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A Closer Look

Financial instrument disclosures when applying Interest Rate Benchmark Reform – Phase 1 amendments to IFRS 9 and IAS 39 and Phase 2 amendments to IFRS 9, IAS 39, IFRS 4 and IFRS 16

Contents

Talking points

- The *Interest Rate Benchmark Reform* amendments to IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement* were issued in two phases and both introduced new disclosures to IFRS 7 *Financial Instruments: Disclosures*.

- Phase 2 of the *Interest Rate Benchmark Reform* amendments also introduced changes to IFRS 4 *Insurance Contracts* and IFRS 16 *Leases*, which are also accompanied by additional disclosure requirements in IFRS 7.

- The Phase 1 amendments provide temporary exceptions for specific hedge accounting requirements impacted by uncertainties arising from the reform before an existing interest rate benchmark (IBOR) is replaced with an alternative benchmark interest rate (also referred to as 'risk free rates' or RFRs). These amendments apply to annual reporting periods beginning on or after 1 January 2020, with earlier application permitted. Many entities chose to apply these amendments early to allow their current hedging relationships affected by uncertainties from the interest rate benchmark reform to continue.

- The Phase 2 amendments relate to issues that could affect financial reporting when an IBOR is replaced with an alternative benchmark interest rate. The amendments are relevant for many entities and in particular those with financial assets, financial liabilities or lease liabilities that are subject to the interest rate benchmark reform and those that apply the hedge accounting requirements in IFRS 9 or IAS 39 to hedging relationships that are affected by the reform.

- The Phase 2 amendments apply to annual reporting periods beginning on or after 1 January 2021, with early application permitted (subject to local endorsement requirements). Similar to the Phase 1 amendments, it is expected that entities will choose to apply the amendments early if they have started to transition contracts to alternative benchmark interest rates.

- The Phase 2 amendments require the IFRS 7 disclosures to be applied when an entity applies the amendments to IFRS 9, IAS 39, IFRS 4 and IFRS 16. However, in the absence of early application of the amendments an entity may consider including the disclosures as they provide users with insight into the magnitude of, and risks arising from, the reform on the entity and the progress it is making towards completing its transition to RFRs.

For more information please see the following websites:

www.iasplus.com
www.deloitte.com

- The disclosures are not particularly onerous, though care is needed in integrating them along with pre-existing IFRS 7 disclosures on hedge accounting and risk management. Due to the nature of the interest rate benchmark reform, different financial instruments will transition to alternative benchmark rates at different times and it is therefore likely that both Phase 1 and Phase 2 IFRS 7 disclosures will be required at the same time (i.e. they are not mutually exclusive).

- Deloitte *IFRS in Focus* publications provide more detail on the interest rate benchmark reform amendments for Phase 1 and Phase 2.

Introduction

The amendments to IFRS 7 introduce disclosure requirements for an entity that applies Phase 1 and/or Phase 2 of the interest rate benchmark reform amendments to IFRS 9, IAS 39, IFRS 4 and IFRS 16.

The disclosure requirements for the interest rate benchmark reform were issued in two phases. For annual reporting periods beginning on or after 1 January 2021, the disclosure requirements from both phases, which are outlined below, will be effective. Entities with hedging relationships affected by the interest rate benchmark reform will need to determine which requirements are applicable and to what extent. This is because the Phase 1 disclosures only apply if the temporary hedge accounting exceptions introduced in IFRS 9 and IAS 39 under Phase 1 are applied in the reporting periods presented. For example, an entity with a single hedging relationship with a LIBOR linked hedged item and/or hedging instrument that is subject to uncertainty of timing and amount of cash flows due to the reform will be required to apply the Phase 1 amendments to IFRS 9 or IAS 39 and therefore will also be required to apply the Phase 1 IFRS 7 disclosures. On application of the Phase 2 amendments to IFRS 9, IAS 39, IFRS 4 or IFRS 16, which are mandatory for periods beginning on or after 1 January 2021, the Phase 2 IFRS 7 disclosures will also become applicable (i.e. both Phase 1 and Phase 2 IFRS 7 disclosures could apply). Once the Phase 1 amendments no longer apply (e.g. because all hedging instruments and/or hedged items are modified to reference an alternative benchmark rate) the Phase 1 disclosures will also no longer apply. To avoid the loss of information there are some similarities between the disclosure requirements of Phase 1 and Phase 2.

The Phase 2 disclosures require information about the entity's transition to alternative benchmark rates until the transition is complete for all financial instruments subject to the interest rate benchmark reform and not only those in hedging relationships. They are therefore broader than the Phase 1 disclosures.

Phase 1 disclosures

Paragraph 24H was added to IFRS 7 and requires that for hedging relationships that are subject to the exceptions introduced by the Phase 1 amendments an entity discloses:

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

(b) the extent of the risk exposure the entity manages that is directly affected by the interest rate benchmark reform;

(c) how the entity is managing the process to transition to alternative benchmark rates;

(d) a description of significant assumptions or judgements the entity made in applying these paragraphs (e.g. assumptions or judgements about 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

(e) the nominal amount of the hedging instruments in those hedging relationships.

Phase 2 disclosures

The disclosure requirements in paragraphs 24I and 24J were added to IFRS 7 and require that an entity that applies the Phase 2 amendments discloses:

(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.

IFRS 7:24J explains that this can be achieved by disclosing:

(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.

As explained in the Basis for Conclusions to the amendments to IFRS 7, the quantitative information required by 24J(b) may be provided in different ways including disclosure of:

(a) the carrying amounts of non-derivative financial assets and financial liabilities and the nominal amount of derivatives;

(b) the amounts related to recognised financial instruments (e.g. the contractual par amount of non-derivative financial assets and financial liabilities, and nominal amounts of derivatives); or

(c) the amounts provided internally to key management personnel of the entity about these financial instruments (as defined in IAS 24 Related Party Disclosures), e.g. the entity's board of directors or chief executive officer.

Paragraph 44DF for Phase 1 and 44HH for Phase 2 were also added to IFRS 7 to exempt entities from applying paragraph 28(f) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* which normally requires an entity to disclose, in the year of initial application of a new Standard or amendments, the amount of the adjustment to each financial statement line item and earnings per share.

