COMMISSION REGULATION (EU) 2021/25

of 13 January 2021

amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard 39 and International Financial Reporting Standards 4, 7, 9 and 16

(Text with EEA relevance)

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards ([1]), and in particular Article 3(1) thereof,

Whereas:

(1) By Commission Regulation (EC) No 1126/2008 ([2]) certain international standards and interpretations that were in existence at 15 October 2008 were adopted.

(2) On 22 July 2014, the Financial Stability Board published the report 'Reforming Major Interest Rate Benchmarks', which laid down recommendations to strengthen existing benchmarks and other potential reference rates based on interbank markets and to develop alternative nearly risk-free reference rates.

(3) Regulation (EU) 2016/1011 of the European Parliament and of the Council ([3]) introduced a common framework to ensure the accuracy and the integrity of indices used as benchmarks in financial instruments and financial contracts, or to measure the performance of investments funds in the Union.

(4) Commission Regulation (EU) 2020/34 ([4]) provides temporary and narrow exemptions to the hedge accounting requirements of International Accounting Standard (IAS) 39 *Financial Instruments: Recognition and Measurement* and International Financial Reporting Standard (IFRS) 9 *Financial Instruments* to address financial reporting consequences of the interest rate benchmark reform in the period before the replacement of an existing interest rate benchmark.

(5) On 27 August 2020, the International Accounting Standards Board published Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 to address the financial reporting consequences of the actual replacement of existing interest rate benchmarks with alternative reference rates.

(6) Those amendments provide for a specific accounting treatment to spread value changes of financial instruments or lease contracts due to the replacement of the interest rate benchmark over time, which prevents a sudden impact on Profit or Loss, and prevent unnecessary discontinuations of hedging relationships as a consequence of the replacement of the interest rate benchmark.

([1]) OJ L 243, 11.9.2002, p. 1.

([2]) Commission Regulation (EC) No 1126/2008 of 3 November 2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council (OJ L 320, 29.11.2008, p. 1).

([3]) Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014 (OJ L 171, 29.6.2016, p. 1).

([4]) Commission Regulation (EU) 2020/34 of 15 January 2020 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard 39, International Financial Reporting Standards 7 and 9 (OJ L 12, 16.1.2020, p. 5).

(7) Following the consultation with the European Financial Reporting Advisory Group, the Commission concludes that the amendments to IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 4 *Insurance Contracts*, IFRS 7 *Financial Instruments: Disclosures*, IFRS 9 *Financial Instruments* and IFRS 16 *Leases* meet the criteria for adoption set out in Article 3(2) of Regulation (EC) No 1606/2002.

(8) Regulation (EC) No 1126/2008 should therefore be amended accordingly.

(9) The measures provided for in this Regulation are in accordance with the opinion of the Accounting Regulatory Committee,

HAS ADOPTED THIS REGULATION:

Article 1

The Annex to Regulation (EC) No 1126/2008 is amended as follows:

(a) International Accounting Standard (IAS) 39 *Financial Instruments: Recognition and Measurement* is amended as set out in the Annex to this Regulation;

(b) International Financial Reporting Standard (IFRS) 4 *Insurance contracts* is amended as set out in the Annex to this Regulation;

(c) IFRS 7 *Financial Instruments: Disclosures* is amended as set out in the Annex to this Regulation;

(d) IFRS 9 *Financial Instruments* is amended as set out in the Annex to this Regulation;

(e) IFRS 16 *Leases* is amended as set out in the Annex to this Regulation.

Article 2

Each company shall apply the amendments referred to in Article 1, at the latest, as from the commencement date of its first financial year starting on or after 1 January 2021.

Article 3

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 13 January 2021.

For the Commission
The President
Ursula VON DER LEYEN

ANNEX

Interest Rate Benchmark Reform – Phase 2

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

Amendments to IFRS 9 *Financial Instruments*

Paragraphs 5.4.5–5.4.9, paragraphs 6.8.13, 6.9.1–6.9.13, paragraphs 7.1.9 and 7.2.43–7.2.46 are added. A heading is added before paragraph 6.9.1 and subheadings are added before paragraphs 5.4.5, 6.9.7, 6.9.9, 6.9.11 and 7.2.43.

