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From:	Secretary-General of the European Commission, signed by Mr Jordi AYET PUIGARNAU, Director
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To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union

Subject:	D064618/01 ANNEX Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39 and IFRS 7
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Delegations will find attached document Annex to D064618/01 .

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D064618/01

ANNEX

Interest Rate Benchmark Reform

Amendments to IFRS 9, IAS 39 and IFRS 7

Amendments to IFRS 9 *Financial Instruments*

Paragraphs 6.8.1–6.8.12 and 7.1.8 are added. A new heading is added before paragraph 6.8.1. New subheadings are added before paragraphs 6.8.4, 6.8.5, 6.8.6, 6.8.7 and 6.8.9. Paragraph 7.2.26 is amended.

Chapter 6 Hedge accounting

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6.8 Temporary exceptions from applying specific hedge accounting requirements

- 6.8.1 An entity shall apply paragraphs 6.8.4–6.8.12 and paragraphs 7.1.8 and 7.2.26(d) to all hedging relationships directly affected by interest rate benchmark reform. These paragraphs apply only to such hedging relationships. A hedging relationship is directly affected by interest rate benchmark reform only if the reform gives rise to uncertainties about:
- (a) the interest rate benchmark (contractually or non-contractually specified) designated as a hedged risk; and/or
 - (b) the timing or the amount of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument.
- 6.8.2 For the purpose of applying paragraphs 6.8.4–6.8.12, the term ‘interest rate benchmark reform’ refers to the market-wide reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark rate such as that resulting from the recommendations set out in the Financial Stability Board’s July 2014 report ‘Reforming Major Interest Rate Benchmarks’.¹
- 6.8.3 Paragraphs 6.8.4–6.8.12 provide exceptions only to the requirements specified in these paragraphs. An entity shall continue to apply all other hedge accounting requirements to hedging relationships directly affected by interest rate benchmark reform.

Highly probable requirement for cash flow hedges

- 6.8.4 For the purpose of determining whether a forecast transaction (or a component thereof) is highly probable as required by paragraph 6.3.3, an entity shall assume that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

Reclassifying the amount accumulated in the cash flow hedge reserve

- 6.8.5 For the purpose of applying the requirement in paragraph 6.5.12 in order to determine whether the hedged future cash flows are expected to occur, an entity shall assume that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

Assessing the economic relationship between the hedged item and the hedging instrument

- 6.8.6 For the purpose of applying the requirements in paragraphs 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 and/or the hedged risk

¹ The report, ‘Reforming Major Interest Rate Benchmarks’, is available at http://www.fsb.org/wp-content/uploads/r_140722.pdf.

(contractually or non-contractually specified) are based, or the interest rate benchmark on which the cash flows of the hedging instrument are based, is not altered as a result of interest rate benchmark reform.

Designating a component of an item as a hedged item

- 6.8.7 Unless paragraph 6.8.8 applies, for a hedge of a non-contractually specified benchmark component of interest rate risk, an entity shall apply the requirement in paragraphs 6.3.7(a) and B6.3.8—that the risk component shall be separately identifiable—only at the inception of the hedging relationship.
- 6.8.8 When an entity, consistent with its hedge documentation, frequently resets (ie discontinues and restarts) a hedging relationship because both the hedging instrument and the hedged item frequently change (ie the entity uses a dynamic process in which both the hedged items and the hedging instruments used to manage that exposure do not remain the same for long), the entity shall apply the requirement in paragraphs 6.3.7(a) and B6.3.8—that the risk component is separately identifiable—only when it initially designates a hedged item in that hedging relationship. A hedged item that has been assessed at the time of its initial designation in the hedging relationship, whether it was at the time of the hedge inception or subsequently, is not reassessed at any subsequent redesignation in the same hedging relationship.

End of application

- 6.8.9 An entity shall prospectively cease applying paragraph 6.8.4 to a hedged item at the earlier of:
- (a) 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 of the hedged item; and
 - (b) when the hedging relationship that the hedged item is part of is discontinued.
- 6.8.10 An entity shall prospectively cease applying paragraph 6.8.5 at the earlier of:
- (a) 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 future cash flows of the hedged item; and
 - (b) when the entire amount accumulated in the cash flow hedge reserve with respect to that discontinued hedging relationship has been reclassified to profit or loss.
- 6.8.11 An entity shall prospectively cease applying paragraph 6.8.6:
- (a) to a hedged item, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk or the timing and the amount of the interest rate benchmark-based cash flows of the hedged item; and
 - (b) to a hedging instrument, 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 of the hedging instrument.

