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Hans Hoogervorst
Chair
International Accounting Standards Board
Columbus Building
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Dear Mr Hoogervorst

Exposure Draft 2019/1 – Interest Rate Benchmark Reform - Proposed amendments to IFRS 9 and IAS 39

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Accounting Standards Board's ('the IASB's') exposure draft Interest Rate Benchmark Reform – Proposed amendments to IFRS 9 and IAS 39 ('the exposure draft', 'the ED').

We support the IASB's response in proposing amendments to both IFRS 9 and IAS 39 that deal with the immediate need of addressing the effect of the uncertainty arising from changes in benchmark interest rates on the "highly probable" requirement for cash flow hedges and the designated risk for cash flow and fair value hedges. We acknowledge that this is the first part of the IASB's response to challenges arising from interest rate benchmark reform. Given the speed at which market participants are choosing, or being required, to switch to new benchmark interest rates we encourage the IASB to work concurrently on finalising with a sense of urgency the amendments arising from this ED and developing the forthcoming amendments needed for the second phase. To aid your deliberations for the second phase, we have included what we consider the more pressing issues for consideration in Appendix 2 to this letter.

Our most significant observation with the exposure draft is that while the impact of the relief on prospective hedge effectiveness requirements is clearly explained, there is lack of clarity on its application to retrospective hedge effectiveness (for IAS 39) and measurement of hedge ineffectiveness (for both IAS 39 and IFRS 9). This lack of clarity is highlighted in paragraph BC22 and BC23 of the ED where it is stated that there is no intention to change measurement of hedge effectiveness and no exception is proposed for retrospective assessment.

In our view, there should be consistency in how the uncertainty of interest rate benchmark reform affects the prospective and retrospective hedge effectiveness assessment and measurement of hedge ineffectiveness. In other words, the uncertainty of benchmark interest rate replacement should not be reflected in the determination of the forecast cash flows in a cash flow hedge or the designated interest rate risk in a cash flow or fair value hedge with regard to the hedged item, when assessing and measuring hedge effectiveness.

We further note that the amendment should be clearer on whether amounts deferred in the cash flow hedge reserve should be reclassified to profit or loss when the entity ceases applying the amendment (because the interest rate benchmark uncertainty is no longer present). Entities will be faced with this question if they switch to new benchmark interest rates for both the hedged item and hedging instrument because the cumulative fair value gain or loss in the cash flow reserve up to the point of the switch will reflect the terms of the pre-amended derivative. In this case an entity's exposure to benchmark interest rates continues, and so we would expect that the amendment be clear that amounts are retained in the cash flow reserve on the basis that the exposure to the hedged risk is still expected to occur (IFRS 9:6.5.12(a) & IAS 39:100). We consider this an issue to include as part of the first phase of the project given this is a 'pre-replacement issue' as the accounting treatment does not depend on whether the entity applies hedge accounting once the new benchmark interest rate is introduced.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884 or Andrew Spooner in London at +44 (0) 20 7007 0204.

Yours sincerely

Veronica Poole
Global IFRS Leader

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Appendix 1

Question 1 [paragraphs 6.8.4–6.8.6 of IFRS 9 and paragraphs 102D–102F of IAS 39]

Highly probable requirement and prospective assessments

For hedges of interest rate risk that are affected by interest rate benchmark reform, the Board proposes amendments to IFRS 9 and IAS 39 as described below.

(a) For the reasons set out in paragraphs BC8–BC15, the Board proposes exceptions for determining whether a forecast transaction is highly probable or whether it is no longer expected to occur. Specifically, the Exposure Draft proposes that an entity would apply those requirements assuming that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of interest rate benchmark reform.

(b) For the reasons set out in paragraphs BC16–BC23, the Board proposes exceptions to the hedge accounting requirements in IFRS 9 and IAS 39 so that an entity would assume that the interest rate benchmark on which the hedged cash flows are based, and/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 when the entity determines whether:

(i) there is an economic relationship between the hedged item and the hedging instrument applying IFRS 9; or

(ii) the hedge is expected to be highly effective in achieving offsetting applying IAS 39.

Do you agree with these proposals? Why or why not? If you agree with only parts of the proposals, please specify what you agree and disagree with. If you disagree with the proposals, please explain what you propose instead and why.

