ISDA | Safe, Efficient Markets

International Accounting Standards Board
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17 June 2019

Dear Board Members,

Ref.: Interest Rate Benchmark Reform, ED/2019/1

The International Swaps and Derivatives Association ("ISDA")[1] is pleased to provide input on the above referenced Exposure Draft ('ED') recently issued by the International Accounting Standards Board ("IASB").

We appreciate the steps taken so far by the IASB to amend IFRS in response to the challenges posed to financial reporting by Interbank Offered Rates (IBOR) reform. We acknowledge the IASB has prioritised its work in this area and expedited publication of the ED. We include our detailed responses as an appendix to this letter but highlight the following points:

- Instruments such as cross currency swaps, inflation swaps and split designation hedges where a floating rate IBOR is one of the terms of the instrument, may be affected by IBOR reform. As drafted, the reliefs would not apply given the specific reference to hedges of interest rate risk. The amendments should extend the reliefs to all hedging relationships affected by interest rate benchmark reform.

- Application of the reliefs to macro cash flow and portfolio fair value hedging models should be specifically addressed. Guidance is needed for how the reliefs would apply to these models when instruments are de and redesignated and when the reliefs end.

- It should be clarified that when relief ceases due to there no longer being uncertainty with respect to the timing and amount of the interest rate benchmark cash flows, this includes that any spread adjustment above the replacement risk free rate (RFR) has been determined.

- The use of examples to describe how the reliefs will operate provide valuable additional guidance. We ask that any examples are included in the Application Guidance of the standard where they will have the appropriate authority, rather than in the Basis for Conclusions.

- Whilst it will be necessary to provide some disclosure of how entities apply the relief, we suggest any incremental disclosure over that already required by IFRS 7 should be

[1] Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has more than 900 member institutions from 71 countries. These members comprise 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. Information about ISDA and its activities is available on the Association's website: www.isda.org. Follow us on Twitter @ISDA.

kept to a minimum. Quantitative disclosure should relate only to the nominal value of hedging instruments and hedged items to which the relief is applied.

- It is important the IASB accelerates its work to address the next phase of issues arising from IBOR reform. Some issues are imminent and are therefore especially urgent. We urge the IASB to consider the next phase of issues in parallel with completing the Phase 1 amendments. The Phase 2 issues which are especially urgent are as follows:

  i. Clarification that entities can future proof their hedge designations to reference a transition from an IBOR to a RFR, so as to allow continuity of the hedge relationship,
  ii. Upon transition from IBOR to a RFR, guidance that the consequential change to the hedge designation will not trigger the discontinuance of the hedging relationship,
  and
  iii. Relief from the retrospective hedge effectiveness test under IAS 39 for hedging relationships affected by IBOR reform. A condition for applying the relief would be that the underlying economic relationship between the hedged item and the hedging instrument is expected to continue until transition is complete, similar to the requirements of IFRS 9. The relief would be particularly helpful for those entities that are unable to change their hedge accounting approach to IFRS 9 due to the need to continue operating a macro cash flow or portfolio fair value hedge accounting model, which IFRS 9 cannot presently accommodate.

We look forward to further supporting the IASB as its work progresses in this important area. If it would be helpful, we would be happy to meet and discuss in further detail any of the points raised in our response.

Yours sincerely,

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ISDA European Accounting WG Chair	ISDA, Inc.

Appendices 1, 2 and 3 attached

<u>Appendix 1: Responses to the ED's Questionnaire</u>

Question 1 [6.8.4-6.8.6 of IFRS 9 and 102D-102F of IAS 39]

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 or 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.

Our members agree with the proposals other than as set out below.

