



December 2020

Amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*

Interest rate benchmark reform (Phase 2)

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Amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*

Interest rate benchmark reform (Phase 2)

Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Interest rate benchmark reform (Phase 2) amends an accounting standard. It is issued by the Financial Reporting Council, as a prescribed body, for application in the United Kingdom and Republic of Ireland.

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Overview

- (i) The FRC's overriding objective in setting accounting standards is to enable users of accounts to receive high-quality understandable financial reporting proportionate to the size and complexity of the entity and users' information needs.

Amendments to FRS 102

- (ii) Interest rate benchmarks such as the London Interbank Offered Rate (LIBOR) are being reformed and it is anticipated that LIBOR will not be available after 2021 and other benchmarks could be discontinued even sooner. As a response to the uncertainty about the long-term viability of interest rate benchmarks, in December 2019 the FRC published *Amendments to FRS 102 – Interest rate benchmark reform*, referred to as Phase 1 of the interest rate benchmark related amendments to FRS 102.
- (iii) These amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, issued in December 2020, represent the second and last phase of the FRC's standard-setting response to the financial reporting issues arising from the replacement of interest rate benchmarks and are referred to as Phase 2 amendments.
- (iv) Amendments to Section 11 *Basic Financial Instruments* provide a practical expedient for the accounting for financial assets and financial liabilities when contractual cash flows change because interest rate benchmarks are being replaced. There are new requirements for disclosure of the nature and extent of risks arising from the interest rate benchmark reform. Amendments to Section 12 *Other Financial Instruments Issues* give more flexibility regarding the redocumentation of hedging relationships and provide other reliefs that avoid disruption to hedge accounting. A consequential amendment has been made to Section 20 *Leases* resulting from the changes made to Section 11.
- (v) These amendments are intended to adapt and simplify accounting requirements in the context of interest rate benchmark reform and thereby minimise reporting costs for preparers of financial statements compliant with FRS 102 and enable them to provide useful information to the users of their financial statements.
- (vi) The amendments are effective for accounting periods beginning on or after 1 January 2021, with early application permitted.

**Amendments to FRS 102 *The Financial Reporting Standard*
applicable in the UK and Republic of Ireland**

Amendments to Section 1 Scope

- 1 The following paragraphs set out the amendments to Section 1 *Scope* (inserted text is underlined).
- 2 Paragraphs 1.25 to 1.31 and the sub-heading before them are inserted as follows:

Interest rate benchmark reform (Phase 2)

- 1.25 In December 2020 amendments were made to this FRS to insert or amend paragraphs 11.22, 11.2A, 11.2B, 11.20A to 11.20E, 11.49, 11.50, 12.2, 12.2A, 12.2B, 12.25B, 12.25H, 12.25I to 12.25V and 20.11. These amendments are effective for accounting periods beginning on or after 1 January 2021. Early application is permitted, if all amendments are applied at the same time. If an entity applies these amendments to an accounting period beginning before 1 January 2021 it shall disclose that fact, unless it is a small entity, in which case it is encouraged to disclose that fact.
- 1.26 On first-time application, an entity shall apply the amendments set out in paragraph 1.25 retrospectively, in accordance with paragraph 10.12, except as specified in paragraphs 1.27 to 1.29.
- 1.27 An entity shall commence new hedging relationships (including those described in paragraph 12.25V) only prospectively, ie an entity is prohibited from commencing a new hedge accounting relationship in prior periods. However, an entity shall reinstate a discontinued hedging relationship if, and only if, these conditions are met:
 - (a) the entity had discontinued that hedging relationship solely due to changes required by interest rate benchmark reform and the entity would not have been required to discontinue that hedging relationship if paragraphs 12.25J to 12.25U had been applied at that time; and
 - (b) at the beginning of the reporting period in which an entity first applies paragraphs 12.25J to 12.25U (the date of first-time application), that discontinued hedging relationship meets the qualifying criteria for hedge accounting in this FRS (after taking into account paragraphs 12.25J to 12.25U).
- 1.28 If, in applying paragraph 1.27, an entity reinstates a discontinued hedging relationship, the entity shall read references in paragraphs 12.25T and 12.25U to the date the alternative benchmark rate is identified as a non-contractually specified risk component for the first time, as referring to the date of first-time application of paragraphs 12.25T and 12.25U (ie the 24-month period for that alternative benchmark rate designated as a non-contractually specified risk component begins from the date of first-time application of these paragraphs).
- 1.29 An entity is not required to restate prior periods when applying the amendments in paragraph 1.25 retrospectively. If an entity does not restate prior periods, the entity shall apply those amendments in remeasuring the carrying amounts of assets and liabilities as at the beginning of the reporting period in which the amendments are first applied and shall make a corresponding adjustment to the opening balance of each affected component of equity.
- 1.30 On the first time application of the requirements in paragraph 12.25J, and only then, instead of applying paragraph 12.25M, an entity shall amend the hedge documentation as required in paragraph 12.25J no later than the date the respective financial statements are authorised for issue.

