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Our ref : RJ-IASB 493C
Direct dial : 0031-20-3010235
Date : Amsterdam, 27 May 2020
Re : Exposure draft Interest Rate Benchmark Reform – Phase 2

Dear members of the IASB,

The Dutch Accounting Standard Board (DASB) appreciates the opportunity to respond to the IASB regarding the ED *Interest Rate Benchmark Reform – Phase 2*. We take this opportunity to respond to your requests relating to the questions included in the discussion paper.

We want to stress to the IASB that we see a possible issue with regard to the endorsement timelines. As the ED of the IASB is expected to be finalized in Q4 2020 there will be limited time to prepare endorsement in the EU. Any endorsement after the start of 2021 may cause issues for entities who prepare and finalize their 2020 accounts before endorsement is completed.

We agree in general with the responses by EFRAG in their draft comment letter but would like to highlight a few areas of concern:

(a) We are concerned with the reasoning that a contract is considered to be modified when the basis of calculating contractual cash flows change even when the contractual terms are not changed (in 6.9.2). We do not agree with this view and do not consider such a contract modified. Limiting the reasoning to the context of interest rate benchmark reform only is a partial solution, but gives rise to a risk of extension by analogy and a further risk of inconsistent application. We would suggest deletion of that aspect of the definition of modification. We believe that the ED should instead clarify that such a change in the basis for determining the contractual cash flows would be considered as a periodic re-estimation of cash flows of the instrument to which paragraph B5.4.5 applies without describing it as a modification.

(b) EFRAG observes that the proposed disclosures in paragraph 24J(b) may require undue costs and efforts to prepare. EFRAG observes that the proposed disclosures in paragraph 24J(c) of IFRS 7 may be less helpful to users of financial statements because the disclosures are expected to be less entity specific.
We do not agree with the position as set out by EFRAG. We are in agreement with the objectives of paragraph 24I. However, we do not support generic mandatory disclosure requirements due to potentially undue cost for the preparer and the limited added value for the user of the information. As such we suggest to replace the word “shall” in paragraph 24J with wording such as used in IFRS 7 paragraph B53 "To meet the objective in paragraph 24I an entity may need to supplement them with the additional (qualitative) disclosures."

(c) The IASB proposes to include the new disclosure requirements (24J(a)-(d)) directly after 24H. All other paragraphs 24 are related to hedge accounting. We see the risk that preparers who do not apply hedge accounting

might miss them. We suggest that the IASB includes these paragraphs at the end of the 'other' section in a new paragraph 30A.

(d) We agree with the position as set out by EFRAG to accept the IASB's tentative decision to provide temporary relief in the context of non-contractually specified risk components on the "separately identifiable" criterion. However, we do not support a hard deadline of 24 months as there could be unintended delays.

Hereafter we set out our responses to the questions as included in the IASB Exposure draft *Interest Rate Benchmark Reform – Phase 2.*

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)

We do not agree with the view as expressed by EFRAG in their comment letter that a contract is considered to be modified when the basis of calculating contractual cash flows change even when the contractual terms are not changed (in 6.9.2). We do not consider such a contract modified. Limiting the reasoning to the context of interest rate benchmark reform only is a partial solution, but gives rise to a risk of extension by analogy and a further risk of inconsistent application. We would suggest deletion of that aspect of the definition of modification. We believe that the ED should instead clarify that such a change in the basis for determining the contractual cash flows would be considered as a periodic re-estimation of cash flows of the instrument to which paragraph B5.4.5 applies without describing it as a modification.

We do agree with the remaining comments raised by EFRAG in their comment letter as set out below:

EFRAG agrees with providing a practical expedient allowing an entity to apply paragraph B5.4.5 of IFRS 9 to account for modifications related to the IBOR reform. This is because EFRAG considers that this practical expedient has the potential to provide more useful information to users of financial statements and is also expected to significantly reduce the operational burden on preparers.

The proposed amendments would also apply to fallback provisions. EFRAG agrees with this proposal.