<u>1.1 Scope of reliefs applying to all instruments affected by IBOR reform</u>

Overall our members agree with the scope of the reliefs, except for paragraphs 6.8.1 and 102A which state that entities should apply the amendment *"to all hedging relationships of interest rate risk"*. We are concerned that this wording narrows the application of the guidance more than the IASB intended, since hedging relationships entered into for risks other than interest rate could also be affected by IBOR reform. These could include, for example, foreign currency hedges, contractually identified inflation hedges and split designation hedges where a floating rate IBOR is one of the terms inherent in the hedging instrument or hedged item. We therefore suggest that the wording of 6.8.1 and 102A be amended to state that the relief shall apply "*… to all hedging relationships ~~of interest rate risk~~ that are affected by interest rate benchmark reform.*"

1.2 Application of reliefs to fair values as well as cash flows

We suggest a clear reference should be added to paragraphs 6.8.6 and 102F, in order to make it explicit that the relief applies to fair value hedge relationships as well as cash flow hedge relationships. Suggested additions are included in underline below:

> *"102F For the purpose of applying paragraph AG 105(a), an entity shall assume that the interest rate benchmark on which the hedged cash flows (contractual or non-contractually specified) or fair values are based…."*

> *"6.8.6 For the purpose of applying the requirement in paragraph 6.4.1(c)(i) and B6.4.4-B6.4.6, an entity shall assume that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) or fair values are based…"*

1.3 Changes to hedged risk that current practice permits

The BC provides the background to why the reliefs are required due to the uncertainty arising from IBOR reform. Paragraph BC 15 indicates:

> *"If, however, the hedged future cash flows are no longer expected to occur for other reasons, then the entity must immediately reclassify to profit and loss any amount remaining in the cash flow hedge reserve."*

As an example of where this may be the case, BC 14 states:

> *"…. If the entity decides to redeem the liability before its contractual maturity date due to uncertainty arising from the reform, then the hedged future cash flows are no longer highly probably (and are no longer expected to occur). The proposed exceptions would not permit or require the entity to assume otherwise."*

Given the issue of whether a change from IBOR cash flows to RFR cash flows can always be considered a modification rather than an extinguishment of a financial instrument (see issues 4 and 5 noted in Appendix 3), we believe the use of the word 'redeem' in BC14 could cause confusion and pre-empt resolution of the issue of modification versus extinguishment. In our view, the Board's intention was to provide a very straightforward and uncontroversial example of a situation where OCI release would be appropriate. However, in some designations it may be possible to settle a hedged liability and source qualifying hedged forecast transactions from replacement debt or other sources, and consequently it would add clarity if it was explained that in the example in BC 14 the liability is being settled without replacement and that no other qualifying hedged transactions are available, rather than using the word 'redeem'.

1.4 Inclusion of replacement instruments in hedge designation

We understand in Phase 2 the IASB may address the question of allowing hedges which are re-designated from IBOR to RFR to continue without having to be re-designated and de-designated. To avoid the need to face this issue and given that it may be some time until the next phase of the IASB's work is finalised, entities may wish to 'future-proof' their hedge designations. For new IBOR hedges entered into prior to transition, entities may wish to reflect in their hedge designation the expectation that the referenced rate will transition at some point from IBOR to the regulator-approved RFR. For such transitions there will be no significant value exchange and the market structure of interest rates will reflect the change when it occurs. At the time the hedge is designated to reference a RFR, it may not be known what the successor rate will be but by the time transition occurs it will be clear.

Confirmation that hedge relationships can be designated in such a manner would give entities confidence that new hedges would not need to be re-designated upon transition to RFRs.

This is a pre-transition issue and so properly belongs to Phase 1. However, our members do not wish to delay the completion of Phase 1 by asking the IASB to consider if and how to incorporate this issue into the proposed amendments. However, it needs to be addressed with urgency - if not in the current amendments then in those Phase 2 items the IASB tackles first.

1.5 Relief from IAS 39 retrospective hedge effectiveness test

During the period before either of the instruments in a hedging relationship or both instruments transition from IBOR to RFR, hedge ineffectiveness could arise solely due to the uncertainty caused by IBOR reform. The problem is likely to be greatest where one but not both instruments have transitioned to RFR.

Whilst we believe actual ineffectiveness should continue to be recognised in full in the P&L, we consider it would be appropriate for temporary relief to be given for hedging relationships under IAS 39 from the effects of IBOR reform, which may cause the 80/125% threshold for retrospective hedge effectiveness to fail and result in hedge accounting discontinuance.

