

# Invitation to Comment:

## Draft Endorsement Criteria Assessment: *Interest Rate Benchmark Reform—Phase 2* (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

Deadline for completion of this Invitation to Comment

Close of business Monday 28 September 2020.

Please submit to: [IBOR2@frc.org.uk](mailto:IBOR2@frc.org.uk)

### Introduction

The objective of this Invitation to Comment is to obtain input from stakeholders on the endorsement and adoption of the IASB's amendment *Interest Rate Benchmark Reform—Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)* (the Amendments) in the UK.

### Interaction with EU endorsement and adoption process

The UK leaves the EU at the end of the Transition Period on 31 December 2020.

Until the end of the Transition Period, the European Commission will continue to endorse IFRS for use in the UK.

If the EU **endorses** the Amendments before the end of the Transition Period, UK companies will be able to apply them as EU law will still apply.

If the EU **does not endorse** the Amendments before the end of the Transition Period, UK companies will be required to apply the UK-adopted Amendments. Due to the uncertainty in timing of EU adoption of the Amendments, work is being undertaken to ensure the UK is ready to undertake adoption, in early January 2021, if necessary.

### UK endorsement and adoption process

At the end of the Transition Period, UK-adopted international accounting standards will consist of all international accounting standards already adopted in the EU. New and amended standards, not already adopted in the EU will be endorsed and adopted by the UK Endorsement Board.

The requirements for UK endorsement and adoption are set out in the Statutory Instrument 2019/685<sup>1</sup>.

<sup>1</sup> The International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019: <https://www.legislation.gov.uk/ukSI/2019/685/made>

The Endorsement Board is currently being established and will be responsible for endorsing and adopting IFRS for use in the UK after the end of the Transition Period. The Endorsement Board will also be responsible for influencing the future direction of IFRS.<sup>2</sup>

During the establishment of the Endorsement Board, the staff are undertaking endorsement activities with the support of FRC infrastructure and resource.<sup>3</sup> The Secretary of State for BEIS will endorse and adopt IFRS from the end of the Transition Period until the Endorsement Board is ready to take on its functions and they have been delegated. The intention is to delegate the functions and powers in early 2021.

The information collected from this Invitation to Comment is intended to help with the endorsement assessment. This will form part of the work necessary for potential UK endorsement and adoption of the Amendments.

### Who should respond to this Invitation to Comment?

Organisations that prepare accounts using IFRS and are incorporated in the UK as they could be impacted by the timing of the endorsement and adoption of the Amendments.

We estimate it will take no more than 10 minutes to complete.

### Privacy and other policies

The data collected through submitting this Invitation to Comment will be stored and processed by the FRC/EB. By submitting this Invitation to Comment, you consent to the FRC/EB processing your data for the purposes of endorsing and adopting the IASB's Amendments for use in the UK. For further information, please see our Privacy Statements and Notices<sup>4</sup> and other Policies (e.g. Consultation Responses Policy, Data Protection Policy and Freedom of Information Policy)<sup>5</sup>.

The FRC's policy is to publish on its website all responses to formal consultations issued by the FRC unless the respondent explicitly requests otherwise. A standard confidentiality statement in an e-mail message will not be regarded as a request for non-disclosure. The FRC does not edit personal information (such as telephone numbers or postal or e-mail addresses) from submissions; therefore, only information that you wish to be published should be submitted.

### Part A: Your details

#### 1. Your details:

|               |   |
|---------------|---|
| Name          | Jessica Taurae & Frances Hinden(Co-Chairs)          |
| Email address | jessica.taurae@uk.pwc.com, frances.hinden@shell.com |

<sup>2</sup> For more information on the UK Endorsement Board, please see <https://www.gov.uk/government/groups/uk-endorsement-board-ukeb#contents>

<sup>3</sup> For more information on the Endorsement Board's interaction with the FRC, please see <https://www.frc.org.uk/endorsement-of-ias>

