International Financial Reporting Standard

Interest Rate Benchmark Reform

September 2019

BASES FOR CONCLUSIONS – AMENDMENTS

[IFRS 9, IAS 39 and IFRS 7]

[Related to AASB 2019-3]

Amendments to the Basis for Conclusions on IFRS 9 *Financial Instruments*

This Basis for Conclusions accompanies, but is not part, of IFRS 9.

After paragraph BC6.545, new headings and paragraphs BC6.546–BC6.603 are added.

Hedge accounting (Chapter 6)

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Amendments for Interest Rate Benchmark Reform (September 2019)

BC6.546 Interest rate benchmarks such as interbank offered rates (IBORs) play an important role in global financial markets. These interest rate benchmarks index trillions of dollars and other currencies in a wide variety of financial products, from derivatives to residential mortgages. However, cases of attempted market manipulation of some interest rate benchmarks, together with the post-crisis decline in liquidity in interbank unsecured funding markets, have undermined confidence in the reliability and robustness of some interest rate benchmarks. Against this background, the G20 asked the Financial Stability Board (FSB) to undertake a fundamental review of major interest rate benchmarks. Following the review, the FSB published a report setting out its recommended reforms of some major interest rate benchmarks such as IBORs. Public authorities in many jurisdictions have since taken steps to implement those recommendations. In some jurisdictions, there is already clear progress towards the reform of interest rate benchmarks, or the replacement of interest rate benchmarks with alternative, nearly risk-free interest rates that are based, to a greater extent, on transaction data (alternative benchmark rates). This has in turn led to uncertainty about the long-term viability of some interest rate benchmarks. In these amendments, the term 'interest rate benchmark reform' refers to the market-wide reform of an interest rate benchmark including its replacement with an alternative benchmark rate, such as that resulting from the FSB's recommendations set out in its July 2014 report 'Reforming Major Interest Rate Benchmarks' (the reform).[3]

BC6.547 In 2018 the IASB noted the increasing levels of uncertainty about the long-term viability of some interest rate benchmarks and decided to address as a priority the issues affecting financial reporting in the period before the reform (referred to as pre-replacement issues).

BC6.548 As part of the pre-replacement issues, the IASB considered the implications for specific hedge accounting requirements in IFRS 9 and IAS 39, which require forward-looking analysis. As a result of the reform, contractual cash flows of hedged items and hedging instruments based on an existing interest rate benchmark will likely change when that interest rate benchmark is subject to

3 The report, 'Reforming Major Interest Rate Benchmarks', is available at http://www.fsb.org/wp-content/uploads/r_140722.pdf.

the reform—in these amendments, contractual cash flows encompass both contractually specified and non-contractually specified cash flows. The same uncertainty arising from the reform regarding the timing and the amount of future cash flows will likely affect the changes in fair value of hedged items and hedging instruments in a fair value hedge of the interest rate benchmark exposure. Until decisions are made about what the alternative benchmark rate is, and when and how the reform will occur, including specifying its effects on particular contracts, uncertainties will exist regarding the timing and the amount of future cash flows of the hedged item and the hedging instrument.

BC6.549 The IASB noted that the hedge accounting requirements in IFRS 9 and IAS 39 provide a clear basis for accounting for such uncertainties. In applying these requirements, the uncertainties about the timing and the amount of future cash flows could affect an entity's ability to meet those specific forward-looking hedge accounting requirements in the period when uncertainty is created by the reform. In some cases, solely due to such uncertainties, entities could be required to discontinue hedge accounting for hedging relationships that would otherwise qualify for hedge accounting. Also, because of the uncertainties arising from the reform, entities may not be able to designate new hedging relationships that would otherwise qualify for hedge accounting applying IFRS 9 and IAS 39. In some cases, discontinuation of hedge accounting would require an entity to recognise gains or losses in profit or loss.

BC6.550 In the IASB's view, discontinuation of hedge accounting solely due to such uncertainties before the reform's economic effects on hedged items and hedging instruments are known would not provide useful information to users of financial statements. Therefore, the IASB decided to publish in May 2019 the Exposure Draft *Interest Rate Benchmark Reform* (2019 Exposure Draft), which proposed exceptions to IFRS 9 and IAS 39 to provide relief during this period of uncertainty.

BC6.551 The 2019 Exposure Draft proposed exceptions to specific hedge accounting requirements such that entities would apply those requirements assuming the interest rate benchmark on which the hedged risk and/or cash flows of the hedged item or of the hedging instrument are based is not altered as a result of the reform. The proposed exceptions applied only to the hedge accounting requirements specified in that Exposure Draft and were not intended to provide relief from all consequences arising from the reform.

BC6.552 Almost all respondents to the 2019 Exposure Draft agreed with the IASB's decision to address pre-replacement issues. Many highlighted the urgency of these issues, especially in some jurisdictions where there is already clear progress towards the reform or replacement of interest rate benchmarks with alternative benchmark rates.

BC6.553 In September 2019 the IASB amended IFRS 9, IAS 39 and IFRS 7 by issuing *Interest Rate Benchmark Reform*, which confirmed with modifications the proposals in the 2019 Exposure Draft. In the amendments issued in September 2019, the IASB added paragraphs 6.8.1–6.8.12 and 7.1.8 to IFRS 9 and amended paragraph 7.2.26 of IFRS 9.

BC6.554 The IASB decided to propose amendments to IAS 39 as well as IFRS 9 because when entities first apply IFRS 9, they are permitted to choose as an accounting policy to continue to apply the hedge accounting requirements of IAS 39. The IASB understands that a significant number of IFRS preparers—financial institutions in particular—have made such an accounting policy choice.

Scope of the exceptions

BC6.555 In the 2019 Exposure Draft, the IASB noted that the hedge accounting issues being addressed arise in the context of interest rate benchmark reform, and, therefore, the proposed exceptions would apply only to hedging relationships of interest rate risk that are affected by the reform. However, some respondents expressed the view that the scope of the exceptions, as set out in the 2019 Exposure Draft, would not include other types of hedging relationships that may be affected by uncertainties arising from the reform such as hedging relationships in which an entity designates cross-currency interest rate swaps to hedge its exposure to both foreign currency and interest rate risk. These respondents asked the IASB to clarify whether the scope of the exceptions was meant to include such hedging relationships.

BC6.556 In its redeliberations on the 2019 Exposure Draft, the IASB clarified that it did not intend to exclude from the scope of the amendments hedging relationships in which interest rate risk is not the only designated hedged risk. The IASB agreed with respondents that other hedging relationships could be directly affected by the reform when the reform gives rise to uncertainties about the timing or the amount of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument. Therefore, the IASB confirmed that the exceptions would apply to the interest rate benchmark-based cash flows in these situations. The IASB noted that many derivatives, designated in hedging relationships in which there is no uncertainty about the timing or the amount of interest rate benchmark-based cash flows, could be indirectly affected by the reform. For example, this would be the case when the valuation of the derivatives is affected by general uncertainty in the market caused by the reform. The IASB confirmed that the exceptions do not apply to these hedging relationships, despite the indirect effect the uncertainties arising from the reform could have on the valuation of derivatives.

BC6.557 Consequently, the IASB clarified the wording in paragraph 6.8.1 of IFRS 9 to refer to all hedging relationships that are directly affected by interest rate benchmark reform. Paragraph 6.8.1 of IFRS 9 explains that a hedging relationship is directly affected by interest rate benchmark reform only if the reform gives rise to uncertainties about the interest rate benchmark (contractually or non-contractually specified) designated as a hedged risk and/or the timing or the amount of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument. The scope of the exceptions does not exclude hedging relationships in which interest rate risk is not the only hedged risk.

Highly probable requirement

BC6.558 The IASB noted that, if an entity designates a forecast transaction as the hedged item in a cash flow hedge, applying paragraph 6.3.3 of IFRS 9, that transaction must be highly probable (highly probable requirement). This requirement is intended to ensure that changes in the fair value of designated hedging instruments are recognised in the cash flow hedge reserve only for those hedged forecast transactions that are highly probable to occur. This requirement is an important discipline in applying hedge accounting to forecast transactions. The IASB noted that the requirements in IFRS 9 provide a clear basis to account for the effects of the reform—that is, if the effects of the reform are such that the hedged cash flows are no longer highly probable, hedge accounting should be discontinued. As set out in paragraph BC6.550, in the IASB's view, discontinuing all affected hedging relationships solely due to such uncertainty would not provide useful information to users of financial statements.

BC6.559 Therefore, the IASB amended IFRS 9 to provide an exception to the highly probable requirement that would provide targeted relief during this period of uncertainty. More specifically, applying the exception, if the hedged future cash flows are based on an interest rate benchmark that is subject to the reform, an entity assumes that the interest rate benchmark on which the hedged cash flows are based is not altered when assessing whether the future cash flows are highly probable. If the hedged future cash flows are based on a highly probable forecast transaction, by applying the exception in paragraph 6.8.4 of IFRS 9 when performing the assessment of the highly probable requirement for that forecast transaction, the entity would assume that the interest rate benchmark on which the hedged cash flows are based will not be altered in the future contract as a result of the reform. For example, for a future issuance of a London Interbank Offered Rate (LIBOR)-referenced debt instrument, the entity would assume that the LIBOR benchmark rate on which the hedged cash flows are based will not be altered as a result of the reform.

BC6.560 The IASB noted that this exception does not necessarily result in an entity determining that the hedged cash flows are highly probable. In the example described in paragraph BC6.559, the entity assumed that the interest rate benchmark in the future contract would not be altered as a result of the reform when determining whether that forecast transaction is highly probable. However, if the entity decides not to issue the debt instrument because of uncertainty arising from the reform or for any other reason, the hedged future cash flows are no longer highly probable (and are no longer expected to occur). The exception would not permit or require the entity to assume otherwise. In this case, the entity would conclude that the LIBOR-based cash flows are no longer highly probable (and are no longer expected to occur).

