EFRAG - European Financial Reporting Advisory Group
35 Square de Meeûs
B-1000 Bruxelles
Belgium

Delivered by email

20th May 2020

Dear EFRAG TEG members,

Ref.: EFRAG Pre-Consultation on Interest Rate Benchmark Reform – Phase 2 – Exposure Draft: ED/2020/1

The International Swaps and Derivatives Association ("ISDA")[1] is pleased to provide input on the EFRAG pre-consultation document in relation to phase 2 of the project by the International Accounting Standards Board ("IASB") on IBOR reform. With respect to the questions raised in EFRAG's pre-consultation document, our members agree with TEG's views of the IASB's tentative decisions as published in the IASB updates from October 2019 to February 2020.

Our members have some detailed points of feedback on the IASB's exposure draft ED/2020/1 Interest Rate benchmark Reform – Phase 2, proposed amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (the ED). To provide the opportunity for EFRAG to consider whether to include in their comment letter any of the points ISDA will make, we include as an appendix to this letter a copy of ISDA's response to the IASB. We would like to highlight the following matters, which we consider of particular importance:

- Our members do not believe it is necessary for the IASB at this time to define modifications to include situations where, although there has been no change in contractual terms, the method of determining the cash flows have changed. This is not an area where there is current diversity in practice but, if the IASB is determined to consider this issue, it would be better addressed as a separate project.

- Our members believe the transition requirements which require the reinstatement of hedge relationships which have previously failed due to IBOR reform should not be mandatory in those circumstances where the hedging instrument is either terminated, compressed or designated in a new hedging relationship.

[1] Since 1985, the International Swaps and Derivatives Association has worked to make the global derivatives markets safer and more efficient. ISDA's pioneering work in developing the ISDA Master Agreement and a wide range of related documentation materials, and in ensuring the enforceability of their netting and collateral provisions, has helped to significantly reduce credit and legal risk. The Association has been a leader in promoting sound risk management practices and processes, and engages constructively with policymakers and legislators around the world to advance the understanding and treatment of derivatives as a risk management tool. Today, ISDA has over 850 member institutions from 67 countries. These members comprise of a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. ISDA's work in three key areas – reducing counterparty credit risk, increasing transparency, and improving the industry's operational infrastructure – show the strong commitment of the Association toward its primary goals; to build robust, stable financial markets and a strong financial regulatory framework. Information about ISDA and its activities is available on the Association's web site: www.isda.org.

International Swaps and Derivatives Association, Inc.
One Bishops Square
London E1 6AD, United Kingdom
P 44 (0) 20 3808 9700 **F** 44 (0) 20 3808 9755
www.isda.org

NEW YORK WASHINGTON
LONDON BRUSSELS
HONG KONG SINGAPORE
TOKYO

- Our members believe the disclosure of comparative information for prior periods should not be required in the first year of application. This reduces the operational challenge of implementing the amendments and is consistent with the requirement for any hedges that are reinstated in prior periods to be reflected as an adjustment to opening retained earnings, as opposed to a restatement.

Should you have any questions or would like clarification on any of the matters raised in this letter please do not hesitate to contact the undersigned. Yours sincerely,

Fiona Thomson
Managing Director
Goldman Sachs International
ISDA European Accounting WG Chair

Antonio Corbi
Director
Risk and Capital
ISDA

Appendix attached

Appendix – Responses to questions in the IASB's ED/2020/1

Question 1—Modifications of financial assets and financial liabilities (paragraphs 6.9.1–6.9.6 of the [Draft] amendments to IFRS 9, paragraphs 20R–20S and 50–51 of the [Draft] amendments to IFRS 4 and paragraphs 104–106 and C1A–C1B of the [Draft] amendments to IFRS 16)

Paragraphs 6.9.2–6.9.6 of the draft amendments to IFRS 9 propose that:

(a) a financial asset or financial liability would be modified if the basis for determining the contractual cash flows is changed after the initial recognition of the financial instrument. In this context, a modification can arise even if the contractual terms of the financial instrument are not amended.

(b) an entity would apply paragraph B5.4.5 of IFRS 9 as a practical expedient to account for a modification of a financial asset or financial liability that is required by interest rate benchmark reform.