We are supportive of the ED with respect to the exceptions proposed for highly probable criterion and the prospective hedge effectiveness assessment. The latter is relevant for both fair value and cash flow hedges, but particularly for non-contractual and contractual cash flow hedges of interbank offer rates (IBOR), given the requirements in IFRS for entities to estimate and measure those hedged cash flows for periods beyond when IBOR will be replaced with new risk free rates (RFR).

We believe that the ED is not clear on how the impact of the uncertainty of interest rate benchmark reform impacts the retrospective assessment of hedge effectiveness (IAS 39) and measurement of ineffectiveness (IAS 39 and IFRS 9). Specifically, we do not agree with the position taken in paragraphs BC22 and BC23 that the proposals are not intended to change the measurement of hedge effectiveness (BC22) nor propose any exception to retrospective assessments (BC23). We agree that the requirement to measure ineffectiveness should not be amended. However, we believe that in order for the proposals to achieve their objective of not disrupting hedge accounting due to the uncertainty of interest rate benchmark reform, the uncertainty of the reform should be excluded from the identification of the hedged item for the purposes of retrospective assessment and measurement of hedge ineffectiveness. It is inconsistent that for the purpose of prospective hedge effectiveness assessment the uncertainty of the reform is not reflected (i.e. the entity can continue to regard the designated risk as the pre-reform benchmark interest rates), but when the entity performs its retrospective assessment and measurement at the period end it must reflect the uncertainty. The prospective test of hedge effectiveness is designed to test whether the entity can demonstrate that the hedge relationship is expected to be effective for the forthcoming reporting period. If relief is applied to the prospective test, but not to the retrospective test, entities will pass the initial test that allows application hedge accounting (prospective assessment) but ultimately may not qualify for hedge accounting at the end of the reporting period due to the uncertainty of benchmark interest rate reform being factored into the retrospective assessment of effectiveness. In our view this runs counter to the rationale for providing relief. If that is the IASB's intention, then the ED will not offer the relief we believe it was originally designed to achieve as there will be significant disruption to hedge accounting solely because of benchmark interest rate reform.

We propose that the exception from reflecting the uncertainty relating to interest rate benchmark reform should apply to the hedged item. Therefore, an entity shall exclude from the retrospective assessment of hedge effectiveness the uncertainty that the pre-reform benchmark interest rates could be replaced. For example, in a cash flow hedge, the entity would at the period end forecast its future highly probable forecast cash flows for retrospective assessment on the assumption that the pre-reform benchmark will not be replaced given that is the designated risk. The risk that the benchmark may change to a new RFR should not be factored into the forecast cash flows, thereby resulting in that risk not being a source of ineffectiveness in determining whether in the period the hedge was highly effective. Similarly, for measurement of hedge ineffectiveness when performing the 'lower of test' in IAS 39:96(a) and IFRS 9:6.5.11 for cash flows hedges, or calculating the hedge adjustment to the hedged item in a fair value hedge in IAS 39:89(b) and IFRS 9:6.5.8(b), the entity should exclude the uncertainty of the reform to benchmark interest rates. If the amendments do not reflect this then entities will recognise significant measurement of ineffectiveness, particularly for cash flow hedges, if the lower of test reflects that current benchmark interest rates will cease before the end of the hedge.

To illustrate, an entity has floating rate IBOR issued debt with a remaining term of five years that it currently hedges with a receive-IBOR pay fixed rate interest rate swap designated in an existing cash flow hedge accounting relationship. The ED will require the entity, for the purposes of prospective hedge effectiveness, to assume that the IBOR-based variable cash flows (the hedged item) are not affected by the uncertainty that IBOR is expected to be replaced with a RFR say in two years' time. In other words, the entity can assume IBOR will exist for the next five years even though it expects that in year three onwards it will be replaced by a new RFR. In our view, when the entity performs its retrospective hedge effectiveness assessment (whether that is a 'dollar-offset' or regression test) the entity's assumption for the hedged item with respect to the uncertainty of benchmark interest rate reform that is used for prospective hedge effectiveness test should equally apply. In other words, the entity can assume also for its retrospective assessment that IBOR will exist until year five. If this relief is not provided, the entity can only justify IBOR cash flows for years one and two (as for years three to five, the designated risk IBOR does not exist). This would lead to the hedge relationship not being highly effective in the period (under IAS 39). Similarly, for hedge effectiveness measurement, when determining the amount to be recognised using the 'lower-of' test the entity needs the relief so it can compare the cumulative change in the fair value of the interest rate swap (IBOR swap with five year term) with the cumulative change in the fair value of the hedged item (IBOR until year five). Should the relief not apply, the entity would be required to compare the cumulative change in the fair value of the interest rate swap with the cumulative change in the fair value of the hedged item, being IBOR cash flows only until the end of year two. Clearly, the latter accounting treatment would result in significant amounts of the change in fair value of the derivative being recognised in profit or loss as hedge ineffectiveness.