BC6.561 The IASB also included an exception for discontinued hedging relationships. Applying this exception, any amount remaining in the cash flow hedge reserve when a hedging relationship is discontinued would be reclassified to profit or loss in the same period(s) during which the hedged cash flows affect profit or loss, based on the assumption that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the reform. If, however, the hedged future cash flows are no longer expected to occur for other reasons, the entity is required to immediately reclassify to profit or loss any amount remaining in the cash flow hedge reserve. In addition, the exception would not exempt entities from reclassifying the amount that is not expected to be recovered into profit or loss as required by paragraph 6.5.11(d)(iii) of IFRS 9.

Assessment of the economic relationship between the hedged item and the hedging instrument

BC6.562 Applying IFRS 9, a hedging relationship qualifies for hedge accounting only if there is an economic relationship between the hedged item and the hedging instrument.

BC6.563 Demonstrating the existence of an economic relationship requires the estimation of future cash flows because the assessment is prospective in nature. Interest rate benchmark reform could affect this assessment for hedging relationships that may extend beyond the timing of the reform. That is because entities would have to consider possible changes to the fair value or future cash flows of hedged items and hedging instruments to assess whether an economic relationship continues to exist between the hedged item and hedging instrument. Consequently, at some point in time, it is possible that entities would not be able to demonstrate the existence of an economic relationship solely because of uncertainties arising from the reform.

BC6.564 The IASB considered the usefulness of the information that would result from the potential discontinuation of hedge accounting for affected hedging relationships and decided to amend the requirements in IFRS 9 to provide an exception for assessing the economic relationship between the hedged item and the hedging instrument for the same reasons discussed in paragraph BC6.550.

BC6.565 Applying this exception, an entity shall assess whether the economic relationship as required by paragraph 6.4.1(c)(i) of IFRS 9 exists based on the assumption that the hedged risk or the interest rate benchmark on which the hedged item or the hedging instrument is based is not altered as a result of the reform. Similarly, if an entity designates a highly probable forecast transaction as the hedged item, the entity shall perform the assessment based on the assumption that the interest rate benchmark on which the hedged cash flows are based will not change as a result of the reform.

BC6.566 The IASB noted that an offset between the hedged item and the hedging instrument is a fundamental principle of the hedge accounting model in IFRS 9 and, therefore, the IASB considered it critical to maintain this principle. The exception addresses only the uncertainties arising from the reform. Therefore, if an entity is unable to demonstrate the existence of an economic relationship between the hedged item and the hedging instrument for other reasons, the entity shall discontinue hedge accounting as required by IFRS 9.

Measurement of ineffectiveness

BC6.567 The IASB noted that the exceptions were not intended to change the requirement that entities measure and recognise hedge ineffectiveness. The IASB considered that the actual results of the hedging relationships would provide useful information to users of financial statements during the period of uncertainty arising from the reform. Therefore, the IASB decided that entities should continue to measure and recognise hedge ineffectiveness as required by IFRS Standards.

BC6.568 The IASB also considered whether any exceptions should be made to the measurement of hedged items or hedging instruments because of the uncertainty arising from the reform. However, the IASB noted that such an exception would be inconsistent with the decision not to change the requirements to measure and recognise hedge ineffectiveness in the financial statements. Therefore, the IASB decided not to provide an exception from the measurement of hedging instruments and hedged items. This means that the fair value of a derivative designated as the hedging instrument should continue to be measured using the assumptions that market participants would use when pricing that derivative as required by IFRS 13 *Fair Value Measurement*.

BC6.569 For a hedged item designated in a fair value hedge, IFRS 9 requires an entity to remeasure the hedged item for changes in fair value attributable to the hedged risk and recognise the gain or loss related to that fair value hedge adjustment in profit or loss. In doing so, the entity uses the assumptions that market participants would use when pricing the hedged item for changes in fair value attributable to the hedged risk. This would include a risk premium for uncertainty inherent in the hedged risk that market participants would consider. For example, to measure changes in fair value attributable to the hedged risk such as the IBOR component of a fixed-rate loan, an entity needs to reflect the uncertainty caused by the reform. When applying a present value technique to calculate the changes in fair value attributable to the designated risk component, such measurement should reflect market participants' assumptions about the uncertainty arising from the reform.

BC6.570 When an entity designates interest rate benchmark-based cash flows as the hedged item in a cash flow hedge, to calculate the change in the value of the hedged item for the purpose of measuring hedge ineffectiveness, the entity may use a derivative that would have terms that match the critical terms of the designated cash flows and the hedged risk (this is commonly referred to as a 'hypothetical derivative'). As the IASB decided that entities should continue to measure and recognise hedge ineffectiveness as required by IFRS Standards, entities should continue to apply assumptions that are consistent with those applied to the hedged risk of the hedged item. For example, if an entity designated interest rate benchmark-based cash flows as the hedged item in a cash flow hedge, the entity would not assume for the purpose of measuring hedge ineffectiveness that the expected replacement of the interest rate benchmark with an alternative benchmark rate will result in zero cash flows after the replacement. The hedging gain or loss on the hedged item should be measured using the interest rate benchmark-based cash flows (that is, the cash flows on which the hypothetical derivative is based) when applying a present value technique, discounted at a market-based discount rate that reflects market participants' assumptions about the uncertainty arising from the reform. The IASB concluded that reflecting market participants' assumptions when measuring hedge ineffectiveness provides useful information to users of financial statements about the effects of the uncertainty arising from the reform on an entity's hedging relationships. Therefore, the IASB decided that no exceptions are needed for the measurement of actual ineffectiveness.

Hedges of risk components

BC6.571 The IASB noted that in accordance with IFRS 9 an entity may designate an item in its entirety or a component of an item as the hedged item in a hedging relationship. For example, an entity that issues a 5-year floating-rate debt instrument that bears interest at 3-month LIBOR + 1%, could designate as the hedged item either the entire debt instrument (that is, all of the cash flows) or only the 3-month LIBOR risk component of the floating-rate debt instrument. Specifically, paragraph 6.3.7(a) of IFRS 9 allows entities to designate only changes in the cash flows or fair value of an item attributable to a specific risk or risks (risk component) provided that the risk component is separately identifiable and reliably measurable.

BC6.572 The IASB observed that an entity's ability to conclude that an interest rate benchmark is a separately identifiable component in accordance with paragraph 6.3.7(a) of IFRS 9 requires a continuous assessment over the duration of the hedging relationship and could be affected by the reform. For example, if the outcome of the reform affects the market structure of an interest rate benchmark, it could affect an entity's assessment of whether a non-contractually specified LIBOR component is separately identifiable and, therefore, an eligible hedged item in a hedging relationship. The IASB considered only risk components that are implicit in the fair value or the cash flows of an item of which they are a part (referred to as non-contractually specified) because the same issue does not arise for risk components that are explicitly specified in the contract.

BC6.573 For the reasons outlined in paragraph BC6.550, the IASB noted that discontinuing hedging relationships due to uncertainty arising from the reform would not provide useful information. Consequently, the IASB decided to propose amending IFRS 9 so that entities would not discontinue hedge accounting solely because the risk component is no longer separately identifiable as a result of the reform. In the 2019 Exposure Draft, the IASB proposed that the separately identifiable requirement for hedges of the benchmark component of interest rate risk be applied only at the inception of those hedging relationships affected by the reform.

BC6.574 The IASB proposed not to extend the relief to allow entities to designate the benchmark component of interest rate risk as the hedged item in a new hedging relationship if the risk component is not separately identifiable at the inception of the hedging relationship. In the IASB's view, allowing hedge accounting for risk components that are not separately identifiable at the inception would be inconsistent with the objective of the exception. The IASB noted that such circumstances are different from allowing continued designation as the hedged item for risk components that had met the requirement at the inception of the hedging relationship.

BC6.575 Furthermore, the IASB did not propose any exception from the requirement that changes in the fair value or cash flows of the risk component must be reliably measurable. As noted in paragraph BC6.566, in the IASB's view, an offset between the hedged item and the hedging instrument is a fundamental principle of the hedge accounting model in IFRS 9 and, therefore, the IASB considered reliable measurement of the hedged item and the hedging instrument to be critical to maintain this principle.

BC6.576 Almost all respondents agreed with the exception proposed in the 2019 Exposure Draft to apply the separately identifiable requirement only at the inception of a hedging relationship. However, some respondents noted that the proposed exception did not provide equivalent relief to hedging relationships that frequently reset (ie discontinue and restart). In those hedging relationships both the hedging instrument and the hedged item frequently change (ie the entity uses a dynamic process in which both the hedged items and the hedging instruments used to manage that exposure do not remain the same for long). As hedging instruments and hedged items are being added or removed from a portfolio, entities are de-designating and redesignating hedging relationships regularly to adjust the exposure. If each redesignation of the hedging relationship is considered to be the inception of a new hedging relationship (even though it is still the same hedging strategy), then the separately identifiable requirement would need to be assessed for all hedged items at each redesignation even if they have been assessed previously. For the same reasons as those noted in paragraph BC6.572, this could affect an entity's ability to conclude that a non-contractually specified risk component remains separately identifiable and, therefore, an eligible hedged item for hedge accounting purposes.

BC6.577 The IASB noted that the exception proposed in the 2019 Exposure Draft has the effect that if a non-contractually specified risk component meets the separately identifiable requirement at the inception of a hedging relationship, then that requirement would not be reassessed subsequently. Hence, providing a similar exception for hedging relationships that frequently reset (ie discontinue and restart) would be consistent with the objective of the exception originally provided in the 2019 Exposure Draft.

