European Securities and Markets Authority

The Chair

25 May 2020
ESMA32-61-405

Mr Hans Hoogervorst
Chairman
International Accounting Standards Board (IASB)
Columbus Building
7 Westferry Circus
Canary Wharf
London
E14 4HD
United Kingdom

Ref: IASB's Exposure Draft Interest Rate Benchmark Reform - Phase 2

Dear Mr Hoogervorst, Dear Hans,

The European Securities and Markets Authority (ESMA) thanks you for the opportunity to respond to the IASB's due process with regards to Exposure Draft ED/2020/1 *Interest rate benchmark reform – Phase 2.* We are pleased to provide you with the following comments with the aim of improving the consistent application and enforceability of IFRSs.

ESMA welcomes the initiative of the IASB to consider as a priority the effects of the reform of the interest rate benchmark (the so-called "replacement issues") on entities' financial statements. Specifically, we support the proposals to limit the scope of the amendment to the modifications arising from the interest rate benchmark reform (Question 1) and we agree with the proposal to prescribe a practical expedient to account for the modification of a financial asset or liability that is required by the interest rate benchmark reform (Question 2). However, we encourage the IASB to clearly exclude the possibility that this amendment can be applied by analogy to circumstances other than those for which they were developed and to include, in addition to those proposed in paragraph 6.9.4, examples of modifications of a financial asset or financial liability which would *not* meet the conditions described in paragraph 6.9.3. This would reduce diversity in practice and improve the understandability and enforceability of these provisions.

ESMA also supports the proposed accounting for the amendment of the designation of qualifying hedging relationships (Question 3) and of the proposals relating to the designation of risk components and portions (Question 4). We include in Annex two drafting suggestions relating to these proposals to further improve the consistency and understandability of the amendments. In addition, in light of the market disruption linked to the COVID-19 pandemic, ESMA recommends that the IASB continues to monitor future developments of alternative rate markets to assess whether it may become necessary to extend the 24-month temporary relief period for the separately identifiable assessment since the establishment of sufficiently liquid alternative rate markets could take longer than currently envisaged.

Lastly, ESMA agrees with the effective date and the transition provisions proposed (Question 5), which we think would ensure comparability across entities and apply at the relevant period of issuers' transition to alternative benchmark rates. We are also supportive of the additional specific disclosures proposed in the ED (Question 6). However, ESMA invites the IASB to further assess whether the "description of how the entity determined the base rate and relevant adjustments to that rate" (first part of paragraph 24J(c) of IFRS 7) will provide entity-specific information to users (rather than generic or boilerplate disclosures). We are nonetheless supportive of requiring the disclosure of any significant judgements the entity made to assess whether the conditions to apply the practical expedient were met (second part of the above-mentioned paragraph).

Please do not hesitate to contact us should you wish to discuss all or any of our comments.

Yours sincerely,

[signed]

Steven Maijoor

Annex I

Please find below two suggestions to improve the current drafting to ensure consistency and understandability of the proposed amendments to IFRS 9:

- We invite the IASB to try to simplify the structure of the proposed Section 6.9 of IFRS 9, especially with regards to paragraph 6.9.3 which currently provides both the definition of what constitutes a modification and the practical expedient to account for it. We suggest that providing the scope and definition of modifications in separate paragraphs would help reduce some possibly unnecessary complexity in the drafting and lead to better comprehensibility;

- We note that paragraph 6.9.7 requires that, if the reference to an alternative benchmark rate is changed, preparers should amend *either* the description of the hedged item, *or* the description of the hedging instrument, *or* both; on the other hand, paragraphs 6.9.11 and 6.9.12 require preparers to remeasure both the hedge item and the hedging instrument. We recommend that in the finalisation of the project this inconsistency be addressed.