It would be extremely difficult to accurately quantify the extent to which IBOR reform may contribute to hedge ineffectiveness and to exclude it from the effectiveness assessment. This is because for a single instrument the impact of IBOR reform has the potential to affect many valuation factors, so isolating these effects could be extremely complex. Across multiple portfolios of instruments, the significant investment in valuation systems and staff required to accurately perform such a calculation would not be justified for what is a temporary market phenomenon.

We therefore request that the relief be to suspend the 80/125% test for hedging relationships that are affected by IBOR reform. A condition for applying the relief would be that the underlying economic relationship between the hedged item and the hedging instrument is expected to continue until transition is complete, at which point the relief would end.

The relief would be applicable to IAS 39 hedging relationships but has clear similarities to the approach under the IFRS 9 assessment of an economic relationship. The relief would be particularly helpful for those entities that are unable to change their hedge accounting approach to IFRS 9 due to the need to continue operating a macro cash flow or portfolio fair value hedge accounting model, which IFRS 9 cannot presently accommodate.

Our members do not wish to delay the completion of Phase 1 in order for the IASB to consider if and how to incorporate this issue into the amendments. However, it is a present issue rather than one that will only arise when instruments are amended. It therefore needs to be addressed with urgency in those Phase 2 items the IASB tackles first.

A further point is that it would also be useful to clarify paragraphs BC22 and BC23, as our members believe that the current wording could cause confusion. These paragraphs have been read to suggest that the expected transition could lead to hedge ineffectiveness because, while the value of the hedging instrument may be affected by factors such as liquidity, the hedged item would not. Presumably the effects of market liquidity etc., should be reflected in the fair values of both the hedging instrument and the hedged item and so these effects, to a degree, will offset.

Question 2 [paragraph 6.8.7 of IFRS 9 and paragraph 102G of IAS 39]

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.

Our members agree with the proposals.

Question 3 [paragraphs 6.8.8–6.8.10 of IFRS 9 and paragraphs 102H–102J of IAS 39]

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.

Our members agree with the proposals other than as set out below.

3.1 Inclusion of examples in the BC

BC 35 to BC 40 includes a number of scenarios and examples which illustrate when the relief will end. The use of scenarios and examples can be a valuable way to clarify how the requirements are intended to work in practice. However, including the scenarios in the BCs, which are not technically part of the standard, reduces the benefits to the preparers of accounts (in the EU for example the BC does not form part of the content which is formally endorsed). Therefore, we suggest the scenarios are included in the main body of the standard, preferably as application guidance. However, we believe that Scenario A in paragraph BC35 and Scenario C in paragraph BC 37 should be amended (please see 3.2 below).

3.2 End of uncertainty to include the spread over RFRs

The proposals describe that the relief will end when there is no longer uncertainty with respect to the timing and amount of the interest rate benchmark-based cash flows. It would be helpful to clarify that the end of uncertainty regarding the amount should include not only identification of the replacement rate (i.e. the RFR) but also the spread over the RFR that has been agreed between the parties to the contract. A different spread over the RFR compared to that over IBOR may be required to ensure that there is no value exchange at the time of transition. For many products, the spread may be set by reference to historic spread information over a period up until the date of transition and as a result, the uncertainty of amount will continue until transition. How the spread for any replacement rate is set will vary by jurisdiction and the terms of any agreed fall-back clauses. To clarify this, BC35 could be amended to state that identification of an alternative benchmark rate would not in itself be enough to remove uncertainty if the additional spread adjustment arising on transition has not yet been set (in other words, the uncertainty has not been removed simply by including the benchmark rate and the date of the change in the contract). The suggested wording would be:

> *"…(b) the alternative interest rate on which the cash flows will be based <u>and (c) (where relevant) the spread adjustment between the existing interest rate benchmark and the alternative interest rate…</u>"*

Consistent with this, BC37 could helpfully be clarified to state:

> *'…Uncertainty regarding both the timing and the amount of cash flows for this contract will be present until the central authority irrevocably specifies when the existing interest rate benchmark will be replaced by an alternative interest rate and what that new interest rate will be<u>, including (where relevant) the spread adjustment between the existing interest rate benchmark and the alternative interest rate...</u>"*

3.3 Application of the relief to the hedging instrument but not the hedged item

In practice, it is more likely that the hedging instrument will be amended first since it will often be a derivative which is subject to a market-wide reform such as the amendment of an ISDA agreement, while amending cash instruments is likely to be a more drawn-out process.

