IFRS™

STAFF PAPER

July 2020

IASB® meeting

Project	**IBOR Reform and its Effects on Financial Reporting—Phase 2**
Paper topic	Feedback analysis—Accounting for qualifying hedges

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1. Introduction

1. This paper addresses feedback received on Question 3 of the Exposure Draft *Interest Rate Benchmark Reform—Phase 2* (Exposure Draft) regarding the proposed amendments to hedging relationships required by interest rate benchmark reform (the reform).

2. Structure of this paper

2. This paper is structured as follows:
   (a) Summary of staff recommendations (Section 3);
   (b) Feedback received and staff analysis (Section 4); and
   (c) Questions for the Board (Section 5)

3. Summary of staff recommendations

3. We recommend that the Board:
   (a) permit, rather than require, entities to reset cumulative fair values to zero for the purpose of performing the retrospective effectiveness assessment as proposed in paragraph 102S of the Exposure Draft;

(b) confirm the proposals in the Exposure Draft related to the accounting for qualifying hedging relationships. However, as explained more fully in the staff analysis, we have identified some clarifications and drafting suggestions that we will consider when finalising the amendments.

4. Feedback received and staff analysis

4. We have separately analysed feedback related to the following topics:

   (a) Remeasurement of the hedged item and the hedging instrument (paragraphs 6-21);

   (b) Amounts accumulated in the cash flow hedge reserve (paragraphs 22-31);

   (c) Groups of items (paragraphs 32-42); and

   (d) Retrospective effectiveness assessment (paragraphs 43-53).

5. For each topic we provide:

   (a) a summary of the proposals in the Exposure Draft;

   (b) a summary of the feedback received on those proposals; and

   (c) staff analysis and recommendations.

4.1 Remeasurement of the hedged item and the hedging instrument

Proposals in the Exposure Draft

6. The Exposure Draft proposed in paragraphs 6.9.11–6.9.12 of IFRS 9 and 102T–102U of IAS 39 that, when a change to the hedging relationship has been made as required by paragraphs 6.9.7 and 102O, the requirements in IFRS 9 and IAS 39 would be applied to remeasure the hedging instrument and the hedged item based on the alternative benchmark rate. Any resulting gain or loss would be recognised as part of ineffectiveness as required by paragraphs 6.5.8 and 6.5.11 of IFRS 9 and paragraphs 89 and 96 of IAS 39.

7. Paragraphs BC58–BC63 of the Basis for Conclusions on the Exposure Draft describe the Boards reasons for these proposals. In particular, paragraph BC62 explains that doing otherwise would be inconsistent with the proposal to continue applying hedge accounting for such amended hedging relationships. In the Board’s

view, recognising those measurement adjustments applicable to hedged items and hedging instruments reflects the economic effects of the amendments to the formal designation of a hedging relationship and therefore, provides useful information to users of financial statements.

Feedback

8. Most respondents agreed that the effects of replacing an interest rate benchmark should be included in the measurement of the hedging instrument and the hedged item, and should affect hedge ineffectiveness, because this would capture the actual economic effect of the reform. These respondents said they would not expect any significant changes in fair value to arise from the remeasurement of the hedged item or hedging instrument because these proposed amendments would apply when the proposed criteria in paragraph 6.9.3 of the Exposure Draft are met, which include the requirement that changes are made on an economically equivalent basis.

9. However, some respondents said that although they agree that any ineffectiveness arising due to the reform should be recognised in profit or loss, in their view, the requirement to remeasure the hedged item for the new hedged risk based on an alternative benchmark rate could result in a difference being recognised in profit or loss in a fair value hedge that is not ineffectiveness. This is because, in a fair value hedge, the fair value adjustment arises from changes in fair value of the hedged item attributable to a change in the hedged risk. In their view, a change of the hedged risk (eg the replacement of an existing interest rate benchmark with an alternative benchmark rate) is not a reason to record a change in the basis adjustment on the hedged item. In their view, this distinction is consistent with the Board’s views in the Exposure Draft on applying paragraph B5.4.5 of IFRS 9 as a practical expedient to a modification required by the reform of financial instruments measured at amortised cost—ie the Board concluded that such a replacement of the benchmark rate would be accounted for as a change (movement) in a market interest rate rather than as a change (ie a modification) to the market interest rate.