EFRAG agrees with the clarification that an entity should first apply paragraph B5.4.5 of IFRS 9 to account for modifications related to the IBOR reform to which the practical expedient applies; and thereafter, apply the current IFRS 9 requirements to determine if any other modifications that are not directly required by the IBOR reform are substantial; if those modifications are not substantial, the entity should apply paragraphs 5.4.3 or B5.4.6 of IFRS 9.

EFRAG agrees with the proposed amendments to IFRS 16 and IFRS 4, EFRAG also agrees that no amendments to other IFRS Standards are necessary.

EFRAG suggests to reconsider the wording in paragraph BC35 (as it may be interpreted as contradicting the order of the application of the requirements in paragraph 6.9.6) and of paragraphs BC24 and BC25 (as it seems to provide guidance for modification that may have unintended consequences).

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)

We agree to the comments raised by EFRAG in their comment letter.

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)

We agree to the comments raised by EFRAG in their comment letter.

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)

We do not support a hard deadline of 24 months in the context of non-contractually specified risk components on the "separately identifiable" criterion as there could be unintended delays.

For the remainder we do agree to the comments raised by EFRAG in their comment letter as set out below:

EFRAG agrees with the IASB's proposal to provide temporary relief in the context of non-contractually specified risk components on the "separately identifiable" criterion.

EFRAG observes that the IASB might consider clarifying the wording used in paragraph BC92 of the ED, that the expectation should always relate to the end of 24-month period, regardless of whether this expectation is made either during or at the end of the 24-month period.

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)

We agree to the comments raised by EFRAG in their comment letter.

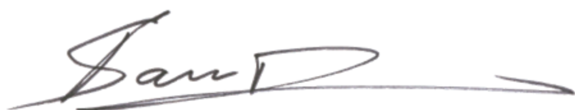
Question 6—Disclosures (paragraphs 24I–24J and paragraphs 44HH–44II of [Draft] amendments to IFRS 7)

We do not agree to the position as set out by EFRAG. We are in agreement with the objectives of paragraph 24I. However, we do not support generic mandatory disclosure requirements due to potentially undue cost for the preparer and the limited added value for the user of the information. As such we suggest to replace the word "shall" in paragraph 24J with wording such as used in IFRS 7 paragraph B53 "To meet the objective in paragraph 24I an entity may need to supplement them with the additional (qualitative) disclosures:"

The IASB proposes to include the new disclosure requirements (24J(a)-(d)) directly after 24H. All other paragraphs 24 are related to hedge accounting. We see the risk that preparers who do not apply hedge accounting might miss them. We suggest that the IASB includes these paragraphs at the end of the 'other' section in a new paragraph 30A.

While we support the amendments being made, we feel accounting standards should be robust enough to avoid amendments for changes in regulations such as the benchmark reform. However, the development of such principles require more time and therefore a quick fix to this replacement issue is welcomed.

Yours sincerely,



Prof. dr. P.A.M. Sampers
Chairman DASB

Appendix 1: Draft comment letter EFRAG

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Direct dial : 0031-20-3010235
Date : Amsterdam, 27 May 2020
Re : draft comment letter Interest Rate Benchmark Reform – Phase 2

Dear members of the EFRAG Technical Expert Group,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to comment on the draft comment letter Interest Rate Benchmark Reform.

We want to stress that we see a possible issue with regard to the endorsement timelines. As the ED of the IASB is expected to be finalized in Q4 2020 there will be limited time to prepare endorsement in the EU. Any endorsement after the start of 2021 may cause issues for entities who prepare and finalize their 2020 financial statements before endorsement is completed.

In general, we agree with the proposed response to the exposure draft Interest Rate Benchmark reform – Phase 2 of the IASB.

We would suggest to EFRAG to consider the following when finalising the comment letter:

(a) We are concerned with the reasoning that a contract is considered to be modified when the basis of calculating contractual cash flows change even when the contractual terms are not changed (in 6.9.2). We do not agree with this view and do not consider such a contract modified. Limiting the reasoning to the context of interest rate benchmark reform only is a partial solution, but gives rise to a risk of extension by analogy and a further risk of inconsistent application. We would suggest deletion of that aspect of the definition of modification. We believe that the ED should instead clarify that such a change in the basis for determining the contractual cash flows would be considered as a periodic re-estimation of cash flows of the instrument to which paragraph B5.4.5 applies without describing it as a modification.