If the hedging relationship that the hedged item and the hedging instrument are part of is discontinued earlier than the date specified in paragraph 6.8.11(a) or the date specified in paragraph 6.8.11(b), the entity shall prospectively cease applying paragraph 6.8.6 to that hedging relationship at the date of discontinuation.

- 6.8.12 When designating a group of items as the hedged item, or a combination of financial instruments as the hedging instrument, an entity shall prospectively cease applying paragraphs 6.8.4–6.8.6 to an individual item or financial instrument in accordance with paragraphs 6.8.9, 6.8.10, or 6.8.11, as relevant, when the 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 the interest rate benchmark-based cash flows of that item or financial instrument.

Chapter 7 Effective date and transition

7.1 Effective date

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- 7.1.8 *Interest Rate Benchmark Reform*, which amended IFRS 9, IAS 39 and IFRS 7, issued in September 2019, added Section 6.8 and amended paragraph 7.2.26. An entity shall apply these amendments for annual periods beginning on or after 1 January 2020. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.

7.2 Transition

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Transition for hedge accounting (Chapter 6)

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- 7.2.26 As an exception to prospective application of the hedge accounting requirements of this Standard, an entity:

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- (d) shall apply the requirements in Section 6.8 retrospectively. This retrospective application applies only to those hedging relationships that existed at the beginning of the reporting period in which an entity first applies those requirements or were designated thereafter, and to the amount accumulated in the cash flow hedge reserve that existed at the beginning of the reporting period in which an entity first applies those requirements.

Amendments to IAS 39 *Financial Instruments: Recognition and Measurement*

Paragraphs 102A–102N and 108G are added. A new heading is added before paragraph 102A. New subheadings are added before paragraphs 102D, 102E, 102F, 102H and 102J.

Hedging

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Temporary exceptions from applying specific hedge accounting requirements

- 102A An entity shall apply paragraphs 102D–102N and 108G to all hedging relationships directly affected by interest rate benchmark reform. These paragraphs apply only to such hedging relationships. A hedging relationship is directly affected by interest rate benchmark reform only if the reform gives rise to uncertainties about:
- (a) the interest rate benchmark (contractually or non-contractually specified) designated as a hedged risk; and/or
 - (b) the timing or the amount of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument.
- 102B For the purpose of applying paragraphs 102D–102N, the term ‘interest rate benchmark reform’ refers to the market-wide reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark rate such as that resulting from the recommendations set out in the Financial Stability Board’s July 2014 report ‘Reforming Major Interest Rate Benchmarks’.²
- 102C Paragraphs 102D–102N provide exceptions only to the requirements specified in these paragraphs. An entity shall continue to apply all other hedge accounting requirements to hedging relationships directly affected by interest rate benchmark reform.

Highly probable requirement for cash flow hedges

- 102D For the purpose of applying the requirement in paragraph 88(c) that a forecast transaction must be highly probable, an entity shall assume that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

Reclassifying the cumulative gain or loss recognised in other comprehensive income

- 102E For the purpose of applying the requirement in paragraph 101(c) in order to determine whether the forecast transaction is no longer expected to occur, an entity shall assume that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

² The report, ‘Reforming Major Interest Rate Benchmarks’, is available at http://www.fsb.org/wp-content/uploads/r_140722.pdf.

Effectiveness assessment

- 102F For the purpose of applying the requirements in paragraphs 88(b) and AG105(a), an entity shall assume that the interest rate benchmark on which the hedged cash flows and/or the hedged risk (contractually or non-contractually specified) are based, or the interest rate benchmark on which the cash flows of the hedging instrument are based, is not altered as a result of interest rate benchmark reform.
- 102G For the purpose of applying the requirement in paragraph 88(e), an entity is not required to discontinue a hedging relationship because the actual results of the hedge do not meet the requirements in paragraph AG105(b). For the avoidance of doubt, an entity shall apply the other conditions in paragraph 88, including the prospective assessment in paragraph 88(b), to assess whether the hedging relationship must be discontinued.

