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 (Text with EEA relevance)

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

(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) On 26 September 2019, the International Accounting Standards Board published Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) in order to address the financial reporting consequences of the interest rate benchmark reform in the period before the replacement of an existing interest rate benchmark with an alternative reference rate.

(5) The amendments provide 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* so that companies can continue to meet the requirements

Changes to legislation: *There are outstanding changes not yet made to Commission Regulation (EU) 2020/34. Any changes that have already been made to the legislation appear in the content and are referenced with annotations. (See end of Document for details) View outstanding changes*

assuming that the existing interest rate benchmarks are not altered because of the interbank offered rate reform.

(6) 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 7 *Financial Instruments: Disclosures* and IFRS 9 *Financial Instruments* meet the criteria for adoption set out in Article 3(2) of Regulation (EC) No 1606/2002.

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

(8) 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) 7 *Financial Instruments: Disclosures* is amended as set out in the Annex to this Regulation;

(c) IFRS 9 *Financial Instruments* 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 2020.

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, 15 January 2020.

For the Commission

The President

Ursula VON DER LEYEN

***Changes to legislation:** There are outstanding changes not yet made to Commission Regulation (EU) 2020/34. Any changes that have already been made to the legislation appear in the content and are referenced with annotations. (See end of Document for details) View outstanding changes*

ANNEX

Interest Rate Benchmark Reform

Amendments to IFRS 9, IAS 39 and IFRS 7

Amendments to IFRS 9 *Financial Instruments*

Paragraphs 6.8.1–6.8.12 and 7.1.8 are added. A new heading is added before paragraph 6.8.1. New subheadings are added before paragraphs 6.8.4, 6.8.5, 6.8.6, 6.8.7 and 6.8.9. Paragraph 7.2.26 is amended.

Chapter 6.Hedge accounting

6.8 TEMPORARY EXCEPTIONS FROM APPLYING SPECIFIC HEDGE ACCOUNTING REQUIREMENTS

6.8.1. An entity shall apply paragraphs 6.8.4–6.8.12 and paragraphs 7.1.8 and 7.2.26(d) to all hedging relationships directly affected by interest rate benchmark reform. These paragraphs apply only to such hedging relationships. 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 (contractually or non-contractually specified) designated as a hedged risk; and/or

(b) the timing or the amount of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument.

6.8.2. For the purpose of applying paragraphs 6.8.4–6.8.12, the term ‘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’.[(4)]

6.8.3. Paragraphs 6.8.4–6.8.12 provide exceptions only to the requirements specified in these paragraphs. An entity shall continue to apply all other hedge accounting requirements to hedging relationships directly affected by interest rate benchmark reform.

Highly probable requirement for cash flow hedges

6.8.4. For the purpose of determining whether a forecast transaction (or a component thereof) is highly probable as required by paragraph 6.3.3, an entity shall assume that the interest rate benchmark on which the hedged cash flows (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

Reclassifying the amount accumulated in the cash flow hedge reserve

6.8.5. For the purpose of applying the requirement in paragraph 6.5.12 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 (contractually or non-contractually specified) are based is not altered as a result of interest rate benchmark reform.

Assessing the economic relationship between the hedged item and the hedging instrument

6.8.6. For the purpose of applying the requirements in paragraphs 6.4.1(c)(i) and B6.4.4–B6.4.6, an entity shall assume that the interest rate benchmark on which the hedged cash flows and/or the hedged risk (contractually or non-contractually specified) are based, or the interest rate benchmark on which the cash flows of the hedging instrument are based, is not altered as a result of interest rate benchmark reform.

Designating a component of an item as a hedged item

Changes to legislation: *There are outstanding changes not yet made to Commission Regulation (EU) 2020/34. Any changes that have already been made to the legislation appear in the content and are referenced with annotations. (See end of Document for details) View outstanding changes*

6.8.7. Unless paragraph 6.8.8 applies, for a hedge of a non-contractually specified benchmark component of interest rate risk, an entity shall apply the requirement in paragraphs 6.3.7(a) and B6.3.8—that the risk component shall be separately identifiable—only at the inception of the hedging relationship.