(b) EFRAG observes that the proposed disclosures in paragraph 24J(b) may require undue costs and efforts to prepare. Additionally, EFRAG observes that the proposed disclosures in paragraph 24J(c) of IFRS 7 may be less helpful to users of financial statements because the disclosures are expected to be less entity specific.

We do not agree with the position as set out by EFRAG. We are in agreement with the objectives of paragraph 24I. However, we do not support generic mandatory disclosure requirements due to

potentially undue cost for the preparer and the limited added value for the user of the information. As such we suggest to replace the word "shall" in paragraph 24J with wording such as used in IFRS 7 paragraph B53 "To meet the objective in paragraph 24I an entity may need to supplement them with the additional (qualitative) disclosures."

(c) The IASB proposes to include the new disclosure requirements (24J(a)-(d)) directly after 24H. All other paragraphs 24 are related to hedge accounting. We see the risk that preparers who do not apply hedge accounting could miss these new disclosure requirements. We advise that the IASB includes these paragraphs at the end of the 'other' section in a new paragraph 30A. We suggest to EFRAG to incorporate this concern in their comment letter.

(d) We agree with the position as set out by EFRAG to accept the IASB's tentative decision to provide temporary relief in the context of non-contractually specified risk components on the "separately identifiable" criterion. However, we do not support a hard deadline of 24 months as there could be unintended delays. We suggest that EFRAG incorporates this concern in their comment letter to the IASB.

Hereafter we set out our responses to the questions to constituents as included in the pre-consultation Draft of EFRAG Draft Comment Letter and the additional question included in the draft comment letter dated 23 April 2020.

Paragraph 6: EFRAG TEG view on the basis of IASB's tentative decision 1

We agree with the position as set out by EFRAG to limit the scope of this clarification to the changes solely due to the IBOR reform.

We agree with the proposed amendment to apply paragraph B5.4.5 of IFRS 9 instead of modification accounting.

We also concur with the proposal that entities first apply paragraph B5.4.5 of IFRS 9 to account for modifications related to IBOR reform, and thereafter, for modifications not relating to IBOR reform the current IFRS 9 requirements.

We are concerned with the reasoning that a contract is considered to be modified when the basis of calculating contractual cash flows change even when the contractual terms are not changed (in 6.9.2). We do not agree with this view and do not consider such a contract modified. Limiting the reasoning to the context of interest rate benchmark reform only is a partial solution, but gives rise to a risk of extension by analogy and a further risk of inconsistent application. We would suggest deletion of that aspect of the definition of modification. We believe that the ED should instead clarify that such a change in the basis for determining the contractual cash flows would be considered as a periodic re-estimation of cash flows of the instrument to which paragraph B5.4.5 applies without describing it as a modification.

Paragraph 11: EFRAG TEG view on the basis of the IASB's tentative decision 2

We agree with the position as set out by EFRAG that the existing requirements already provide sufficient guidance to account for the consequences from derecognition of a modified financial instrument.

Paragraph 28: EFRAG TEG view on the basis of the IASB's tentative decision 3

We agree with the position as set out by EFRAG that the proposed amendments on hedge accounting will generally enable entities to continue hedging relationships when modifying hedged items and hedging instruments as a direct consequence of the IBOR reform.

We agree that the proposed amendments permit an entity to amend the hedge documentation to reflect the alternative benchmark rate without requiring discontinuation of underlying hedging relationships. The same is achieved with the proposed amendment to IAS 39 to provide an exception from the current requirements relating to the method used for assessing hedge effectiveness.

We agree that the proposed amendments in relation to hedges of groups of items and portfolio hedges are consistent with the objective to continue hedging relationships when transitioning from IBOR to an alternative benchmark rate.

