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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