Restatement of prior periods when the amendments are applied is not required, however, an entity may restate prior periods if, and only if, it is possible without the use of hindsight.

Illustrative Examples

The following illustrative examples are designed to show how an entity could disclose the new requirements in IFRS 7 if it applies both the Phase 1 and Phase 2 amendments. They do not include financial instruments disclosures required other than those introduced by the amendments to IFRS 7. The interest rate benchmark reform may impact other disclosures, e.g. paragraph 22A of IFRS 7 requires an entity to disclose its risk management strategy and paragraph 122 of IAS 1 *Presentation of Financial Statements* requires disclosure of the judgements that management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements.

The illustrative examples are not intended to be exhaustive or to represent the only way in which the information may be presented. For example, depending on the volume of instruments, the quantitative disclosures may be presented on a more aggregated basis. Therefore application of the disclosure requirements will differ depending on an entity's particular facts and circumstances.

1. Non-financial corporate Group

Accounting policy (note [X])

In the prior year the Group early adopted the Phase 1 amendments 'Interest Rate Benchmark Reform: Amendments to IFRS 9/IAS 39 and IFRS 7'. These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments are amended as a result of the interest rate benchmark reform.

In the current year, the Group has chosen to early adopt 'Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures*, IFRS 4 *Insurance Contracts* and IFRS 16 *Leases'* which was issued in August 2020. These amendments are mandatory for annual reporting periods beginning on or after 1 January 2021. Adopting these amendments early enables the Group to reflect the effects of transitioning from interbank offered rates (IBOR) to alternative benchmark interest rates (also referred to as 'risk free rates' or RFRs) without giving rise to accounting impacts that would not provide useful information to users of financial statements. The Group has not restated the prior period. Instead, the amendments have been applied retrospectively with any adjustments recognised in the appropriate components of equity as at 1 January 2020.

Both the Phase 1 and Phase 2 amendments are relevant to the Group because it applies hedge accounting to its interest rate benchmark exposures, and in the current period modifications in response to the reform have been made to some (but not all) of the Group's derivative and non-derivative financial instruments that mature post 2021 (the date by which the reform is expected to be implemented).

Details of the derivative and non-derivative financial instruments affected by the interest rate benchmark reform together with a summary of the actions taken by the Group to manage the risks relating to the reform and the accounting impact, including the impact on hedge accounting relationships, appear in Note [Y] Financial Risk.

The amendments are relevant for the following types of hedging relationships and financial instruments of the Group, all of which extend beyond 2021, the date by which the reform is expected to be implemented by:

- fair value hedges where IBOR-linked derivatives are designated as a fair value hedge of fixed rate debt in respect of the IBOR risk component (in GBP and USD);
- cash flow hedges where IBOR-linked derivatives are designated as a cash flow hedge of IBOR-linked cash flows (in USD and JPY);
- net investment hedge where an IBOR-linked derivative hedges the foreign currency risk of its net investment in Japanese foreign operations; and
- loans to joint ventures, bank borrowings and lease liabilities which reference IBORs and are subject to the interest rate benchmark reform.

The application of the amendments impacts the Group's accounting in the following ways.

- Hedge accounting relationships will continue despite the following:
  - for cash flow hedges of IBOR cash flows, there is uncertainty about the timing and amount of the hedged cash flows due to the interest rate benchmark reform;
  - for IBOR fair value hedges, the benchmark interest rate component may not be separately identifiable; and
  - for the net investment hedge there is uncertainty about the replacement of the IBOR reference rates included in the hedging derivative.
- The Group will not discontinue hedge accounting should the retrospective assessment of hedge effectiveness for a hedging relationship that is subject to the interest rate benchmark reform fall outside the 80-125 per cent range. No individual hedging relationship fell outside this band for the current period. For those hedging relationships that are not subject to the interest rate benchmark reform the entity continues to cease hedge accounting if retrospective effectiveness is outside the 80-125 per cent range.[1]
- The Group will retain the cumulative gain or loss in the cash flow hedge reserve for designated IBOR cash flow hedges that are subject to the interest rate benchmark reform even though there is uncertainty arising from the interest rate benchmark reform with respect to the timing and amount of the cash flows of the hedged items. Should the Group consider the hedged future cash flows are no longer expected to occur due to reasons other than the interest rate benchmark reform, the cumulative gain or loss will be immediately reclassified to profit or loss.

1 For those entities that apply the hedge accounting requirements in IFRS 9 (not IAS 39) the 80-125% test is not applicable as IFRS 9 does not include that requirement and therefore this paragraph would not be applicable.

The Group will continue to apply the Phase 1 amendments to IFRS 9/IAS 39 until the uncertainty arising from the interest rate benchmark reform with respect to the timing and the amount of the underlying cash flows to which the Group is exposed ends. The Group expects this uncertainty will continue until the Group's contracts that reference IBORs are amended to specify the date on which the interest rate benchmark will be replaced and the basis for the cash flows of the alternative benchmark rate are determined including any fixed spread.

As a result of the Phase 2 amendments:

- When the contractual terms of the Group's loans to joint ventures and bank borrowings are amended as a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the basis immediately preceding the change, the Group changes the basis for determining the contractual cash flows prospectively by revising the effective interest rate. If additional changes are made, which are not directly related to the reform, the applicable requirements of IFRS 9 are applied to the other amendments.

- When a lease is modified as a direct consequence of the interest rate benchmark reform and the new basis for determining the lease payments is economically equivalent to the previous basis, the Group remeasures the lease liability to reflect the revised lease payments discounted using a revised discount rate that reflects the change in the basis for determining the contractual cash flows.

- When changes are made to the hedging instruments, hedged item and hedged risk as a result of the interest rate benchmark reform, the Group updates the hedge documentation without discontinuing the hedging relationship.

- For the Group's cash flow hedges, if the hedged item is modified due to the interest rate benchmark reform, the cumulative gain or loss in the cash flow hedge reserve for designated cash flow hedges is deemed to be based on the alternative benchmark rate.

