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Finance for Europe

Submitted electronically via **www.ifrs.org** website

25 May 2020

Dear Sir / Madam,

Response to a public consultation by the International Accounting Standards Board on Exposure Draft *Interest Rate Benchmark Reform - Phase 2 Proposed amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16*

The Association for Financial Markets in Europe (AFME) welcomes the opportunity to comment on the **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 ('ED')*** issued as part of the International Accounting Standards Board's (IASB or the Board) project *IBOR Reform and its Effects on Financial Reporting*. AFME commends the IASB for the work accomplished during Phase I of the project and thanks the IASB for progressing with the proposal on further amendments to IFRS as a Phase II. We think these amendments are necessary to address issues that might affect financial reporting as existing interest rate benchmarks become replaced with alternative benchmark rate ('replacement issues'). AFME believes that such amendments would be necessary to ensure a smooth and efficient market transition to new rates, and therefore it would be critical for the amendments to be finalised for the application to 2020 reporting periods.

AFME welcomes the IASB decision to provide relief on the application of IFRS 9 requirements in relation to modification of financial instruments. We agree that paragraph B5.4.5 of IFRS 9 should be applied as a practical expedient to account for changes of a financial instrument if such changes are required solely by the reform. We strongly disagree, however, with the proposed amendment seeking to define what would constitute a modification of a financial instrument in the context of the reform, noting that "*a modification can arise even if the contractual terms of the financial instrument are not amended*". AFME notes that the concept of a modification of a financial instrument is well understood by the industry, has well established policies and practices around it and thus does not need to be clarified for the purpose of the narrow-scope amendments related to IBOR transition. We think this approach might lead to unintended consequences and urge the IASB not to proceed with the given amendment. We think that there is no need to revise IFRS 9 modification guidance more broadly, however if the Board would like to consider making any changes, it should be conducted in the context of a separate project where the need for such changes would be carefully assessed as the first step in accordance with the Due Process rules.

We welcome the IASB's decision to allow amending the formal designation of a hedging relationship, as noted in paragraph 6.9.7 of IFRS 9 and paragraph 102O of IAS 39, to prevent the discontinuation of the hedging relationship or the designation of a new hedging relationship solely due to the reform. However, we recommend the IASB to amend these paragraphs to account for other circumstances arising from the IBOR transition that would require modifying hedge documentation irrespective of whether uncertainty arising from interest rate benchmark reform has been removed or not.

AFME is generally supportive of the proposed amendments as per paragraphs 6.9.11–6.9.15 to IFRS 9 and paragraphs 102S–102X to IAS 39. Yet, we think that the requirement stated is paragraph 102S (resetting the cumulative fair value changes to zero) should not be mandatory in all circumstances and should rather be predicated on practicality. This would be necessary to account for different methods of retrospective effectiveness testing and for any unforeseen irregularities at the start the hedge relationship. Furthermore, we welcome the amendment to paragraph 102M of IAS 39 clarifying when an entity should prospectively cease applying the relief on the retrospective effectiveness testing under IAS 39, as initially contemplated by the Phase I amendments to IFRS.

We are also supportive of the ED proposals as outlined in 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. However, we note that paragraphs BC87 and BC89, as worded, might inadvertently introduce application guidance to the current hedge accounting requirements under IAS 39 which would be inconsistent with some existing practices. We thus ask the IASB to reconsider the wording of these paragraphs to prevent any unintended consequences.

AFME supports the IASB proposal on the date of application of the amendments with earlier application permitted. We believe that it is important to allow early application as preparers across various jurisdictions might operate under different reporting periods and likely different timelines for the IBOR transition. We also agree that restating prior periods to reflect the application of the amendments should not be required. Regarding the requirement to reinstate a hedging relationship discontinued solely due to changes required by the reform, we strongly believe that such reinstatement should be performed only if practicable, as there are situations where it would not be possible to reinstate a hedging relationship.