It would be useful if BC 41 were amended or it the examples could include a scenario where the hedging instrument is amended prior to the hedged item.

3.4 Application to portfolio hedges

We request that the guidance on when the temporary relief ends incorporates portfolio hedging approaches. IFRS 9 6.6.1 and IAS 39.83 describe the requirements to designate a group of items as the hedged item. Since the hedging relationships for such arrangements may reference a number of instruments, the end of uncertainty will need to be considered as to how it affects the portfolio. In our view, assessment of when the uncertainty is considered to have ended should be made separately for each of the individual items which make up the portfolio.

Question 4 [paragraph 6.8.11 of IFRS 9 and paragraph 102K of IAS 39]
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?

Our members agree with the proposals other than as set out below.

4.1 IAS 8 disclosures

The disclosure requirements of IAS 8.28(f) are potentially onerous for entities as during the period of adoption they would require them to maintain two sets of books and records for their hedge accounting activities; one set would record the effects of applying the amendments and the other of not doing so. In the view of our members, such information would have little value to users of the financial statements and so we request relief from the application of this paragraph.

4.2 Nature of additional disclosure required

We believe that the additional disclosures required upon application of the relief should be kept to a minimum and mainly covered by qualitative disclosures. Entities would already be required to comply with the general requirements of IFRS 7 if the risks posed to them by IBOR reform are significant.

If quantitative information is required, we suggest entities should be required to disclose only the notional value of instruments to which the relief has been applied.

Question 5 [paragraphs 7.1.9 and 7.2.26(d) of IFRS 9 and paragraph 108G of IAS 39]
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.

Our members agree with the proposals other than as set out below.

5.1 Nature of retrospective application

The proposed amendments describe in paragraphs 7.2 and 108G that the requirements are to be applied retrospectively. However, BC46 states that it is not permitted to reinstate hedges that have been discontinued due to IBOR reform, hence the use of the word 'retrospective' is confusing. A better characterisation may be that the reliefs are to be applied from the beginning of the period of adoption for all hedge relationships that were in place at the beginning of the period and for all new hedging relationships entered into since that date.

5.2 Wording of transition: IFRS 9 vs IAS 39

We note in the proposed amendments that the transition guidance for IFRS 9 does not include the reference to IAS 8 which the IAS 39 guidance does. We assume this is a typographical error rather than a difference in the requirements and recommend it is corrected.

6. Other items for discussion

6.1 Phase 2 issues

We encourage the IASB to proceed with urgency to consider and address the next phase of issues associated with IBOR reform. The accounting consequences that will occur at the time of transition are currently uncertain and whilst this continues, entities are likely to be discouraged from proceeding with IBOR reform.

In particular, certain issues will arise when one but not both instruments in a hedging relationship have transitioned to RFR. It is especially urgent these are addressed since the transition from IBORs is expected to start during 2019. We include these most pressing Phase 2 issues in Appendix 2 and the further Phase 2 issues we have so far identified in Appendix 3.

We acknowledge some of the suggestions identified in our response to the ED may need to fall into the next phase of the IASB's work responding to IBOR reform to avoid any delay to the finalisation of Phase 1.

