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Chairman

PDC N° 13

Paris, May 7th, 2020

Mr Hans Hoogervorst

IASB Chair

7 Westferry Circus, Canary Wharf

LONDON, UK, E14 4HD

IASB 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

Dear Hans,

I am writing on behalf of the Autorité des Normes Comptables (ANC) to express our views on the above-mentioned IASB Exposure Draft regarding the accounting issues raised by the Interest Rate Benchmark Reform (thereafter “IBOR reform”) (ED/2020/1). ANC welcomes the opportunity to comment on this topic. This letter sets out the most critical issues identified by interested stakeholders involved in ANC’s due process.

Altogether, the practicality and cost/benefit analysis of the proposed amendments remain our main concern, as they should allow to preserve in an efficient manner the relevance of the information published on financial instruments and hedging relationships through the reform.

In this respect, ANC welcomes by and large the proposed amendments. We are of the opinion that they contribute to provide relevant and useful information to users about financial instruments and hedging transactions presented in the financial statements by avoiding unexpected accounting consequences that the IBOR reform could have caused under the current standards.

However, in the light of an overall analysis of their cost/benefit trade-off, the extent and relevance of the proposed disclosures constitute a serious concern, as some of them may appear of little interest to users while exceedingly difficult to provide, especially as the requested information may not be available in the accounting systems. We strongly advocate for a more focused and pragmatic approach in this regard (see our answers to Question 6 thereafter).

The proposed amendments pertaining to fair value hedges (more specifically IFRS 9.6.9.11 and IAS 39.102T) are also a concern, as their possible consequences, especially with respect to hedging relationships of fixed rate instruments, are under debate among our constituents. Should the amendments lead to the recognition of a profit or loss¹ on the date the hedging instrument is modified to refer to a new benchmark rate pursuant to the IBOR reform, we question the relevance of this information when such a modification includes an adequate adjustment (either via a flat payment or a spread adjustment).

¹ This does not refer to a net profit or loss that may stem from the hedge’s inefficiency.

We would therefore recommend clarifying the intended outcome of the proposed amendment on this issue (see our answers to Question 3).

Our detailed answers to each question are included below.

We stand at your disposal should you want to discuss any aspect of our letter.

Yours sincerely,

A handwritten signature in black ink that reads "Patrick de Cambourg". The signature is written in a cursive style with a small mark at the end.

Patrick de CAMBOURG

Q1: Modification of financial assets and liabilities

1. We agree with the decision to limit the scope of the amendment to the modifications requested by the IBOR reform. We also agree that the definition of modifications provided in paragraph 6.9.2 should only be applicable to modifications included in the scope of the amendment, as it allows to avoid any unintended consequences outside the scope of the reform.
2. As a consequence of this scope limitation, this definition of modifications shall not preclude in any way the possibility of a different outcome for the IASB's due process expected to take place on the issues raised by financial instruments' modifications outside the realm of the IBOR reform.
3. We agree with the criteria laid down in Q1(c), as they appear to be a pragmatic solution to the issues raised by any contract modifications pertaining to the reform.

Q2: Amendments to hedging relationships

4. The proposed amendments will avoid discontinuing hedging relationships when the hedged items and hedging instruments are modified and the related hedging documentation is amended accordingly due to the sole IBOR reform.
5. We therefore agree with the proposed amendments to IFRS 9 and IAS 39 as they provide an adequate solution to disclose relevant and useful information about risk management and hedging transactions in financial statements without undue costs.

Q3: Accounting for qualifying hedging relationships and groups of items

6. We agree with the proposed amendments to cash flow hedges, and especially the requirement to remeasure the cash flow hedge reserve.
7. We agree with the proposed amendments to the requirements pertaining to groups of items designated as hedged items in a hedging relationship.
8. The consequences of the requirements relating to fair value hedges (IFRS 9.6.9.11 and IAS 39.102T) remain under debate among our constituents, which is a clear sign of the need to clarify their scope and consequences.
9. More specifically, we question the need and the usefulness of recognising a day-one profit or loss on the day the underlying benchmark rate of the hedging instrument is modified, when such modification is compensated for adequately (either a flat payment or a spread adjustment).
10. Indeed, it remains unclear whether the proposed amendments allow for the remeasurement of the hedged items by adjusting its parameters (and especially the credit margin for a fixed-rate instrument) to take into account the alternative benchmark rate used to remeasure the fair value of the hedging instrument. To allow for such an adjustment of the credit margin at the date of the derivative's remeasurement seems the only satisfactory approach to avoid the recognition of a day-one profit or loss of little relevance to the users.
11. Prohibiting the remeasurement using an amended credit margin of the hedged item (as could be inferred from BC.61) or requesting that such a remeasurement should take place at the date of the hedge's inception (as could be inferred from BC.63) would both lead to recognizing a gain or loss with no links to the hedge's effectiveness, and hence of no relevance.
12. Therefore, the amendment should lay out more clearly the consequences of IFRS 9.6.9.11 (b) and IAS 39.102 (b), and their interplay with BC.61 and BC.63. The possibility to remeasure the cash flows on the hedged item at the date of the hedging instrument's remeasurement using adequate parameters, and especially an adjusted credit margin, consistent with the alternative benchmark rate, should be more readily expressed.

Q4: Designation of risk components and portions

13. We agree with the proposal to provide a relief on the separately identifiable criterion.
14. Assessing separately the measurement criterion may prove to be difficult, as the two criteria are closely related. We understand that no relief is provided on the latter as the mere possibility to enter into a derivative based on an alternative benchmark rate should prove sufficient to satisfy this separately measurable requirement.
15. As of today, the 24 months period for the alternative benchmark rate to be separately identifiable appears adequate. However, given the rapidly evolving context of the COVID-19 pandemic, adverse consequences affecting the implementation of the reform cannot be excluded. We would therefore recommend assessing prior to the final ballot on the proposed amendments whether the time frame remains realistic or should be extended in the light of the latest information on the reform's schedule. Alternatively, the identification criterion could be presumed to be met provided measurement is performed on a reliable basis. The entity would subsequently have to check whether this presumption is not negatively challenged within the following 24 months.

Q5: Effective date and transition

16. ANC agrees with IASB proposals on effective date and transition requirements.

Q6: Disclosures

17. The scope of the IBOR reform is limited and its consequences on the financial statements should be all the more circumscribed that modifications should be made on an economic equivalent basis.
18. In this light, some disclosures requirements seem of limited relevance for users, whereas extremely costly and challenging to prepare. Therefore, we strongly advocate in favour of amending those requirements to strike a more balanced cost/benefit equilibrium.
19. More specifically, the requirement to disaggregate the carrying amounts of assets, liabilities and the nominal amounts of derivatives by interest rate benchmark is exceedingly difficult to fulfil, as this level of detail is generally not available in the accounting systems. To disclose this information would compel entities to engage in a challenging and costly analysis, with no clear benefit for the users as this information does not always appear to be relevant. We question the cost/benefit advantages of such detailed disclosures, in a context where users of financial statements will probably focus their priority on more sensible information during the coming periods.
20. Instead, the disclosure of information used by entities in managing the reform, which could differ from the financial instruments' carrying amounts, could be as relevant to users, if not more and should therefore be contemplated. This would allow for a better cost/benefit trade-off, as information extracted from the management systems would provide a relevant proxy of the magnitude of the reform's impacts.
21. Additionally, we strongly recommend limiting the quantitative disclosures to the sole financial instruments directly within the scope of the amendments (and especially excluding those measured at fair value without being part of a hedging relationship).