- For the Group's fair value hedges of a non-contractually specified benchmark component of interest rate risk, on transition to the alternative benchmark rate, if that risk rate is not separately identifiable at the date of designation, it will be deemed to have met the separately identifiable requirement at that date, if the Group reasonably expects the term specific interest rate component will be separately identifiable within a period of 24 months from the date the alternative benchmark rate is first designated, regardless of the term for which the risk is designated in that hedge. The 24-month period applies on a rate-by-rate basis.

Note [Y] provides the required disclosures related to this amendment.

Financial Risk (note [Y])

The Group is exposed to the following interest rate benchmarks which are subject to interest rate benchmark reform: GBP LIBOR, USD LIBOR and JPY LIBOR (collectively 'IBORs'). The exposures arise on derivatives and non-derivative financial assets and liabilities (e.g. debt and leases).

As listed in note [X], the Group has cash flow, fair value and net investment hedge relationships affected by the interest rate benchmark reform. Hedged items in these hedges include issued GBP and USD fixed rate debt and issued USD and JPY LIBOR floating rate debt. Hedging instruments include IBOR based interest rate swaps and a JPY LIBOR-linked cross currency swap. The Group also has loans to joint ventures, bank borrowings and lease liabilities linked to GBP LIBOR, which are not designated in hedging relationships.

The Group has closely monitored the market and the output from the various industry working groups managing the transition to new benchmark interest rates. This includes announcements made by LIBOR regulators (including the UK Financial Conduct Authority (FCA) and the US Commodity Futures Trading Commission) regarding the transition from LIBOR (including GBP LIBOR, USD LIBOR and JPY LIBOR) to the Sterling Overnight Index Average rate (SONIA), the Secured Overnight Financing Rate (SOFR), and the Tokyo Overnight Average rate (TONA) respectively. The FCA has made clear that, at the end of 2021, it will no longer seek to persuade, or compel, banks to submit to LIBOR.

In response to the announcements, the Group has in place an interest rate benchmark transition programme comprised of the following work streams: risk management, tax, treasury, legal, accounting and systems. The programme is under the governance of the Chief Financial Officer who reports to the Board.

Risks arising from the interest rate benchmark reform
The key risks for the Group arising from the transition are:

- **Interest rate basis risk:** There are two elements to this risk as outlined below:

  – If the bilateral negotiations with the Group's counterparties are not successfully concluded before the cessation of IBORs, there are significant uncertainties with regard to the interest rate that would apply. This gives rise to additional interest rate risk that was not anticipated when the contracts were entered into and is not captured by our interest rate risk management strategy. For example, in some cases the fallback clauses in IBOR loan contracts may result in the interest rate becoming fixed for the remaining term at the last IBOR quote. The Group is working closely with all counterparties to avoid this from occurring, however if this does arise, the Group's interest rate risk management policy will apply as normal and may result in closing out or entering into new interest rate swaps to maintain the mix of floating rate and fixed rate debt.

  – Interest rate risk basis may arise if a non-derivative instrument and the derivative instrument held to manage the interest risk on the non-derivative instrument transition to alternative benchmark rates at different times. This risk may also arise where back-to-back derivatives transition at different times. The Group will monitor this risk against its risk management policy which has been updated to allow for temporary mismatches of up to 12 months and transact additional basis interest rate swaps if required.

- **Liquidity risk:** There are fundamental differences between IBORs and the various alternative benchmark rates which the Group will be adopting. IBORs are forward looking term rates published for a period (e.g. 3 months) at the beginning of that period and include an inter-bank credit spread, whereas alternative benchmark rates are typically risk free overnight rates published at the end of the overnight period with no embedded credit spread. These differences will result in additional uncertainty regarding floating rate interest payments which will require additional liquidity management. The Group's liquidity risk management policy has been updated to ensure sufficient liquid resources to accommodate unexpected increases in overnight rates.

- **Accounting:** If transition to alternative benchmark rates for certain contracts is finalised in a manner that does not permit the application of the reliefs introduced in the Phase 2 amendments, this could lead to discontinuation of hedge accounting relationships, increased volatility in profit or loss if re-designated hedges are not fully effective and volatility in the profit or loss if non-derivative financial instruments are modified or derecognised. The Group is aiming to agree changes to contracts that would allow IFRS 9 reliefs to apply. In particular, the Group is not seeking to novate derivatives or close out derivatives and enter into new on-market derivatives where derivatives have been designated in hedging relationships.

- **Litigation risk:** If no agreement is reached to implement the interest rate benchmark reform on existing contracts, (e.g. arising from differing interpretation of existing fallback terms), there is a risk of prolonged disputes with counterparties which could give rise to additional legal and other costs. The Group is working closely with all counterparties to avoid this from occurring.

- **Operational risk:** Our current treasury management system is undergoing upgrades to fully manage the transition to alternative benchmark rates and there is a risk that such upgrades are not fully functional in time, resulting in additional manual procedures which give rise to operational risks. The Group is working closely with its system provider to ensure the relevant updates are made in good time and the Group has plans in place for alternative manual procedures with relevant controls to address any potential delay.

Progress towards implementation of alternative benchmark interest rates
All newly transacted floating rate financial assets and liabilities are linked to an alternative benchmark rate, such as SONIA or SOFR or if, linked to IBOR, include detailed fallback clauses clearly referencing the alternative benchmark rate and the trigger event on which the clause is activated.

The Group has a risk management policy of maintaining an appropriate mix between fixed and floating rate borrowings. However, due to the lack of liquidity in the SONIA and SOFR markets, the Group is temporarily increasing the amount of fixed rate debt it carries by either issuing fixed rate debt or entering into interest rate swap contracts.

None of the Group's GBP LIBOR, USD LIBOR and JPY LIBOR legacy contracts include adequate and robust fallback clauses for a cessation of the referenced benchmark interest rate. Various working groups in the industry are working on fallback provisions for different instruments and IBORs, which the Group is monitoring closely. The Group is planning to transition the majority of its IBOR-linked contracts to risk free rates through introduction of, or amendments to, fallback clauses into the contracts which will change the basis for determining the interest cash flows from IBOR to RFR at an agreed point in time. Some of these fallback provisions have been incorporated into contracts during 2020 but the majority are expected to be implemented during 2021.