10. These respondents also said that in a fair value hedge, once the hedged risk is updated to reflect the alternative benchmark rate, the adjustments to the hedged item will not be equal and offsetting to the adjustments to the hedging instrument.

That is because the fair value hedge adjustment on the hedged item will be remeasured based on the alternative benchmark rate alone (ie excluding the impact of any basis spread) whereas the hedging instrument will be remeasured at the full replacement rate (ie risk-free rate (RFR) plus a spread). These respondents therefore believe that the relief proposed in the Exposure Draft would not provide a better reflection of the economic effects of the changes to the hedging relationship compared to what would be provided by the existing requirements in IFRS 9 and IAS 39 for discontinued hedging relationships. This is because, applying IFRS 9 and IAS 39, when a hedging relationship is de-designated, the fair value hedge adjustment is recognised in profit or loss over the life of the hedged item. Respondents said that, considering the Board's objectives in proposing the amendments, it seems counterintuitive that the proposed relief could result in more volatility in profit and loss than the existing requirements (ie if the proposed relief was not applied).

11. These respondents therefore believe that amortising the hedged item remeasurement difference on a basis similar to paragraph 6.5.10 of IFRS 9 and paragraph 92 of IAS 39 would provide more useful information to users of financial statements than immediately recognising that amount in profit and loss. However, they acknowledged that such an amortisation approach could be operationally burdensome for some entities with large numbers of fair value hedges. Consequently, some of these respondents recommended that the Board provide an option in paragraphs 6.9.11 and 102T of the Exposure Draft so that entities are permitted to recognise the transition adjustment to the carrying value of the hedged item via an adjustment to the effective interest rate or a similar amortisation methodology, provided that the chosen methodology is applied consistently to all fair value hedges.

12. Some respondents also asked the Board to clarify how and when entities would be required to apply the requirements in paragraphs 6.9.11–6.9.12 and paragraphs 102T–102U of the Exposure Draft. In particular, they asked whether the remeasurement requirement would be applied the first time, the last time or each time the hedge designation is amended as required by paragraphs 6.9.7 and 102O of the Exposure Draft. Others said that they interpreted the proposals in paragraphs

6.9.11–6.9.12 and paragraphs 102T–102U of the Exposure Draft to require entities to remeasure both the hedged item and the hedging instrument on the basis of the alternative benchmark rate on the date the hedge documentation is amended, even if only one of the elements of the hedging relationship has been amended to transition to an alternative benchmark rate. They suggested that the proposed amendments are updated to refer to either:

(a) the measurement basis that would be used when some, but not all, elements of the hedge designation have been changed to reflect the new benchmark rate; or

(b) to specify that the measurement basis would apply only when both the hedged item and the hedging instrument have been changed to reflect the new benchmark rate (ie when no uncertainty remains in the hedging relationship).

Staff analysis and recommendations

13. The Exposure Draft proposed that no exceptions should be made from the measurement requirements for hedged items and hedging instruments. As a result, any measurement differences arising from the transition to an alternative benchmark rate would be recognised as required in IFRS 9 and IAS 39. Paragraphs BC58–BC63 of the Basis for Conclusions on the Exposure Draft describe the Board's reasons for these proposals.

14. We continue to agree with the Board's view as described in the Exposure Draft. This is because in a continuing hedging relationship, any changes in the fair value of the hedged item and hedging instrument are considered in the hedge effectiveness assessment and included in the measurement of ineffectiveness.