(c) a modification is required by interest rate benchmark reform if and only if (i) it is required as a direct consequence of interest rate benchmark reform; and (ii) the new basis for determining the contractual cash flows is economically equivalent to the previous basis (ie the basis immediately preceding the modification).

(d) an entity would also apply the practical expedient proposed in paragraph 6.9.3 if an existing contractual term is activated that results in a change in the basis for determining the contractual cash flows of a financial asset or a financial liability, and particular other conditions are met.

Paragraphs BC10–BC36 of the Basis for Conclusions describe the Board's reasons for these proposals.

(e) The Exposure Draft proposes to make corresponding amendments to IFRS 4 that would require insurers applying the temporary exemption from IFRS 9 to apply the same practical expedient as described above.

(f) The Exposure Draft proposes amendments to IFRS 16 that would require entities to apply paragraph 42 of IFRS 16 to account for a lease modification that is required by interest rate benchmark reform.

Paragraphs BC39–BC41 and paragraphs BC118–BC125 of the Basis for Conclusions describe the Board's reasons for these proposals.

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 and why.

Our members agree that B5.4.5 of IFRS 9 is the appropriate approach to report the effect of changes in the effective interest rate arising directly from IBOR reform.

Changes in methods for determining cash flows

Our members do not believe it is necessary for the IASB at this time to define modifications to include situations where, although there has been no change in contractual terms, the method of determining the cash flows have changed, as set out in paragraph 6.9.2. This is not an area where there is current diversity in practice and, if the IASB intends to provide clarity on this issue, it would be better managed as a separate project. We therefore recommend that paragraph 6.9.2 is deleted along with the reference to it in paragraph 6.9.5.

Historical fallback terms

Paragraph 6.9.5 proposes that the practical expedient is applied to the activation of existing fallback terms as long as the new basis for determining contractual cash flows is 'economically equivalent' to the previous basis. Our members are concerned that not all historical fallback terms will have been amended before transition takes place, and that these historical fallbacks will not qualify for the practical expedient since the new cash flows may not be economically equivalent. An example would be if the interest rate reference would be switched to the most recent available LIBOR rate. If the practical expedient is not available, a modification gain or loss would be recognized under IFRS 9.5.4.3. The problem with this is that such historical fallbacks were only ever designed to be temporary fixes, and reporting a gain or loss calculated on an assumption that the arrangement will persist for the remainder of the life of the financial instrument would be spurious and would not result in a faithful representation. There continues to be uncertainty arising from benchmark reform but the phase 1 relief cannot be applied, as the previous benchmark is no longer available. We recommend that the practical expedient is extended to address such situations, where the use of the fallback will be temporary.

Positioning of modifications guidance

The phase 1 amendments related only to hedge accounting, so naturally were made to chapter 6 of IFRS 9 as section 6.8. The phase 2 amendments have a broader impact than hedge accounting and so should not all be included in chapter 6. For entities applying IAS 39 hedge accounting, the modification amendments will not be available if they are included in chapter 6 of IFRS 9. The amendments proposed in paragraphs 6.9.1 to 6.9.6 should therefore be included in Chapter 3 Recognition and Derecognition as a new section 3.4. Those amendments which relate to hedge accounting would remain in section 6.9.

Question 2—Amendments to hedging relationships (paragraphs 6.9.7–6.9.10 of the [Draft] amendments to IFRS 9 and paragraphs 102O–102R of the [Draft] amendments to IAS 39)

Paragraphs 6.9.7–6.9.10 of the draft amendments to IFRS 9 and paragraphs 102O–102R of the draft amendment to IAS 39 propose that an entity would amend the formal designation of the hedging relationship only to make one or more of the changes specified in paragraph 6.9.7 and paragraph 102O as and when uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk and/or the timing and the amount of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument.

Paragraphs BC42–BC50 of the Basis for Conclusions describe the Board's reasons for these proposals.

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 and why.