Interest rate benchmark transition for non-derivative financial liabilities
Of the £168m IBOR-linked non-derivative financial liabilities, the Group transitioned its £100m bank borrowings to SONIA and negotiated fallback clauses for $20m (£15m) in the last quarter of the financial year.

The £100m bank borrowings that transitioned to SONIA had an additional fixed spread added of [x]bps. No other terms were amended as part of the transition. The Group accounted for the change to SONIA using the practical expedient introduced by the Phase 2 amendments, which allows the Group to change the basis for determining the contractual cash flows prospectively by revising the effective interest rate.

For both the $10m USD LIBOR issued bonds (maturing in 2024 and 2025), during the year, the Group and the bondholders agreed fallback clauses to transition from USD LIBOR to the Secured Overnight Financing Rate (SOFR).

For the Group's ¥400m debt linked to JPY LIBOR, discussions are underway with the counterparties to include fallback clauses in H1 2021.

The Group has not yet agreed changes with the landlords to its leases but these are expected in H2 2021.

Non-derivative financial instrument prior to transition	Maturing in	Nominal in currency (m)	Total Nominal (£m)	Hedge Accounting	Transition progress for non-derivative financial instruments
Two $10m USD LIBOR issued bonds	2024/2025	$20	15	Designated in cash flow hedge (see below)	Fallback clauses negotiated with bond holders
Japanese yen denominated JPY LIBOR bank borrowings	2023	¥400	3	Designated in cash flow hedge (see below)	Discussions begun with aim to finalise in H1 2021
Bank borrowings linked to GBP LIBOR	2026	£100	100	N/A	Transitioned to SONIA
Lease liabilities linked to GBP LIBOR	2055	£50	50	N/A	Expected to transition in H2 2021
Total floating rate non-derivative liabilities			**168**		
Amounts subject to the interest rate benchmark reform			**53**		

Interest rate benchmark transition for non-derivative financial assets
The Group has not yet agreed changes to its loans to joint ventures but these are expected in H2 2021.

Non-derivative financial instrument prior to transition	Maturing in	Nominal in currency (m)	Total Nominal (£m)	Hedge Accounting	Transition progress for non-derivative financial instruments
Loans to joint ventures linked to GBP LIBOR	2026	£50	50	N/A	Expected to transition in H2 2021
Total floating rate non-derivative assets			**50**		
Amounts subject to the interest rate benchmark reform			**50**		

Interest rate benchmark transition for derivatives and hedge relationships
The Group has in issue £40m of GBP denominated fixed rate debt which was in a fair value hedge of GBP LIBOR using a fixed to GBP LIBOR interest rate swap contract. During the third quarter of 2020 the Group entered into an equal but offsetting derivative against the original derivative and a new off-market derivative based on SONIA + fixed spread on the same terms as the original derivative (i.e. the fair value on day one of the new SONIA derivative was the same as the original GBP LIBOR derivative). This change was done as a direct consequence of the reform and on an economically equivalent basis. The Group changed the hedge documentation to include the new derivatives and amended the designated hedged risk to "changes in the fair value of the fixed rate debt resulting from changes in SONIA". The hedge relationship was not discontinued. These were the first SONIA interest rate swaps that the Group designated in a fair value hedge accounting relationship. At the date they were designated, and at the reporting date thereafter, the Group expects that SONIA with a term out to 2025 will be a separately identifiable risk component within 24 months of the date of designation.

For fair value hedges which have not yet transitioned to alternative risk free rates, the Phase 1 amendments permit continuation of hedge accounting even if in the future the hedged benchmark interest rate, GBP LIBOR and/or USD LIBOR, is no longer considered to be separately identifiable.

This relief does not extend to the requirement that the designated interest rate risk component continues to be reliably measureable and if the risk component is no longer reliably measureable, the hedging relationship is discontinued. The Group has determined that GBP LIBOR and USD LIBOR interest rate risk components continue to be reliably measurable.

For all of the Group's derivatives that reference IBOR, the International Swaps and Derivatives Association's (ISDA) fallback clauses were made available at the end of 2020 and the Group has signed up to the protocol, along with each of the Group's counterparties. This ensures all legacy trades will, on cessation of IBOR, follow the fallback clause provided in the protocol.

Below are details of the hedging instruments and the related hedged items that have been or will be subject to transition to alternative benchmark interest rates, by hedge type. The terms of the hedged items listed match those of the corresponding hedging instruments.

Hedge type	Instrument type prior to transition	Maturing in	Nominal in currency (m)	Total nominal (£m)	Hedged item	Transition progress for derivatives
Fair value hedges	Pay 3-month GBP LIBOR, receive GBP fixed interest rate swaps	2023	£10	10	GBP fixed rate issued debt of same par amount and maturity of the swap	To transition derivatives via ISDA protocol
	Pay 3-month GBP LIBOR, receive GBP fixed interest rate swaps	2024	£20	20	GBP fixed rate issued debt of same par amount and maturity of the swap	To transition derivatives via ISDA protocol
	Pay 6-month GBP LIBOR, receive GBP fixed interest rate swaps	2025	£40	40	GBP fixed rate issued debt of same par amount and maturity of the swap	Interest rate swap has been offset by an equal and opposite derivative and a new SONIA derivative has been transacted.
	Pay 3-month USD LIBOR, receive USD fixed interest rate swaps	2026	$50	37.5	USD fixed rate issued debt of the same maturity and nominal of the swap	To transition derivatives via ISDA protocol
Cash flow hedges	Receive 3-month USD LIBOR, pay USD fixed interest rate swap	2024	$10	7.5	USD LIBOR issued bond of the same maturity and nominal of the swap	To transition derivatives via ISDA protocol
	Receive 3-month USD LIBOR, pay USD fixed interest rate swap	2025	$10	7.5	USD LIBOR issued bond of the same maturity and nominal of the swap	To transition derivatives via ISDA protocol
	Receive 1-month JPY LIBOR, pay JPY fixed interest rate swap	2023	¥400	3	Japanese yen denominated JPY LIBOR bank borrowings of the same maturity and nominal of the swap	To transition derivatives via ISDA protocol
	Pay 1-month JPY LIBOR, receive 1-month GBP LIBOR cross currency interest rate swap	2025	¥7,000 / £50	50	¥7,000m net investment in Japanese foreign operation	To transition derivatives via ISDA protocol
Total derivative nominal				**175.5**		
Total derivative nominal transitioned to alternative benchmark rates				**40.0**		
Total derivative nominal subject to the interest rate benchmark reform				**135.5**		

As stated in Note [X] the Group will continue to apply the Phase 1 amendments to IFRS 9/IAS 39 until the uncertainty arising from the interest rate benchmark reform with respect to the timing and the amount of the underlying cash flows that the Group is exposed to ends. The Group expects this uncertainty will continue until the Group's contracts that reference IBORs are amended to specify the date on which the interest rate benchmark will be replaced, the basis for the cash flows of the alternative benchmark rate are determined including any fixed spread.