AFME fully acknowledges the need for specific disclosures on the nature and extent of risks arising from the reform, and how the entity manages those risks as well as disclosures on the entity's progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition. We think, however, that the requirements stated in paragraphs 24I-24J would be too extensive to comply with for entities seeking to adopt the amendments early e.g. for the application to 2020 reporting periods. We call the IASB to reconsider the scope of additional disclosure requirements to streamline the adoption of the amendments and we provide several recommendations. In particular, we think that it should be specified that disclosures required by paragraph 24J(b) should apply to instruments that will be subject to IBOR reform rather than to instruments that continue to reference IBORs at the reporting date. We also think that entities adopting the proposed amendments before the application date should be exempt from disclosing comparative information to that required by paragraphs 24I-24J of the ED. We propose that it should be allowed using notional values as an alternative to the proposed requirement in paragraph 24(b) of using carrying values in disclosures for non-derivative assets and liabilities. We further note that disclosure requirements as per paragraph 24J(c) might be too broad for financial institutions operating across multiple jurisdictions, which risks resulting in lengthy, rather general and thus less useful information to the users. Finally, we think that both preparers and users of financial information would benefit from the most optimal harmonisation of disclosure requirements under IFRS and US GAAP around IBOR transition. This would promote efficiency in preparing such disclosures by preparers as well as promote consistency of information provided to the users across multiple jurisdictions.

The detailed responses to the questions raised in the ED are outlined in **Appendix A** to this letter.

We thank again the IASB for their work and stand ready to discuss the content of this letter and/or of the Appendix or to provide any further clarity with regard to the statements made.

Yours faithfully,

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About AFME

AFME (Association for Financial Markets in Europe) advocates for deep and integrated European capital markets which serve the needs of companies and investors, supporting economic growth and benefiting society. AFME is the voice of all Europe's wholesale financial markets, providing expertise across a broad range of regulatory and capital markets issues. AFME aims to act as a bridge between market participants and policy makers across Europe, drawing on its strong and long-standing relationships, its technical knowledge and fact-based work. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. AFME participates in a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) through the GFMA (Global Financial Markets Association). For more information please visit the AFME website: www.afme.eu. Follow us on Twitter @AFME_EU

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Exposure Draft – Interest Rate Benchmark Reform – Phase 2 Proposed amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

Appendix A

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 (i.e. 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.

AFME response:

AFME welcomes the IASB's decision to provide relief on the application of IFRS 9 requirements in relation to modification of financial instruments. We agree that paragraph B5.4.5[1] of IFRS 9 should be applied as a practical expedient to account for changes of a financial instrument as a modification if such changes are required solely by the reform. We strongly believe, however, that introducing this relief does not require an amendment stating what would constitute a modification of a financial instrument in the context of interest

[1] Paragraph B5.4.5 states that "*For floating-rate financial assets and floating-rate financial liabilities, periodic re-estimation of cash flows to reflect the movements in the market rates of interest alters the effective interest rate. If a floating-rate financial asset or a floating-rate financial liability is recognised initially at an amount equal to the principal receivable or payable on maturity, re-estimating the future interest payments normally has no significant effect on the carrying amount of the asset or the liability*".

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rate benchmark reform as noted in paragraph 6.9.2 of the draft amendments, specifying that "*a modification can arise even if the contractual terms of the financial instrument are not amended* "[2].

We note that the BC16 of the ED refers to the lack of description of what constitutes a 'modification' in the current IFRS and states that the use of different wording in IFRS 9 to describe a modification of a financial asset or a financial liability could lead to diversity in practice. However, AFME thinks that, on the contrary, the concept of a modification of a financial instrument is well understood by the industry and has well established policies and practices around it. We further think that the existing industry practice, which has formed using the concept of **contractual changes** to the terms of a financial instrument, provides an objective, verifiable and auditable framework that can be applied by firms on a consistent basis in multiple jurisdictions where our members operate. Finally, the existing practice is consistent with many fundamental principles in IFRS 9, for example:

- *Initial recognition of a financial instrument* where "an entity shall recognise a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes party to the **contractual** provisions of the instrument".
- *Derecognition of a financial asset* with principles for a derecognition of a financial asset on the basis of expiration or transfer of **contractual** rights to receive cash flows from the asset.
- *Classification of financial assets* on the basis of **contractual** cash flow characteristics **(and only contractual)** of financial assets and business model assessment which considers if the entity expects to receive **contractual** cash flows from the assets.
- *Effective interest rate (EIR)* of a financial instrument is calculated based on expected cash flows taking into account all **contractual** terms of the instrument.