1.31 In the reporting period in which an entity first applies these amendments, and in relation to these amendments only, an entity is not required to disclose the information required by paragraphs 10.13(b) to (d).

Amendments to Section 11 *Basic Financial Instruments*

3 The following paragraphs set out the amendments to Section 11 *Basic Financial Instruments* (inserted text is underlined, deleted text is struck through).

4 Paragraph 11.2 is amended as follows (footnote 34 is not amended and is not reproduced here):

11.2 An entity shall choose to apply either:

- (a) the provisions of both Section 11 and Section 12 in full; or
- (b) the **recognition** and **measurement** provisions of IAS 39 *Financial Instruments: Recognition and Measurement* (as adopted in the EU)³⁴, the disclosure requirements of Sections 11 and 12 and the presentation requirements of paragraphs 11.38A and 12.25BW; or
- (c) the recognition and measurement provisions of IFRS 9 *Financial Instruments* (as adopted in the EU) and IAS 39 (as amended following the publication of IFRS 9), the disclosure requirements of Sections 11 and 12 and the presentation requirements of paragraphs 11.38A and 12.25BW;

to account...

5 Paragraph 11.2A is amended and paragraph 11.2B is inserted as follows:

11.2A ~~Deleted~~ An entity choosing to apply the recognition and measurement provisions of IAS 39, in accordance with paragraph 11.2(b), shall apply the requirements in paragraphs 5.4.6 to 5.4.9 of IFRS 9 to a financial asset and a financial liability if, and only if, the basis for determining the contractual cash flows of that financial asset or financial liability changes as a result of interest rate benchmark reform.

11.2B For the purposes of applying paragraphs 5.4.6 to 5.4.9 of IFRS 9, the references to paragraph B5.4.5 of IFRS 9 shall be read as referring to paragraph AG7 of IAS 39. References to paragraphs 5.4.3 and B5.4.6 of IFRS 9 shall be read as referring to paragraph AG8 of IAS 39.

6 Paragraphs 11.20A to 11.20E and the sub-heading before them are inserted after the example in paragraph 11.20 as follows:

Amendments specific to interest rate benchmark reform (Phase 2)

11.20A An entity shall apply paragraphs 11.20B to 11.20D to a financial asset or a financial liability if, and only if, the basis for determining the contractual cash flows of that financial asset or financial liability changes as a result of interest rate benchmark reform.

11.20B The basis for determining the contractual cash flows of a financial asset or a financial liability can change:

- (a) by amending the contractual terms specified at the initial recognition of the financial instrument (for example, the contractual terms are amended to replace the referenced interest rate benchmark with an alternative benchmark rate);
- (b) in a way that was not considered by – or contemplated in – the contractual terms at the initial recognition of the financial instrument, without amending the contractual terms (for example, the method for calculating the interest rate benchmark is altered without amending the contractual terms); and/or
- (c) because of the activation of an existing contractual term (for example, an existing fallback clause is triggered).

11.20C As a practical expedient, an entity shall apply paragraph 11.19 to account for a change in the basis for determining the contractual cash flows of a financial asset or a financial liability that is required by interest rate benchmark reform. This practical expedient applies only to such changes and only to the extent the change is required by interest rate benchmark reform (see also paragraph 11.20D). For this purpose, a change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if, and only if, both these conditions are met:

- (a) the change is necessary as a direct consequence of interest rate benchmark reform; and
- (b) the new basis for determining the contractual cash flows is economically equivalent to the basis immediately preceding the change.