2. Banking Group

Accounting policy (note [X])

In the prior year the Group early adopted the Phase 1 amendments 'Interest Rate Benchmark reform: Amendments to IFRS 9/IAS 39 and IFRS 7'. These amendments modified specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments are amended as a result of the interest rate benchmark reform.

In the current year, the Group has chosen to early adopt 'Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures*, IFRS 4 *Insurance Contracts* and IFRS 16 *Leases'* which was issued in August 2020. These amendments are mandatory for annual reporting periods beginning on or after 1 January 2021. Adopting these amendments early enables the Group to reflect the effects of transitioning from interbank offered rates ('IBOR') to alternative benchmark interest rates (also referred to as 'risk free rates' or RFRs) without giving rise to accounting impacts that would not provide useful information to users of financial statements. The Group has not restated the prior period. Instead the amendments have been applied retrospectively with any adjustments recognised in the appropriate components of equity as at 1 January 2020.

Both the Phase 1 and Phase 2 amendments are relevant to the Group because it applies hedge accounting to its interest rate benchmark exposures, and in the current period modifications, in response to the reform have been made to some (but not all) of the Group's derivative and non-derivative financial instruments that mature post 2021 (the date by which the reform is expected to be implemented).

Details of the derivative and non-derivative financial instruments affected by the interest rate benchmark reform together with a summary of the actions taken by the Group to manage the risks relating to the reform and the accounting impact, including the impact on hedge accounting relationships, appear in Note [Y] Financial Risk. The application of the amendments impacts the Group's accounting in the following ways.

Under the Phase 1 amendments the Group determined that:

- Hedge accounting relationships will continue despite the following:
  - for cash flow hedges of IBOR cash flows there is uncertainty about the timing and amount of the hedged cash flows due to the interest rate benchmark reform;
  - for IBOR fair value hedges, the benchmark interest rate component may not be separately identifiable; and
  - for the net investment hedge there is uncertainty about the replacement of the IBOR reference rates included in the hedging derivative.
- The Group will not discontinue hedge accounting should the retrospective assessment of hedge effectiveness for a hedging relationship that is subject to the interest rate benchmark reform fall outside the 80-125 per cent range. No individual hedging relationship fell outside this band for the current period. For those hedging relationships that are not subject to the interest rate benchmark reform the entity continues to cease hedge accounting if retrospective effectiveness is outside the 80-125 per cent range.[2]
- The Group will retain the cumulative gain or loss in the cash flow hedge reserve for designated IBOR cash flow hedges that are subject to the interest rate benchmark reform even though there is uncertainty arising from the interest rate benchmark reform with respect to the timing and amount of the cash flows of the hedged items. Should the Group consider the hedged future cash flows are no longer expected to occur due to reasons other than the interest rate benchmark reform, the cumulative gain or loss will be immediately reclassified to profit or loss.

The Group will continue to apply the Phase 1 amendments to IFRS 9/IAS 39 until the uncertainty arising from the interest rate benchmark reform with respect to the timing and the amount of the underlying cash flows to which the Group is exposed to ends. The Group expects this uncertainty will continue until the Group's contracts that reference IBORs are amended to specify the date on which the interest rate benchmark will be replaced and the basis for the cash flows of the alternative benchmark rate are determined including any fixed spread.

2 For those entities that apply the hedge accounting requirements in IFRS 9 (not IAS 39) the 80-125 per cent test is not applicable as IFRS 9 does not include that requirement and therefore this paragraph would not be applicable.

As a result of the Phase 2 amendments:

- When the contractual terms of non-derivative financial instruments have been amended as a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis (i.e. the basis immediately preceding the change), the Group changes the basis for determining the contractual cash flows prospectively by revising the effective interest rate. If additional changes are made, which are not directly related to the reform, the applicable requirements of IFRS 9 are applied to the other amendments.

- When changes are made to the hedging instruments, hedged item and hedged risk, as a result of the interest rate benchmark reform, the Group updates the hedge documentation without discontinuing the hedging relationship.

- For the Group's cash flow hedges, if the hedged item is modified due to the interest rate benchmark reform, the cumulative gain or loss in the cash flow hedge reserve for designated IBOR cash flow hedges is deemed to be based on the alternative benchmark rate.

- For the Group's fair value hedges of a non-contractually specified benchmark component of interest rate risk, on transition to the alternative benchmark rate, if that risk rate is not separately identifiable at the date of designation, it will be deemed to have met the separately identifiable requirement at that date, if the Group reasonably expects the term specific interest rate component will be separately identifiable within a period of 24 months from the date the alternative benchmark rate is first designated, regardless of the term for which the risk is designated in that hedge. The 24-month period applies on a rate-by-rate basis.

Note [Y] provides the required disclosures related to this amendment.

Financial Risk (note [Y])
The Group is exposed to the following interest rate benchmarks which are subject to the interest rate benchmark reform: GBP LIBOR, USD LIBOR, JPY LIBOR and EONIA (collectively 'IBORs'). The exposures arise on derivatives and non-derivative financial assets and liabilities.

The Group has cash flow, fair value and net investment hedge relationships affected by the interest rate benchmark reform. Hedged items include issued GBP and USD fixed rate debt, holdings of GBP fixed rate debt securities and fixed rate GBP mortgage lending, issued USD LIBOR and EONIA floating rate debt and advances to and deposits from customers linked to GBP LIBOR and EONIA. Hedging instruments include IBOR-linked interest rate swaps and a JPY LIBOR-linked cross-currency swap.