15. When developing the proposed amendments, the Board considered whether to provide an exception from the requirement to include in hedge ineffectiveness any measurement differences that arise, specifically whether to recognise such a measurement difference in profit or loss over time (ie amortising the measurement difference). However, as described in BC61 of the Basis for Conclusions on the Exposure Draft, the Board rejected this approach as it would be inconsistent with

the Board's decision that no exceptions should be made to the measurement of hedged items or hedging instruments.

16. Most of the respondents that disagreed with the proposal to include a measurement difference in the measurement of ineffectiveness, did so in the context of fair value hedges. We acknowledge respondents' views that the proposal to recognise as part of ineffectiveness any measurement differences arising from transitioning the hedged item or the hedging instrument to an alternative benchmark rate is different from the existing requirements for fair value hedges when hedge accounting is discontinued. However, we note that the underlying principle for the proposed amendments to the hedge accounting requirements in IFRS 9 and IAS 39 is that a hedging relationship is not discontinued when the hedging relationship is amended as necessary to transition to an alternative benchmark rate. We are therefore of the view that any changes in fair value of the hedged item or hedging instrument must be recognised as it would be in a continuing hedging relationship.

17. We agree with those respondents that specifically said they do not expect significant gains or losses to arise from the remeasurement of the hedged item or the hedging instrument because the changes specified in the Exposure Draft would be made on an economically equivalent basis as described in paragraph 8 of this paper. This is because, in our view, a significant difference arising from the remeasurement of the hedged item and the hedging instrument, indicates that there is a disconnect between the changes made to the hedged item and the hedging instrument. This seems to be the example described in paragraph 10 of this paper, where the changes to the hedging instrument are based on the alternative benchmark rate plus a basis spread, while the changes to the hedged item are only based on the alternative benchmark rate.

18. We therefore think the Board's tentative decision at its June 2020 meeting to include the designated hedged portion as a required change to the hedged item, will enable entities to amend their hedging relationships in a way that minimises valuation differences on the remeasurement of the hedged item or the hedging instrument.

19. Accordingly, we recommend that the Board does not change the proposed requirement related to remeasurement of the hedged item and the hedging

instrument. However, we will consider whether any drafting improvements could enhance the articulation of the requirements when drafting the final amendments.

20. We agree with respondents that the proposed wording in paragraphs 6.9.11–6.9.12 and 102T–102U of the Exposure Draft could be interpreted to require both the hedged item and the hedging instrument to be measured based on the alternative benchmark rate when the hedging relationship has been amended even if only one of the elements of the hedging relationship has been amended to transition to an alternative benchmark rate. Consistent with the reasons provided for the Phase 1 relief issued in 2019, the changes in the fair value of the hedged item or hedging instrument should be measured based on the contractual terms and the assumptions that market participants would consider as required by IFRS 13.

21. We are of the view that the intention of the proposals in paragraphs 6.9.11–6.9.12 and 102T–102U of the Exposure Draft was not to introduce an exception from the current requirements in IFRS 9 and IAS 39 pertaining to measuring and recognising ineffectiveness. However, we think that the requirements in these paragraphs could be articulated more clearly in the final amendments.

4.2 Amounts accumulated in the cash flow hedge reserve

Proposals in the Exposure Draft

22. Paragraphs 6.9.13 and 102V of the Exposure Draft proposed that the amount accumulated in the cash flow hedge reserve at the date the entity amends the description of the hedged item would be deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.

23. Similarly, paragraphs 6.9.14 and 102W proposed that when there is a change in the basis for determining the contractual cash flows of a financial asset or a financial liability previously designated as a hedged item in a hedging relationship that has been discontinued, the amount accumulated in the cash flow hedge reserve for the discontinued hedging relationship would be deemed to be based on the alternative benchmark rate on which the hedged future cash flows will be based.

