



December 2019

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

Interest rate benchmark reform

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

Interest rate benchmark reform

Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Interest rate benchmark reform 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.

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- (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. There is increasing uncertainty about the long-term viability of some interest rate benchmarks and this gives rise to issues affecting financial reporting in the period before the reform, particularly in relation to hedge accounting.
- (iii) Interest rate benchmark reform will affect some entities applying FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*. In relation to financial instruments, FRS 102 permits entities an accounting policy choice to apply the recognition and measurement requirements of Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instruments Issues*, IFRS 9 *Financial Instruments* or IAS 39 *Financial Instruments: Recognition and Measurement*. The IASB has made amendments to IFRS 9 and IAS 39 in response to the reform of interest rate benchmarks.
- (iv) These amendments to specific hedge accounting requirements in Section 12 provide relief that will avoid unnecessary discontinuation of hedge accounting, during the period of uncertainty. Entities will apply specific hedge accounting requirements assuming that the interest rate benchmark relevant to the hedge accounting is not altered as a result of interest rate benchmark reform.
- (v) The amendments are effective for accounting periods beginning on or after 1 January 2020, with early application permitted.
- (vi) Issues affecting financial reporting as a result of the replacement/reform of the benchmarks (as opposed to during the period before the reform) will be considered in due course.

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, deleted text is struck through).
- 2 Paragraph 1.12(c) is amended as follows:
 - (c) The requirements of paragraphs 11.42, 11.44, 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b), 11.48(c), 12.26 (in relation to those cross-referenced paragraphs from which a disclosure exemption is available), 12.27, 12.29(a), 12.29(b), ~~and 12.29A~~ and 12.30 provided disclosures equivalent to those required by this FRS are included in the consolidated financial statements of the group in which the entity is consolidated.
- 3 Paragraph 1.22 is inserted as follows:

1.22 In December 2019 amendments were made to this FRS to insert paragraphs 12.25B to 12.25H and 12.30, and make other minor consequential amendments. These amendments are effective for accounting periods beginning on or after 1 January 2020. Early application is permitted. If an entity applies these amendments to an accounting period beginning before 1 January 2020 it shall disclose that fact, unless it is a small entity, in which case it is encouraged to disclose that fact.

Entities shall apply paragraphs 12.25B to 12.25H 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 amount accumulated in the cash flow hedge reserve that existed at the beginning of the reporting period in which an entity first applies these amendments.

In the reporting period in which an entity first applies these amendments, 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

- 4 The following paragraph sets out the amendments to Section 11 *Basic Financial Instruments* (inserted text is underlined, deleted text is struck through).
- 5 Footnote 34 to paragraph 11.2(b) is amended as follows:
 - 34 Until IAS 39 is fully superseded by IFRS 9 *Financial Instruments* (ie for all entities, including insurers), an entity shall apply the version of IAS 39 that is in effect at the entity's reporting date, ~~by reference to the IFRS publication titled *International Financial Reporting Standards IFRS Consolidated without early application*~~. When IAS 39 is fully superseded by IFRS 9, an entity shall apply the version of IAS 39 that applied immediately prior to IFRS 9 fully superseding IAS 39. A copy of that version will be retained for reference on the FRC website (www.frc.org.uk). Entities shall apply the so-called 'EU carve-out' of IAS 39', which amended paragraph 81A and related Application Guidance in IAS 39.

Amendments to Section 12 *Other Financial Instruments Issues*

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

7 Footnote 39 to paragraph 12.2(b) is amended as follows:

39 Until IAS 39 is fully superseded by IFRS 9 *Financial Instruments* (ie for all entities, including insurers), an entity shall apply the version of IAS 39 that is in effect at the entity's reporting date, ~~by reference to the IFRS publication titled *International Financial Reporting Standards IFRS Consolidated without early application*~~. When IAS 39 is fully superseded by IFRS 9, an entity shall apply the version of IAS 39 that applied immediately prior to IFRS 9 fully superseding IAS 39. A copy of that version will be retained for reference on the FRC website (www.frc.org.uk). Entities shall apply the so-called 'EU carve-out' of IAS 39', which amended paragraph 81A and related Application Guidance in IAS 39.