5.4 AMORTISED COST MEASUREMENT

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Changes in the basis for determining the contractual cash flows as a result of interest rate benchmark reform

5.4.5 An entity shall apply paragraphs 5.4.6–5.4.9 to a financial asset or 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. For this purpose, the term 'interest rate benchmark reform' refers to the market-wide reform of an interest rate benchmark as described in paragraph 6.8.2.

5.4.6 The basis for determining the contractual cash flows of a financial asset or 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).

5.4.7 As a practical expedient, an entity shall apply paragraph B5.4.5 to account for a change in the basis for determining the contractual cash flows of a financial asset or 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 5.4.9). 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 previous basis (i.e. the basis immediately preceding the change).

5.4.8 Examples of changes that give rise to a new basis for determining the contractual cash flows that is economically equivalent to the previous basis (i.e. 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 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 financial liability to enable any change described in (a) and (b) above to be implemented.

5.4.9 If changes are made to a financial asset or 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 5.4.7 to the changes required by interest rate benchmark reform. The entity shall then apply the applicable requirements in this Standard to any additional changes to which the practical expedient does not apply. If the additional change does not result in the derecognition of the financial asset or financial liability, the entity shall apply paragraph 5.4.3 or paragraph B5.4.6, as applicable, to account for that additional change. If the additional change results in the derecognition of the financial asset or financial liability, the entity shall apply the derecognition requirements.

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6.8 TEMPORARY EXCEPTIONS FROM APPLYING SPECIFIC HEDGE ACCOUNTING REQUIREMENTS

End of application

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6.8.13 An entity shall prospectively cease applying paragraphs 6.8.7 and 6.8.8 at the earlier of:

(a) when changes required by interest rate benchmark reform are made to the non-contractually specified risk component applying paragraph 6.9.1; or

(b) when the hedging relationship in which the non-contractually specified risk component is designated is discontinued.

6.9 ADDITIONAL TEMPORARY EXCEPTIONS ARISING FROM INTEREST RATE BENCHMARK REFORM

6.9.1 As and when the requirements in paragraphs 6.8.4–6.8.8 cease to apply to a hedging relationship (see paragraphs 6.8.9–6.8.13), an entity shall amend the formal designation of that hedging relationship as previously documented to reflect the changes required by interest rate benchmark reform, ie the changes are consistent with the requirements in paragraphs 5.4.6–5.4.8. In this context, the hedge designation shall be amended only to make one or more of these changes:

(a) designating 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 designated portion of the cash flows or fair value being hedged; or

(c) amending the description of the hedging instrument.

6.9.2 An entity also shall apply the requirement in paragraph 6.9.1(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 5.4.6);

(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 5.4.7 and 5.4.8).

6.9.3 The requirements in paragraphs 6.8.4–6.8.8 may cease to apply at different times. Therefore, in applying paragraph 6.9.1, an entity may be required to amend the formal designation of its hedging relationships at different times, or may be required to amend the formal designation of a hedging relationship more than once. When, and only when, such a change is made to the hedge designation, an entity shall apply paragraphs 6.9.7–6.9.12 as applicable. An entity also shall apply paragraph 6.5.8 (for a fair value hedge) or paragraph 6.5.11 (for a cash flow hedge) to account for any changes in the fair value of the hedged item or the hedging instrument.

6.9.4 An entity shall amend a hedging relationship as required in paragraph 6.9.1 by the end of the reporting period during which a change required by interest rate benchmark reform is made to the hedged risk, hedged item or hedging instrument. For the avoidance of doubt, such an amendment to the formal designation of a hedging relationship constitutes neither the discontinuation of the hedging relationship nor the designation of a new hedging relationship.

6.9.5 If changes are made in addition to those changes required by interest rate benchmark reform to the financial asset or financial liability designated in a hedging relationship (as described in paragraphs 5.4.6–5.4.8) or to the designation of the hedging relationship (as required by paragraph 6.9.1), an entity shall first apply the applicable requirements in this Standard to determine if 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 amend the formal designation of the hedging relationship as specified in paragraph 6.9.1.

6.9.6 Paragraphs 6.9.7–6.9.13 provide exceptions to the requirements specified in those paragraphs only. An entity shall apply all other hedge accounting requirements in this Standard, including the qualifying criteria in paragraph 6.4.1, to hedging relationships that were directly affected by interest rate benchmark reform.