Turning to the hedging instrument, in our view, the fair value of a derivative must be measured in accordance with IFRS 13 *Fair Value Measurement* and so cannot ignore the impact of interest rate benchmark reform if market participants would factor that into their fair valuation. If market participants estimate future floating rates assuming that the interest rate basis will change this must be included in the fair valuation of the derivative. Similarly, if market participants discount derivatives using interest rate swap curves that assume that IBOR will be replaced with RFR then that swap curve must be applied as that is the rate used by market participants in discounting future cash flows for the purpose of fair valuation. We are concerned that the because the ED refers to the relief applying to the hedging instrument, this could imply that the uncertainty of the interest rate benchmark reform is stripped out the fair valuation of derivatives, which we do not believe is the intention of the proposals. The amendments would benefit from this clarification.

We note the ED is explicit that it only applies to interest rate risk hedges. We believe it should not be restricted to hedges of interest rate risk only but should apply to any hedges that designate interest cash flows that are subject to the reform. For example, hedges of floating rate foreign currency loans that are swapped into floating rates in the functional currency should be in scope of the amendments. This would

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mean that the uncertainty of the interest rate reform would not affect whether the hedged cash flows are highly probable and therefore also not affect the prospective effectiveness assessment or measurement of the hedged item for retrospective effectiveness assessment and measurement of ineffectiveness (which may be measured using the hypothetical derivative method).

We also note that in the introduction to the ED it refers to the ED only applying the "market wide replacement of an existing interest benchmark, such as IBOR, with an alternative interest rate based on the FSB's recommendations" as contained in the Financial Stability Board's July 2014 report *Reforming Major interest Rate Benchmarks*. We note that the EU benchmark regulation requires transition from EONIA to €STR, yet the FSB's report refers to EONIA as a "viable and actively used nearly-credit-risk-free reference interest rate, supported by a robust governance framework that is now being strengthened by the European authorities and its administrator". Given that the FSB acknowledged in 2014 that EONIA is viable, yet is subject to further strengthening, as opposed to be replaced in response to the FSB's recommendations, it would be helpful if there was clarification that EONIA-based designated relationships are in the scope of the amendments.

Question 2 [paragraph 6.8.7 of IFRS 9 and paragraph 102G of IAS 39]

Designating a component of an item as the hedged item

For the reasons set out in paragraphs BC24–BC27, the Board proposes amendments to the hedge accounting requirements in IFRS 9 and IAS 39 for hedges of the benchmark component of interest rate risk that is not contractually specified and that is affected by interest rate benchmark reform. Specifically, for such hedges, the Exposure Draft proposes that an entity applies the requirement—that the designated risk component or designated portion is separately identifiable—only at the inception of the hedging relationship.

Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you propose instead and why.

We support the proposals in the ED that hedge relationships that designate a risk component or designate a portion as separately identifiable can continue to be designated on that basis if those relationships exist at the date the amendment is first applied.

We note that paragraph BC27 does not permit an entity the same relief afforded in paragraph 6.8.7 in IFRS 9 and paragraph 102G in IAS 39 for newly designated hedge relationships (i.e. for those designated after the date the amendment is first applied). We acknowledge the IASB's objective for including this restriction so to avoid relief into perpetuity from the separately identifiable requirement for all new hedge relationships based on the pre-reform benchmark rates. However, given the frequency by which an entity redesignates when applying a dynamic hedge of interest rate risk (e.g. portfolio fair value hedge of interest rate risk and other dynamic hedges as described in IFRS 9:B6.5.24(b)) we consider this restriction could disrupt such hedges and would not achieve the objective of the ED. For a portfolio fair value hedge of interest rate risk and other dynamic hedging strategies the redesignation of an existing hedged item is more akin to a continuous hedge relationship and therefore we think relief from the separately identifiable provision should be extended to dynamic hedges of interest rate risk identified at the date of initial application where the redesignation follows a dedesignation of benchmark interest rates. This would meet the IASB's objective of avoiding disruption to hedge accounting for current portfolio hedges of interest rate risk without extending the relief to hedged items not designated at the date of initial application.

