Invitation to Comment:
Draft Endorsement Criteria Assessment: *Interest Rate Benchmark Reform—Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)*

Deadline for completion of this Invitation to Comment
Close of business Monday 28 September 2020.
Please submit to: IBOR2@frc.org.uk

Introduction

The objective of this Invitation to Comment is to obtain input from stakeholders on the endorsement and adoption of the IASB's amendment *Interest Rate Benchmark Reform—Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)* (the Amendments) in the UK.

Interaction with EU endorsement and adoption process

The UK leaves the EU at the end of the Transition Period on 31 December 2020.

Until the end of the Transition Period, the European Commission will continue to endorse IFRS for use in the UK.

If the EU **endorses** the Amendments before the end of the Transition Period, UK companies will be able to apply them as EU law will still apply.

If the EU **does not endorse** the Amendments before the end of the Transition Period, UK companies will be required to apply the UK-adopted Amendments. Due to the uncertainty in timing of EU adoption of the Amendments, work is being undertaken to ensure the UK is ready to undertake adoption, in early January 2021, if necessary.

UK endorsement and adoption process

At the end of the Transition Period, UK-adopted international accounting standards will consist of all international accounting standards already adopted in the EU. New and amended standards, not already adopted in the EU will be endorsed and adopted by the UK Endorsement Board.

The requirements for UK endorsement and adoption are set out in the Statutory Instrument 2019/685[1].

[1] The International Accounting Standards and European Public Limited-Liability Company (Amendment etc.) (EU Exit) Regulations 2019: https://www.legislation.gov.uk/uksi/2019/685/made

The Endorsement Board is currently being established and will be responsible for endorsing and adopting IFRS for use in the UK after the end of the Transition Period. The Endorsement Board will also be responsible for influencing the future direction of IFRS.[2]

During the establishment of the Endorsement Board, the staff are undertaking endorsement activities with the support of FRC infrastructure and resource.[3] The Secretary of State for BEIS will endorse and adopt IFRS from the end of the Transition Period until the Endorsement Board is ready to take on its functions and they have been delegated. The intention is to delegate the functions and powers in early 2021.

The information collected from this Invitation to Comment is intended to help with the endorsement assessment. This will form part of the work necessary for potential UK endorsement and adoption of the Amendments.

Who should respond to this Invitation to Comment?

Stakeholders with an interest in the quality of accounts that apply IFRS.

We estimate it will take no more than 10 minutes to complete.

Privacy and other policies

The data collected through submitting this Invitation to Comment will be stored and processed by the FRC/EB. By submitting this Invitation to Comment, you consent to the FRC/EB processing your data for the purposes of endorsing and adopting the IASB's Amendments for use in the UK. For further information, please see our Privacy Statements and Notices[4] and other Policies (e.g. Consultation Responses Policy, Data Protection Policy and Freedom of Information Policy)[5].

The FRC's policy is to publish on its website all responses to formal consultations issued by the FRC unless the respondent explicitly requests otherwise. A standard confidentiality statement in an e-mail message will not be regarded as a request for non-disclosure. The FRC does not edit personal information (such as telephone numbers or postal or e-mail addresses) from submissions; therefore, only information that you wish to be published should be submitted.

Part A: Your details

1. Your details:

Name	Samuel Vaughan
Email address	Samuel.Vaughan@uuplc.co.uk

2 For more information on the UK Endorsement Board, please see https://www.gov.uk/government/groups/uk-endorsement-board-ukeb#contents

3 For more information on the Endorsement Board's interaction with the FRC, please see https://www.frc.org.uk/endorsement-of-ias

4 These can be accessed here: https://www.frc.org.uk/about-the-frc/procedures-and-policies/privacy-the-frc

5 These policies can be accessed here: https://www.frc.org.uk/about-the-frc/frc-operational-policies

Organisation	United Utilities Group PLC

2. Is your organisation (please select the appropriate box):

UK listed company applying IFRS	☒
AIM company applying IFRS	☐
Unlisted company applying IFRS	☐
Company that does not apply IFRS	☐
Investor organisation	☐
Accounting firm	☐
Membership organisation	☐
Other	☐

Part B: Assessment against technical criteria

Our initial assessment concludes that:

- the Amendments meet the criterion of relevance, reliability, comparability and understandability required of the financial information needed for making economic decisions and assessing the stewardship of management, as required by SI 2019/685 (see Regulation 7(1)(c)); and
- application of the Amendments are not contrary to the principle that an entity's accounts/consolidated accounts must give a true and fair view as required by SI 2019/685 (see Regulation 7(1)(a)).

See sections:

Section 2: Technical criteria assessment
Section 3: Key financial reporting issues addressed by the Amendments
Section 4: Assessment against technical criteria
Section 5: True and fair view

3. Do you agree with this assessment? (please select one option)

Yes	☒	**No**	☐

4. Please include any comments you may have in response to question 3:

The amendments meet the relevance, comparability and understandability criteria as they have been published by the IASB to deal with possible financial reporting issues caused by the IBOR reform. They essentially allow the continuation of current accounting practices, provided that the transition to risk-free rates is done on an economically equivalent basis. All disclosure requirements are understandable and enable users of the accounts to understand how the group is managing the IBOR reform process.

The amendments also allow the group to continue to give a true and fair view. Without these amendments, upon amendment of financial instruments to reference the nearly risk-free rate (rather

than an IBOR), the original (reformed) interest rate benchmark-based effective interest rate would be used to calculate interest income/expense. This would lead to a credit or charge to the statement of profit or loss, which would not represent the economics of the amendment (provided the move from IBOR to an RFR is on an economically equivalent basis). As the IBORs will not be available in the future, utilising IBORs in the calculation of this rate will not be possible long-term, causing financial reporting issues in the future.

Part C: Assessment against UK long term public good

Our initial assessment concludes that the Amendments:

- will generally improve financial reporting when compared to the unamended requirements of IFRS 9 and IAS 39;
- will lead to benefits that exceed the costs; and
- are not likely to have an adverse effect on the economy of the UK, including on economic growth.

Overall, we conclude that the Amendments are likely to be conducive to the long term public good in the UK as required by SI 2019/685 (see Regulation 7(1)(b)); and

See Section 6: UK long term public good

5. Do you agree with this assessment? (please select one option)

Yes	☒	**No**	☐

6. Please include any comments you may have in response to question 5:

As explained in our comments on question 4, not applying these amendments could worsen financial reporting by not providing a true and fair view of the impact the IBOR reform has had on the group. There are very low costs expected as the amendments essentially allow existing accounting to continue. Systems do not need to be updated, and the disclosure requirements will not present a significant challenge. The benefits are large, as stated in part B above. Furthermore, the amendments will result in additional benefits associated with avoiding the cost of explaining to stakeholders why we have chosen to not reflect the amendments that the IASB issued specifically to address financial reporting issues caused by the IBOR reform. We see no reason why the amendments would have an adverse effect on the UK's economy.

Thank you for completing this Invitation to Comment