Feedback

24. Almost all respondents expressed support for these proposed amendments in the Exposure Draft. They said the proposals are a simple and pragmatic solution that

provides much needed relief for entities transitioning to an alternative benchmark rate. Specifically, they agreed that amounts accumulated in the cash flow hedge reserve (resulting from applying the current requirements in IFRS 9 and IAS 39) should not be reclassified when an entity transitions to a new interest rate benchmark because such reclassification would not reflect the economic effect of the reform.

25. However, a few respondents asked the Board to clarify:

(a) whether the reference to “the cumulative change in fair value …based on the alternative benchmark rate” in paragraphs 6.9.12(b) and 102U(b) of the Exposure Draft would require the retrospective measurement of the hedged item based on the alternative benchmark rate cash flows—in other words, whether an entity would be required to recalculate what the cumulative fair value changes would have been if the hedged item was based on the alternative benchmark rate from inception.

(b) whether for a discontinued hedging relationship “deeming the amount accumulated in the cash flow hedge reserve based on the alternative benchmark rate” requires a remeasurement of the amount based on the alternative benchmark rate even if there is no requirement in IFRS 9 and IAS 39 to remeasure the cash flow hedge reserve for a discontinued hedging relationship.

(c) that the reference in paragraphs 6.9.14 and 102W to “a financial asset or a financial liability previously designated as a hedged item” equally applies to a macro cash flow hedge of an open portfolio where the hedged item is defined as forecast interest cash flows arising from an open portfolio.

Staff analysis and recommendations

26. When it developed the proposals in the Exposure Draft, the Board decided that when a hedging relationship is affected by changes required by the reform, more useful information would be provided to users of financial statements if hedge accounting is not discontinued and amounts are not reclassified to profit or loss solely due to the changes required by the reform. Therefore, in applying paragraph 6.5.11(d) of IFRS 9 or paragraph 97 of IAS 39, the amount accumulated in the cash

flow hedge reserve would be reclassified to profit or loss in the same period (or periods) during which the hedged cash flows based on the alternative benchmark rate affect profit or loss[1].

27. When applying hedge accounting, the cash flow hedge reserve is adjusted to the lower of[2]:

    (a) the cumulative gain or loss on the hedging instrument since inception of the hedge; and

    (b) the cumulate change in fair value (present value) of the hedged item (cumulative change in hedged expected future cash flows) from inception of the hedge.

28. Applying both IFRS 9 and IAS 39, the cash flow hedge reserve is therefore not subject to separate measurement requirements, but is derived from the cumulative changes in the fair values of the hedged item and hedging instrument. As stated in paragraphs BC51 and BC116 of the Basis for Conclusions on the Exposure Draft, the proposed amendments do not provide an exception to the measurement requirements in IFRS 9, IFRS 13 or IAS 39. Therefore, the fair value of the hedged item or hedging instrument is determined at the measurement date based on the expected future cash flows and assumptions that market participants will use as required by IFRS 13. In other words, the fair value of the hedged item is not determined retrospectively, ie what would the fair value be if it had been based on the alternative benchmark rate since inception.

29. As the amount in the cash flow hedge reserve is not subject to separate measurement requirements, once a hedging relationship is discontinued, no adjustments are made to the cash flow hedge reserve other than the amounts reclassified to profit or loss or included in the carrying amount of a non-financial asset or liability.

30. The Exposure Draft did not exclude cash flow hedges of open portfolios (‘macro cash flow hedges’), therefore we are of the view that the proposed amendments in

[1] Paragraph BC67 of the Basis for Conclusion on the Exposure Draft

[2] Paragraph 6.5.11(a) of IFRS 9 and paragraph 96 of IAS 39

paragraphs 6.9.14 and 102W of the Exposure Draft applies to cash flows hedges regardless of whether it is an open or closed portfolio.

31. We are therefore not recommending any substantial changes to the amendments proposed in the Exposure Draft for the amounts accumulated in the cash flow hedge reserve. However, to address the requests for clarification described in paragraph 23 of this paper, we will consider the wording of those paragraphs when we draft the final amendments.