BC6.578 Thus, the IASB confirmed the proposal that a risk component is only required to be separately identifiable at the inception of the hedging relationship. In addition, to respond to the feedback described in paragraph BC6.576, the IASB added the exception in paragraph 6.8.8 of IFRS 9 for hedging relationships that, consistent with an entity's hedge documentation, frequently reset (ie discontinue and restart) because both the hedging instrument and the hedged item frequently change. Applying that paragraph, an entity shall determine whether the risk component is separately identifiable only when it initially designates an item as a hedged item in the hedging relationship. The hedged item is not reassessed at any subsequent redesignation in the same hedging relationship.

BC6.579 In reaching its decision for the exception in paragraph 6.8.8 of IFRS 9 the IASB considered an example where an entity uses a dynamic process to manage interest rate risk as discussed in paragraph B6.5.24(b) of IFRS 9 and designates the LIBOR risk component of floating-rate loans as the hedged risk. At the inception of the relationship, the entity assesses whether LIBOR is a separately identifiable risk component for all loans designated within the hedging relationship. As the entity updates the risk position with the origination of new loans and the maturity or repayment of existing loans, the hedging relationship is adjusted by de-designating the 'old' hedging relationship and redesignating a 'new' hedging relationship for the updated amount of the hedged items. Applying the exception in paragraph 6.8.8 of IFRS 9 requires the entity to assess whether LIBOR is a separately identifiable risk component only for the new loans added to the hedging relationship. The entity would not reassess the separately identifiable requirement for the loans that have been redesignated.

Mandatory application

BC6.580 The IASB decided to require entities to apply the exceptions in Section 6.8 of IFRS 9 to all hedging relationships to which the exceptions are applicable. In other words, the IASB decided that an entity is required to apply the exceptions to all hedging relationships that are directly affected by the uncertainties arising from the reform and continue to apply the exceptions until required to cease their application as specified in paragraphs 6.8.9–6.8.12 of IFRS 9.

BC6.581 The IASB considered but rejected alternatives that would have allowed entities to apply the exceptions voluntarily. In the IASB's view, voluntary application of these exceptions could give rise to selective discontinuation of hedge accounting and selective reclassification of the amounts recorded in other comprehensive income related to previously discontinued hedging relationships. The IASB does not expect that requiring entities to apply the exceptions would entail significant cost for preparers and other affected parties because the exceptions require entities to assume that the interest rate benchmark, on which the hedged risk and the hedged cash flows, and cash flows of the hedging instrument are based, is not altered as a result of the reform.

BC6.582 In addition, the IASB observed that in some circumstances, the exceptions in Section 6.8 of IFRS 9 may not be applicable. For example, for a particular interest rate benchmark not subject to the reform or replacement with an alternative benchmark rate, there is no uncertainty affecting the timing or the amount of the interest rate benchmark-based cash flows arising from a hedged item or a hedging instrument. The exceptions set out in Section 6.8 of IFRS 9 would not be applicable to such a hedging relationship.

BC6.583 Furthermore, for a particular hedging relationship the exceptions may be applicable to some but not all aspects of the hedging relationship. For example, if an entity designates a hedged item that is based on LIBOR against a hedging instrument that is already referenced to an alternative benchmark rate (assuming the entity can demonstrate that hedging relationship meets the qualifying criteria for hedge accounting in IFRS 9), the exceptions in paragraphs 6.8.4 and 6.8.6 of IFRS 9 would apply for the hedged item because there is uncertainty related to its future cash flows. However, there is no uncertainty regarding how the reform would impact the cash flows of the hedging instrument and, therefore, the exception in paragraph 6.8.6 of IFRS 9 is not applicable for the hedging instrument. Similarly, the exception applicable to non-contractually specified components would not be relevant for hedging relationships that do not involve the designation of non-contractually specified risk components.

End of application

BC6.584 As described in paragraph BC6.550, the IASB decided to amend IFRS 9 to address specific aspects of hedge accounting affected by uncertainties in relation to the hedged items and hedging instruments about when the interest rate benchmarks will change to alternative benchmark rates, when any spread adjustment between the interest rate benchmark and the alternative benchmark rate will be determined (collectively, timing) and what the cash flows based on the alternative benchmark rate will be, including their frequency of reset, and any spread adjustment between the interest rate benchmark and the alternative benchmark rate (collectively, amount). Therefore, the IASB intended the exceptions set out in Section 6.8 of IFRS 9 to be available only while these uncertainties are present.

BC6.585 The IASB considered whether to provide an explicit end date for the exceptions but decided not to do so. The reform is following different timelines in different markets and jurisdictions and contracts are being modified at different times and, therefore, at this stage, it is not possible to define a period of applicability for the exceptions.

BC6.586 The IASB decided that an entity ceases applying the exceptions at the earlier of (a) when the uncertainty regarding the timing and the amount of interest rate benchmark-based cash flows is no longer present as it relates to a hedged item and/or hedging instrument (depending on the particular exception) and (b) the discontinuation of the hedging relationship.[4] The exceptions require entities to apply specific hedge accounting requirements assuming the interest rate benchmark on which the hedged risk, hedged cash flows or the cash flows of the hedging instrument are based is not altered as a result of the reform. The end of applicability of the exceptions means that entities would from that date apply all hedge accounting requirements in IFRS 9 without applying these exceptions.

4 For the purpose of applying the exception in paragraph 6.8.5 of IFRS 9 to a discontinued hedging relationship, the amendments require an entity to cease applying the exception at the earlier of (a) as described above and (b) when the entire amount accumulated in the cash flow hedge reserve with respect to the hedging relationship has been reclassified to profit or loss. See paragraph 6.8.10 of IFRS 9.

BC6.587 In the IASB's view, for uncertainty regarding the timing and the amount of cash flows arising from a change in an interest rate benchmark to be eliminated, the underlying contracts are generally required to be amended to specify the timing and the amount of cash flows based on the alternative benchmark rate (and any spread adjustment between the interest rate benchmark and the alternative benchmark rate). The IASB noted that, in some cases, a contract may be amended to include reference to the alternative benchmark rate without actually altering the interest rate benchmark-based cash flows in the contract. Such an amendment may not eliminate the uncertainty regarding the timing and the amount of interest rate benchmark-based cash flows in the contract. The IASB considered the following scenarios to assess the robustness of the end of application requirements. However, these scenarios are not exhaustive and other scenarios may exist in which the uncertainties arising from the reform regarding the timing and the amount of cash flows would no longer be present.

BC6.588 Scenario A—a contract is amended to include a clause that specifies (a) the date the interest rate benchmark will be replaced by an alternative benchmark rate and (b) the alternative benchmark rate on which the cash flows will be based and the relevant spread adjustment between the interest rate benchmark and the alternative benchmark rate. In this case, the uncertainty regarding the timing and the amount of cash flows for this contract is eliminated when the contract is amended to include this clause.

BC6.589 Scenario B—a contract is amended to include a clause that states modifications of contractual cash flows will occur due to the reform but that specifies neither the date that the interest rate benchmark will be replaced nor the alternative benchmark rate on which the amended cash flows will be based. In this case, the uncertainty regarding the timing and the amount of cash flows for this contract has not been eliminated by amending the contract to include this clause.

BC6.590 Scenario C—a contract is amended to include a clause which states that conditions specifying the amount and timing of interest rate benchmark-based cash flows will be determined by a central authority at some point in the future. But the clause does not specify those conditions. In this case, the uncertainty regarding the timing and the amount of the interest rate benchmark-based cash flows for this contract has not been eliminated by including this clause in the contract. Uncertainty regarding both the timing and the amount of cash flows for this contract will be present until the central authority specifies when the replacement of the benchmark will become effective, and what the alternative benchmark rate and any related spread adjustment will be.

BC6.591 Scenario D—a contract is amended to include a clause in anticipation of the reform that specifies the date the interest rate benchmark will be replaced and any spread adjustment between the interest rate benchmark and the alternative benchmark rate will be determined. However, the amendment does not specify the alternative benchmark rate, or the spread adjustment between the interest rate benchmark and the alternative benchmark rate, on which the cash flows will be based. In this scenario, by amending the contract to include this clause, uncertainty regarding the timing has been eliminated but uncertainty about the amount remains.

BC6.592 Scenario E—a contract is amended to include a clause in anticipation of the reform that specifies the alternative benchmark rate on which the cash flows will be based and the spread adjustment between the interest rate benchmark and the alternative benchmark rate, but does not specify the date from which the amendment to the contract will become effective. In this scenario, by amending the contract to include this clause, uncertainty about the amount has been eliminated but uncertainty with respect to timing remains.

BC6.593 Scenario F—in preparation for the reform, a central authority in its capacity as the administrator of an interest rate benchmark undertakes a multi-step process to replace an interest rate benchmark with an alternative benchmark rate. The objective of the reform is to cease the publication of the current interest rate benchmark and replace it with an alternative benchmark rate. As part of the reform, the administrator introduces an interim benchmark rate and determines a fixed spread adjustment based on the difference between the interim benchmark rate and the current interest rate benchmark. Uncertainty about the timing or the amount of the alternative benchmark rate-based cash flows will not be eliminated during the interim period because the interim benchmark rate (including the fixed spread adjustment determined by the administrator) represent an interim measure in progressing towards the reform but it does not represent the alternative benchmark rate (or any related spread adjustment agreed between parties to the contract).