On the basis of the above arguments, we disagree with the statement in BC20 that "*extending the scope of this amendment to all modifications (i.e. not limited to changes made as a result of the reform) could assist entities in determining whether a change in the cash flows of a financial asset or a financial liability is accounted for as a modification."* In fact, we believe it could lead to confusion and diversity in practice by entities assessing the same instrument.

We strongly believe that this amendment should not be extended to all modifications and that a separate future project on this topic would not be needed. However, if the Board were to consider amending IFRS 9, the need for such amendments would need to be carefully evaluated in accordance with the Due Process rules. This should include whether this significant divergence from US GAAP is necessary. Furthermore, whether it would improve financial reporting or comparability rather than risk increasing divergence between the key accounting frameworks and a lack of comparability of financial information.

Inclusion of the amendment in paragraph 6.9.2, even if introduced in the narrow context of IBOR transition, could create a precedent where its application might be expanded outside the reform in the future, through the formation of new and divergent practices. For example, some entities could be encouraged to take this broader reading of modifications even before an appropriate assessment is made on the need for such an amendment. This could result in further unintended consequences, including unnecessary operational challenges for preparers of financial information without significant value added to the users of such information.

For the purpose of providing the practical expedient referred to in paragraph 6.9.3 of the draft amendments to IFRS 9, we think that paragraph 6.9.2 should be removed and paragraph 6.9.3 can be redrafted as follows:

[2] Paragraph 6.9.2 states that "*for the purpose of applying paragraphs 6.9.3–6.9.4 and 6.9.6, a financial asset or financial liability is 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*"

As a practical expedient, an entity shall apply paragraph B5.4.5 to account for **a replacement of an existing interest rate benchmark of** a financial asset or financial liability **with an alternative benchmark rate or an amendment of an existing interest rate benchmark** that is required by interest rate benchmark reform **as well as for effecting such a reform by changing the method to calculate the interest rate benchmark**. This practical expedient applies only to such **changes to contractual terms or changes to the cash flow basis** (but see also paragraph 6.9.5 *[which would need to be adjusted to account for the recommended change to paragraph 6.9.3]*) and only to the extent **the change** is required by interest rate benchmark reform (see also paragraph 6.9.6 *[which would need to be adjusted considering the recommended change to paragraph 6.9.3]*). For this purpose, **the change** is required by interest rate benchmark reform if and only if both of the following conditions are met: (a) **the change** is required as a direct consequence of interest rate benchmark reform; and (b) the new basis for determining the contractual cash flows is economically equivalent to the previous basis (i.e. the basis immediately preceding the modification).

Paragraph 6.9.4 and 6.9.6 would also need to be adjusted to account for the recommended change to paragraph 6.9.3 (mainly to replace the reference to "modification" with "change").

In addition, regarding IFRS 9 chapter used to include the amendments on modification of financial assets and financial liabilities, AFME thinks that these should not be included in Chapter 6 of IFRS 9 ("hedge accounting") but should be included in Chapter 3 (recognition and derecognition) as a new section. This change would be strongly needed for those entities that elected as accounting policy choice to continue applying hedge accounting rules under IAS 39 (IFRS 9.7.2.21) when IFRS 9 came into force. Otherwise, the amendments related with modifications will not be available for those entities if the amendments are included in chapter 6 of IFRS 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.

AFME response:

We welcome the IASB's decision to allow amending the formal designation of a hedging relationship, as required by the reform and specified in paragraph 6.9.7 of IFRS 9 and paragraph 102O of IAS 39, seeking to prevent the discontinuation of the hedging relationship or the designation of a new hedging relationship solely due to the reform. However, we believe that such changes to hedge documentation should not be conditional on the point in time 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.

We note that during the transition phase, hedging instruments might change to a new benchmark rate earlier (or later) than the hedged items. Entities might need to hedge this mismatch in benchmark rates by doing e.g. additional (basis) swaps and including these additional swaps in the original hedge relationship. In our view it should be allowed including such (basis) swaps in current hedge relationships as part of the hedging instrument with this situation directly stemming from the IBOR reform. Additionally, the continuation of hedge accounting should be preserved in scenarios where the derivative has to be replaced (rather than amended) due to IBOR reform, as e.g. contemplated by some clearing houses. We therefore recommend the IASB to amend paragraphs 102O of IAS 39 and 6.9.7 of IFRS 9 to account for other circumstances arising from the IBOR transition that would require amending hedge documentation irrespective of whether uncertainty arising from interest rate benchmark reform has been removed or not.