As well as the benchmark interest rate exposures described above, the Group has significant volumes of derivative and non-derivative financial instruments in its trading books linked to USD LIBOR and GBP LIBOR that are not in hedge accounting relationships.

The Group is closely monitoring the market and the output from the various industry working groups managing the transition to new benchmark interest rates. This includes announcements made by LIBOR regulators (including the UK Financial Conduct Authority ('FCA') and the US Commodity Futures Trading Commission) regarding the transition from LIBOR (including GBP LIBOR, USD LIBOR and JPY LIBOR) to the Sterling Overnight Index Average rate (SONIA), the Secured Overnight Financing Rate (SOFR), and the Tokyo Overnight Average rate (TONA) and announcements on the transition from EONIA to Euro short-term rate (€STR). The FCA has made clear that, at the end of 2021, it will no longer seek to persuade, or compel, banks to submit to LIBOR. Furthermore, EONIA will cease to be published from 3 January 2022.

In response to the announcements, the Group has in place an interest rate benchmark transition programme which comprises the following work streams: risk management, tax, treasury, legal, accounting and systems. The programme is under the governance of the Chief Financial Officer who reports to the Board.

Risks arising from interest rate benchmark reform
The key risks for the Group arising from the transition are:

- **Conduct risk:** The transition to alternative benchmark rates could result in the risk of market or customer misconduct, which may lead to customer complaints, regulatory sanctions or reputational impact. This includes the risk of misleading clients, market abuse (including insider dealing and market manipulation), anti-competitive practices, both during and after transition (such as collusion and information sharing) and risks arising from conflicts of interest. The Group has in place strong project governance to oversee the transition to ensure this risk is mitigated.

- **Pricing risk:** The transition to alternative benchmark rates and the discontinuation of interest rate benchmarks may impact the pricing mechanisms used by the Group on certain transactions, including the setting of the Standard Variable Rate ('SVR') applied to the Group's mortgage lending products. New pricing models will also need to be developed for certain financial instruments.

- **Interest rate basis risk:** There are two elements to this risk as outlined below:

  – If the bilateral negotiations with the Group's counterparties are not successfully concluded before the cessation of IBORs, there are significant uncertainties with regard to the interest rate that would apply. This gives rise to additional interest rate risk that was not anticipated when the contracts were entered into and is not captured by our interest rate risk management strategy. For example, in some cases the fallback clauses in IBOR loan contracts may result in the interest rate becoming fixed for the remaining term at the last IBOR quote. The Group is working closely with all counterparties to avoid this from occurring, however if this does arise, the Group's interest rate risk management policy will apply as normal and may result in closing out or entering into new interest rate swaps to maintain the mix of floating rate and fixed rate debt.

  – Interest rate risk basis may arise if a non-derivative instrument and the derivative instrument held to manage the interest risk on the non-derivative instrument transition to alternative benchmark rates at different times. This risk may also arise where back-to-back derivatives transition at different times. The Group will monitor this risk against its risk management policy which has been updated to allow for temporary mismatches of up to 12 months and transact additional basis interest rate swaps if required.

- **Liquidity risk:** There are fundamental differences between IBORs and the various alternative benchmark rates which the Group will be adopting. IBORs are forward looking term rates published for a period (e.g. 3 months) at the beginning of that period and include an inter-bank credit spread, whereas alternative benchmark rates are typically risk free overnight rates published at the end of the overnight period, with no embedded credit spread. These differences will result in additional uncertainty regarding floating rate interest payments which will require additional liquidity management. The Group's liquidity risk management policy has been updated to ensure sufficient liquid resources to accommodate unexpected increases in overnight rates.

- **Accounting:** If transition to alternative benchmark rates for certain contracts is finalised in a manner that does not permit the application of the reliefs introduced in the Phase 2 amendments, this could lead to discontinuation of hedge accounting relationships, increased volatility in profit or loss if re-designated hedges are not fully effective and volatility in the profit or loss if non-derivative financial instruments are modified or derecognised. The Group is aiming to agree changes to contracts that would allow IFRS 9 reliefs to apply. In particular, the Group is not seeking to novate derivatives or close out derivatives and enter into new on-market derivatives where derivatives have been designated in hedging relationships.

- **Litigation risk:** If no agreement is reached to implement the interest rate benchmark reform on existing contracts, (e.g. arising from differing interpretation of existing fallback terms), there is a risk of litigation and prolonged disputes with counterparties which could give rise to additional legal and other costs. The Group is working closely with all counterparties to avoid this from occurring.

- **Regulatory risk:** Regulatory models and methodologies are in the process of being updated (e.g. to accommodate new market data). There is a risk that such models are not fully updated, tested and approved by the regulator in time.

- **Operational risk:** Our Group's IT systems are undergoing upgrades to fully manage the transition to alternative benchmark rates and there is a risk that such upgrades are not fully functional in time resulting in additional manual procedures which give rise to operational risks.

Progress towards implementation of alternative benchmark interest rates
The Group has a risk management policy of swapping all fixed rate assets and liabilities to floating rates in order to fix its net interest margin. In the current period, all newly transacted floating rate financial assets and liabilities (including derivatives that are used to hedge fixed rate assets and liabilities) have been linked to an alternative benchmark rate, such as SONIA or SOFR or, if linked to IBOR, include detailed fallback clauses clearly referencing the alternative benchmark rate and the trigger event on which the clause is activated.

With respect to fixed rate assets and liabilities that are expected to be settled in advance of the anticipated replacement date of the relevant IBOR, any existing IBOR-linked derivatives used to hedge the repricing risk have been retained. With respect to fixed rate assets and liabilities that are expected to be settled after the replacement date of the relevant IBOR, as explained below, certain of the related derivatives have been transitioned to a relevant alternative benchmark rate.

None of the Group's GBP LIBOR, USD LIBOR, JPY LIBOR and EONIA-linked legacy contracts include adequate and robust fallback clauses for a cessation of the referenced benchmark interest rate. Various working groups in the industry are working on fallback provisions for different instruments and IBORs, which the Group is monitoring closely. The Group is planning to transition the majority of its remaining IBOR-linked contracts to risk free rates through introduction of, or amendments to, fallback clauses in the contracts which will change the basis for determining the interest cash flows from IBOR to risk free rates at an agreed point in time. Some of these fallback provisions have been incorporated into contracts during 2020 but the majority are expected to be implemented during 2021.