Accounting for qualifying hedging relationships

Cash flow hedges

6.9.7 For the purpose of applying paragraph 6.5.11, at the point when an entity amends the description of a hedged item as required in paragraph 6.9.1(b), 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.

6.9.8 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 purpose of applying paragraph 6.5.12 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.

Groups of items

6.9.9 When an entity applies paragraph 6.9.1 to groups of items designated as hedged items in a fair value or cash flow hedge, the entity shall allocate the hedged items to subgroups based on the benchmark rate being hedged and designate 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 6.9.1, the entity would designate the alternative benchmark rate as the hedged risk for that relevant subgroup of hedged items. The entity would continue to designate 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.

6.9.10 An entity shall assess separately whether each subgroup meets the requirements in paragraph 6.6.1 to be an eligible hedged item. If any subgroup fails to meet the requirements in paragraph 6.6.1, the entity shall discontinue hedge accounting prospectively for the hedging relationship in its entirety. An entity also shall apply the requirements in paragraphs 6.5.8 and 6.5.11 to account for ineffectiveness related to the hedging relationship in its entirety.

Designation of risk components

6.9.11 An alternative benchmark rate designated as a non-contractually specified risk component that is not separately identifiable (see paragraphs 6.3.7(a) and B6.3.8) at the date it is designated shall be deemed to have met that requirement at that date, if, and only if, the entity reasonably expects the alternative benchmark rate will be separately identifiable within 24 months. The 24-month period applies to each alternative benchmark rate separately and starts from the date the entity designates the alternative benchmark rate as a non-contractually specified risk component for the first time (i.e. the 24-month period applies on a rate-by-rate basis).

6.9.12 If subsequently an entity reasonably expects that the alternative benchmark rate will not be separately identifiable within 24 months from the date the entity designated it as a non-contractually specified risk component for the first time, the entity shall cease applying the requirement in paragraph 6.9.11 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 designated as a non-contractually specified risk component.

6.9.13 In addition to those hedging relationships specified in paragraph 6.9.1, an entity shall apply the requirements in paragraphs 6.9.11 and 6.9.12 to new hedging relationships in which an alternative benchmark rate is designated as a non-contractually specified risk component (see paragraphs 6.3.7(a) and B6.3.8) when, because of interest rate benchmark reform, that risk component is not separately identifiable at the date it is designated.

7.1 EFFECTIVE DATE

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7.1.9 *Interest Rate Benchmark Reform – Phase 2*, which amended IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, issued in August 2020, added paragraphs 5.4.5–5.4.9, 6.8.13, Section 6.9 and paragraphs 7.2.43–7.2.46. An entity shall apply these amendments for annual periods beginning on or after 1 January 2021. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.

7.2 TRANSITION

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Transition for *Interest Rate Benchmark Reform – Phase 2*

7.2.43 An entity shall apply *Interest Rate Benchmark Reform – Phase 2* retrospectively in accordance with IAS 8, except as specified in paragraphs 7.2.44–7.2.46.

7.2.44 An entity shall designate a new hedging relationship (for example, as described in paragraph 6.9.13) only prospectively (i.e. an entity is prohibited from designating 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 these amendments had been applied at that time; and

(b) at the beginning of the reporting period in which an entity first applies these amendments (date of initial application of these amendments), that discontinued hedging relationship meets the qualifying criteria for hedge accounting (after taking into account these amendments).

7.2.45 If, in applying paragraph 7.2.44, an entity reinstates a discontinued hedging relationship, the entity shall read references in paragraphs 6.9.11 and 6.9.12 to the date the alternative benchmark rate is designated as a non-contractually specified risk component for the first time as referring to the date of initial application of these amendments (i.e. the 24-month period for that alternative benchmark rate designated as a non-contractually specified risk component begins from the date of initial application of these amendments).

7.2.46 An entity is not required to restate prior periods to reflect the application of these amendments. The entity may restate prior periods if, and only if, it is possible without the use of hindsight. If an entity does not restate prior periods, the entity shall recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application of these amendments in the opening retained earnings (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application of these amendments.

Amendments to IAS 39 *Financial Instruments: Recognition and Measurement*

Paragraph 102M is amended.