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.

AFME response:

While not specifically requested for comment in the ED, we welcome the amendment to paragraph 102M of IAS 39 clarifying that an entity should prospectively cease applying a relief on the retrospective effectiveness testing (paragraph 102G of Phase I amendments to IFRS[3]) to a hedging relationship when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk and the timing and the amount of the interest rate benchmark-based cash flows of the hedged item **and** of the hedging instrument. This is consistent with our recommendations provided in our previous comment letter[4].

AFME is generally supportive of the proposed amendments in 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. Yet, we think that the requirement stated is paragraph 102S (resetting the cumulative fair value changes to zero) should not be mandatory in all circumstances but should rather be performed **only if practicable**. This is because there could be unforeseen irregularities at the start the hedge relationship (i.e. the hedging instrument can be replaced with a nil fair value or with an initial present value). Additionally, entities are using different

[3] "Phase I amendments to IFRS" refer to *Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39 and IFRS 7* issued in September 2019

[4] https://www.afme.eu/Portals/0/globalassets/downloads/consultation-responses/AFME%20Response%20to%20IASB%20ED%20-%20Interest%20Rate%20Benchmark%20Reform.pdf?ver=2019-09-11-144138-970

effectiveness testing methods, therefore resetting the cumulative fair value changes of the hedged item and hedging instrument to zero might not be workable under all methods.

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.

AFME response:

AFME is generally supportive of the ED proposals as outlined in 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. However, we note that paragraphs BC87 and BC89, as worded, might introduce application guidance to the current hedge accounting requirements under IAS 39 which would be inconsistent with some existing practices. We note that paragraph BC87 appears to confuse the guidance on risk components between IAS 39 and IFRS 9 when stating "*This is because an entity's ability to conclude that the alternative benchmark rate meets the requirements in paragraphs 6.3.7(a) and B6.3.8 of IFRS 9 and paragraphs 81 and AG99F of IAS 39 that a risk component must be separately identifiable and reliably measurable could be affected in the early stages of the reform,* ***when a particular market might not yet be sufficiently developed for a term structure of zero coupon interest rates to be available***". More specifically, IFRS 9 provides more prescriptive guidance than IAS 39 in relation to the separately identifiable criteria for non-contractually specified risk components for them to be eligible for designation as a hedged item. Under IFRS 9, entities need to assess such risk components within the context of the particular market structure to which the risks relate and in which the hedging activity takes place. This requirement is not present under IAS 39. We note that the majority of AFME members apply hedge accounting guidance under IAS 39 and not IFRS 9. Therefore, we think that referring in paragraph BC87 of the ED to sufficiently developed market or sufficient volume and liquidity in a particular market or jurisdiction that an alternative benchmark rate would be expected to develop over time, may suggest a narrower scope for hedge designation compared with some practices in the banking sector under IAS 39 (e.g. certain hedges of loan or deposit books, for which there is not necessarily an active market and thus sufficient volume and liquidity). We thus recommend the IASB to reconsider the wording in these paragraphs to avoid unintended consequences to existing practice outside the scope of IBOR reform.

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.

AFME response:

AFME supports the IASB proposal on the date of application of the amendments with earlier application permitted. We believe that it is important to allow early application as preparers across various jurisdictions might operate under different reporting periods and likely different timelines for the IBOR transition.

We also agree that restating prior periods to reflect the application of the amendments should not be required.

Regarding the requirement to reinstate a hedging relationship discontinued solely due to changes required by the reform, we strongly believe that such reinstatement should be performed **only if practicable**. This may also require further clarification in the proposed amendments to IFRS 9 and IAS 39 to ensure this exemption can be applied where necessary. For instance, we note that there are situations where it would not even be possible to reinstate a hedging relationship. For example,

(a) When a hedging relationship is discontinued, the derivative that has been designated as the hedging instrument will be treated as a stand-alone derivative. As such, it might be compressed together with other stand-alone derivatives. The original derivative would thus no longer exist, making it impracticable to reinstate the discontinued hedging relationship.