BC6.594 For reasons similar to those described in paragraph BC6.583, the IASB noted that there could be situations in which the uncertainty for particular elements of a single hedging relationship could end at different times. For example, assume an entity is required to apply the relevant exceptions to both the hedged item and the hedging instrument. If the hedging instrument in that hedging relationship is subsequently amended through market protocols covering all derivatives in that market, and will be based on an alternative benchmark rate such that the uncertainty about the timing and the amount of interest rate benchmark-based cash flows of the hedging instrument is eliminated, the relevant exceptions would continue to apply to the hedged item but would no longer apply to the hedging instrument.[5]

BC6.595 The IASB observed that continuing to apply the exception after the uncertainty was resolved would not faithfully represent the actual characteristics of the elements of the hedging relationship in which the uncertainty arising from the reform is eliminated. The IASB considered whether it should extend the relief provided such that the exceptions would apply at the hedging relationship level for as long as any element of that hedging relationship was affected by the uncertainties arising from the reform. The IASB agreed that doing so would be beyond the objective of addressing only those issues directly affected by the uncertainty arising from

5 In this scenario, the entity would first consider the accounting consequences of amending the contractual terms of the hedging instrument. The IASB will consider the accounting consequences of the actual amendment of financial instruments as a result of interest rate benchmark reform in the next phase of this project (ie the replacement phase).

the reform. This is also because the exceptions in paragraphs 6.8.4–6.8.12 of IFRS 9 and the respective requirements in IFRS 9 apply to the same elements of the hedging relationship. Therefore, applying each exception at the hedging relationship level would be inconsistent with how the underlying requirements are applied.

BC6.596 The IASB decided that the end of application requirement would also apply to hedges of a forecast transaction. The IASB noted that IFRS 9 requires an entity to identify and document a forecast transaction with sufficient specificity so that, when the transaction occurs, the entity is able to determine whether the transaction is the hedged transaction. For example, if an entity designates a future issuance of a LIBOR-based debt instrument as the hedged item, although there may be no contract at the time of designation, the hedge documentation would refer specifically to LIBOR. Consequently, the IASB concluded that entities should be able to identify when the uncertainty regarding the timing and the amount of the resulting cash flows of a forecast transaction is no longer present.

BC6.597 In addition, the IASB decided not to require end of application with respect to the exception for the separately identifiable requirements set out in paragraphs 6.8.7 and 6.8.8 of IFRS 9. Applying these exceptions, entities would continue applying hedge accounting when an interest rate benchmark meets the separately identifiable requirement at the inception of the hedging relationship (assuming all other hedge accounting requirements continue to be met). If the IASB included an end date for these exceptions, an entity may be required to immediately discontinue hedge accounting because, at some point, as the reform progresses, the component based on the interest rate benchmark may no longer be separately identifiable (for example, as the market for the alternative benchmark rate is established). Such immediate discontinuation of hedge accounting would be inconsistent with the objective of the exception. The IASB noted that linking the end of application for these exceptions to contract amendments would not achieve the IASB's intention either because, by definition, non-contractually specified risk components are not explicitly stated in a contract and, therefore, these contracts may not be amended for the reform. This is particularly relevant for fair value hedges of a fixed-rate debt instrument. Therefore, the IASB decided that an entity should cease applying the exceptions to a hedging relationship only when the hedging relationship is discontinued applying IFRS 9.

BC6.598 Some respondents to the 2019 Exposure Draft noted that the IASB had not addressed when an entity ceases applying the proposed exceptions to a group of items designated as the hedged item or a combination of financial instruments designated as the hedging instrument. Specifically, when assessing whether the uncertainty arising from the reform is no longer present, these respondents asked whether that assessment should be performed on an individual basis (that is, for each individual item within the group or financial instrument within the combination) or on a group basis (that is, for all items in the group or all financial instruments in the combination until there is no uncertainty surrounding any of the items or financial instruments).

BC6.599 Consequently, the IASB decided to add paragraph 6.8.12 of IFRS 9 to clarify that, when designating a group of items as the hedged item or a combination of financial instruments as the hedging instrument, entities assess when the uncertainty arising from the reform with respect to the hedged risk and/or the timing and amount of the interest rate benchmark-based cash flows of that item or financial instrument is no longer present on an individual basis—that is, for each individual item in the group or financial instrument in the combination.

Effective date and transition

BC6.600 The IASB decided that entities shall apply the amendments for annual periods beginning on or after 1 January 2020, with earlier application permitted.

BC6.601 The IASB decided that the amendments apply retrospectively. The IASB highlighted that retrospective application of the amendments would not allow reinstating hedge accounting that has already been discontinued. Nor would it allow designation in hindsight. If an entity had not designated a hedging relationship, the exceptions, even though applied retrospectively, would not allow the entity to apply hedge accounting in prior periods to items that were not designated for hedge accounting. Doing so would be inconsistent with the requirement that hedge accounting applies prospectively. Retrospective application of the exceptions would enable entities to continue hedge accounting for a hedging relationship that the entity had previously designated and that qualifies for hedge accounting applying IFRS 9.

BC6.602 Many respondents to the 2019 Exposure Draft commented on the clarity of the proposed retrospective application and suggested that further explanation be provided in the Standard. Consequently, the IASB amended the transition paragraph to specify that retrospective application applies only to those hedging relationships that existed at the beginning of the reporting period in which an entity first applies those requirements or were designated thereafter, and to the amount accumulated in the cash flow hedge reserve that existed at the beginning of the reporting period in which an entity first applies those requirements. The IASB used this wording to permit an entity to apply the amendments from the beginning of the reporting period in which an entity first applies these amendments even if the reporting period is not an annual period.

BC6.603 The IASB noted that these amendments would also apply to entities adopting IFRS Standards for the first time as required by IFRS 1 *First-time Adoption of International Financial Reporting Standards*. Accordingly, the IASB did not provide specific transition provisions for those entities.

Amendments to the Basis for Conclusions on IAS 39 *Financial Instruments: Recognition and Measurement*

This Basis for Conclusions accompanies, but is not part of, IAS 39.

After paragraph BC222, new headings and paragraphs BC223–BC288 are added.

Hedging

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Amendments for Interest Rate Benchmark Reform (September 2019)

BC223 Interest rate benchmarks such as interbank offered rates (IBORs) play an important role in global financial markets. These interest rate benchmarks index trillions of dollars and other currencies in a wide variety of financial products, from derivatives to residential mortgages. However, cases of attempted market manipulation of some interest rate benchmarks, together with the post-crisis decline in liquidity in interbank unsecured funding markets, have undermined confidence in the reliability and robustness of some interest rate benchmarks. Against this background, the G20 asked the Financial Stability Board (FSB) to undertake a fundamental review of major interest rate benchmarks. Following the review, the FSB published a report setting out its recommended reforms of some major interest rate benchmarks such as IBORs. Public authorities in many jurisdictions have since taken steps to implement those recommendations. In some jurisdictions, there is already clear progress towards the reform of interest rate benchmarks, or the replacement of interest rate benchmarks with alternative, nearly risk-free interest rates that are based, to a greater extent, on transaction data (alternative benchmark rates). This has in turn led to uncertainty about the long-term viability of some interest rate benchmarks. In these amendments, the term 'interest rate benchmark reform' refers to the market-wide reform of an interest rate benchmark including its replacement with an alternative benchmark rate, such as that resulting from the FSB's recommendations set out in its July 2014 report 'Reforming Major Interest Rate Benchmarks' (the reform).[6]

BC224 In 2018 the Board noted the increasing levels of uncertainty about the long-term viability of some interest rate benchmarks and decided to address as a priority the issues affecting financial reporting in the period before the reform (referred to as pre-replacement issues).

BC225 As part of the pre-replacement issues, the Board considered the implications for specific hedge accounting requirements in IFRS 9 and IAS 39, which require forward-looking analysis. As a result of the reform, contractual cash flows of hedged items and hedging instruments based on an existing interest rate benchmark will likely change when that interest rate benchmark is

6 The report, 'Reforming Major Interest Rate Benchmarks', is available at http://www.fsb.org/wp-content/uploads/r_140722.pdf.

subject to the reform—in these amendments, contractual cash flows encompass both contractually specified and non-contractually specified cash flows. The same uncertainty arising from the reform regarding the timing and the amount of future cash flows will likely affect the changes in fair value of hedged items and hedging instruments in a fair value hedge of the interest rate benchmark exposure. Until decisions are made about what the alternative benchmark rate is, and when and how the reform will occur, including specifying its effects on particular contracts, uncertainties will exist regarding the timing and the amount of future cash flows of the hedged item and the hedging instrument.

BC226 The Board noted that the hedge accounting requirements in IFRS 9 and IAS 39 provide a clear basis for accounting for such uncertainties. In applying these requirements, the uncertainties about the timing and the amount of future cash flows could affect an entity's ability to meet those specific forward-looking hedge accounting requirements in the period when uncertainty is created by the reform. In some cases, solely due to such uncertainties, entities could be required to discontinue hedge accounting for hedging relationships that would otherwise qualify for hedge accounting. Also, because of the uncertainties arising from the reform, entities may not be able to designate new hedging relationships that would otherwise qualify for hedge accounting applying IFRS 9 and IAS 39. In some cases, discontinuation of hedge accounting would require an entity to recognise gains or losses in profit or loss.

BC227 In the Board's view, discontinuation of hedge accounting solely due to such uncertainties before the reform's economic effects on hedged items and hedging instruments are known would not provide useful information to users of financial statements. Therefore, the Board decided to publish in May 2019 the Exposure Draft *Interest Rate Benchmark Reform* (2019 Exposure Draft), which proposed exceptions to IFRS 9 and IAS 39 to provide relief during this period of uncertainty.