Instruments transacted through clearing houses

The ED sets out proposals for the accounting for modifications to financial instruments as a result of benchmark reform but does not specifically consider situations where an instrument referencing LIBOR is replaced by one that references the new benchmark. This situation is most likely to arise

for derivatives transacted through a central clearing house before a fallback is activated. IFRS 9.3.3.2 states that an exchange between an existing borrower and lender of debt instruments with substantially different terms shall be accounted for as an extinguishment, meaning that such an exchange is not treated as a derecognition if the change in terms is not substantial. Our members believe that this approach should also apply to derivatives, with the consequence that a replacement of a derivative with the same counterparty on terms which are not substantially different would be treated as a modification, and hence would be addressed by paragraphs 6.9.1 to 6.9.6 of the ED. It would be helpful if the IASB could provide guidance to confirm this treatment.

We note that the FASB has in their response to IBOR reform addressed this specific point in their ASU section 848-30-25-6. We are concerned that if similar guidance is not provided in the amendments to IFRS it could give rise to an unnecessary and undesirable difference between IFRS and US GAAP.

Amendments to hedging documentation

The structure of section 6.9.7 to 6.9.10 and 102O to 102R could usefully be amended to make it clearer how hedging relationships should be updated as they transition to RFRs. Paragraphs 6.9.10 and 102R state that 6.9.7 and 102R can be applied to amend the hedge designation at different times or more than once. Our members believe that this section of the proposals would be easier to understand if paragraphs 6.9.10 and 102R were positioned before 6.9.7 and 102O. Moreover, paragraphs 6.9.7 and 102O are complex in their use of 'and/or' and then 'or' and have been misunderstood by some readers. It would be very helpful if it could be made explicit, either in these paragraphs or in an AG, that this means (as our members assume it to mean) that the designation can be amended multiple times if necessary, to address any or all of the following in any order: (i) when the hedging instrument is modified, (ii) when the hedged item is modified, (iii) when even though the hedged item has not been modified, it is highly probable that future cash flows will be, and (iv) when there is a change to the designated hedged risk. If our members' reading is incorrect this has consequences as described in our response to Question 3.

Paragraph 6.9.4 examples (b) to (d) illustrate the kind of amendments that may be required in order to achieve benchmark reform, in addition to the replacement of the interest rate benchmark as described in 6.9.4 (a). There is risk that because 6.9.7 and 102O use the term 'refers to an alternative benchmark rate' without also including the language of 6.9.4 (b) to (d), they can be read to permit only the changes contemplated by 6.9.4 (a). Our members therefore recommend that 6.9.7 and 102O should be amended to refer also to changes to hedging documentation including the examples in 6.9.4 (b) to (d). Paragraph 6.9.8 and 102P should also refer to changes as described in paragraph 6.9.4 as well as 6.9.3 and 6.9.5.

A similar point to that described above arises under paragraphs 6.9.11 and 102T in relation to the measurement of the hedged item in fair value hedges at the time the hedge designation is amended. This is discussed further in our response to question 3 below, on the ability to update the designation of the hedged risk.

Question 3—Accounting for qualifying hedging relationships and groups of items (paragraphs 6.9.11–6.9.15 of the [Draft] amendments to IFRS 9 and paragraphs 102S–102X of the [Draft] amendments to IAS 39)

Paragraphs 6.9.11–6.9.15 of the draft amendments to IFRS 9 and paragraphs 102S–102X of the draft amendments to IAS 39 propose that:

(a) the requirements in IFRS 9 and IAS 39 would be applied when the designation of a hedging relationship is amended to remeasure the hedging instrument and the hedged item based on the alternative benchmark rate and recognise any resulting ineffectiveness in profit or loss.

(b) 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.

(c) 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.

(d) 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.

(e) for the purpose of assessing retrospective effectiveness as required by IAS 39, the cumulative fair value changes of the hedged item and hedging instrument would be reset to zero when paragraph 102G of IAS 39 ceases to apply.

Paragraphs BC51–BC79 of the Basis for Conclusions describe the Board's reasons for these proposals.

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 and why.

Hedge effectiveness assessment under IAS 39

Our members believe that the hedge effectiveness test relief provided in paragraph 102S will often be very helpful, but the wording should be amended from "shall reset" to "may reset". This is because, depending on interest rates at the date of transition, a reset of the cumulative fair value changes to zero could make it more likely that future hedge ineffectiveness will cause hedges to fail. For example, this could occur if the basis between the hedged item and the hedging instrument widened significantly up to the date of transition but was expected to reverse after transition. If the cumulative ineffectiveness were reset to zero at transition, the subsequent reversal of the basis difference would give rise to ineffectiveness that would not have arisen if ineffectiveness had been assessed on a cumulative basis. Entities would apply the relief consistently to those hedging relationships for which effectiveness is assessed on a basis that would be improved by the relief.