(b) When a hedging relationship is discontinued, the derivative that has been designated as the hedging instrument may be designated as the hedging instrument in a new hedging relationship. Reinstating the previous hedging relationship will require the new hedging relationship to be discontinued. We think this will be challenging, if not impossible, to operationalise and would not provide useful information to the users of financial information. Furthermore, this may be impracticable under IFRS 9 where a discontinuation is not permitted when the hedging relationship still meets the risk management objective on the basis of which it qualified for hedge accounting as per IFRS 9.B6.5.23(a). As this would be applicable for the new hedging relationship, it will be impracticable to discontinue this new hedging relationship to make the derivative available as the hedging instrument for reinstating the hedging relationship discontinued due to IBOR reform. If guidance is considered necessary, then these specific examples should be referred to as instances where it is not practical to reinstate a hedging relationship.

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.

AFME response:

AFME fully acknowledges the need for specific disclosures on the nature and extent of risks arising from the reform to which the entity is exposed, and how it manages those risks as well as disclosures on the entity's progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition. However, we think the requirements stated in paragraphs 24I-24J are too extensive. In particular, it might not be achievable for a number of financial institutions to fully meet such requirements, if the amendments were to be early adopted by preparers for the application of 2020 reporting periods. We note that preparation of such disclosures would require its own set of processes and controls, including around the relevant systems and data that would need to be assured as part of financial audit. We think that it would be extremely problematic to achieve this in the short timeframe. Consequently, challenges in preparing such disclosures may discourage preparers from early adopting the proposed amendments which would be counterintuitive to the overall project objective of supporting the transition to alternative interest rates. We therefore request the IASB to reconsider the scope of the proposed disclosures to allow entities adopt the phase II amendments in full as soon as possible.

We also note that preparing such disclosures will be even more burdensome for firms who primarily report under other GAAP, e.g. US GAAP. We thus highlight the need for the most optimal convergence between the disclosure requirements related to IBOR transition more broadly between IFRS and US GAAP, both representing major reporting frameworks being applied by many of our members. This would promote efficiency in preparing such disclosures by AFME members as well as promote consistency of information provided to users of such information across multiple jurisdictions. Below we have provided further comments and recommendations.

We note it is not fully clear whether paragraphs 24I-24J of the ED intend to amend IFRS 7 disclosure requirements in relation to hedge accounting specifically or in relation to all instruments more broadly covered by the IBOR reform.

We would welcome if the scope of the additional disclosures would be limited only to those financial instruments where hedge accounting is being applied as this would significantly decrease the operational burden associated with the preparation of such disclosures and would greatly assist entities in adopting the amendments early, consistent with the point raised above. It would also promote better consistency with US GAAP, which does not require disclosing the same comprehensive set of quantitative information for all financial instruments referencing IBORs.

If the proposed disclosure requirements were intended to cover a broader scope of financial instruments, we would like to bring to the IASB's attention the following matters.

We would welcome if paragraph 24J(b) could be clarified to indicate the population of instruments it should be applied to. i.e. the instruments that continue to reference IBORs at the reporting date or those instruments that will be subject to interest rate benchmark reform. AFME is in favour of the latter as we believe that, by focusing on the impacted population only, the disclosure would provide more useful information and, therefore, would better meet the objectives laid out in paragraph 24I. Furthermore, we think that it should be allowed using notional values as an alternative to the proposed requirement in paragraph 24(b) of using carrying values in disclosures for non-derivative assets and liabilities.

Additionally, with regard to paragraph 24J(c), AFME notes that there can be ambiguity around the definition of the "base rate", a term that has not been clearly defined anywhere else in the ED. We further stress that information required as per paragraph 24J(c) might be extremely challenging to produce for institutions operating in multiple jurisdictions and being exposed to a very wide range of interest rate benchmark rates. This might result in lengthy and boiler plate disclosures, by default diminishing their usefulness, which would be primarily guided by the official regulatory requirements and/or guidelines on the transition rates in each jurisdiction.

We think that it should be clarified whether entities adopting the amendments proposed by the ED early (e.g. for a reporting period ending 31 December 2020) must produce comparative information in accordance with IAS 1. The ED appears to refer to an exemption from comparatives and, if this was the intent, we would appreciate greater clarity on this. We note that producing such comparative information would be extremely challenging from an operational standpoint as well as result in unjustifiable costs. We therefore believe that early adopters should be exempted from any mandatory requirement to present comparative information under the additional disclosure requirements in paragraphs 24I-24J, unless chosen to do so on a voluntary basis.