Question 3 [paragraphs 6.8.8–6.8.10 of IFRS 9 and paragraphs 102H–102J of IAS 39]

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Mandatory application and end of application

(a) For the reasons set out in paragraphs BC28–BC31, the Board proposes that the exceptions are mandatory. As a result, entities would be required to apply the proposed exceptions to all hedging relationships that are affected by interest rate benchmark reform.

(b) For the reasons set out in paragraphs BC32–BC42, the Board proposes that the exceptions would apply for a limited period. Specifically, an entity would prospectively cease applying the proposed amendments at the earlier of:
(i) when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows; and
(ii) when the hedging relationship is discontinued, or if paragraph 6.8.9 of IFRS 9 or paragraph 102I of IAS 39 applies, when the entire amount accumulated in the cash flow hedge reserve with respect to that hedging relationship is reclassified to profit or loss.

(c) For the reasons set out in paragraph BC43, the Board is not proposing an end of application in relation to the separate identification requirement.

Do you agree with these proposals? Why or why not? If you agree with only parts of the proposals, please specify what you agree and disagree with. If you disagree with the proposals, please explain what you propose instead and why.

We support the mandatory application of the amendment for the reasons given in the Basis for Conclusions.

We have concerns with the proposed approach to the end of the relief with respect to amounts previously deferred in the cash flow hedge reserve. For example, if an entity chose to amend both its debt and interest rate swap so they both move from say IBOR to a new RFR, the proposal would require the relief to end given that both contracts are amended such that the uncertainty of interest rate benchmark reform, for that hedge relationship, has ended. We do not believe the proposals are clear with respect of how the cumulative amount in the cash flow hedge reserve is accounted for at the date when the relief ends. Given the amendment is no longer applied, the amendments could be read as requiring immediate reclassification to profit or loss of all amounts in the cash flow hedge reserve. We do not support this accounting treatment given that the designated risk, in this case IBOR, is still expected to occur via its replacement as a new RFR. If the entity continues to be exposed to the new RFR with respect to the modified debt, then the previously designated risk is still expected to occur. We do not believe this would be meaningful given that the amendments are intended to avoid cessation of hedge accounting due to benchmark reform. Such a treatment would also create a disincentive for entities to amend contracts in advance of the resolution of the second phase of the IASB's project.

The proposals state that the amendments cease to apply when the uncertainty arising from the interest rate benchmark reform is no longer present for both the hedged item (paragraph 6.8.10(a) in IFRS 9 and paragraph 102J(a) in IAS 39) and hedging instrument (paragraph 6.8.10(b) in IFRS 9 and paragraph 102I(b) in IAS 39). We are supportive of this requirement with respect to the hedged item given that it is the hedged item, and the uncertainty around highly probable forecast cash flows or the designated hedged risk, that are the cause for the ED. However, we do believe the existence of uncertainty of benchmark interest rate reform affecting the hedging instrument should be a criterion to continue to apply the ED (as noted in IFRS 9:6.8.10(b) and IAS 39:102J(b)). As noted in paragraph BC31, an entity may apply the amendments in the case when the hedged item is based on a post-reform RFR but the hedging instrument is not (e.g. it is based on LIBOR). It is not clear what benefit the ED offers in this case, particularly when, as noted in paragraph BC41, the entity prospectively uses the new RFR for the item but the old-IBOR rate for the instrument. We had presumed in this case the entity would be required to redesignate its hedged item, given contractually it is now based on the new RFR not IBOR, and in doing so this redesignation would be captured by the second phase of the IASB's project.

More generally, we think the amendment could be clearer on how the end of application requirements contained in IFRS 9:6.8.8 – 6.8.10 and IAS 39:102H – 102J interacts with paragraph BC31. The latter illustrates that the amendment can still apply to one half of the relationship, in this case the hedging instrument, but not the hedged item, yet IFRS 9:6.8.9 and IAS 39:102I state that the amendments ceases to apply to the hedging relationship when the uncertainty is no longer present with respect to the *hedged item,* making no reference to the application continuing for the hedging instrument as implied by paragraph BC31.

Question 4 [paragraph 6.8.11 of IFRS 9 and paragraph 102K of IAS 39]

Disclosures

For the reasons set out in paragraph BC44, the Board proposes that entities provide specific disclosures about the extent to which their hedging relationships are affected by the proposed amendments.