Ability to update the designation of the hedged risk

As we have already described in our response to Question 2, paragraphs 6.9.7 and 102O are complex and we are aware that some readers have misunderstood them. For instance, it is likely

that some derivatives used in hedges of floating rate financial instruments will be modified earlier than the hedged items. Paragraphs 6.8.9 and 102J in combination with respectively 6.9.7 and 102O for the end of the phase 1 relief, have been read to indicate that it is not permitted to change the hedge designation whilst uncertainty remains for the hedged item. This would be inconsistent with what was proposed in the January 2020 IASB staff paper 14a in para 28 as follows:

> "…the staff noted that proposed exception that permits changes to the hedging relationships and hedge documentation to be made … provides entities the ability to minimise the ineffectiveness (for example, by changing the hedged risk to be the alternative benchmark rate instead of the interest rate benchmark) that might arise due to timing mismatch between the modifications to the hedging instruments and hedged items."

For cash flow hedges, the concern is that additional ineffectiveness could arise if it 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 IBOR to an RFR. This ineffectiveness would be spurious, as it is not expected that the hedged item will remain referenced to IBOR for the remainder of its life. It may also be necessary to designate an RFR component (including any relevant spread as described in paragraph 6.9.4(b)) as the hedge of a floating rate. Similarly, for a hedge of a highly probable forecast transaction or planned extension to an existing floating rate instrument, it would be desirable to amend the hedged item to be the alternative benchmark component of the floating rate (including any relevant spread as described in 6.9.4(b)), once the hedging derivative is modified, even though it is not yet certain whether the floating rate will initially be based on IBOR or the RFR. As we write in response to Question 2, this concern could be removed by providing more explicit guidance that the hedge relationship can be amended to designate a revised hedged risk before there is an end to the uncertainty for the hedged item.

Remeasurement when hedge designation is amended

In our response to question 2 we note that paragraphs 6.9.7 and 102O do not refer to all the amendments required by the reform, including the examples described in 6.9.4 and so could be understood to be very narrow. A similar issue affects paragraphs 6.9.11, 6.9.12, 102T and 102U which say that the remeasurement is "based on" the RFR. We are aware that some people have read this wording to require that the remeasurement should reflect only the RFR and excludes the types of changes set out in 6.9.4 (b) to (d). However, we understand that the remeasurement should reflect all changes to the instruments that form part of the hedging relationship permitted by paragraph 6.9.4 and not just the RFR.

To reflect this, we have already recommended that the examples in paragraph 6.9.4 should be either incorporated directly into or referenced by paragraphs 6.9.7 and 102O. Our members also recommend that paragraphs 6.9.11 and 6.9.12 and also 102T and 102U respectively cross refer to the amended 6.9.7 and 102O, to allow for the permitted additional changes arising on transition to be reflected in the remeasurement of the hedged risk.

Timing of recognition of gain or loss arising on remeasurement

The clarifications described above may reduce any fair value difference arising on transition that needs to be recorded in profit or loss, but for large portfolios any remaining difference could still

be substantial. Our members wish to be able to defer the difference and not have to recognize it immediately. If an entity applying IAS 39 were to de-designate a hedging relationship immediately prior to transition it would recognize any gain or loss over the life of the hedged item or risk. Our members are concerned that if they apply the phase 2 reliefs this treatment will not be available, and they will be required to immediately recognize any remeasurement gain or loss in the profit or loss. Considering the objectives of the IASB in drafting the amendments, it seems counterintuitive that application of the phase 2 reliefs should have the potential to result in greater profit and loss volatility than if the phase 2 reliefs were not applied. The amendments would be improved if they permitted the normal treatment to amortise the gain or loss as if the hedge had been de-designated, whilst avoiding the operational burden of having to actually dedesignate and redesignate the hedging relationship. This would be an accounting policy choice applied consistently to similar hedging relationships.