Paragraphs 102O–102Z3 and 108H–108K are added. A heading is added before paragraph 102P and subheadings are added before paragraphs 102P, 102V, 102Y and 102Z1.

Temporary exceptions from applying specific hedge accounting requirements

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End of application

102M An entity shall prospectively cease applying paragraph 102G to a hedging relationship at the earlier of:

(a) when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk and the timing and the amount of the interest rate benchmark-based cash flows of the hedged item and of the hedging instrument; and

(b) when the hedging relationship to which the exception is applied is discontinued.

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102O An entity shall prospectively cease applying paragraphs 102H and 102I at the earlier of:

(a) when changes required by interest rate benchmark reform are made to the non-contractually specified risk portion applying paragraph 102P; or

(b) when the hedging relationship in which the non-contractually specified risk portion is designated is discontinued.

Additional temporary exceptions arising from interest rate benchmark reform

Hedge accounting

102P As and when the requirements in paragraphs 102D–102I cease to apply to a hedging relationship (see paragraphs 102J–102O), an entity shall amend the formal designation of that hedging relationship as previously documented to reflect the changes required by interest rate benchmark reform, ie the changes are consistent with the requirements in paragraphs 5.4.6–5.4.8 of IFRS 9. In this context, the hedge designation shall be amended only to make one or more of these changes:

(a) designating 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 designated portion of the cash flows or fair value being hedged;

(c) amending the description of the hedging instrument; or

(d) amending the description of how the entity will assess hedge effectiveness.

102Q An entity also shall apply the requirement in paragraph 102P(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 5.4.6 of IFRS 9);

(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 5.4.7 and 5.4.8 of IFRS 9).

102R The requirements in paragraphs 102D–102I may cease to apply at different times. Therefore, applying paragraph 102P, an entity may be required to amend the formal designation of its hedging relationships at different times, or may be required to amend the formal designation of a hedging relationship more than once. When, and only when, such a change is made to the hedge designation, an entity shall apply paragraphs 102V–102Z2 as applicable. An entity also shall apply paragraph 89 (for a fair value hedge) or paragraph 96 (for a cash flow hedge) to account for any changes in the fair value of the hedged item or the hedging instrument.

102S An entity shall amend a hedging relationship as required in paragraph 102P by the end of the reporting period during which a change required by interest rate benchmark reform is made to the hedged risk, hedged item or hedging instrument. For the avoidance of doubt, such an amendment to the formal designation of a hedging relationship constitutes neither the discontinuation of the hedging relationship nor the designation of a new hedging relationship.

102T If changes are made in addition to those changes required by interest rate benchmark reform to the financial asset or financial liability designated in a hedging relationship (as described in paragraphs 5.4.6–5.4.8 of IFRS 9) or to the designation of the hedging relationship (as required by paragraph 102P), an entity shall first apply the applicable requirements in this Standard to determine if 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 amend the formal designation of the hedging relationship as specified in paragraph 102P.

102U Paragraphs 102V–102Z3 provide exceptions to the requirements specified in those paragraphs only. An entity shall apply all other hedge accounting requirements in this Standard, including the qualifying criteria in paragraph 88, to hedging relationships that were directly affected by interest rate benchmark reform.

Accounting for qualifying hedging relationships

Retrospective effectiveness assessment

102V For the purpose of assessing the retrospective effectiveness of a hedging relationship on a cumulative basis applying paragraph 88(e) and only for this purpose, an entity may elect to reset to zero the cumulative fair value changes of the hedged item and hedging instrument when ceasing to apply paragraph 102G as required by paragraph 102M. This election is made separately for each hedging relationship (i.e. on an individual hedging relationship basis).

Cash flow hedges

102W For the purpose of applying paragraph 97, at the point when an entity amends the description of a hedged item as required in paragraph 102P(b), the cumulative gain or loss in other comprehensive income shall be deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.

102X 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 purpose of applying paragraph 101(c) in order to determine whether the hedged future cash flows are expected to occur, the amount accumulated in other comprehensive income 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.

Groups of items

102Y When an entity applies paragraph 102P to groups of items designated as hedged items in a fair value or cash flow hedge, the entity shall allocate the hedged items to subgroups based on the benchmark rate being hedged and designate 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 102P, the entity would designate the alternative benchmark rate as the hedged risk for that relevant subgroup of hedged items. The entity would continue to designate 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.