11.20D Examples of changes that give rise to a new basis for determining the contractual cash flows that is economically equivalent to the basis immediately preceding the change are:

- (a) the replacement of an existing interest rate benchmark used to determine the contractual cash flows of a financial asset or a financial liability with an alternative benchmark rate – or the implementation of such a reform of an interest rate benchmark by altering the method used to calculate the interest rate benchmark – with the addition of a fixed spread necessary to compensate for the basis difference between the existing interest rate benchmark and the alternative benchmark rate;
- (b) changes to the reset period, reset dates or the number of days between coupon payment dates in order to implement the reform of an interest rate benchmark; and
- (c) the addition of a fallback provision to the contractual terms of a financial asset or a financial liability to enable any change described in (a) and (b) above to be implemented.

11.20E If changes are made to a financial asset or a financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, an entity shall first apply the practical expedient in paragraph 11.20C to the changes required by interest rate benchmark reform. The entity shall then apply the applicable requirements in this FRS to any additional changes to which the practical expedient does not apply.

7 Paragraphs 11.49 and 11.50 and the sub-heading before them are inserted as follows:

Interest rate benchmark reform

11.49 An entity shall disclose information on the nature and extent of risks arising from financial instruments subject to interest rate benchmark reform, how the entity manages those risks and the entity's progress in completing the transition from interest rate benchmarks to alternative benchmark rates.

11.50 An entity that has applied the practical expedient in paragraph 11.20C shall disclose that fact. It shall also consider whether any further disclosure is necessary, for example in accordance with paragraphs 8.6 and 8.7.

Amendments to Section 12 *Other Financial Instruments Issues*

8 The following paragraphs set out the draft amendments to Section 12 *Other Financial Instruments Issues* (inserted text is underlined, deleted text is struck through).

9 Paragraph 12.2 is amended as follows (footnote 39 is not amended and is not reproduced here):

12.2 An entity shall choose to apply either:

- (a) the provisions of both Section 11 and Section 12 in full; or
- (b) the **recognition** and **measurement** provisions of IAS 39 *Financial Instruments: Recognition and Measurement* (as adopted in the EU)³⁹, the disclosure requirements of Sections 11 and 12 and the presentation requirements of paragraphs 11.38A and 12.25BW; or
- (c) the recognition and measurement provisions of IFRS 9 *Financial Instruments* (as adopted in the EU) and IAS 39 (as amended following the publication of IFRS 9), the disclosure requirements of Sections 11 and 12 and the presentation requirements of paragraphs 11.38A and 12.25BW;

to account...

10 Paragraph 12.2A is amended and paragraph 12.2B is inserted as follows:

12.2A ~~Deleted~~ An entity choosing to apply the recognition and measurement provisions of IAS 39, in accordance with paragraph 12.2(b), shall apply the requirements in paragraphs 5.4.6 to 5.4.9 of IFRS 9 to a financial asset and a financial liability if, and only if, the basis for determining the contractual cash flows of that financial asset or financial liability changes as a result of interest rate benchmark reform.

12.2B For the purposes of applying paragraphs 5.4.6 to 5.4.9 of IFRS 9, the references to paragraph B5.4.5 of IFRS 9 shall be read as referring to paragraph AG7 of IAS 39. References to paragraphs 5.4.3 and B5.4.6 of IFRS 9 shall be read as referring to paragraph AG8 of IAS 39.

11 The heading above paragraph 12.25B is amended as follows:

Temporary amendments to specific hedge accounting requirements to interest rate benchmark reform (Phase 1)

12 Paragraphs 12.25B and 12.25H are amended as follows:

12.25B Paragraphs 12.25C to 12.25H ~~only~~ apply to hedging relationships directly affected by interest rate benchmark reform. A hedging relationship is directly affected by interest rate benchmark reform only if the reform gives rise to uncertainties about:

- (a) the interest rate benchmark designated as a hedge risk; and/or
- (b) the timing and/or the amount of the interest rate benchmark-based cash flows of the hedged item and/or the hedging instrument.

12.25H When designating a group of items as the hedged item, or a combination of financial instruments as the hedging instrument, an entity shall cease applying paragraphs 12.4225C to 12.25E to an individual item or financial instrument as relevant in accordance with paragraph 12.25G, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to that item or financial instrument.

13 Paragraphs 12.25I to 12.25V and new sub-headings are inserted as follows:

12.25I An entity shall prospectively cease to apply paragraph 12.25F at the earlier of:

- (a) when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the non-contractually specified risk component; or
- (b) when the hedging relationship in which the non-contractually specified risk component is the hedged item is discontinued.