<sup>4</sup> These can be accessed here: <https://www.frc.org.uk/about-the-frc/procedures-and-policies/privacy-the-frc>

<sup>5</sup> These policies can be accessed here: <https://www.frc.org.uk/about-the-frc/frc-operational-policies>

|              |  |
|--------------|--|
| Organisation | <p>Accounting Task Force of the Working Group on Sterling Risk-Free Reference Rates</p> <p>Please note the views expressed in these responses are that of the Task Force on behalf of the Working Group on Sterling Risk-Free Reference Rates and are not necessarily endorsed by the Bank of England (including the PRA) or the FCA nor the firms they represent.</p> |
|--------------|--|

2. Is your organisation (please select the appropriate box): N/A

|                     |                          |
|---------------------|--------------------------|
| A UK listed company | <input type="checkbox"/> |
| An AIM company      | <input type="checkbox"/> |
| An unlisted company | <input type="checkbox"/> |

**Part B: Assessment against technical criteria**

Our initial assessment concludes that:

- the Amendments meet the criterion of relevance, reliability, comparability and understandability required of the financial information needed for making economic decisions and assessing the stewardship of management, as required by SI 2019/685 (see Regulation 7(1)(c)); and
- application of the Amendments are not contrary to the principle that an entity’s accounts/consolidated accounts must give a true and fair view as required by SI 2019/685 (see Regulation 7(1)(a)).

See sections:

- Section 2: Technical criteria assessment
- Section 3: Key financial reporting issues addressed by the Amendments
- Section 4: Assessment against technical criteria
- Section 5: True and fair view

3. Do you agree with this assessment? (please select one option)

|            |                                     |           |                          |
|------------|-------------------------------------|-----------|--------------------------|
| <b>Yes</b> | <input checked="" type="checkbox"/> | <b>No</b> | <input type="checkbox"/> |
|------------|-------------------------------------|-----------|--------------------------|

4. Please include any comments you may have in response to question 3:

The Task Force agrees. The Amendments are needed to avoid the discontinuation of hedge accounting relationships solely due to the impacts of the Interest Rate Benchmark Reform, to properly account for modifications of financial instruments and lease contracts accounted for under IFRS and to deal with the implications on hedge accounting arising from the reform.

In addition, the Task Force is of the view that it is important the Amendments are endorsed as quickly as possible (noting that prior to end-2020 this is within the remit of the European

Commission) so that complexities associated with endorsing after year-end do not arise and the Amendments are in place before the 2020 reporting deadlines.

### Part C: Assessment against UK long term public good

Our initial assessment concludes that the Amendments:

- will generally improve financial reporting when compared to the unamended requirements of IFRS 9 and IAS 39;
- will lead to benefits that exceed the costs; and
- are not likely to have an adverse effect on the economy of the UK, including on economic growth.

Overall, we conclude that the Amendments are likely to be conducive to the long term public good in the UK as required by SI 2019/685 (see Regulation 7(1)(b)); and

See Section 6: UK long term public good

5. Do you agree with this assessment? (please select one option)

|            |                                     |           |                          |
|------------|-------------------------------------|-----------|--------------------------|
| <b>Yes</b> | <input checked="" type="checkbox"/> | <b>No</b> | <input type="checkbox"/> |
|------------|-------------------------------------|-----------|--------------------------|

6. Please include any comments you may have in response to question 5:

The Task Force notes that the Amendments are designed to reflect the economic effects when transitioning to an alternative benchmark rate and to ensure continuity of existing hedge accounting relationships and therefore provide short-term exceptions from the normal IFRS requirements. Without application of the Amendments, replacing existing benchmark rates would result in adjustments to carrying amounts of items that would have to apply modification accounting. As a result, entities may encounter volatility in profit or loss, from failing hedge accounting relationships or the inability to designate new hedge accounting relationships. The Task Force is of the view that these effects do not result in useful information. Applying the Amendments will address these issues. The Task Force has therefore concluded that the Amendments will improve the quality of financial reporting.

## Thank you for completing this Invitation to Comment