BC228 The 2019 Exposure Draft proposed exceptions to specific hedge accounting requirements such that entities would apply those requirements assuming the interest rate benchmark on which the hedged risk and/or cash flows of the hedged item or of the hedging instrument are based is not altered as a result of the reform. The proposed exceptions applied only to the hedge accounting requirements specified in that Exposure Draft and were not intended to provide relief from all consequences arising from the reform.

BC229 Almost all respondents to the 2019 Exposure Draft agreed with the Board's decision to address pre-replacement issues. Many highlighted the urgency of these issues, especially in some jurisdictions where there is already clear progress towards the reform or replacement of interest rate benchmarks with alternative benchmark rates.

BC230 In September 2019 the Board amended IFRS 9, IAS 39 and IFRS 7 by issuing *Interest Rate Benchmark Reform*, which confirmed with modifications the proposals in the 2019 Exposure Draft. In the amendments issued in September 2019, the Board added paragraphs 102A–102N and 108G to IAS 39.

BC231 The Board decided to propose amendments to IAS 39 as well as IFRS 9 because when entities first apply IFRS 9, they are permitted to choose as an accounting policy to continue to apply the hedge accounting requirements of IAS 39. The Board understands that a significant number of IFRS preparers—financial institutions in particular—have made such an accounting policy choice.

Scope of the exceptions

BC232 In the 2019 Exposure Draft, the Board noted that the hedge accounting issues being addressed arise in the context of interest rate benchmark reform, and, therefore, the proposed exceptions would apply only to hedging relationships of interest rate risk that are affected by the reform. However, some respondents expressed the view that the scope of the exceptions, as set out in the 2019 Exposure Draft, would not include other types of hedging relationships that may be affected by uncertainties arising from the reform such as hedging relationships in which an entity designates cross-currency interest rate swaps to hedge its exposure to both foreign currency and interest rate risk. These respondents asked the Board to clarify whether the scope of the exceptions was meant to include such hedging relationships.

BC233 In its redeliberations on the 2019 Exposure Draft, the Board clarified that it did not intend to exclude from the scope of the amendments hedging relationships in which interest rate risk is not the only designated hedged risk. The Board agreed with respondents that other hedging relationships could be directly affected by the reform when the reform gives rise to uncertainties about the timing or the amount of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument. Therefore, the Board confirmed that the exceptions would apply to the interest rate benchmark-based cash flows in these situations. The Board noted that many derivatives, designated in hedging relationships in which there is no uncertainty about the timing or the amount of interest rate benchmark-based cash flows, could be indirectly affected by the reform. For example, this would be the case when the valuation of the derivatives is affected by general uncertainty in the market caused by the reform. The Board confirmed that the exceptions do not apply to these hedging relationships, despite the indirect effect the uncertainties arising from the reform could have on the valuation of derivatives.

BC234 Consequently, the Board clarified the wording in paragraph 102A of IAS 39 to refer to all hedging relationships that are directly affected by interest rate benchmark reform. Paragraph 102A of IAS 39 explains that a hedging relationship is directly affected by interest rate benchmark reform only if the reform gives rise to uncertainties about the interest rate benchmark (contractually or non-contractually specified) designated as a hedged risk and/or the timing or the amount of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument. The scope of the exceptions does not exclude hedging relationships in which interest rate risk is not the only hedged risk.

Highly probable requirement

BC235 The Board noted that if an entity designates a forecast transaction as the hedged item in a cash flow hedge, applying paragraph 88(c) of IAS 39, that transaction must be highly probable (highly probable requirement). This requirement is intended to ensure that changes in the fair value of designated hedging instruments are recognised in other comprehensive income only for those hedged forecast transactions that are highly probable to occur. This requirement is an important discipline in applying hedge accounting to forecast transactions. The Board noted that the requirements in IAS 39 provide a clear basis to account for the effects of the reform—that is, if the effects of the reform are such that the hedged cash flows are no longer highly probable, hedge accounting should be discontinued. As set out in paragraph BC227, in the Board's view, discontinuing all affected hedging relationships solely due to such uncertainty would not provide useful information to users of financial statements.

BC236 Therefore, the Board amended IAS 39 to provide an exception to the highly probable requirement that would provide targeted relief during this period of uncertainty. More specifically, applying the exception, if the hedged future cash flows are based on an interest rate benchmark that is subject to the reform, an entity assumes that the interest rate benchmark on which the hedged cash flows are based is not altered when assessing whether the future cash flows are highly probable. If the hedged future cash flows are based on a highly probable forecast transaction, by applying the exception in paragraph 102D of IAS 39 when performing the assessment of the highly probable requirement for that forecast transaction, the entity would assume that the interest rate benchmark on which the hedged cash flows are based will not be altered in the future contract as a result of the reform. For example, for a future issuance of a London Interbank Offered Rate (LIBOR)-referenced debt instrument, the entity would assume that the LIBOR benchmark rate on which the hedged cash flows are based will not be altered as a result of the reform.

BC237 The Board noted that this exception does not necessarily result in an entity determining that the hedged cash flows are highly probable. In the example described in paragraph BC236, the entity assumed that the interest rate benchmark in the future contract would not be altered as a result of the reform when determining whether that forecast transaction is highly probable. However, if the entity decides not to issue the debt instrument because of uncertainty arising from the reform or for any other reason, the hedged future cash flows are no longer highly probable (and are no longer expected to occur). The exception would not permit or require the entity to assume otherwise. In this case, the entity would conclude that the LIBOR-based cash flows are no longer highly probable (and are no longer expected to occur).

BC238 The Board also included an exception for discontinued hedging relationships. Applying this exception, any amount remaining in other comprehensive income when a hedging relationship is discontinued would be reclassified to profit or loss in the same period(s) during which the hedged cash flows affect profit or loss, based on the assumption that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the reform. If, however, the hedged future cash flows are no longer expected to occur for other reasons, the entity is required to immediately reclassify to profit or loss any amount remaining in other comprehensive income. In addition, the exception would not exempt entities from reclassifying the amount that is not expected to be recovered into profit or loss as required by paragraph 97 of IAS 39.

Effectiveness assessment

BC239 Applying IAS 39, a hedging relationship qualifies for hedge accounting only if the conditions in paragraph 88 are met. Two of the conditions in that paragraph—the prospective assessment and the retrospective assessment—require that the hedging relationship is highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk. If either of these conditions is not met, paragraphs 91(b) and 101(b) require the entity to discontinue hedge accounting prospectively.

Prospective assessment

BC240 When applying paragraph 88(b) of IAS 39, demonstrating that a hedging relationship is expected to be highly effective requires the estimation of future cash flows because the assessment is prospective in nature. Interest rate benchmark reform could affect this assessment for hedging relationships that may extend beyond the timing of the reform. That is because entities would have to consider possible changes to the fair value or future cash flows of hedged items and hedging instruments in determining whether a hedging relationship is expected to be highly effective. Consequently, at some point in time, it is possible that entities would not be able to meet the condition in paragraph 88(b) of IAS 39 solely because of uncertainties arising from the reform.

BC241 The Board considered the usefulness of the information that would result from the potential discontinuation of hedge accounting for affected hedging relationships and decided to amend the requirement in IAS 39 to provide an exception for the prospective assessment for the same reasons as discussed in paragraph BC227.

BC242 Applying this exception, an entity shall assess whether the hedge is expected to be highly effective in achieving offsetting as required by IAS 39, based on the assumption that the hedged risk or the interest rate benchmark on which the hedged item or the hedging instrument is based is not altered as a result of the reform. Similarly, if an entity designates a highly probable forecast transaction as the hedged item, the entity shall perform the prospective assessment based on the assumption that the interest rate benchmark on which the hedged cash flows are based will not change as a result of the reform.

BC243 The Board noted that an offset between the hedged item and the hedging instrument is a fundamental principle of the hedge accounting model in IAS 39 and, therefore, the Board considered it critical to maintain this principle. The exception addresses only the uncertainties arising from the reform. Therefore, if an entity is unable to demonstrate that a hedging relationship is expected to be highly effective for other reasons, the entity shall discontinue hedge accounting as required by IAS 39.

Retrospective assessment

BC244 When developing the 2019 Exposure Draft, the Board decided not to propose an exception to the retrospective assessment required by paragraph 88(e) and AG105(b) of IAS 39 for the effects of the reform. As described in the 2019 Exposure Draft, that assessment is based on the actual results of the hedging relationship based on the extent to which hedging gains or losses on the hedged item attributable to the hedged risk offset changes in the fair value of the hedging instrument. The Board noted that existing IFRS Standards already provide an adequate basis for measuring ineffectiveness.

BC245 Most respondents disagreed with the Board's decision not to propose an exception to the retrospective assessment. Respondents noted that due to the inherent interaction between the assessment of the forward-looking cash flows of the hedged item and its effect on both prospective and retrospective assessments, the proposed amendments would not achieve their intended effect unless an exception is also provided for the retrospective assessment.

BC246 Furthermore, these respondents expressed the view that the discontinuation of hedge accounting because hedging relationships do not meet the requirements in paragraph AG105(b) of IAS 39, as a result of the temporary ineffectiveness caused by the reform, would not reflect an entity's risk management strategy and, therefore, would not provide useful information to users of financial statements.

BC247 In its redeliberations on the amendments to IAS 39, the Board considered the feedback received. The Board discussed three approaches that it could apply for providing an exception to the retrospective assessment for the impact of the uncertainty arising from the reform.

BC248 The Board observed that one possible approach would be to require entities to assume that the interest rate benchmark is not altered similar to the prospective assessment. Applying this approach would require entities to separate the assessment of retrospective effectiveness from the measurement of hedge ineffectiveness. More specifically, the Board considered that the objective of this approach would be to exclude the uncertainty arising from the reform from the assessment of whether a hedge is considered to be highly effective and that hedge accounting is continued when the results of this assessment are within the range of 80–125 per cent as required in paragraph AG105(b) of IAS 39, even if the measurement of actual ineffectiveness is outside that range. The Board was of the view that even though this approach is consistent with the other exceptions provided in the amendments to IAS 39, the requirement to perform two effectiveness calculations based on different assumptions could be burdensome on preparers. The Board therefore rejected this approach.