Additional temporary amendments specific to interest rate benchmark reform (Phase 2)

12.25J As and when paragraphs 12.25C to 12.25F cease to apply to a hedging relationship because the uncertainties arising from interest rate benchmark reform described in paragraph 12.25B are no longer present (see also paragraphs 12.25G to 12.25I for Phase 1 cessation requirements), an entity shall apply paragraphs 12.25P to 12.25U as applicable and amend the documentation of that hedging relationship (see paragraph 12.18(d)) to reflect the changes required by interest rate benchmark reform, ie the changes are consistent with the requirements in paragraphs 11.20B to 11.20D. In this context, the hedge documentation shall be amended only to make one or more of these changes:

- (a) specifying an alternative benchmark rate (contractually or non-contractually specified) as a hedged risk;
- (b) amending the description of the hedged item, including the description of the portion of the cash flows or fair value being hedged; or
- (c) amending the description of the hedging instrument (see also paragraph 12.25K).

12.25K An entity shall also apply the requirement in paragraph 12.25J(c) if these three conditions are met:

- (a) the entity makes a change required by interest rate benchmark reform using an approach other than changing the basis for determining the contractual cash flows of the hedging instrument (as described in paragraph 11.20B);
- (b) the original hedging instrument is not derecognised; and
- (c) the chosen approach is economically equivalent to changing the basis for determining the contractual cash flows of the original hedging instrument (as described in paragraphs 11.20C and 11.20D).

12.25L Paragraphs 12.25C to 12.25F may cease to apply at different times. Therefore, in applying paragraph 12.25J, an entity may be required to amend the documentation of its hedging relationships at different times or may be required to amend the documentation of a hedging relationship more than once.

12.25M An entity shall amend the hedge documentation as required in paragraph 12.25J no later than the end of the reporting period during which a change is made to the hedged risk, hedged item or hedging instrument (see paragraph 1.30 for first-time application). For the avoidance of doubt, such an amendment to the documentation of a hedging relationship constitutes neither the discontinuation of the hedging relationship nor the commencement of a new hedging relationship.

12.25N If changes are made in addition to those changes required by interest rate benchmark reform (as described in paragraphs 11.20B to 11.20D) to the financial asset or the financial liability in a hedging relationship or to the documentation of the hedging relationship (as required by paragraph 12.25J), an entity shall first apply the applicable requirements in this FRS to determine whether those additional changes result in the discontinuation of hedge accounting. If the

additional changes do not result in the discontinuation of hedge accounting, an entity shall apply paragraph 12.25J.

12.25O Paragraphs 12.25P to 12.25V provide exceptions to the requirements specified in those paragraphs only. An entity shall apply all other hedge accounting requirements in this FRS, including the qualifying criteria in paragraph 12.18, to hedging relationships that were directly affected by interest rate benchmark reform. An entity shall also apply paragraph 12.20 (for a fair value hedge) or paragraph 12.23 (for a cash flow hedge) to account for any changes in the fair value of the hedged item or the hedging instrument.

Cash flow hedges

12.25P For the purposes of applying paragraph 12.23(d), at the point when an entity applies paragraph 12.25J to a hedged item in a cash flow hedge, the amount accumulated in the cash flow hedge reserve shall be deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.

12.25Q For a discontinued hedging relationship, when the interest rate benchmark on which the hedged future cash flows had been based is changed as required by interest rate benchmark reform, for the purposes of applying paragraph 12.25A (as applicable to a cash flow hedge), in order to determine whether the hedged future cash flows are expected to occur, the amount accumulated in the cash flow hedge reserve for that hedging relationship shall be deemed to be based on the alternative benchmark rate on which the hedged future cash flows will be based.

Group of items

12.25R When an entity applies paragraph 12.25J to a hedged item that is a group of items (see paragraph 12.16B), the entity shall allocate the items in that group to subgroups based on the benchmark rate being hedged and document the benchmark rate as the hedged risk for each subgroup. For example, in a hedging relationship in which a group of items is hedged for changes in an interest rate benchmark subject to interest rate benchmark reform, the hedged cash flows or fair value of some items in the group could be changed to reference an alternative benchmark rate before other items in the group are changed. In this example, in applying paragraph 12.25J, the entity would document the alternative benchmark rate as the hedged risk for that relevant subgroup of hedged items. The entity would continue to document the existing interest rate benchmark as the hedged risk for the other subgroup of hedged items until the hedged cash flows or fair value of those items are changed to reference the alternative benchmark rate or the items expire and are replaced with hedged items that reference the alternative benchmark rate.