Designating financial items as hedged items

- 102H Unless paragraph 102I applies, for a hedge of a non-contractually specified benchmark portion of interest rate risk, an entity shall apply the requirement in paragraphs 81 and AG99F—that the designated portion shall be separately identifiable—only at the inception of the hedging relationship.
- 102I When an entity, consistent with its hedge documentation, frequently resets (ie discontinues and restarts) a hedging relationship because both the hedging instrument and the hedged item frequently change (ie the entity uses a dynamic process in which both the hedged items and the hedging instruments used to manage that exposure do not remain the same for long), the entity shall apply the requirement in paragraphs 81 and AG99F—that the designated portion is separately identifiable—only when it initially designates a hedged item in that hedging relationship. A hedged item that has been assessed at the time of its initial designation in the hedging relationship, whether it was at the time of the hedge inception or subsequently, is not reassessed at any subsequent redesignation in the same hedging relationship.

End of application

- 102J An entity shall prospectively cease applying paragraph 102D to a hedged item at the earlier of:
- (a) 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 of the hedged item; and
 - (b) when the hedging relationship that the hedged item is part of is discontinued.
- 102K An entity shall prospectively cease applying paragraph 102E at the earlier of:
- (a) 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 future cash flows of the hedged item; and
 - (b) when the entire cumulative gain or loss recognised in other comprehensive income with respect to that discontinued hedging relationship has been reclassified to profit or loss.
- 102L An entity shall prospectively cease applying paragraph 102F:
- (a) to a hedged item, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk or the timing and the amount of the interest rate benchmark-based cash flows of the hedged item; and
 - (b) to a hedging instrument, 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 of the hedging instrument.

If the hedging relationship that the hedged item and the hedging instrument are part of is discontinued earlier than the date specified in paragraph 102L(a) or the date specified in paragraph 102L(b), the entity shall prospectively cease applying paragraph 102F to that hedging relationship at the date of discontinuation.

- 102M An entity shall prospectively cease applying paragraph 102G to a hedging relationship at the earlier of:
- (a) 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 or of the hedging instrument; and
 - (b) when the hedging relationship to which the exception is applied is discontinued.

- 102N When designating a group of items as the hedged item, or a combination of financial instruments as the hedging instrument, an entity shall prospectively cease applying paragraphs 102D–102G to an individual item or financial instrument in accordance with paragraphs 102J, 102K, 102L, or 102M, as relevant, when the 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 the interest rate benchmark-based cash flows of that item or financial instrument.

Effective date and transition

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- 108G *Interest Rate Benchmark Reform*, which amended IFRS 9, IAS 39 and IFRS 7, issued in September 2019, added paragraphs 102A–102N. An entity shall apply these amendments for annual periods beginning on or after 1 January 2020. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact. An entity shall apply these amendments retrospectively to those hedging relationships that existed at the beginning of the reporting period in which an entity first applies these amendments or were designated thereafter, and to the gain or loss recognised in other comprehensive income that existed at the beginning of the reporting period in which an entity first applies these amendments.

Amendments to IFRS 7 *Financial Instruments: Disclosures*

Paragraphs 24H and 44DE–44DF are added and a subheading is added before paragraph 24H.

Hedge accounting

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Uncertainty arising from interest rate benchmark reform

24H For hedging relationships to which an entity applies the exceptions set out in paragraphs 6.8.4–6.8.12 of IFRS 9 or paragraphs 102D–102N of IAS 39, an entity shall disclose:

- (a) the significant interest rate benchmarks to which the entity's hedging relationships are exposed;
- (b) the extent of the risk exposure the entity manages that is directly affected by the interest rate benchmark reform;
- (c) how the entity is managing the process to transition to alternative benchmark rates;
- (d) a description of significant assumptions or judgements the entity made in applying these paragraphs (for example, assumptions or judgements about 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
- (e) the nominal amount of the hedging instruments in those hedging relationships.

Effective date and transition

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44DE *Interest Rate Benchmark Reform*, which amended IFRS 9, IAS 39 and IFRS 7, issued in September 2019, added paragraphs 24H and 44DF. An entity shall apply these amendments when it applies the amendments to IFRS 9 or IAS 39.

44DF In the reporting period in which an entity first applies *Interest Rate Benchmark Reform*, issued in September 2019, an entity is not required to present the quantitative information required by paragraph 28(f) of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.