102Z An entity shall assess separately whether each subgroup meets the requirements in paragraphs 78 and 83 to be an eligible hedged item. If any subgroup fails to meet the requirements in paragraphs 78 and 83, the entity shall discontinue hedge accounting prospectively for the hedging relationship in its entirety. An entity also shall apply the requirements in paragraphs 89 or 96 to account for ineffectiveness related to the hedging relationship in its entirety.

Designating financial items as hedged items

102Z1 An alternative benchmark rate designated as a non-contractually specified risk portion that is not separately identifiable (see paragraphs 81 and AG99F) at the date it is designated shall be deemed to have met that requirement at that date, if, and only if, the entity reasonably expects the alternative benchmark rate will be separately identifiable within 24 months. The 24-month period applies to each alternative benchmark rate separately and starts from the date the entity designates the alternative benchmark rate as a non-contractually specified risk portion for the first time (i.e. the 24-month period applies on a rate-by-rate basis).

102Z2 If subsequently an entity reasonably expects that the alternative benchmark rate will not be separately identifiable within 24 months from the date the entity designated it as a non-contractually specified risk portion for the first time, the entity shall cease applying the requirement in paragraph 102Z1 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 designated as a non-contractually specified risk portion.

102Z3 In addition to those hedging relationships specified in paragraph 102P, an entity shall apply the requirements in paragraphs 102Z1 and 102Z2 to new hedging relationships in which an alternative benchmark rate is designated as a non-contractually specified risk portion (see paragraphs 81 and AG99F) when, because of interest rate benchmark reform, that risk portion is not separately identifiable at the date it is designated.

EFFECTIVE DATE AND TRANSITION

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108H *Interest Rate Benchmark Reform – Phase 2*, which amended IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, issued in August 2020, added paragraphs 102O–102Z3 and 108I–108K, and amended paragraph 102M. An entity shall apply these amendments for annual periods beginning on or after 1 January 2021. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact. An entity shall apply these amendments retrospectively in accordance with IAS 8, except as specified in paragraphs 108I–108K.

108I An entity shall designate a new hedging relationship (for example, as described in paragraph 102Z3) only prospectively (i.e. an entity is prohibited from designating 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 these amendments had been applied at that time; and

(b) at the beginning of the reporting period in which an entity first applies these amendments (date of initial application of these amendments), that discontinued hedging relationship meets the qualifying criteria for hedge accounting (after taking into account these amendments).

108J If, in applying paragraph 108I, an entity reinstates a discontinued hedging relationship, the entity shall read references in paragraphs 102Z1 and 102Z2 to the date the alternative benchmark rate is designated as a non-contractually specified risk portion for the first time as referring to the date of initial application of these amendments (i.e. the 24-month period for that alternative benchmark rate designated as a non-contractually specified risk portion begins from the date of initial application of these amendments).

108K An entity is not required to restate prior periods to reflect the application of these amendments. The entity may restate prior periods if, and only if, it is possible without the use of hindsight. If an entity does not restate prior periods, the entity shall recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application of these amendments in the opening retained earnings (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application of these amendments.

Amendments to IFRS 7 *Financial Instruments: Disclosures*

Paragraphs 24I–24J and 44GG–44HH are added and a subheading is added before paragraph 24I.

Other disclosures

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Additional disclosures related to interest rate benchmark reform

24I To enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy, an entity shall disclose information about:

(a) the nature and extent of risks to which the entity is exposed arising from financial instruments subject to interest rate benchmark reform, and how the entity manages these risks; and

(b) the entity's progress in completing the transition to alternative benchmark rates, and how the entity is managing the transition.

24J To meet the objectives in paragraph 24I, an entity shall disclose:

(a) how the entity is managing the transition to alternative benchmark rates, its progress at the reporting date and the risks to which it is exposed arising from financial instruments because of the transition;

(b) disaggregated by significant interest rate benchmark subject to interest rate benchmark reform, quantitative information about financial instruments that have yet to transition to an alternative benchmark rate as at the end of the reporting period, showing separately:

(i) non-derivative financial assets;

(ii) non-derivative financial liabilities; and

(iii) derivatives; and

(c) if the risks identified in paragraph 24J(a) have resulted in changes to an entity's risk management strategy (see paragraph 22A), a description of these changes.