BC249 The Board also considered an approach that was recommended by respondents to the 2019 Exposure Draft, in which entities would be required, for the purposes of the retrospective assessment, to demonstrate the existence of an economic relationship between the hedged item and hedging instrument similar to the requirements in IFRS 9. However, the Board noted that the existence of an economic relationship between the hedged item and the hedging instrument, is only one of the requirements in IFRS 9 for a hedging relationship to be highly effective. The Board considered that the requirements in paragraph 6.4.1(c) of IFRS 9 are inherently linked and the application of the economic relationship in isolation might not achieve the intended objective and could result in unintended consequences. The Board therefore rejected this approach.

BC250 The Board decided on an approach whereby an entity could continue to apply hedge accounting for hedging relationships directly affected by the reform, even if the actual results of the hedging relationship do not meet the requirements in paragraph AG105(b) of IAS 39, if the ineffectiveness arose from uncertainty arising from the reform or other sources, subject to satisfying the other conditions in paragraph 88 of IAS 39, including the prospective assessment (as amended by paragraph 102F of IAS 39).

BC251 The Board acknowledged that such an approach might provide less discipline compared to the approach described in paragraph BC248, which would introduce additional requirements to mitigate the risk of continuing hedge accounting for hedging relationships that failed the retrospective assessment for reasons other than the reform. However, the Board noted that its approach still maintains a level of discipline around the application of the IAS 39 hedge accounting model through the prospective assessment and neither imposes additional costs or burden for preparers nor introduces new requirements in IAS 39.

BC252 The Board noted that any exception to the retrospective assessment will apply only to a well-defined population of hedging relationships during the period of uncertainty on the hedged items and hedging instruments arising from the reform. Furthermore, the Board noted that the risk of allowing hedge accounting to be applied for hedging relationships that would not otherwise qualify for hedge accounting is mitigated by the required prospective assessment as only the uncertainty arising from the reform is excluded from that assessment. Any other sources of ineffectiveness would continue to be included in the assessment of whether the hedge is expected to be highly effective in future periods. The Board noted that any high level of ineffectiveness arising in a hedging relationship is expected to be captured by the prospective assessment. The Board also noted that all ineffectiveness would be recognised and measured and thus be transparent in financial reporting. The Board, therefore, decided to provide an exception from the requirement to discontinue hedge accounting as a result of paragraph 88(e) of IAS 39 because the actual results of the hedge do not meet the requirements in paragraph AG105(b) of IAS 39.

Measurement of ineffectiveness

BC253 The Board noted that the exceptions were not intended to change the requirement that entities measure and recognise hedge ineffectiveness. The Board considered that the actual results of the hedging relationships would provide useful information to users of financial statements during the period of uncertainty arising from the reform. Therefore, the Board decided that entities should continue to measure and recognise hedge ineffectiveness as required by IFRS Standards.

BC254 The Board also considered whether any exceptions should be made to the measurement of hedged items or hedging instruments because of the uncertainty arising from the reform. However, the Board noted that such an exception would be inconsistent with the decision not to change the requirements to measure and recognise hedge ineffectiveness in the financial statements. Therefore, the Board decided not to provide an exception from the measurement of hedging instruments and hedged items. This means that the fair value of a derivative designated as the hedging instrument should continue to be measured using the assumptions that market participants would use when pricing that derivative as required by IFRS 13 *Fair Value Measurement*.

BC255 For a hedged item designated in a fair value hedge, IAS 39 requires an entity to remeasure the hedged item for changes in fair value attributable to the hedged risk and recognise the gain or loss related to that fair value hedge adjustment in profit or loss. In doing so, the entity uses the assumptions that market participants would use when pricing the hedged item for changes in fair value attributable to the hedged risk. This would include a risk premium for uncertainty inherent in the hedged risk that market participants would consider. For example, to measure changes in fair value attributable to the hedged risk such as the IBOR component of a fixed-rate loan, an entity needs to reflect the uncertainty caused by the reform. When applying a present value technique to calculate the changes in fair value attributable to the designated risk component, such measurement should reflect market participants' assumptions about the uncertainty arising from the reform.

BC256 When an entity designates interest rate benchmark-based cash flows as the hedged item in a cash flow hedge, to calculate the change in the value of the hedged item for the purpose of measuring hedge ineffectiveness, the entity may use a derivative that would have terms that match the critical terms of the designated cash flows and the hedged risk (this is commonly referred to as a 'hypothetical derivative'). As the Board decided that entities should continue to measure and recognise hedge ineffectiveness as required by IFRS Standards, entities should continue to apply assumptions that are consistent with those applied to the hedged risk of the hedged item. For example, if an entity designated interest rate benchmark-based cash flows as the hedged item in a cash flow hedge, the entity would not assume for the purpose of measuring hedge ineffectiveness that the expected replacement of the interest rate benchmark with an alternative benchmark rate will result in zero cash flows after the replacement. The hedging gain or loss on the hedged item should be measured using the interest rate benchmark-based cash flows (that is, the cash flows on which the hypothetical derivative is based) when applying a present value technique, discounted at a market-based discount rate that reflects market participants' assumptions about the uncertainty arising from the reform. The Board concluded that reflecting market participants' assumptions when measuring hedge ineffectiveness provides useful information to users of financial statements about the effects of the uncertainty arising from the reform on an entity's hedging relationships. Therefore, the Board decided that no exceptions are needed for the measurement of actual ineffectiveness.

Hedges of designated portions

BC257 The Board noted that in accordance with IAS 39 an entity may designate an item in its entirety or only a portion thereof, as the hedged item in a hedging relationship. For example, an entity that issues a 5-year floating-rate debt instrument that bears interest at 3-month LIBOR + 1%, could designate as the hedged item either the entire debt instrument (that is, all of the cash flows) or only the 3-month LIBOR portion of the floating-rate debt instrument. Specifically, paragraphs 81 and AG99F of IAS 39 allow entities to designate only changes in the cash flows or fair value of an item attributable to a specific risk or risks (designated portion), provided that the designated portion is separately identifiable and reliably measurable.

BC258 The Board observed that an entity's ability to conclude that an interest rate benchmark is a separately identifiable designated portion in accordance with paragraph 81 of IAS 39 requires a continuous assessment over the duration of the hedging relationship and could be affected by the reform. For example, if the outcome of the reform affects the market structure of an interest rate benchmark, it could affect an entity's assessment of whether a non-contractually specified LIBOR portion is separately identifiable and, therefore, an eligible hedged item in a hedging relationship. The Board considered only those designated portions that are implicit in the fair value or the cash flows of an item of which they are a part (referred to as non-contractually specified) because the same issue does not arise for designated portions that are explicitly specified in the contract.

BC259 For the reasons outlined in paragraph BC227, the Board noted that discontinuing hedging relationships due to uncertainty arising from the reform would not provide useful information. Consequently, the Board decided to propose amending IAS 39 so that entities would not discontinue hedge accounting solely because the designated portion is no longer separately identifiable as a result of the reform. In the 2019 Exposure Draft, the Board proposed that the separately identifiable requirement for hedges of the benchmark portion of interest rate risk be applied only at the inception of those hedging relationships affected by the reform.

BC260 The Board proposed not to extend the relief to allow entities to designate the benchmark portion of interest rate risk as the hedged item in a new hedging relationship if the designated portion is not separately identifiable at the inception of the hedging relationship. In the Board's view, allowing hedge accounting for designated portions that are not separately identifiable at the inception would be inconsistent with the objective of the exception. The Board noted that such circumstances are different from allowing continued designation as the hedged item for designated portions that had met the requirement at the inception of the hedging relationship.

BC261 Furthermore, the Board did not propose any exception from the requirement that changes in the fair value or cash flows of the designated portion must be reliably measurable. As noted in paragraph BC243, in the Board's view, an offset between the hedged item and the hedging instrument is a fundamental principle of the hedge accounting model in IAS 39 and, therefore, the Board considered reliable measurement of the hedged item and the hedging instrument to be critical to maintain this principle.

BC262 Almost all respondents agreed with the exception proposed in the 2019 Exposure Draft to apply the separately identifiable requirement only at the inception of a hedging relationship. However, some respondents noted that the proposed exception did not provide equivalent relief to hedging relationships that frequently reset (ie discontinue and restart). In those hedging relationships both the hedging instrument and the hedged item frequently change (ie the entity uses a dynamic process in which both the hedged items and the hedging instruments used to manage that exposure do not remain the same for long). As hedging instruments and hedged items are being added or removed from a portfolio, entities are de-designating and redesignating hedging relationships regularly to adjust the exposure. If each redesignation of the hedging relationship is considered to be the inception of a new hedging relationship (even though it is still the same hedging strategy), then the separately identifiable requirement would need to be assessed for all hedged items at each redesignation even if they have been assessed previously. For the same reasons as those noted in paragraph BC258, this could affect an entity's ability to conclude that a non-contractually specified risk component remains separately identifiable and, therefore, an eligible hedged item for hedge accounting purposes.

BC263 The Board noted that the exception proposed in the 2019 Exposure Draft has the effect that if a non-contractually specified designated portion meets the separately identifiable requirement at the inception of a hedging relationship, then that requirement would not be reassessed subsequently. Hence, providing a similar exception for hedging relationships that frequently reset (ie discontinue and restart) would be consistent with the objective of the exception originally provided in the 2019 Exposure Draft.