4.3 Groups of items

Proposals in the Exposure Draft

32. Paragraphs 6.9.15 and 102X of the Exposure Draft proposed that when applying paragraph 6.9.7 or paragraph 102O to groups of items designated as hedged items, the hedged items would be allocated to sub-groups within the same hedging relationship based on the benchmark rate to which they are referenced and that the proportionality test would be applied to each sub-group separately.

Feedback

33. Almost all respondents agreed with the proposals in paragraphs 6.9.15 and 102X of the Exposure Draft and said the proposals provide a pragmatic solution for the continuation of group hedges where individual items will transition to alternative benchmark rates at different points in time. A few respondents commented on the operational challenges that might arise when applying the proposed requirements. However, they acknowledged that they were not aware of another alternative that would maintain the robustness of the hedge accounting requirements and therefore they supported the proposals.

34. Notwithstanding their agreement with the proposed amendments, some respondents asked the Board to clarify the following aspects of the proposed relief:

    (a) the guidance related to groups of items in paragraphs 6.9.15 and 102X of the Exposure Draft would apply to both fair value hedges and cash flow hedges.

(b) when applying IFRS 9, the proportionality test for sub-groups would only be required for a cash flow hedge in which the hedged risk is not foreign currency risk.

(c) whether the proposed relief would apply to dynamic hedges of interest rate benchmark-based instruments when mature interest rate benchmark-based instruments are replenished with new alternative benchmark-based instruments.

35. A few respondents specifically asked how the proposed amendments would be applied to the hypothetical derivative in a cash flow hedge. Their comments included the following:

(a) paragraphs 6.8.9 of IFRS 9 and 102J of IAS 39, in combination with the proposed amendments in paragraphs 6.9.7 and 102O, have been understood to prohibit an entity from changing the hedge designation whilst uncertainty remains for the hedged item. Respondents said that for cash flow hedges, the concern is that additional ineffectiveness could arise if an entity is not permitted to amend the hypothetical derivative representing the hedged item whilst the actual hedged item, such as a floating rate loan, has not yet transitioned from an existing interest rate benchmark (eg IBOR) to an RFR. In their view, this ineffectiveness would be spurious, as the entity does not expect the hedged item to remain referenced to IBOR for the remainder of its life.

(b) for a hedge of a highly probable forecast transaction or planned extension of an existing floating rate instrument, it would be desirable to amend the hedged item to be the alternative benchmark component of the floating rate once the hedging derivative is modified, even though it is not yet certain which benchmark rate the floating rate on the hedged item will be based on.

(c) they are concerned that paragraph BC78 of the Basis of Conclusions on the Exposure Draft would require the hypothetical derivative to be recalibrated to reflect a weighted-average or mix of different sub-groups. This may not reflect the underlying economics of a hedging relationship, particularly when different components (i.e. layers) of the same cash flow pool are designated in multiple hedges.

Staff analysis and recommendations

36. Paragraphs 6.9.15 and 102X of the Exposure Draft states that (emphasis added):

> When an entity applies paragraph [6.9.7 or 102O] to a group of items designated as hedged items in <u>a hedging relationship</u>, the entity shall allocate the hedged items to subgroups based on the benchmark rate being hedged, and designate the benchmark rate for each subgroup as the hedged risk […]

37. We are therefore of the view that the reference to "a hedging relationship" implies that the proposed requirements apply to both fair value and cash flow hedges. However, for the avoidance of doubt, wording of the proposed amendments could be clarified in this respect when we draft the final amendments.

38. The staff agree with respondents' comments about the application of the 'proportionality test' in IFRS 9 and we do not think the proposed amendments in the Exposure Draft intended to change the requirements in IFRS 9. We therefore recommend that the wording be clarified when finalising the amendments.