Further, introduction of this policy option would be consistent with the amendments being made in the US, as set out in ASU 848-40-25-5. This would avoid an undesirable difference from US GAAP.

Question 4—Designation of risk components and portions (paragraphs 6.9.16–6.9.18 of the [Draft] amendments to IFRS 9 and paragraphs 102Y–102Z1 of the [Draft] amendments to IAS 39)

Paragraphs 6.9.16–6.9.18 of the draft amendments to IFRS 9 and paragraphs 102Y–102Z1 of the draft amendments to IAS 39 propose that:

(a) an alternative benchmark rate designated as a non-contractually specified risk component that is not separately identifiable at the date it is designated, would be deemed to have met that requirement at that date, if and only if, the entity reasonably expects the alternative benchmark rate will be separately identifiable within a period of 24 months from the date the alternative benchmark rate is designated as a risk component.

(b) if subsequently, an entity reasonably expects that the alternative benchmark rate will not be separately identifiable within 24 months from the date it was designated as a risk component, an entity would cease applying the requirement in paragraph 6.9.16 and paragraph 102Y and discontinue hedge accounting prospectively from the date of that reassessment.

Paragraphs BC87–BC97 of the Basis for Conclusions describe the Board's reasons for these proposals.

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 and why.

Specification of an RFR as the hedged risk

Consistent with the amendments permitted by paragraph 6.9.4, the identification of a non-contractually specified risk component would need to include also the addition of a fixed spread to compensate for a basis difference between LIBOR and the RFR. Otherwise, there will be a mismatch between the modified hedging instrument and the designated risk component. Our members recommend that paragraph 6.9.16 is amended to reflect this.

Reference to zero coupon bonds to support separately identifiable.

In paragraph BC87, the last sentence describes how a particular market might not yet be sufficiently developed for a term structure of zero-coupon interest rates to be available and as a result the benchmark is not separately identifiable. This language is taken from IFRS 9 B6.3.14, which describes how the presence of a term structure of zero-coupon real interest rates is required to demonstrate that the risk component is separately identifiable for the specific example of inflation linked bonds. While a term structure of *derivative* zero-coupon rates will be needed to measure RFR derivatives reliably, our members are concerned that it is possible that a similar term structure will never develop for *cash instruments* for every RFR, including SOFR in the USA. Our members observe that in practice it has not previously been required that a zero coupon term structure has been established for cash instruments for a benchmark to be separately identifiable and this is not a requirement of existing IFRS. Our members therefore ask that the reference in BC87 to zero coupon interest rates is removed since it could be misleading.

Our members recommend an additional indicator in the context of IBOR reform, that an RFR is considered separately identifiable if the authority responsible for managing the transition from IBOR to RFR, has deemed an RFR to be an eligible replacement of an IBOR, since in this context the RFR is accepted as a risk free rate component relevant for pricing and valuing all financial instruments. Where this is the case, it could be a rebuttable presumption that the RFR is separately identifiable.

24-month window for relief from separately identifiable requirement

Further to the point discussed above, especially if it is believed that a zero-coupon term structure has to develop for cash instruments, our members are concerned that the proposed 24-month window may not be sufficient for a benchmark to be considered separately identifiable. Away from the main indices and in developing markets it could take longer for RFRs to meet the criteria. The financial disruption caused by Covid-19 has also significantly contributed to the uncertainty of the speed of IBOR reform.

Differences between separately identifiable requirement in IAS 39 and IFRS 9

BC88 states that although there are differences in the wording in IFRS 9 and IAS 39 for the separately identifiable requirements, the concepts and principles are very similar. Whilst our members agree that there are similarities in this area between IAS 39 and IFRS 9, the differences between the standards may give rise to differences in application. This is understandable where the texts are not the same and the other aspects of the hedge accounting requirements are also different.

In IFRS 9, the guidance in B6.3.10(d) provides examples of when market structure in a benchmark might be seen to exist. However, our members note that paragraph AG99F of IAS 39 is less detailed and refers to ‘a risk-free *or* benchmark rate’. Existing practice under IAS 39 in this area is well established and understood and so it would follow that an RFR would be regarded as a permitted risk component, since it is a ‘risk free rate’, as long as it is reliably measurable. Our members understand the purpose of the amendments to be to provide relief that allows a smooth transition from IBOR to RFRs. The amendments should not seek to reinterpret existing practice as this will create new problems.