Do you agree with these proposed disclosures? Why or why not? If not, what disclosures would you propose instead and why?

We question whether the proposal to disaggregate hedge relationships that are affected by the reform and those that are not will provide users with meaningful information. Benchmark interest rates are pervasive not only in hedge accounting relationships, but also risk management activities where hedge accounting is not applied, and as noted in our response to Question 1 relevant when hedging foreign currency risk. Given this, we believe separate quantitative disclosures of hedge relationships affected by the reform will not necessarily be meaningful given the pervasive impact of the reform. We believe the focus of the disclosures should instead be, at a minimum, a qualitative explanation of the entity's response to benchmark interest rate reform and whether the reform impacts their risk management strategy. The amendments could remind preparers of this as part of complying with IFRS 7:22A, rather than segregating quantitative information from existing IFRS 7 disclosures.

We note that paragraph 28(f) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, requires that on initial application of an IFRS Standard an entity provides the disclosure, to the extent practicable, of the amount of the adjustment from applying the IFRS Standard for each financial statement line item affected and the impact on basic and diluted earnings per share. We believe relief should be given from this specific requirement for these amendments to IAS 39/IFRS 9 given the amendments require an entity to continue to apply hedge accounting for previously designated hedge relationships. To disclose the effect had the amendment not been applied, and so likely illustrate the impact of not applying hedge accounting, appears onerous and not meaningful given that in the introduction to the amendments it is stated that the Board believed discontinuing hedge accounting solely due to the uncertainties of the interest rate benchmark reform would not provide meaningful information for users of financial statements.

Question 5 [paragraphs 7.1.9 and 7.2.26(d) of IFRS 9 and paragraph 108G of IAS 39]

Effective date and transition

For the reasons set out in paragraphs BC45–BC47, the Board proposes that the amendments would have an effective date of annual periods beginning on or after 1 January 2020. Earlier application would be permitted. The Board proposes that the amendments would be applied retrospectively. No specific transition provisions are proposed.

Do you agree with these proposals? Why or why not? If you disagree with the proposals, please explain what you propose instead and why.

We are supportive of the effective date and the ability to apply the amendments early.

While it is clear that the amendments are to be applied retrospectively, we believe it is not clear how retrospective application will work in some cases given hedge accounting is only ever applied prospectively. We acknowledge that paragraph BC46 explains that retrospective application does not permit an entity to reinstate hedge accounting that has already been discontinued. We support this, however we believe it could be made clearer as to what 'reinstating hedge accounting' means. For example, an entity may have ceased cash flow hedge accounting in a prior period (before the application of the amendment), say because of the impacts of the uncertainty of interest rate benchmark reform, and reclassified amounts out of the cash flow hedge reserve to profit or loss. In this example, it is not clear whether the prohibition from reinstating hedge accounting also prevent the reinstatement of amounts in the cash flow hedge reserve up to the date of discontinuance.

Consider the following example: an entity deferred amounts in the cash flow hedge reserve for the annual period end of 31 December 2018 (the uncertainty of interest rate benchmark reform did not trigger a reclassification of the cash flow hedge reserve). In the annual period ending 31 December 2019, because of the uncertainty of the interest rate benchmark reform, the entity was unable to defer amounts in the cash flow hedge reserve and was required to reclassify the cumulative amount at 30 September 2019 to profit or loss in the fourth quarter of 2019. When the entity retrospectively applies the amendments for the first time for the annual period ending 31 December 2020, does the prohibition on reinstating hedge accounting mean all amounts recognised in 2019 (including the reclassification of amounts from the cash flow hedge reserve relating to the period up to 30 September 2019) are unchanged, or is the entity required to reinstate the cash flow hedge reserve for the amount up to 30 September 2019 given that amount deferred in the cash flow hedge reserve was not subject to the uncertainty of interest rate benchmark reform? The amendments would benefit from being clear in this respect.

Appendix 2

As explained in our cover letter, we have identified the following key accounting issues that we believe should be prioritised as part of second phase of the project. The below is not intended to be an exhaustive list.

Hedge accounting

The proposed amendments in the ED address some of the hedge accounting issues affecting financial reporting in the period before the replacement of existing interest rate benchmarks with a new RFR. Other significant hedge accounting issues arising may arise from interest rate benchmark reform include the following.