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EFFECTIVE DATE AND TRANSITION

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44GG *Interest Rate Benchmark Reform – Phase 2*, which amended IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, issued in August 2020, added paragraphs 24I–24J and 44HH. An entity shall apply these amendments when it applies the amendments to IFRS 9, IAS 39, IFRS 4 or IFRS 16.

44HH In the reporting period in which an entity first applies *Interest Rate Benchmark Reform – Phase 2*, an entity is not required to disclose the information that would otherwise be required by paragraph 28(f) of IAS 8.

Amendments to IFRS 4 *Insurance Contracts*

Paragraphs 20R–20S and paragraphs 50–51 are added. A subheading is added before paragraph 20R.

RECOGNITION AND MEASUREMENT

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Changes in the basis for determining the contractual cash flows as a result of interest rate benchmark reform

20R An insurer applying the temporary exemption from IFRS 9 shall apply the requirements in paragraphs 5.4.6–5.4.9 of IFRS 9 to a financial asset or 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. For this purpose, the term 'interest rate benchmark reform' refers to the market-wide reform of an interest rate benchmark as described in paragraph 102B of IAS 39.

20S For the purpose of applying paragraphs 5.4.6–5.4.9 of the amendments to 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.

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EFFECTIVE DATE AND TRANSITION

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50 *Interest Rate Benchmark Reform – Phase 2*, which amended IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, issued in August 2020, added paragraphs 20R–20S and paragraph 51. An entity shall apply these amendments for annual periods beginning on or after 1 January 2021. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact. An entity shall apply these amendments retrospectively in accordance with IAS 8, except as specified in paragraph 51.

51 An entity is not required to restate prior periods to reflect the application of these amendments. The entity may restate prior periods if, and only if, it is possible without the use of hindsight. If an entity does not restate prior periods, the entity shall recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application of these amendments in the opening retained earnings (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application of these amendments.

Amendments to IFRS 16 *Leases*

Paragraphs 104–106 and paragraphs C1B and C20C–C20D are added. A heading is added before paragraph 104 and a subheading is added before paragraph C20C.

TEMPORARY EXCEPTION ARISING FROM INTEREST RATE BENCHMARK REFORM

104 A lessee shall apply paragraphs 105–106 to all lease modifications that change the basis for determining future lease payments as a result of interest rate benchmark reform (see paragraphs 5.4.6 and 5.4.8 of IFRS 9). These paragraphs apply only to such lease modifications. For this purpose, the term 'interest rate benchmark reform' refers to the market-wide reform of an interest rate benchmark as described in paragraph 6.8.2 of IFRS 9.

105 As a practical expedient, a lessee shall apply paragraph 42 to account for a lease modification required by interest rate benchmark reform. This practical expedient applies only to such modifications. For this purpose, a lease modification is required by interest rate benchmark reform if, and only if, both of these conditions are met:

(a) the modification is necessary as a direct consequence of interest rate benchmark reform; and

(b) the new basis for determining the lease payments is economically equivalent to the previous basis (i.e. the basis immediately preceding the modification).

106 However, if lease modifications are made in addition to those lease modifications required by interest rate benchmark reform, a lessee shall apply the applicable requirements in this Standard to account for all lease modifications made at the same time, including those required by interest rate benchmark reform.

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EFFECTIVE DATE

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C1B *Interest Rate Benchmark Reform – Phase 2*, which amended IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, issued in August 2020, added paragraphs 104–106 and C20C–C20D. An entity shall apply these amendments for annual reporting periods beginning on or after 1 January 2021. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.

TRANSITION

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Interest Rate Benchmark Reform – Phase 2

C20C An entity shall apply these amendments retrospectively in accordance with IAS 8, except as specified in paragraph C20D.

C20D An entity is not required to restate prior periods to reflect the application of these amendments. The entity may restate prior periods if, and only if, it is possible without the use of hindsight. If an entity does not restate prior periods, the entity shall recognise any difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application of these amendments in the opening retained earnings (or other component of equity, as appropriate) of the annual reporting period that includes the date of initial application of these amendments.