6.8.8. When an entity, consistent with its hedge documentation, frequently resets (ie discontinues and restarts) a hedging relationship because both the hedging instrument and the hedged item frequently change (ie the entity uses a dynamic process in which both the hedged items and the hedging instruments used to manage that exposure do not remain the same for long), the entity shall apply the requirement in paragraphs 6.3.7(a) and B6.3.8—that the risk component is separately identifiable—only when it initially designates a hedged item in that hedging relationship. A hedged item that has been assessed at the time of its initial designation in the hedging relationship, whether it was at the time of the hedge inception or subsequently, is not reassessed at any subsequent redesignation in the same hedging relationship.

End of application

6.8.9. An entity shall prospectively cease applying paragraph 6.8.4 to a hedged item 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 interest rate benchmark-based cash flows of the hedged item; and

(b) when the hedging relationship that the hedged item is part of is discontinued.

6.8.10. An entity shall prospectively cease applying paragraph 6.8.5 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 interest rate benchmark-based future cash flows of the hedged item; and

(b) when the entire amount accumulated in the cash flow hedge reserve with respect to that discontinued hedging relationship has been reclassified to profit or loss.

6.8.11. An entity shall prospectively cease applying paragraph 6.8.6:

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

(b) to a hedging instrument, 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 of the hedging instrument.

If the hedging relationship that the hedged item and the hedging instrument are part of is discontinued earlier than the date specified in paragraph 6.8.11(a) or the date specified in paragraph 6.8.11(b), the entity shall prospectively cease applying paragraph 6.8.6 to that hedging relationship at the date of discontinuation.

6.8.12. When designating a group of items as the hedged item, or a combination of financial instruments as the hedging instrument, an entity shall prospectively cease applying paragraphs 6.8.4–6.8.6 to an individual item or financial instrument in accordance with paragraphs 6.8.9, 6.8.10, or 6.8.11, as relevant, when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the hedged risk and/or the timing and the amount of the interest rate benchmark-based cash flows of that item or financial instrument.

***Changes to legislation:** There are outstanding changes not yet made to Commission Regulation (EU) 2020/34. Any changes that have already been made to the legislation appear in the content and are referenced with annotations. (See end of Document for details) View outstanding changes*

Chapter 7 Effective date and transition

...

7.1.8. *Interest Rate Benchmark Reform*, which amended IFRS 9, IAS 39 and IFRS 7, issued in September 2019, added Section 6.8 and amended paragraph 7.2.26. An entity shall apply these amendments for annual periods beginning on or after 1 January 2020. Earlier application is permitted. If an entity applies these amendments for an earlier period, it shall disclose that fact.

7.2 TRANSITION

...

Transition for hedge accounting (Chapter 6)

...

7.2.26. As an exception to prospective application of the hedge accounting requirements of this Standard, an entity:

...

(d) shall apply the requirements in Section 6.8 retrospectively. This retrospective application applies only to those hedging relationships that existed at the beginning of the reporting period in which an entity first applies those requirements 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 those requirements.

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

Paragraphs 102A–102N and 108G are added. A new heading is added before paragraph 102A. New subheadings are added before paragraphs 102D, 102E, 102F, 102H and 102J.

HEDGING

...

Temporary exceptions from applying specific hedge accounting requirements

102A An entity shall apply paragraphs 102D–102N and 108G to all hedging relationships directly affected by interest rate benchmark reform. These paragraphs apply only to such hedging relationships. 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 (contractually or non-contractually specified) designated as a hedged risk; and/or

(b) the timing or the amount of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument.

102B For the purpose of applying paragraphs 102D–102N, the term ‘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’.[(5)]

102C Paragraphs 102D–102N provide exceptions only to the requirements specified in these paragraphs. An entity shall continue to apply all other hedge accounting requirements to hedging relationships directly affected by interest rate benchmark reform.

Highly probable requirement for cash flow hedges