- **Reclassification of gains/losses deferred in the cash flow hedge reserve**

An entity that has cash flow hedged future interest cash flows (e.g. IBOR cash flows) that are replaced by new RFR cash flows will need to reclassify the amounts deferred in the cash flow hedge reserve to profit or loss, if it is deemed that the original hedged cash flows are no longer expected to occur. This could give rise to a significant effect in profit or loss that may not provide useful information to users of financial statements. For example, if the new RFR cash flows (plus spread) are considered equivalent to the original hedged interest cash flows, and the RFR cash flows are expected to occur, reclassifying the full amount deferred in respect of the IBOR hedge would be inappropriate.

- **De/Re-designation of hedge relationships**

The ED proposes relief that will allow certain hedge relationships to continue whilst the uncertainties of interest rate reform continue to be present, and sets out when the relief ends. In many cases, the end of application of the relief will result in discontinuation of the hedge relationship to which the relief was applied. There could also be a number of other reasons why a hedge relationship may be discontinued due to the interest rate benchmark reform (e.g. due to derecognition of the hedging instrument or the hedged item). In many of the cases of discontinuation, the general risk management strategy of hedging interest rate risk will continue to exist and a new hedge of RFR risk will be immediately redesignated.

De and re-designation of a cash flow hedge can have negative consequences for the measurement of hedge ineffectiveness which is based on cumulative changes in the present value of hedged cash flows due to changes in the hedged risk since inception of the hedge. This can result in the recognition of hedge ineffectiveness simply due to the de and re-designation of a hedge which may not provide useful information. This issue could be addressed by providing targeted relief from discontinuing a hedge in certain circumstances or providing relief regarding the measurement of the hedged item (e.g. not requiring the hypothetical derivative to be reset to a fair value of zero upon de and re-designating certain hedges, instead the hypothetical derivative reflect the new RFR based on when the hedged item was first designated).

De and re-designation of a fair value hedge could also give rise to uncertainty as to whether the full fair value hedge adjustment is required to begin to be amortised in full through updating the effective interest rate, and if so, this may not provide useful information. For example, consider an entity that originally fair value hedged fixed rate debt for a benchmark interest rate risk (e.g. IBOR) and that the RFR is considered a component of that benchmark. Part way through the hedge, the entity redesignates the hedge for the same quantum of cash flows but for changes in the RFR for the remaining term of the hedged item using the original hedging derivative that has now changed from IBOR to RFR. Applying hedge accounting to the fixed rate debt for changes in RFR from this point in time will result in fair value hedge adjustments for the remaining term that will partially offset the fair value hedge adjustment that was already posted in respect of the original IBOR designation (i.e. because RFR is considered a component of IBOR). In such a case, amortising the full past hedge adjustment from the point of dedesignation will create a mismatch in profit or loss that may not provide useful information to users of financial statements.

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Another issue arising from the discontinuation of a hedge due to interest rate benchmark reform is the requirement to reclassify any costs of hedging amounts deferred under the cost of hedging approach in IFRS 9. This issue could be addressed by providing targeted relief from discontinuing a hedge or providing relief from the reclassification of cost of hedging amounts in certain circumstances.

Recognition and measurement

As explained in the ED, the interest rate reform is expected to result in changes to contracts, including the introduction of new fall-back provisions that describe the benchmark rate that will apply when the old benchmark rates ceases. These changes could result in either derecognition or modification of the financial asset or liability.

- **Derecognition of financial assets and liabilities**

Derecognition of financial assets and liabilities designated in hedge relationships could result in those hedges being discontinued resulting in further consequences as discussed above.

Derecognition and re-recognition of financial assets measured at amortised cost or FVTOCI could also affect the staging of those assets within the impairment model and the measurement of expected credit losses.

These accounting effects of derecognition may not provide useful information to users of financial statements.

- **Modification of financial assets and liabilities**

When the change results in modification of a financial asset measured at amortised cost or FVTOCI, or a financial liability measured at amortised cost, and that modification does not lead to derecognition, the change to the contract could result in a modification gain or loss in accordance with IFRS 9:5.4.3. This could arise if the forecast cash flows change due to a change in the contract but the effective interest rate remains the same because the financial instrument has not been derecognised. Given the guidance in IFRS 9:B5.4.5 for changes in floating interest rates, clarification of the interaction of these two paragraphs is important so as to determine whether in the case of a modification whether there is a gain or loss at the modification date, or instead there is no gain or loss and instead the change in the amount of the benchmark interest rate will be reflected in profit or loss only prospectively from when the new benchmark rate is introduced.