BC264 Thus, the Board confirmed the proposal that a designated portion is only required to be separately identifiable at the inception of the hedging relationship. In addition, to respond to the feedback described in paragraph BC262, the Board added the exception in paragraph 102I of IAS 39 for hedging relationships that, consistent with an entity's hedge documentation, frequently reset (ie discontinue and restart) because both the hedging instrument and the hedged item frequently change. Applying that paragraph, an entity shall determine whether the designated portion is separately identifiable only when it initially designates an item as a hedged item in the hedging relationship. The hedged item is not reassessed at any subsequent redesignation in the same hedging relationship.

BC265 In reaching its decision for the exception in paragraph 102I of IAS 39 the Board considered an example when an entity applies hedge accounting for a portfolio hedge of interest rate risk under IAS 39 and designates the LIBOR portion of floating-rate loans as the hedged risk. At the inception of the relationship, the entity assesses whether LIBOR is a separately identifiable designated portion for all loans designated within the hedging relationship. As the entity updates the risk position with the origination of new loans and the maturity or repayment of existing loans, the hedging relationship is adjusted by de-designating the 'old' hedging relationship and redesignating a 'new' hedging relationship for the updated amount of the hedged items. Applying the exception in paragraph 102I of IAS 39 requires the entity to assess whether LIBOR is a separately identifiable designated portion only for the new loans added to the hedging relationship. The entity would not reassess the separately identifiable requirement for the loans that have been redesignated.

Mandatory application

BC266 The Board decided to require entities to apply the exceptions in paragraphs 102D–102N of IAS 39 to all hedging relationships to which the exceptions are applicable. In other words, the Board decided that an entity is required to apply the exceptions to all hedging relationships that are directly affected by the uncertainties arising from the reform and continue to apply the exceptions until required to cease their application as specified in paragraphs 102J–102N of IAS 39.

BC267 The Board considered but rejected alternatives that would have allowed entities to apply the exceptions voluntarily. In the Board's view, voluntary application of these exceptions could give rise to selective discontinuation of hedge accounting and selective reclassification of the amounts recorded in other comprehensive income related to previously discontinued hedging relationships. The Board does not expect that requiring entities to apply the exceptions would entail significant cost for preparers and other affected parties because the exceptions require entities to assume that the interest rate benchmark, on which the hedged risk and the hedged cash flows and cash flows of the hedging instrument are based, is not altered as a result of the reform.

BC268 In addition, the Board observed that in some circumstances the exceptions in paragraphs 102D–102N of IAS 39 may not be applicable. For example, for a particular interest rate benchmark not subject to the reform or replacement with an alternative benchmark rate, there is no uncertainty affecting the timing or the amount of the interest rate benchmark-based cash flows arising from a hedged item or a hedging instrument. The exceptions set out in paragraphs 102D–102N of IAS 39 would not be applicable to such a hedging relationship.

BC269 Furthermore, for a particular hedging relationship the exceptions may be applicable to some but not all aspects of the hedging relationship. For example, if an entity designates a hedged item that is based on LIBOR against a hedging instrument that is already referenced to an alternative benchmark rate (assuming the entity can demonstrate that hedging relationship meets the qualifying criteria for hedge accounting in IAS 39), the exceptions in paragraphs 102D and 102F of IAS 39 would apply for the hedged item because there is uncertainty related to its future cash flows. However, there is no uncertainty regarding how the reform would impact the cash flows of the hedging instrument and, therefore, the exception in paragraph 102F of IAS 39 is not applicable for the hedging instrument. Similarly, the exception applicable to non-contractually specified designated portions would not be relevant for hedging relationships that do not involve the designation of non-contractually specified portions.

End of application

BC270 As described in paragraph BC227, the Board decided to amend IAS 39 to address specific aspects of hedge accounting affected by uncertainties in relation to the hedged items and hedging instruments about when the interest rate benchmarks will change to alternative benchmark rates, when any spread adjustment between the interest rate benchmark and the alternative benchmark rate will be determined (collectively, timing) and what the cash flows based on the alternative benchmark rate will be, including their frequency of reset, and any spread adjustment between the interest rate benchmark and the alternative benchmark rate (collectively, amount). Therefore, the Board intended the exceptions set out in paragraphs 102D–102N of IAS 39 to be available only while these uncertainties are present.

BC271 The Board considered whether to provide an explicit end date for the exceptions but decided not to do so. The reform is following different timelines in different markets and jurisdictions and contracts are being modified at different times and, therefore, at this stage, it is not possible to define a period of applicability for the exceptions.

BC272 The Board decided that an entity ceases applying the exceptions at the earlier of (a) when the uncertainty regarding the timing and the amount of interest rate benchmark-based cash flows is no longer present as it relates to a hedged item and/or hedging instrument (depending on the particular exception) and (b) the discontinuation of the hedging relationship.[7] The exceptions require entities to apply specific hedge accounting requirements assuming the interest rate benchmark on which the hedged risk, hedged cash flows or the cash flows of the hedging instrument are based is not altered as a result of the reform. The end of applicability of the exceptions means that entities would

7 For the purpose of applying the exception in paragraph 102E of IAS 39 to a discontinued hedging relationship, the amendments require an entity to cease applying the exception at the earlier of (a) as described above and (b) when the entire amount that had been recognised in other comprehensive income with respect to the hedging relationship has been reclassified to profit or loss. See paragraph 102K of IAS 39.

from that date apply all hedge accounting requirements in IAS 39 without applying these exceptions.

BC273 In the Board's view, for uncertainty regarding the timing and the amount of cash flows arising from a change in an interest rate benchmark to be eliminated, the underlying contracts are generally required to be amended to specify the timing and the amount of cash flows based on the alternative benchmark rate (and any spread adjustment between the interest rate benchmark and the alternative benchmark rate). The Board noted that, in some cases, a contract may be amended to include reference to the alternative benchmark rate without actually altering the interest rate benchmark-based cash flows in the contract. Such an amendment may not eliminate the uncertainty regarding the timing and the amount of interest rate benchmark-based cash flows in the contract. The Board considered the following scenarios to assess the robustness of the end of application requirements. However, these scenarios are not exhaustive and other scenarios may exist in which the uncertainties arising from the reform regarding the timing and the amount of cash flows would no longer be present.

BC274 Scenario A—a contract is amended to include a clause that specifies (a) the date the interest rate benchmark will be replaced by an alternative benchmark rate and (b) the alternative benchmark rate on which the cash flows will be based and the relevant spread adjustment between the interest rate benchmark and the alternative benchmark rate. In this case, the uncertainty regarding the timing and the amount of cash flows for this contract is eliminated when the contract is amended to include this clause.

BC275 Scenario B—a contract is amended to include a clause that states modifications of contractual cash flows will occur due to the reform but that specifies neither the date that the interest rate benchmark will be replaced nor the alternative benchmark rate on which the amended cash flows will be based. In this case, the uncertainty regarding the timing and the amount of cash flows for this contract has not been eliminated by amending the contract to include this clause.

BC276 Scenario C—a contract is amended to include a clause which states that conditions specifying the amount and timing of interest rate benchmark-based cash flows will be determined by a central authority at some point in the future. But the clause does not specify those conditions. In this case, the uncertainty regarding the timing and the amount of the interest rate benchmark-based cash flows for this contract has not been eliminated by including this clause in the contract. Uncertainty regarding both the timing and the amount of cash flows for this contract will be present until the central authority specifies when the replacement of the benchmark will become effective and what the alternative benchmark rate and any related spread adjustment will be.

BC277 Scenario D—a contract is amended to include a clause in anticipation of the reform that specifies the date the interest rate benchmark will be replaced and any spread adjustment between the interest rate benchmark and the alternative benchmark rate will be determined. However, the amendment does not specify the alternative benchmark rate or the spread adjustment between the interest rate benchmark and the alternative benchmark rate on which the cash flows will be based. In this scenario, by amending the contract to include this clause, uncertainty regarding the timing has been eliminated but uncertainty about the amount remains.

BC278 Scenario E—a contract is amended to include a clause in anticipation of the reform that specifies the alternative benchmark rate on which the cash flows will be based and the spread adjustment between the interest rate benchmark and the alternative benchmark rate but does not specify the date from which the amendment to the contract will become effective. In this scenario, by amending the contract to include this clause, uncertainty about the amount has been eliminated but uncertainty with respect to timing remains.

BC279 Scenario F—in preparation for the reform, a central authority in its capacity as the administrator of an interest rate benchmark undertakes a multi-step process to replace an interest rate benchmark with an alternative benchmark rate. The objective of the reform is to cease the publication of the current interest rate benchmark and replace it with an alternative benchmark rate. As part of the reform, the administrator introduces an interim benchmark rate and determines a fixed spread adjustment based on the difference between the interim benchmark rate and the current interest rate benchmark. Uncertainty about the timing or the amount of the alternative benchmark rate-based cash flows will not be eliminated during the interim period because the interim benchmark rate (including the fixed spread adjustment determined by the administrator) represent an interim measure in progressing towards the reform but it does not represent the alternative benchmark rate (or any related spread adjustment agreed between parties to the contract).