For all of the Group's derivatives that reference IBOR, the International Swaps and Derivatives Association's ('ISDA') fallback clauses were made available at the end of 2020 and the Group has signed up to the protocol, along with all the counterparties. This ensures all legacy trades that have not transitioned to a risk free rate will, on cessation of IBOR, follow the fallback clause provided in the protocol.

Generally where a derivative is held to hedge an IBOR-linked contract maturing after the expected IBOR replacement date and where no amendment has been made to the hedged item to transition to a risk free rate, the IBOR-linked derivative has been retained and will be transitioned under the ISDA protocol.

Issued fixed rate debt
The Group has issued GBP denominated and USD denominated fixed rate debt which it fair value hedges using GBP fixed to GBP LIBOR and USD fixed to USD LIBOR interest rate swaps.

The Phase 1 amendments permit continuation of hedge accounting even if in the future the hedged benchmark interest rate, GBP LIBOR and USD LIBOR, is no longer considered to be separately identifiable.

This relief does not extend to the requirement that the designated interest rate risk component continues to be reliably measureable and if the risk component is no longer reliably measureable, the hedging relationship is discontinued. The Group has determined that GBP LIBOR and USD LIBOR interest rate risk components continue to be reliably measurable.

No additional hedges of the fixed rate debt have been designated in the current period. The existing hedged items mature between 2023 and 2026, after the expected date of the interest rate benchmark transition. All derivatives will be transitioned to alternative risk free rates under the ISDA protocol described above and therefore no amendments have yet been made to any of the derivatives held.

Investments in fixed rate debt securities
The Group holds investments in GBP denominated fixed rate debt securities for liquidity management purposes under a held to collect and sell business model. The investments are measured at fair value through other comprehensive income. The interest rate risk of the securities is hedged using GBP LIBOR interest rate swaps.

£30 million of the bonds held, mature in 2023 after the expected date of transition. All related derivatives will be transitioned to an alternative benchmark rate under ISDA protocol and therefore no amendments have been made to the derivatives.

The Group acquired additional bonds in the current period with a notional amount of £10 million, maturing in 2024. The Group executed SONIA swaps and designated those derivatives in a fair value hedge relationship of the SONIA component of interest rate risk on the newly acquired bonds. These were the first SONIA interest rate swaps that the Group designated in a fair value hedge accounting relationship. At the date they were designated, and at the reporting period thereafter, the Group expects that SONIA with a term out to 2024 will be a separately identifiable risk component within 24 months of the date of designated. This conclusion applies to its other fair value hedges of SONIA interest rate risk, including hedging of fixed rate mortgages maturing or repricing up to including 2024 as detailed immediately below.

Fixed rate mortgages
The Group has fixed rate advances in the form of retail mortgage lending to customers which it includes in a portfolio fair value hedge of the GBP LIBOR risk component of those advances.

The Phase 1 amendments permit continuation of hedge accounting even if in the future the hedged benchmark interest rate, GBP LIBOR, may no longer be separately identifiable.

The Group has £40 million of fixed rate mortgages that mature between 2021 and 2024:

- £5 million maturing or repricing in 2021: as the mortgages mature in advance of the expected date of IBOR replacement the Group has retained its existing GBP LIBOR swaps.

- £25 million maturing or repricing between 2022 and 2023: during the third quarter of 2020 the Group entered into equal but offsetting derivatives against the original derivatives and new off-market derivatives based on SONIA + fixed spread on the same terms as the original derivatives (i.e. the fair value on day one of the new SONIA derivatives was the same as the original GPB LIBOR derivatives). This change was made as a direct consequence of the reform and on an economically equivalent basis. The Group changed the hedge documentation to include the new derivatives and amended the designated hedged risk to "changes in the fair value of the fixed rate mortgage resulting from changes in SONIA". The hedge relationship was not discontinued.

- £10 million maturing or repricing in 2024: in the current period, the Group originated new mortgages of £10 million maturing or repricing in 2024. The Group executed SONIA swaps and designated those derivatives in a fair value hedge relationship of the SONIA component of interest rate risk on the newly originated mortgages.

Floating rate borrowing
The Group has floating rate debt linked to USD LIBOR (an issued bond) and EONIA (a loan advanced by a third party bank), which it cash flow hedges using interest rate swaps.

In the last quarter of the financial year, the Group transitioned its €40 million (£36 million) EONIA bank loan, which matures beyond the date that EONIA will cease to be published, to €STR. The €40 million EONIA bank loan has transition to €STR + 8.5bps. No other terms were amended as part of the transition. The Group accounted for the change to €STR using the practical expedient introduced by the Phase 2 amendments, which allows the Group to change the basis for determining the contractual cash flows prospectively by revising the effective interest rate.

As a result of the change to the terms of the borrowing, the Group also amended the related hedge accounting relationships. The Group entered into equal but offsetting derivatives against the original derivatives and new off-market derivatives based on €STR + fixed spread on the same terms as the original derivatives (i.e. the fair value on day one of the new €STR derivatives was the same as the original EONIA derivatives). This change was done as a direct consequence of the reform and on an economically equivalent basis. The Group changed the hedge documentation to include the new derivatives and amended the hedged risk to "changes in the fair value of the fixed rate debt resulting from changes in €STR". The hedge relationship was not discontinued.

For both the $10 million USD LIBOR issued bonds (maturing in 2024 and 2025), during the year, the Group and the bondholders agreed fallback clauses to transition from USD LIBOR to SOFR, however the date of transition remains uncertain. On an ongoing basis, the Phase 1 amendments permit continuation of hedge accounting even though there is uncertainty about the timing and amount of the hedged cash flows due to the interest rate benchmark reform. The Group will retain the cumulative gain or loss in the cash flow hedge reserve even though there is uncertainty arising from the interest rate benchmark reform with respect to the timing and amount of the cash flows of the hedged items. Should the Group consider the hedged future cash flows are no longer expected to occur due to reasons other than the interest rate benchmark reform, the cumulative gain or loss will be immediately reclassified to profit or loss.