12.25S An entity applying paragraph 12.25R shall assess separately whether each subgroup meets the requirements in paragraph 12.16B. If any subgroup fails to meet the requirements in paragraph 12.16B, the entity shall discontinue hedge accounting prospectively for the hedging relationship in its entirety. An entity shall also apply the requirements in paragraphs 12.20 or 12.23 to account for ineffectiveness related to the hedging relationship in its entirety.

Components of an item

12.25T For the purposes of applying paragraph 12.16C(a), an alternative benchmark rate that is a non-contractually specified risk component, which is not separately identifiable, is deemed to be separately identifiable, if and only if, the entity reasonably expects that the alternative benchmark rate will be separately identifiable within the next 24 months. The 24-month period applies on a rate-by-rate basis, ie the period starts for each alternative benchmark rate when it is identified as a non-contractually specified risk component for the first time.

12.25U If an entity that applied paragraph 12.25T, subsequently reasonably expects that the alternative benchmark rate will not be separately identifiable within 24 months from the date it was identified as a non-contractually specified risk component for the first time, the entity shall cease to apply paragraph 12.25T to that alternative benchmark rate and discontinue hedge accounting prospectively from the date of that reassessment for all hedging relationships in which the alternative benchmark rate was identified as a non-contractually specified risk component.

12.25V An entity shall also apply paragraphs 12.25T and 12.25U to new hedging relationships in which an alternative benchmark rate is identified as a non-contractually specified risk component (see paragraph 12.16C(a)) when, because of interest rate benchmark reform, that risk component is not separately identifiable at the date it is documented as a hedged item.

14 Paragraph 12.25I is renumbered as paragraph 12.25W.

Amendments to Section 20 Leases

- 15 The following paragraph sets out the amendments to Section 20 *Leases* (inserted text is underlined).
- 16 Paragraph 20.11 is amended as follows:
 - 20.11 A lessee shall apportion minimum lease payments between the finance charge and the reduction of the outstanding liability using the **effective interest method** (see paragraphs 11.15 to 11.20D). The lessee shall allocate the finance charge to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. A lessee shall charge contingent rents as **expenses** in the periods in which they are incurred.

Approval by the FRC

Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Interest rate benchmark reform (Phase 2) was approved for issue by the Financial Reporting Council on 9 December 2020.

Amendments to Basis for Conclusions *FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland*

- 1 The following amendments are made to the Basis for Conclusions *FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland* (inserted text is underlined).
- 2 Paragraphs B11.49A to B11.49H and the sub-heading before them are inserted after paragraph B11.49:

Interest rate benchmark reform (Phase 2)

- B11.49A Interest rate benchmarks such as the London Interbank Offered Rate (LIBOR) are being reformed, and it is anticipated that LIBOR will not be available after 2021. As a consequence, entities have to amend contractual terms referenced to LIBOR and other interest rate benchmarks and switch to new alternative benchmark rates. Whilst changes to financial assets or financial liabilities are common, the financial reporting implications for changes that are required by interest rate benchmark reform could not have been foreseen when FRS 102 was developed.
- B11.49B Therefore FRS 102 was amended in December 2020 to deal with the financial reporting implications associated with the replacement of interest rate benchmarks as part of the international interest rate benchmark reforms. These amendments are referred to as Phase 2 of the interest rate benchmark reform related amendments to FRS 102. The Phase 1 amendments relate to hedge accounting (see paragraphs B11.69 to B11.75).
- B11.49C For the purposes of these amendments, interest rate benchmark reform refers to the market-wide reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark rate such as that resulting from the recommendations set out in the Financial Stability Board's July 2014 report *Reforming Major Interest Rate Benchmarks*.
- B11.49D Similarly to Phase 1, as this is a global systemic issue, the FRC did not want to develop a financial reporting solution in isolation from other relevant developments. Therefore these amendments are based on the IASB's *Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16*. Changes were made to reflect existing differences between IFRS and FRS 102. The amendments were supported by respondents.
- B11.49E FRS 102 permits an accounting policy choice between the requirements of Section 11 and Section 12 of FRS 102 and the recognition and measurement requirements of IFRS 9 or IAS 39. The amendments to FRS 102 ensure that equivalent relief is available to all entities applying FRS 102, regardless of their accounting policy choice in relation to financial instruments.
- B11.49F A new practical expedient requires entities to account for changes to contractual cash flows required by interest rate benchmark reform, as if they were a re-estimation of the cash flows of a variable rate financial instrument. The re-estimation of the cash flows is not expected to change the carrying amount of the financial asset or financial liability. This practical expedient applies exclusively to changes to cash flows required as a direct consequence of interest rate benchmark reform. Other changes to financial assets or financial liabilities continue to be assessed in accordance with the existing requirements in FRS 102 (for example paragraphs 11.19, 11.20 or 11.37).