BC280 For reasons similar to those described in paragraph BC269, the Board noted that there could be situations in which the uncertainty for particular elements of a single hedging relationship could end at different times. For example, assume an entity is required to apply the relevant exceptions to both the hedged item and the hedging instrument. If the hedging instrument in that hedging relationship is subsequently amended through market protocols covering all derivatives in that market, and will be based on an alternative benchmark rate such that the uncertainty about the timing and the amount of interest rate benchmark-based cash flows of the hedging instrument is eliminated, the relevant exceptions would continue to apply to the hedged item but would no longer apply to the hedging instrument.[8]

BC281 The Board observed that continuing to apply the exception after the uncertainty was resolved would not faithfully represent the actual characteristics of the elements of the hedging relationship in which the uncertainty arising from the reform is eliminated. The Board considered whether it should extend the relief provided such that the exceptions would apply at the hedging relationship level for as long as any element of that

8 In this scenario, the entity would first consider the accounting consequences of amending the contractual terms of the hedging instrument. The Board will consider the accounting consequences of the actual amendment of financial instruments as a result of interest rate benchmark reform in the next phase of this project (ie the replacement phase).

hedging relationship was affected by the uncertainties arising from the reform. The Board agreed that doing so would be beyond the objective of addressing only those issues directly affected by the uncertainty arising from the reform. This is also because the exceptions in paragraphs 102D–102N of IAS 39 and the respective requirements in IAS 39 apply to the same elements of the hedging relationship. Therefore, applying each exception at the hedging relationship level would be inconsistent with how the underlying requirements are applied.

BC282 The Board decided that the end of application requirement would also apply to hedges of a forecast transaction. The Board noted that IAS 39 requires an entity to identify and document a forecast transaction with sufficient specificity so that, when the transaction occurs, the entity is able to determine whether the transaction is the hedged transaction. For example, if an entity designates a future issuance of a LIBOR-based debt instrument as the hedged item, although there may be no contract at the time of designation, the hedge documentation would refer specifically to LIBOR. Consequently, the Board concluded that entities should be able to identify when the uncertainty regarding the timing and the amount of the resulting cash flows of a forecast transaction is no longer present.

BC283 In addition, the Board decided not to require end of application with respect to the exception for the separately identifiable requirements set out in paragraphs 102H and 102I of IAS 39. Applying these exceptions, entities would continue applying hedge accounting when an interest rate benchmark meets the separately identifiable requirement at the inception of the hedging relationship (assuming all other hedge accounting requirements continue to be met). If the Board included an end date for these exceptions, an entity may be required to immediately discontinue hedge accounting because, at some point, as the reform progresses, the designated portion based on the interest rate benchmark may no longer be separately identifiable (for example, as the market for the alternative benchmark rate is established). Such immediate discontinuation of hedge accounting would be inconsistent with the objective of the exception. The Board noted that linking the end of application for these exceptions to contract amendments would not achieve the Board's intention either because, by definition, non-contractually specified designated portions are not explicitly stated in a contract and, therefore, these contracts may not be amended for the reform. This is particularly relevant for fair value hedges of a fixed-rate debt instrument. Therefore, the Board decided that an entity should cease applying the exceptions to a hedging relationship only when the hedging relationship is discontinued applying IAS 39.

BC284 Some respondents to the 2019 Exposure Draft noted that the Board had not addressed when an entity ceases applying the proposed exceptions to a group of items designated as the hedged item or a combination of financial instruments designated as the hedging instrument. Specifically, when assessing whether the uncertainty arising from the reform is no longer present, these respondents asked whether that assessment should be performed on an individual basis (that is, for each individual item within the group or financial instrument within the combination) or on a group basis (that is, for all items in the group or all financial instruments in the combination until there is no uncertainty surrounding any of the items or financial instruments).

BC285 Consequently, the Board decided to add paragraph 102N of IAS 39 to clarify that, when designating a group of items as the hedged item or a combination of financial instruments as the hedging instrument, entities assess when the uncertainty arising from the reform with respect to the hedged risk and/or the timing and amount of the interest rate benchmark-based cash flows of that item or financial instrument is no longer present on an individual basis—that is, for each individual item in the group or financial instrument in the combination.

Effective date and transition

BC286 The Board decided that entities shall apply the amendments for annual periods beginning on or after 1 January 2020, with earlier application permitted.

BC287 The Board decided that the amendments apply retrospectively. The Board highlighted that retrospective application of the amendments would not allow reinstating hedge accounting that has already been discontinued. Nor would it allow designation in hindsight. If an entity had not designated a hedging relationship, the exceptions, even though applied retrospectively, would not allow the entity to apply hedge accounting in prior periods to items that were not designated for hedge accounting. Doing so would be inconsistent with the requirement that hedge accounting applies prospectively. Retrospective application of the exceptions would enable entities to continue hedge accounting for a hedging relationship that the entity had previously designated and that qualifies for hedge accounting applying IAS 39.

BC288 Many respondents to the 2019 Exposure Draft commented on the clarity of the proposed retrospective application and suggested that further explanation be provided in the Standard. Consequently, the Board amended the transition paragraph to specify that retrospective application applies only to those hedging relationships that existed at the beginning of the reporting period in which an entity first applies these amendments or were designated thereafter, and to the gain or loss recognised in other comprehensive income that existed at the beginning of the reporting period in which an entity first applies these amendments. The Board used this wording to permit an entity to apply the amendments from the beginning of the reporting period in which an entity first applies these amendments even if the reporting period is not an annual period.

Amendments to the Basis for Conclusions on IFRS 7 *Financial Instruments: Disclosures*

This Basis for Conclusions accompanies, but is not part of, IFRS 7.

After paragraph BC35SS, a new subheading and paragraphs BC35TT–BC35CCC are added.

Uncertainty arising from interest rate benchmark reform

BC35TT In May 2019 the Board published the Exposure Draft *Interest Rate Benchmark Reform* (2019 Exposure Draft), which proposed exceptions to specific hedge accounting requirements in IFRS 9 and IAS 39 to provide relief in the period before the reform of interest rate benchmarks. The Board issued the final amendments to IFRS 9 and IAS 39 in September 2019. Paragraphs BC6.546–BC6.603 of the Basis for Conclusions on IFRS 9 and paragraphs BC223–BC288 of the Basis for Conclusions on IAS 39 provide the background to these amendments.

BC35UU In the 2019 Exposure Draft, the Board proposed that entities applying the exceptions provide disclosure about the magnitude of the hedging relationships to which the exceptions apply. As explained in paragraph BC44 of the Basis for Conclusions on the 2019 Exposure Draft, the Board noted that IFRS 7 already requires specific disclosures about hedge accounting. The Board proposed that for some specifically identified disclosures, information be provided separately for hedging relationships to which the proposed exceptions apply. Specifically, the Board proposed that an entity provide separately the information required by paragraphs 24A(a), 24A(c)–(d), 24B(a)(i)–(ii), 24B(a)(iv) and 24B(b) of IFRS 7 for hedging relationships affected by interest rate benchmark reform.

BC35VV Most respondents to the 2019 Exposure Draft agreed that information about the magnitude of the hedging relationships to which the proposed exceptions apply would be useful to users of financial statements. However, respondents had mixed views on whether the proposed disclosure requirements struck the right balance between the expected benefits for users of financial statements and the expected cost for preparers. As a result, these respondents suggested simplifying the proposed disclosure requirements.

BC35WW In addition, users of financial statements told the Board that, since the proposed amendments to IFRS 9 and IAS 39 would be mandatory, information about the extent to which an entity's hedging relationships are within the scope of the exceptions would provide useful information. Such information could be provided by requiring entities to disclose the nominal amounts of hedging instruments in hedging relationships in the scope of the amendments, supplemented with an explanation about how the entity is managing the process to transition to alternative benchmark rates. These disclosures would help users of financial statements understand how an entity's hedging relationships are affected by the uncertainty arising from interest rate benchmark reform.

BC35XX On the basis of respondents' comments and feedback from users of financial statements, the Board decided to require entities to provide the disclosures set out in paragraph 24H of IFRS 7 for hedging relationships directly affected by interest rate benchmark reform.

BC35YY Specific to the disclosure requirement in paragraph 24H(d) of IFRS 7, the Board acknowledged that given the objective and specificity of the amendments to IFRS 9 and IAS 39, there may be limited additional assumptions or judgements in the context of applying those exceptions. For example, the exceptions specify the assumptions to make about the interest rate benchmark-based cash flows. Nevertheless, the Board observed that if an entity makes significant assumptions or judgements in applying the exceptions in those amendments (for example, to determine when the uncertainty arising from interest rate benchmark reform is no longer present), that would be useful information for the users of financial statements. Accordingly, the Board decided to require entities to disclose information about any significant assumptions or judgements that the entity makes in applying the exceptions in the amendments.

BC35ZZ The Board noted that the requirement in paragraph 24H(e) of IFRS 7 is intended to provide users of financial statements with information about the quantum of hedging relationships which are directly affected by the uncertainties arising from the reform. That paragraph requires disclosure of the nominal amount of the hedging instruments in a hedging relationship directly affected by the uncertainties arising from the reform so that the information is disclosed on a gross basis rather than on a net basis (that is, offsetting hedging instruments in a liability position against those in an asset position).

BC35AAA Some respondents to the 2019 Exposure Draft raised concerns about the disclosure requirement in paragraph 28(f) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. This paragraph requires an entity, on the initial application of an IFRS (or amendments to an IFRS), to disclose, for the current period and each prior period presented, the amount of any adjustment for each financial statement line item affected.

BC35BBB These respondents said that requiring such disclosure for the amendments to IFRS 9 and IAS 39 would not provide useful information to users of financial statements and also would be onerous for preparers. This is because it would require an entity to maintain parallel systems in order to determine the amount of the adjustment for each financial statement line item affected. Furthermore, disclosing this information would be inconsistent with the Board's observation in paragraph BC6.550 of IFRS 9 and paragraph BC227 of IAS 39, that discontinuing hedge accounting solely due to uncertainties arising from the reform would not provide useful information to users of financial statements.

BC35CCC The Board agreed with these comments and decided to exempt entities from the requirement in paragraph 28(f) of IAS 8 in the reporting period in which an entity first applies the amendments to IFRS 9 and IAS 39.