Paragraph 32: EFRAG TEG view on the basis of IASB's tentative decision 4

We agree with the position as set out by EFRAG to agree with the proposed amendment to IAS 39 to reset to zero the cumulative fair value changes of the hedging instrument and the hedged item to avoid recognising ineffectiveness that would arise without the proposed amendment.

Paragraph 40: EFRAG TEG view on the basis of IASB's tentative decision 5

We agree with the position as set out by EFRAG to agree with the proposed amendments on IFRS 16 and IFRS 4 on the basis that they increase comparability between entities and enable entities that account for lease liabilities of a lessee or insurance contracts to reach similar accounting outcomes than entities that apply B5.4.5 of IFRS 9 for other entities.

We agree with the position as set out by EFRAG that other accounting standards provide sufficient and appropriate guidance for the user to determine the appropriate accounting treatment resulting from potential consequences of the benchmark reform and hence no further amendments are deemed necessary.

Paragraph 46: EFRAG TEG view on the basis of IASB's tentative decision 6

We do not agree to the position as set out by EFRAG. We are in agreement with the objectives of paragraph 24I. However, we do not support generic mandatory disclosure requirements due to potentially undue cost for the preparer and the limited added value for the user of the information. As such we suggest to replace the word "shall" in paragraph 24J with wording such as used in IFRS 7 paragraph B53 "To meet the objective in paragraph 24I an entity may need to supplement them with the additional (qualitative) disclosures."

We concur with EFRAG's suggestion to consider cross-referencing with IFRS 7.

The IASB proposes to include the new disclosure requirements (24J(a)-(d)) directly after 24H. All other paragraphs 24 are related to hedge accounting. We see the risk that preparers who do not apply hedge accounting might miss them. We suggest that the IASB includes these paragraphs at the end of the 'other' section in a new paragraph 30A. We suggest to EFRAG to incorporate this concern in their comment letter.

Paragraph 52: EFRAG TEG view on the basis of IASB's tentative decision 7

We agree with the position as set out by EFRAG to accept the IASB's tentative decision to provide temporary relief in the context of non-contractually specified risk components on the "separately identifiable" criterion. However, we do not support a hard deadline of 24 months as there could be unintended delays. We suggest that EFRAG incorporates this concern in their comment letter to the IASB.

Paragraph 56: EFRAG TEG view on the basis of IASB's tentative decision 8

We agree with the position as set out by EFRAG that the proposed amendments should be mandatory in order to increase comparability across entities.

We agree with the view that no specific end of application requirements need to be specified, because this allows application of the proposed amendments under the different transition paths of IBOR reforms.

Paragraph 62: EFRAG TEG view on the basis of IASB's tentative decision 9

We agree with the position as set out by the EFRAG and the IASB for a proposed date for mandatory application being for periods beginning 1 January 2021, with earlier application permitted.

We want to stress to the EFRAG that we see a possible issue with regard to the endorsement timelines. As the ED of the IASB is expected to be finalized in Q4 2020 there will be limited time to prepare endorsement in the EU. Any endorsement after the start of 2021 may cause issues for entities who prepare and finalize their 2020 accounts before endorsement is completed.

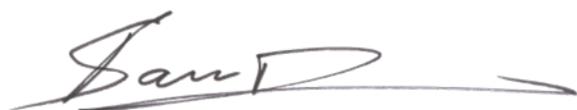
<u>Additional question from the Draft comment letter by the EFRAG dated 23 April 2020 Re: Exposure Draft ED/2020/1 Interest Rate Benchmark Reform—Phase 2</u>

Paragraph 92: Question to constituents re the level of details required in paragraph 24J(b) of IFRS 7

We do not agree to the position as set out by EFRAG. We are in agreement with the objectives of paragraph 24I. However, we do not support generic mandatory disclosure requirements due to potentially undue cost for the preparer and the limited added value for the user of the information. As such we suggest to replace the word "shall" in paragraph 24J with wording such as used in IFRS 7 paragraph B53 "To meet the objective in paragraph 24I an entity may need to supplement them with the additional (qualitative) disclosures."

If you have any questions please do not hesitate to contact me.

Yours sincerely,



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Chairman DASB