Question 5—Effective date and transition (paragraphs 7.1.9 and 7.2.36–7.2.38 of the [Draft] amendments to IFRS 9 and paragraphs 108H–108J of the [Draft] amendments to IAS 39)

(a) The Exposure Draft proposes that the amendments would have an effective date of annual periods beginning on or after 1 January 2021. Earlier application would be permitted.

(b) The Exposure Draft proposes that the amendments would be applied retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, except as specified in (ii) below. An entity would:

(i) reinstate a discontinued hedging relationship if and only if the entity discontinued that hedging relationship solely due to changes required by interest rate benchmark reform and, therefore, the entity would not have been required to discontinue that hedging relationship if the amendments had been applied at that time.

(ii) not be required to restate prior periods to reflect the application of these amendments. However, the entity may restate prior periods if, and only if, it is possible without the use of hindsight.

Paragraphs BC110–BC115 of the Basis for Conclusions describe the Board's reasons for these proposals.

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 and why.

Paragraph 7.2.37 requires that hedges should be reinstated if the hedge was discontinued solely due to changes required by IBOR reform. Our members are concerned that it will not always be appropriate for entities to retrospectively reinstate hedges upon adoption of the amendments. This is because following the discontinuation of a hedging relationship before the reliefs are available, the hedging instrument may either be terminated or compressed as part of the entity's ongoing risk management and trading activities, or else it may have been designated in a new hedging relationship. It will not be possible to reinstate a hedging relationship if the hedging instrument no longer exists. Also, it would be of no benefit to de-designate retrospectively a new hedging relationship that was designated after a hedge relationship in which that derivative was previously used had failed due to IBOR reform. Our members therefore recommend that it should not be required to reinstate hedging relationships that originally failed due to IBOR reform, if the hedging instruments have been subsequently designated in new hedging relationships.

Question 6—Disclosures (paragraphs 24I–24J and paragraphs 44HH–44II of [Draft] amendments to IFRS 7)

The Exposure Draft proposes that entities provide specific disclosures in order to provide information about:

a) the nature and extent of risks arising from interest rate benchmark reform to which the entity is exposed, and how it manages those risks; and

b) the entity's progress in completing the transition from interest rate benchmarks to alternative benchmark rates, and how the entity is managing that transition.

Paragraphs BC105–BC109 of the Basis for Conclusions describe the Board's reasons for this proposal.

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

Disclosure of prior period information

Our members recommend that it should be made clear that the disclosures suggested by 24J(b) should not require comparative information upon initial adoption of the amendments. For prior periods, the effect of reinstating hedges that have failed as a direct result of IBOR reform is reflected as an adjustment to opening retained earnings in the current period. Whilst it may be appropriate to describe how the adjustment to opening retained earnings has been calculated, it should not be necessary to provide the same level of disclosure for the prior period as the current period.

Extent of information disclosed

Our members are concerned by the disclosures required by IFRS 7 24J(b). First, the information proposed is of a greater extent and level of detail than the existing hedge accounting related disclosures. Second, the requirements are potentially onerous for entities to provide. The relevant information available to our members does not lend itself to external financial reporting without significant system enhancements and / or manual adjustment.

Disclosure of base rate and relevant adjustment

It is not clear what information is required by paragraph IFRS 7 24J(c). This is in part because it states that a description should be provided "…of how the entity determined the base rate…", whilst 'base rate' is not a term used elsewhere in the standards or in the amendments. The term should therefore be defined or, ideally, replaced.

Our members believe that the term is intending to refer to the RFR plus the spread applied upon transition from IBOR. This will be different across benchmarks and jurisdictions, which for large entities with operations in many locations has the potential to require extensive disclosure. Our members believe that this disclosure requirement is not needed since IAS 1 paragraph 122 already requires disclosure of the judgments that have the most significant effect on the amounts in the financial statements.

A further point is that it is not clear whether the proposed disclosure is intended to be only qualitative or also quantitative in nature. Our members believe that providing quantitative disclosure would be onerous whereas limiting it to a qualitative disclosure would be proportionate.