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**IASB Exposure Draft ED/2020/1 "Interest Rate Benchmark Reform – Phase 2
Proposed amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16"**

20-05-22

Dear Mr. Hoogervorst,

Thank you for the opportunity to comment on the IASB's (or Board's) Exposure Draft ED/2020/1 "Interest Rate Benchmark Reform – Phase 2 Proposed amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16" (the ED) that was published in April 2020.

We appreciate IASB's initiative for taking into its standard-setting agenda this project. As you are aware from our comment letter to the Exposure Draft ED/2019/1, this topic is of great importance to us. Hence, we think that this project should be completed as quickly as possible.

In general, we support the ED to provide temporary exceptions to specific requirements in IFRS Standards to address particular issues arising from the IBOR reform. We note that most of the exceptions in the ED do not introduce new accounting requirements. Instead, they propose the application of accounting requirements in the respective IFRS Standard to items that ordinarily would not have applied to those items. We find this appropriate as these accounting requirements are already known to preparers of financial statements and can be implemented without additional burden. This goes in particular to the practical expedient proposed in paragraph 6.9.3 of the ED to apply paragraph B5.4.5 of IFRS 9 to adjust the interest rates of financial instruments rather than take an immediate modification gain or loss in profit and loss as the contracts are amended from IBOR to new risk free rates (RFR). We also support the

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amendment in paragraph 102M to clarify that the hedge accounting relief for Phase 1 ends at the hedge relationship level.

Nevertheless, we would like to highlight the following important concerns:

- Although we agree with providing a practical expedient in paragraph 6.9.3 of the ED to require an entity to apply paragraph B5.4.5 of IFRS 9 to account for modifications related to the IBOR reform, we do not agree with the view of the IASB of - within the remit of the IBOR project - 'what constitutes a modification of a financial asset or financial liability'. The reason is the clarification in paragraph 6.9.2 of the ED, in particular the last sentence that "a modification can arise even if the contractual terms of the financial instrument are not amended" if the basis for determining the contractual cash flows is changed after the initial recognition of the financial instrument. The application of 'what constitutes a modification of a financial asset or financial liability' is well-understood and consistently applied in practice within the banking industry. Hence, we think that the IASB should not introduce the clarification in paragraph 6.9.2 into IFRS 9, including any corresponding references the Board has made in the Basis for Conclusions. We think that the practical expedient in paragraph 6.9.3 of the ED can still be provided without the need to include paragraph 6.9.2 in the final Standard.
- We appreciate the Board's proposal to amend IAS 39, for the purpose of the retrospective assessment only, to reset to zero the cumulative fair value changes of the hedged item and hedging instrument when paragraph 102G of IAS 39 ceases to apply. However, we recommend that an entity should have the option to apply this 'zeroing provision' instead of making it mandatory. We point out that there are various methods for retrospective measurement (e. g. regression analysis, for which "reset to zero" is relevant and would be helpful). However, "reset to zero" may, under certain circumstances, lead to the 80%-125% threshold being exceeded, as outliers may occur in the early phase of determining the new hedged risk, while the new RFR only gains momentum over time to maintain liquidity in the market.
- We support the temporary relief proposed in paragraphs 6.9.16–6.9.18 and paragraphs 102Y–102Z1 of the ED on the application of the 'separately identifiable' requirement to a new RFR.
- Concerning the proposed requirement to reinstate a discontinued hedging relationship in paragraph 7.2.37 and paragraph 108I of the ED, we recommend that the IASB explicitly states in the requirement that a discontinued hedging relationship is reinstated only if it is practicable to do so. It would e.g. be impracticable for an entity to reinstate a hedging relationship that was discontinued due to IBOR reform when the hedging derivative or hedged item from the discontinued hedging relationship is re-designated in another new hedging relationship.


Please see our detailed response in the following appendix.

Yours sincerely,
on behalf of the German Banking Industry Committee
National Association of German Cooperative Banks



Gerhard Hofmann

by proxy



Stefanie Morfeld-Wahle