Board have any comments or questions on the feedback received on the ED?

Appendix A – Questions asked on the ED

A1. The following are the 5 questions as set out on the ED.

Question 1—Highly probable requirement and prospective assessments

For hedges of interest rate risk that are affected by interest rate benchmark reform, the Board proposes amendments to IFRS 9 and IAS 39 as described below.

(a) For the reasons set out in paragraphs BC8–BC15, the Board proposes exceptions for determining whether a forecast transaction is highly probable or whether it is no longer expected to occur. Specifically, the Exposure Draft proposes that an entity would apply those requirements assuming that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of interest rate benchmark reform.

(b) For the reasons set out in paragraphs BC16–BC23, the Board proposes exceptions to the hedge accounting requirements in IFRS 9 and IAS 39 so that an entity would assume that the interest rate benchmark on which the hedged cash flows are based, and/or the interest rate benchmark on which the cash flows of the hedging instrument are based, are not altered as a result of interest rate benchmark reform when the entity determines whether:

   (i) there is an economic relationship between the hedged item and the hedging instrument applying IFRS 9; or

   (ii) the hedge is expected to be highly effective in achieving offsetting applying IAS 39.

Do you agree with these proposals? Why or why not? If you agree with only parts of the proposals, please specify what you agree and disagree with. If you disagree with the proposals, please explain what you propose instead and why.

Question 2—Designating a component of an item as the hedged item

For the reasons set out in paragraphs BC24–BC27, the Board proposes amendments to the hedge accounting requirements in IFRS 9 and IAS 39 for hedges of the benchmark component of interest rate risk that is not contractually specified and that is affected by interest rate benchmark reform. Specifically, for such hedges, the Exposure Draft proposes that an entity applies the requirement—that the designated risk component or designated portion is separately identifiable—only at the inception of the hedging relationship.

Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you propose instead and why.

Question 3—Mandatory application and end of application

(a) For the reasons set out in paragraphs BC28–BC31, the Board proposes that the exceptions are mandatory. As a result, entities would be required to apply the proposed exceptions to all hedging relationships that are affected by interest rate benchmark reform.

(b) For the reasons set out in paragraphs BC32–BC42, the Board proposes that the exceptions would apply for a limited period. Specifically, an entity would prospectively cease applying the proposed amendments at the earlier of:

(i) when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows; and

(ii) when the hedging relationship is discontinued, or if paragraph 6.8.9 of IFRS 9 or paragraph 102I of IAS 39 applies, when the entire amount accumulated in the cash flow hedge reserve with respect to that hedging relationship is reclassified to profit or loss.

(c) For the reasons set out in paragraph BC43, the Board is not proposing an end of application in relation to the separate identification requirement.

Do you agree with these proposals? Why or why not? If you agree with only parts of the proposals, please specify what you agree and disagree with. If you disagree with the proposals, please explain what you propose instead and why.

Question 4—Disclosures

For the reasons set out in paragraph BC44, the Board proposes that entities provide specific disclosures about the extent to which their hedging relationships are affected by the proposed amendments.

Do you agree with these proposed disclosures? Why or why not? If not, what disclosures would you propose instead and why?

Question 5—Effective date and transition

For the reasons set out in paragraphs BC45–BC47, the Board proposes that the amendments would have an effective date of annual periods beginning on or after 1 January 2020. Earlier application would be permitted. The Board proposes that the amendments would be applied retrospectively. No specific transition provisions are proposed.

Do you agree with these proposals? Why or why not? If you disagree with the proposals, please explain what you propose instead and why.