B11.49G Some additional disclosures were introduced to assist users of financial statements to better understand the impact and risks associated with interest rate benchmark reform.

B11.49H Application of the amendments is mandatory and effective for accounting periods beginning on or after 1 January 2021, with early application permitted. An end date is not specified for the Phase 2 amendments, although they are temporary in nature. These amendments are designed to address financial reporting issues associated with the replacement of interest rate benchmarks, and their use ends when this process is complete.

- 3 The sub-heading before paragraph B11.76 is amended as follows:

Interest rate benchmark reform (Phases 1 and 2)

- 4 Paragraphs B11.76 to B11.79 are inserted as follows:

B11.76 In December 2020 additional amendments were made to address the accounting implications associated with the replacement of interest rate benchmarks, referred to as Phase 2 of the interest rate benchmark reform related amendments. See also paragraph B11.49D.

B11.77 The amendments apply when the Phase 1 hedge accounting reliefs end, ie when the uncertainties about the timing and amount of interest rate benchmark referenced cash flows are resolved by the replacement with alternative benchmark rates.

B11.78 A new temporary relief relating to hedge documentation will prevent the discontinuation of hedge accounting when hedge documentation is updated to reflect the switch to alternative benchmark rates. To ease the operational burden entities are allowed to make the necessary changes to their hedge documentation by the end of the reporting period, rather than immediately. This period has been extended to the date the financial statements are authorised for issue on first-time application of the amendments, to provide even greater flexibility to entities, particularly those that adopt these amendments early. Other amendments provide specific reliefs for cash flow hedges, hedges of groups of items and non-contractually specified risk components. All other unamended hedge accounting requirements of FRS 102 continue to apply.

B11.79 The amendments are mandatory, although the application of hedge accounting remains optional. The effective date of the amendments is accounting periods beginning on or after 1 January 2021, with early application permitted. An end date is not specified for the Phase 2 amendments, although they are temporary in nature. These amendments are designed to address financial reporting issues associated with the replacement of interest rate benchmarks, and their use ends when this process is complete.

- 5 The heading and paragraphs B20.12 are inserted under paragraph B20.11 as follows:

Interest rate benchmark reform (Phase 2)

B20.12 The FRC assessed whether specific reliefs were needed for lease accounting when there is a change in the basis for determining future lease payments or receipts required by interest rate benchmark reform. The FRC would not expect that changes to future lease payments or receipts required by interest rate benchmark reform would alter the carrying amounts of receivables recognised by a lessor or payables recognised by a lessee arising under a finance lease. The FRC also believes that the existing requirements for operating leases are not onerous to apply and will provide useful information in the context of interest rate benchmark reform. The FRC notes that the IASB made changes to IFRS 16 *Leases* as part of its Phase 2 amendments to IFRS

(see paragraph B11.49D), but they relate to specific lease modification requirements that do not exist in FRS 102. The FRC therefore decided that no specific amendments to FRS 102 were needed. A consequential amendment was made to paragraph 20.11 to reflect changes made to Section 11.

6 Table 1 *Exposure drafts and consultation documents* is amended as follows (new exposure drafts are inserted in numerical order):

Exposure draft		Date of issue	Finalised as	Date of issue	Mandatory effective date
<u>FRED 74</u>	<u><i>Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Interest rate benchmark reform (Phase 2)</i></u>	<u>May 2020</u>	<u><i>Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Interest rate benchmark reform (Phase 2)</i></u>	<u>Dec 2020</u>	<u>1 Jan 2021</u>

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