8 Paragraphs 12.25B to 12.25H and the sub-heading before them are inserted as follows:

Temporary amendments to specific hedge accounting requirements

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.

12.25C In determining whether a forecast transaction (or a component thereof) is highly probable, an entity shall assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of interest rate benchmark reform.

12.25D In applying the requirement in paragraph 12.25A, in order to determine whether the hedged future cash flows are expected to occur, an entity shall assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of interest rate benchmark reform.

12.25E In applying the requirement in paragraph 12.18A, an entity shall assume that the interest rate benchmark on which the hedged cash flows and/or the hedged risk are based, or the interest rate benchmark on which the cash flows of the hedging instrument are based, are not altered as a result of interest rate benchmark reform.

12.25F For a hedge of a non-contractually specified benchmark component of interest rate risk, an entity shall apply the requirement in paragraph 12.16C(a) – that the changes, in the cash flows or fair value attributable, are a separately identifiable and reliably measurable specific risk or risks – only at the inception of the hedging relationship.

12.25G An entity shall cease applying paragraphs 12.25C to 12.25E at the earlier of:

- (a) when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the relevant interest rate benchmark-based cash flows; or
- (b) when the entire amount accumulated in the cash flow hedge reserve with respect to that hedging relationship is reclassified to profit or loss.

If the hedging relationship is discontinued at an earlier date, an entity shall prospectively cease applying paragraph 12.25E to that hedging relationship at the date of discontinuation.

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 12.12C 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.

9 Paragraph 12.25B is renumbered as paragraph 12.25I.

10 Paragraph 12.30 is inserted as follows:

12.30 When an entity has taken advantage of the temporary amendments to specific hedge accounting requirements in paragraphs 12.25C to 12.25F, it shall disclose:

(a) that fact; and

(b) the significant interest rate benchmarks to which the entity's hedging relationships are exposed.

It shall also consider whether any further disclosure is necessary, for example in accordance with paragraphs 8.6 and 8.7.

Approval by the FRC

Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Interest rate benchmark reform was approved for issue by the Financial Reporting Council on 20 November 2019.

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 B11.69 to B11.75 and the sub-heading before them are inserted as follows:

Interest rate benchmark reform

B11.69 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*.

B11.70 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. There is increasing uncertainty about the long-term viability of some interest rate benchmarks and this gives rise to issues affecting financial reporting in the period before the reform, particularly in relation to hedge accounting.

B11.71 Interest rate benchmark reform will affect some entities applying FRS 102. In relation to financial instruments, FRS 102 permits entities an accounting policy choice to apply the recognition and measurement requirements of Section 11 and Section 12 of FRS 102, IFRS 9 or IAS 39. The IASB has made amendments to IFRS 9 and IAS 39 in response to the reform of interest rate benchmarks.

B11.72 In December 2019, Section 12 was amended to include temporary amendments to specific hedge accounting requirements to provide relief during the period of uncertainty before the interest rate benchmark is reformed. In considering the issue, the FRC noted that interest rate benchmark reform is an international and systemic issue and it did not want to develop a financial reporting solution in isolation from other relevant developments. The IASB's *Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)* was identified as a suitable basis for the development of similar amendments to FRS 102. In deciding to base the amendments to FRS 102 on similar amendments to IFRS 9 the FRC made a number of changes including simplifications and changes to reflect existing differences between IFRS 9 and FRS 102. The amendments were supported by respondents.

B11.73 As a result of these amendments, entities will apply specific hedge accounting requirements assuming that the interest rate benchmark relevant to the hedge accounting is not altered as a result of interest rate benchmark reform.

B11.74 The temporary amendments to specific hedge accounting requirements are not intended to change the requirement that entities measure and recognise hedge ineffectiveness, which should continue to be measured and recognised in accordance with FRS 102 (or IFRS 9 or IAS 39 depending on the accounting policy choice made by the entity). 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 purposes 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.

B11.75 The effective date is accounting periods beginning on or after 1 January 2020, with early application permitted.

3 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 72</u>	<u><i>Draft Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Interest rate benchmark reform</i></u>	<u>Jul 2019</u>	<u><i>Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Interest rate benchmark reform</i></u>	<u>Dec 2019</u>	<u>1 Jan 2020</u>

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