Mr. Hans Hoogervorst
IASB Chair
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Canary Wharf
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United Kingdom

Mr. Jean-Paul Gauzès
President of the EFRAG Board
EFRAG
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Submitted via the website

Brussels, 20 May 2020

Subject: ED Interest Rate Benchmark Reform (Phase 2) and EFRAG's Draft Comment Letter thereon

Dear Mr. Hoogervorst, Mr. Gauzès,

We are pleased to respond to the IASB's Exposure Draft (ED) concerning Interest Rate Benchmark Reform (Phase 2) and EFRAG's Draft Comment Letter thereon.

Accountancy Europe generally supports the proposals outlined in the ED.

We however would like to flag the following topic related to the measurement of the fair value attributable to the interest rate of a fixed rate debt instrument hedged by an interest rate that is affected by the benchmark reform.

We believe that paragraph §6.9.11(b) of the ED, which explains how the hedged item should be measured under a fair value hedge, and its Basis for Conclusions (BC61-63) are unclear and that the IASB should clarify how such principle is intended to be applied:

- Some understand this paragraph as requiring to recognize a day one gain or loss as a result of amending the derivative by measuring the hedged item **by changing only the alternative benchmark rate without adjusting the methodology to measure the hedged item**, as inferred by BC61. Any change in the discount yield curve will therefore lead to an immediate gain or loss on the hedged item.

- Others understand this paragraph as requiring to recognize a day one gain or loss as a result of amending the derivative by measuring the hedged item **by changing the alternative benchmark rate and by adjusting the methodology to measure the hedged item**, as if the alternative benchmark had always been the designated hedged risk since inception. This methodology may not always be operational, and also leads to the recognition of an immediate gain or loss.

Accountancy Europe thinks that IFRS 9 & IAS 39 should not lead to the recognition of an immediate gain or loss as a result of the derivative being amended to the new benchmark rate considering that any changes to the documentation of the hedged risk should in principle lead to the discontinuation of the hedge and can only have prospective effects. We agree with the IASB to provide a practical expedient so that the hedge is not discontinued. We however suggest that the fair value attributable to the hedged risk, once the derivative is amended, is recalibrated such that it equals the fair value attributable to the previous benchmark rate just before the derivative's amendment. This would prevent any basis adjustment of the hedged item. We point out that paragraph §6.9.11(b) of the ED and its Basis for Conclusions (BC61-63) may suggest otherwise.

Please do not hesitate to contact Ben Renier (Ben@accountancyeurope.eu) in case of any additional questions or remarks.

Sincerely,

Olivier Boutellis-Taft
Chief Executive

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