39. When developing paragraphs 6.9.15 and 102X of the Exposure Draft, the Board intended for the proposals to apply to hedges of open portfolios (ie 'macro hedges'), therefore the underlying assumption is that new items will be added to the hedging relationship as other items mature or are extinguished. However, we believe the purpose of the proposed amendments is to provide relief when individual items transition to an alternative benchmark rate, rather than changing the nature of the hedging relationship to a closed portfolio. We are therefore of the view that new items designated in the group to replenish interest rate benchmark-based items that have matured, would be allocated to the relevant subgroup similar to those items that have transitioned. We further note that all subgroups are part of the same hedging relationship and therefore hedge effectiveness is assessed for the hedging relationship as a whole, rather than separately for individual subgroups.

40. We also acknowledge respondents' questions about how to apply the proposed amendments to the hypothetical derivative in a cash flow hedge, however we note

that neither IFRS 9 nor IAS 39 includes specific requirements pertaining to the hypothetical derivative. IFRS 9 makes reference to the hypothetical derivative in paragraph B6.5.5 as one possible way of calculating the change in fair value of the hedged item for the purpose of measuring hedge ineffectiveness. This paragraph further states:

> […] an entity may use a derivative that would have terms that match the critical terms of the hedged item (this is commonly referred to as a 'hypothetical derivative') … The hypothetical derivative replicates the hedged item and hence results in the same outcome as if that change in value was determined by a different approach. Hence, using a 'hypothetical derivative' is not a method in its own right but a mathematical expedient that can only be used to calculate the value of the hedged item. Consequently, a 'hypothetical derivative' cannot be used to include features in the value of the hedged item that only exist in the hedging instrument (but not in the hedged item) […]

41. Although IAS 39 does not include any reference to a hypothetical derivative, we believe that the same requirements would apply to hypothetical derivatives used for cash flow hedges in IAS 39.

42. We believe it is important to note that using a hypothetical derivative is only an expedient that replicates the hedged item for the purpose of measuring ineffectiveness and therefore results in the same outcome as another approach would achieve. In other words, the terms on which the hypothetical derivative is constructed must be the same as the terms of the hedged item, such as the cash flows designated as the hedged cash flows for changes in the hedged risk. Although using a hypothetical derivative is a common practice being used in practice for cash flow hedges, it is not a requirement in either IFRS 9 or IAS 39. Therefore, we do not think it would be appropriate to include specific requirements for applying the proposed amendments to a hypothetical derivative.

4.4 Retrospective effectiveness assessment (IAS 39 only)

Proposals in the Exposure Draft

43. Paragraph 102S of the Exposure Draft proposed that for the purpose of assessing retrospective effectiveness as required by IAS 39, the cumulative fair value changes of the hedged item and the hedging instrument would be reset to zero when paragraph 102G of IAS 39 ceases to apply.

Feedback

44. Almost all respondents supported the proposed amendments in paragraph 102S of the Exposure Draft. These respondents agreed that the proposals will provide relief from failing the effectiveness assessment in IAS 39 solely due to ineffectiveness caused by uncertainty arising from the reform and, at the same time, retain the requirement to measure and recognise ineffectiveness. Thus entities will continue to reflect the actual results of the hedging relationships in their financial statements.

45. However, many respondents said that although they agree with the proposals, the proposed relief could unintentionally cause some hedging relationships to fail the retrospective effectiveness assessment. This will be the case, for example, when there is market volatility during the initial period following the transition to an alternative benchmark rate that could cause the retrospective effectiveness assessment to breach the 80%-125% threshold because an entity would be precluded from assessing effectiveness based on data prior to the reset date even if this shows that the hedge accounting relationship is effective over a longer time horizon. These respondents suggested that the Board amend the relief to permit, but not require, entities to reset cumulative changes in fair value, so that entities are able to apply the relief only to those hedging relationships where it is needed.

