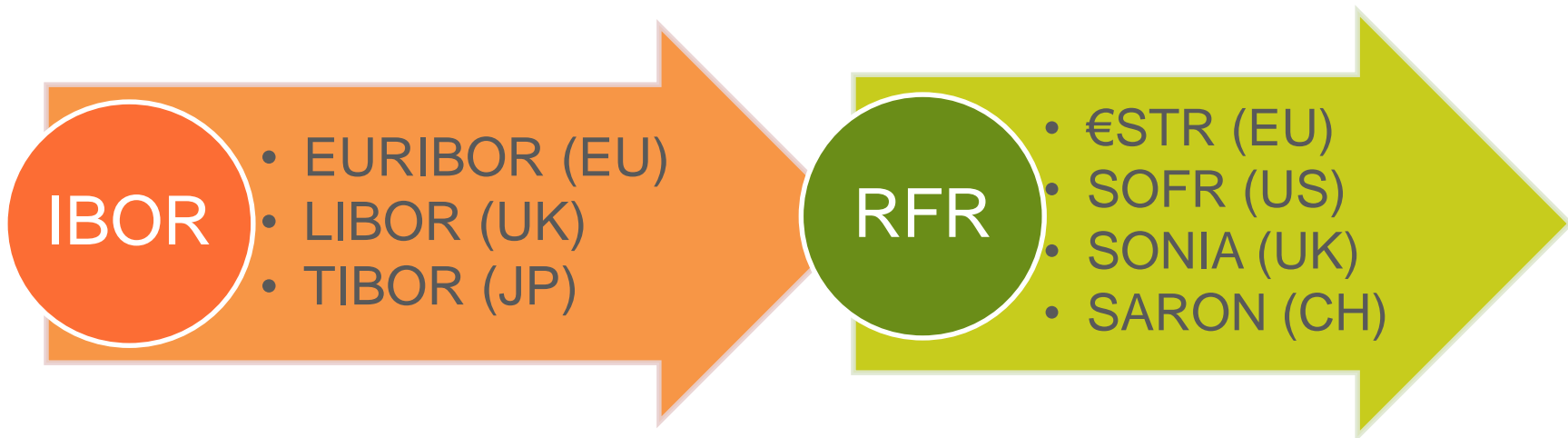


EFRAG COMMENT LETTER IBOR REFORM

ASAF MEETING

11 July 2019

IBOR: WHAT IS HAPPENING?



IMPLICATIONS OF THE REFORM: IASB ANALYSIS

ACCOUNTING IMPLICATIONS

IBOR PROJECT

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graph TD; A[IBOR PROJECT] --> B[PHASE 1: ISSUES LEADING UP TO IBOR REFORM]; B --> C[PHASE 2: ISSUES AFTER IBOR REFORM IS ENACTED];
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PHASE 1: ISSUES LEADING UP TO IBOR REFORM

PHASE 2: ISSUES AFTER IBOR REFORM IS ENACTED

PHASE 1:

IASB PROPOSAL AND EFRAG RESPONSE (1/4)

General comment

- EFRAG supports the approach of working in two phases
- EFRAG is of the view that the second phase should be addressed as soon as possible and in parallel to the finalisation of the first phase.

Reliefs from highly probable requirement and prospective assessments

- EFRAG considers the IASB proposals as a step in the right direction but notes that additional changes are necessary. In particular, relief from including the uncertainties of IBOR reform in the retrospective assessment is needed.

Designation of a non-contractually specified risk component or risk portion at inception only

- EFRAG agrees with the IASB proposal

PHASE 1:

IASB PROPOSAL AND EFRAG RESPONSE (2/4)

Mandatory application of the reliefs and end of the reliefs at the earlier of:

- ✓ When uncertainty from IBOR reform is no longer present or
 - ✓ When hedging relationship ends
-
- EFRAG agrees with the mandatory application of the proposed reliefs and their temporary nature
 - EFRAG requests clarification how the end of the relief can be applied to the portfolio fair value hedge of interest rate risk given constant designations and de-designations
 - EFRAG disagrees with not applying the proposed amendments retrospectively to hedges that were discontinued because entities were unable to apply the proposed reliefs, and suggests to assess whether structuring opportunities would not arise as a result of the ED not allowing reinstatement of such hedges.

PHASE 1:

IASB PROPOSAL AND EFRAG RESPONSE (3/4)

Disclosure about extent to which the hedging relationships are affected by the proposed amendments

➤ EFRAG considers qualitative disclosure about:

- ✓ Impacts of IBOR reform
- ✓ Uncertainty it creates
- ✓ Extent of the use of the reliefs

as more appropriate

➤ EFRAG is not convinced that the proposed disclosures strike an appropriate balance from a cost-benefit perspective

➤ Consider user information needs for quantitative disclosure in Phase 2

PHASE 1:

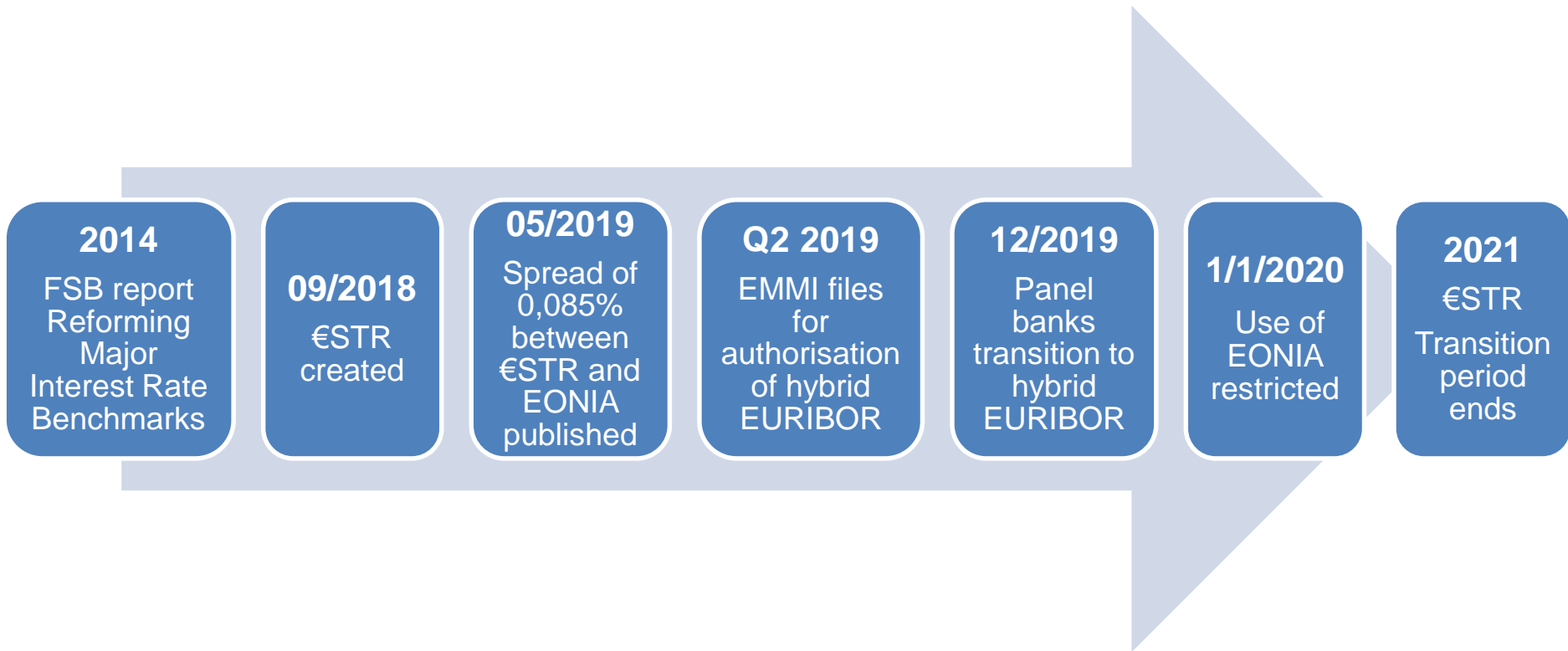
IASB PROPOSAL AND EFRAG RESPONSE (4/4)

Effective date of 1/1/2020 with earlier application permitted and retrospective application of the amendments

- EFRAG agrees with the IASB proposals
- EFRAG highlights the importance of issuing the Amendments as soon as possible

INTEREST BENCHMARK REFORM (IBOR)

TIMELINE – EURIBOR AND EONIA



DIFFERENT FACT PATTERNS FOR DIFFERENT RATES

EURIBOR	EONIA	LIBOR
<ul style="list-style-type: none"> No transition to a new index. Changes to its calculation methodology. 	<ul style="list-style-type: none"> Transition from EONIA to €STR 	<ul style="list-style-type: none"> Transition from LIBOR to SONIA
<ul style="list-style-type: none"> EMMI (administrator) will file for authorisation by Q2 2019. Subsequently, EMMI will start transitioning to the hybrid methodology Process finishing before the end of 2019. 	<ul style="list-style-type: none"> From 02/10/19 EONIA becomes “€STR + fixed spread” Parallel transition period of “recalibrated €STR” and EONIA 	<ul style="list-style-type: none"> The transition period starts in 2019 and ends in 2021, after 2021 the LIBOR production is no longer guaranteed.
<ul style="list-style-type: none"> EURIBOR can be used in existing contracts and new contracts From 01/01/2022, only benchmarks compliant with the Regulation (BMR) may be used 	<ul style="list-style-type: none"> Contracts will have to transition to €STR Recommended use of use €STR for new contracts EONIA discontinued a the end of 2021 	<ul style="list-style-type: none"> SONIA used for new contracts, old contracts still reference to LIBOR until changed by parties.

PHASE 2: TOPICS FOR CONSIDERATION

- To start phase 2 as soon as possible or/and in parallel with phase 1
- To consider the following topics:
 - Derecognition
 - ✓ SPPI test
 - ✓ Business model
 - ✓ Hedge accounting discontinuation
 - Modification
 - Recalibration of hedging relationship
 - Hedge documentation
 - EFRAG invites the IASB to address all potential impacts of the Interest Rate Benchmark Reform across the different IFRS Standards during the second phase.



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THANK YOU

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