Appendix 2: Most Urgent Phase 2 issues

	Issue	Description	Points for discussion
1.	Hedge accounting discontinuance	Whether amending a hedge relationship to refer to an RFR rather than an IBOR results in a requirement to de-designate an existing hedge and re-designate it as a new hedge. This applies to both fair value and cash flow hedges (CFHs) and in the case of the latter, a re-designation would affect future hedge effectiveness given the use of a derivative with a non-zero fair value at re-designation.	A narrow scope amendment could be made to IFRS to clarify that where a hedge designation is required to change from referencing IBOR to an RFR as a result of IBOR reform, this change would not in itself require the IBOR referenced hedge to be discontinued. We believe it is possible to narrowly define the specific scenarios under which such relief shall be given to limit this to changes directly resulting from IBOR reform (including, where relevant, amending the term from, say, 3 months to overnight), and to protect against broader re-designations of risk. The relief should extend to permitting that the replacement RFR hedging instrument may include a spread over the RFR sufficient to make its fair value approximately equal to the IBOR instrument it replaces (assuming that the only amendments to the contract are those made to change the interest basis from IBOR to RFR). This is likely to be the case to minimise any value exchange at the time of transition.

	Issue	Description	Points for discussion
2.	Hedge designation prior to IBOR transitioning to RFR	Whether it is possible for hedge relationships being newly entered into, to be designated in such a way that they embrace IBOR reform.	A narrow scope amendment could be made to IFRS to clarify that hedge documentation for newly designated hedges can anticipate transition from IBOR to RFR, so that hedge de-designation and re-designation is not necessary upon transition. Entities would be allowed to reflect in their hedge designation the expectation that the referenced rate will transition at some date from IBOR to the regulator-approved RFR, in a manner such that there will be no significant value exchange on transition [Note: This issue may be less pressing if there is a solution to issue 1, provided the circumstances when relief is provided for IBOR reform are appropriately defined.]

	Issue	Description	Points for discussion
3.	Treatment of hedge ineffectiveness on CFH due to IBOR reform	Ineffectiveness may arise temporarily if there is a timing difference on transitioning the hedged item and the hedging derivative to RFR. How and when this ineffectiveness is recognised and whether it could cause an instrument to fail hedge accounting, needs to be considered. Where IAS 39 is applied, if hedge ineffectiveness exceeds the 80 – 125 % range, the hedge would normally be discontinued.	It would be useful if relief were to be provided that hedge ineffectiveness arising directly from IBOR reform is not subject to the 80 – 125 % range assessment. It would involve undue cost and effort to accurately quantify the amount of hedge ineffectiveness arising due to IBOR reform. The relief should allow the suspension of the retrospective effectiveness test for hedge relationships affected by IBOR reform, although all hedge ineffectiveness would continue to be recognised in the P&L. A condition for applying the relief would be that the underlying economic relationship between the hedged item and the hedging instrument is expected to continue until transition is complete, at which point the relief would end. The relief would be applicable to IAS 39 hedging relationships but has clear similarities to the approach under the IFRS 9 assessment of an economic relationship. The relief would be particularly helpful for those entities that are unable to change their hedge accounting approach to IFRS 9 due to the need to continue operating a macro cash flow or portfolio fair value hedge accounting model, which IFRS 9 cannot presently accommodate.

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Appendix 3: Other Phase 2 Issues

	Issue	Description	Points for discussion
1.	Treatment of amounts deferred in cash flow hedge (CFH) reserve	Under existing IFRS requirements, cash flows and forecast transactions that have been specifically identified in the hedge designation must still be expected to occur, for amounts to remain deferred in the CFH reserve. After transition, since IBOR cash flows will not occur, if IBOR cash flows have been specifically referenced in the hedge designation, the amount deferred may need to be released.	A narrow scope amendment could be made to IFRS to permit the continued deferral of amounts recognised in the CFH reserve upon transition from IBOR to RFR, even though IBOR cash flows will not occur, provided they have been replaced by RFR cash flows as a direct result of IBOR reform. Similar as for issue 1 in appendix 2 above, the scenarios under which the relief are applicable could be narrowly defined.