46. Some respondents also noted that the paragraph 102S of the Exposure Draft does not distinguish between the different methods used for the retrospective effectiveness assessment. They said that the proposed relief would be helpful for entities applying the cumulative dollar offset method, but it would be confusing when a regression analysis is used for assessing the hedge effectiveness. They noted that data points in the regression analysis could be based on historical

differences in fair value changes spanning over more periods. In such a case the regression method could also be viewed to be set up on a cumulative basis.

47. Other respondents asked the Board to amend the proposed requirement in paragraph 102S of the Exposure Draft to require that the cumulative changes in fair value are reset to zero, "immediately after ceasing to apply 102G but after remeasurement of the hedging instrument and hedged item on that date,...." in order to eliminate any effects of transition to the new benchmark interest rate from the cumulative changes in fair value used going forward.

48. A few respondents said that, because cessation of Phase 1 relief from the prospective effectiveness requirements in IAS 39.88(b) is applied at the instrument-level, basis differences between an interest rate benchmark-based hedged item and an alternative benchmark-based hedging instrument could cause both the dollar offset method and the regression analysis to breach the 80-125% threshold (either period-over-period or cumulatively) for the prospective effective assessment. These respondents noted that market volatility and the lack of additional relief could limit the designation of new hedges or lead to the discontinuation of existing hedging relationships applying IAS 39 solely due to effects of the reform. Respondents suggested that, consistent with the Board's objectives set out BC4 and BC6 of the Basis for Conclusions on the Exposure Draft, an exception from the prospective assessment requirement in 88(b) of IAS 39—equivalent to the Phase 1 relief from the retrospective effectiveness assessment—is necessary to enable qualifying hedges to continue.

Staff analysis and recommendations

49. We agree with the concerns raised by respondents that there may be unintended consequences if the cumulative fair value changes of the hedged item and hedging instrument must be reset to zero for hedging relationships for which hedge effectiveness is assessed on a cumulative basis.

50. When developing the proposed amendments in paragraph 102S, the Board considered that when an entity first applies the retrospective effectiveness assessment in IAS 39 after the Phase 1 relief from the retrospective assessment ceases to apply, a hedging relationship could fail the retrospective assessment due

to the accumulated ineffectiveness caused by uncertainty arising from the reform. As the Phase 1 amendments provided relief only from the retrospective assessment, entities are still required to recognise any ineffectiveness in profit or loss. The Board therefore decided that discontinuing hedge accounting due to ineffectiveness that has already been recognised would be inconsistent with the objectives of the Phase 1 relief.

51. However, respondents identified a situation in which the relief proposed in the Exposure Draft could have the opposite effect from what the Board intended. This is because market volatility during the early stages of an alternative benchmark rate could cause a hedging relationship to fail the effectiveness requirements if it is looked at in isolation rather than on a cumulative basis.

52. We therefore recommend that the relief proposed in paragraph 102S of the Exposure Draft, is available to entities to apply when needed, rather than being required (as proposed in the Exposure Draft).

53. We also acknowledge respondents' request to specify that the proposed amendment applies only when an entity uses a dollar off-set method to assess hedge effectiveness but not when regression analysis is applied. However, we are of the view that the proposed wording in the Exposure Draft already captures this distinction because 'cumulative changes' refer to changes in the fair value since inception of the hedging relationship. This is because a regression analysis typically uses period-to-period fair value changes to assess effectiveness and not the cumulative fair value changes since inception. Furthermore, neither IFRS 9 nor IAS 39 prescribes specific methods to be used to assess hedge effectiveness and the dollar off-set or regression methods are only two possible methods to be used. Therefore, we do not believe it would be appropriate to refer to a specific method when finalising the amendments.

5. Questions for the Board

Questions for the Board
1. Does the Board agree with the staff recommendation in paragraph 3 to: (a) permit, rather than require, entities to reset the cumulative fair values to zero for the purpose of performing the retrospective effectiveness assessment; and (b) confirm the proposals in the Exposure Draft related to the accounting for qualifying hedging relationships, subject clarifications and drafting suggestions as explained in the staff analysis?