	Issue	Description	Points for discussion
2.	Timing of release of amounts deferred in the CFH reserve	Assuming resolution of point 1 above such that amounts may continue to be deferred, they cannot be released at the same time as the hedged forecast cash flows affects profit and loss, because the forecast IBOR cash flows will no longer occur.	A different approach would need to be considered for how to release amounts deferred in the CFH reserve. A narrow scope amendment could be made to IFRS to permit amounts deferred in the CFH reserve as a hedge of forecast IBOR variability, to be released to mitigate variability in the replacement RFR designated hedged risk as and when it affects profit and loss. The terms of a hypothetical derivative could be amended to reflect the RFR. If the fair value of the RFR hedging instrument at the date of transition is not exactly equal to that of the previous IBOR hypothetical derivative, there are two possible approaches: (1) to defer this difference as part of the cash flow hedge reserve, by constructing the hypothetical derivative to include a financing element to make its fair value equal to that of the RFR hedging instrument, or (2) by recycling this difference immediately to profit or loss. We recommend that guidance is provided as to the approach which should be adopted, or whether a choice is available. This is analogous to the two options mentioned for fair value hedges under point 3below. Assuming that any difference can be deferred, the subsequent accounting is discussed in appendix 2, point 3 above.

	Issue	Description	Points for discussion
3.	Fair value hedge (FVH) adjustment difference	For fair value hedges, at the date of transition a small fair value difference may arise from revaluing the hedged risk using RFR rather than IBOR, since the spread may be determined over a period of time rather than at the date of amendment.	This difference could be treated in various ways, including either (1) amortising any difference over the life of the hedged item, or (2) recognising any difference immediately in P&L. [Note: we understand that in the US the ARRC are advocating for the FASB to allow companies to choose which approach they will follow, in order to relieve the operational burden for preparers of developing and tracking a method of amortisation.]
4.	Derecognition test for financial assets and liabilities	A 10% change in the PV of the cash flows of financial liabilities, applying the original EIR as a discount factor, points toward a substantial modification; this is known as the "10% test." It is a requirement for financial liabilities and is often used by analogy where a similar assessment is made for financial assets. In our view it is very unlikely that the effect of IBOR reform could exceed the 10% test, or that there will be a sufficiently large amendment that it would be qualitatively regarded as 'substantial'. Given that there may be many instruments which will be amended, it will be onerous for entities to have to make a quantitative or qualitative assessment for each one.	For the quantitative test, we note in the US, the ARRC are advocating for the FASB to provide an exemption from having to run the 10% test if the change arises directly from IBOR reform. This is because the test is considered unlikely to ever be breached, so removing the requirement relieves the operational burden of performing the test. We are supportive of this approach and would request the IASB to consider the same. We also request that the IASB provides relief for entities from having to make a qualitative assessment on an instrument-by-instrument basis. It could also be indicated as part of the clarification that any concurrent contractual amendments which do not relate directly to IBOR reform should be assessed separately and by applying the existing IFRS requirements.

	Issue	Description	Points for discussion
5.	EIR adjustment for floating rate instruments at amortised cost	When contractual or expected cash flows transition from IBOR to RFR, assuming no derecognition occurs, the EIR or the carrying value of the asset will need to be adjusted. It is unclear whether B5.4.6 would apply which would involve adjusting the gross carrying amount by discounting the revised cash flows at the original EIR with a modification gain or loss recognised in P&L. Interest would continue to be recognised at the original EIR. However, given that IBOR would no longer exist, it would not be possible to recognise interest income on an IBOR-based EIR. Alternatively, B5.4.5 could be applied which would amend the EIR rather than the carrying value.	We view the change in base rate to be more akin to a B5.4.5 adjustment. We recommend providing clarification that a change in rate arising as a result of the transition from IBOR to RFR, on a basis such that there is no significant value transfer, should be reflected as a movement in the market rate of interest as set out in B5.4.5, permitting the EIR to be revised.
6.	Clarification of effects eligible for reliefs	It is likely that when many instruments are transitioned from IBOR to RFRs, this will require negotiation between the entity and their counterparty which may consider other factors, such as collateral arrangements, the credit spread and adjustments for changing market liquidity It would be helpful if the amendment highlighted that the effects of such factors are outside the scope of any reliefs relating to IBOR reform.	This point would be clarified as part of the amendments for the points raised above.