Floating rate customer advances and deposits
The Group has floating rate advances to and deposits from customers, linked to GBP LIBOR and EONIA, which it includes in a portfolio cash flow hedge using interest rate swaps.

For these customer accounts, the Group's response to interest rate benchmark reform is focused on treating customers fairly and considers several aspects of transition including the reduction of clients' exposures to legacy IBOR contracts by amending or replacing existing contracts to include robust fallback provisions or replace IBOR with relevant alternative benchmark interest rates. A critical aspect of this response is also the development of new products linked to relevant alternative benchmark interest rates. The Group developed a detailed communication plan with a focus on communicating with customers in a way that is clear, fair and not misleading. This included an explanation of what will happen to contracts that mature beyond the end of 2021 and the effect of IBOR replacement on the customer. Communications have taken place in a timely manner to ensure that all customers have time to consider the options available before the end of 2021. Initial communications have focused on raising awareness and detailed discussions are starting to take place with clients. Our response also includes a rigorous training programme to ensure that relevant client-facing staff have adequate knowledge and competence to understand the implications of IBORs ending and can respond to customers appropriately.

For the GBP LIBOR and EONIA customer accounts, changes are expected in H2 2021. As a result no changes have yet been made to the derivatives held to hedge those customer balances and the hedged risks continue to be GBP LIBOR and EONIA. It is expected that these derivatives will transition to the relevant alternative benchmark rate via the ISDA protocol. On an ongoing basis, the Phase 1 amendments permit continuation of hedge accounting even though there is uncertainty about the timing and amount of the hedged cash flows due to the interest rate benchmark reform. The Group will retain the cumulative gain or loss in the cash flow hedge reserve even though there is uncertainty arising from the interest rate benchmark reform with respect to the timing and amount of the cash flows of the hedged items. Should the Group consider the hedged future cash flows are no longer expected to occur due to reasons other than the interest rate benchmark reform, the cumulative gain or loss will be immediately reclassified to profit or loss.

Derivatives
In addition to the derivatives mentioned above, the Group uses a cross-currency interest rate swap to hedge the foreign currency risk in its net investment in Japanese foreign operations, and holds a portfolio of IBOR-linked derivative financial instruments in its trading book.

These derivatives will be transitioned to an alternative benchmark rate under ISDA protocol and therefore no amendments have yet been made to the derivative or to the net investment hedge relationship.

Summary of transition

The following table summarises the non-derivative financial instruments held by the Group that feature cash flows that have been or will be affected by the interest rate benchmark reform. It does not include the Group's fixed rate financial instruments because cash flows on those instruments are not affected by the interest rate benchmark reform. Derivatives held by the Group are summarised in the subsequent table.

Non-derivative financial instrument prior to transition	Maturing in	Nominal in currency (m)	Total Nominal (£m)	Hedge Accounting	Transition progress for non-derivative financial instruments
Two $10m USD LIBOR issued bonds	2024/2025	$20	15	Designated in cash flow hedge (see below)	Fallback clauses negotiated with bond holders
Euro denominated EONIA bank loan	2023	€40	36	Designated in cash flow hedge (see below)	Transitioned to €STR
GBP – LIBOR floating rate customer deposits	2022	£130	130	Designated in cash flow hedge (see below)	Expected to transition in H2 2021
EONIA floating rate customer deposits	2022	€100	90	Designated in cash flow hedge (see below)	Expected to transition in H2 2021
Total floating rate non-derivative liabilities			**271**		
Amounts subject to the interest rate benchmark reform			**220**		
GBP – LIBOR floating rate customer advances	2022	£200	200	Designated in cash flow hedge (see below)	Expected to transition in H2 2021
EONIA floating rate customer advances	2022	€150	135	Designated in cash flow hedge (see below)	Expected to transition in H2 2021
Total floating rate non-derivative assets			**335**		
Amounts subject to the interest rate benchmark reform			**335**		

Below are details of the hedging instruments and the related hedged items that have been or will be subject to transition to alternative benchmark interest rates, by hedge type. The terms of the hedged items listed match those of the corresponding hedging instruments.

Hedge type	Instrument type	Maturing in	Nominal in currency (m)	Total nominal (£m)	Hedged item	Transition progress for derivatives
Fair value hedges	Pay 3-month GBP LIBOR, receive GBP fixed interest rate swaps	2023	£10	10	GBP fixed rate issued debt of the same maturity and nominal of the swaps	To transition derivatives via ISDA protocol
	Pay 3-month GBP LIBOR, receive GBP fixed interest rate swaps	2024	£20	20	GBP fixed rate issued debt of the same maturity and nominal of the swaps	To transition derivatives via ISDA protocol
	Pay 6-month GBP LIBOR, receive GBP fixed interest rate swaps	2025	£40	40	GBP fixed rate issued debt of the same maturity and nominal of the swaps	To transition derivatives via ISDA protocol
	Pay 3-month USD LIBOR, receive USD fixed interest rate swaps	2026	$50	37.5	USD fixed rate issued debt of the same maturity and nominal of the swaps	To transition derivatives via ISDA protocol
	Pay GBP fixed, receive 3-month GBP LIBOR	2023	£30	30	Fixed rate debt securities held in the liquidity portfolio of the same maturity and nominal of the swap	To transition derivatives via ISDA protocol
	Pay GBP fixed, receive SONIA	2024	£10	10	Fixed rate debt securities held in the liquidity portfolio of the same maturity and nominal of the swap	N/A – not linked to IBOR
	Pay GBP fixed, receive 3-month GBP LIBOR	2021	£5	5	Portfolio fair value hedge of the GBP LIBOR component of fixed rate retail mortgage lending	N/A – expected to settle before IBOR replacement
	Pay GBP fixed, receive SONIA	2022 to 2024	£35	35	Portfolio fair value hedge of the SONIA component of fixed rate retail mortgage lending	N/A – not linked to IBOR
Cash flow hedges	Receive 3-month USD LIBOR, pay USD fixed interest rate swap	2024	$10	7.5	USD LIBOR issued bond of the same maturity and nominal of the swap	To transition derivatives via ISDA protocol
	Receive 3-month USD LIBOR , pay USD fixed interest rate swap	2025	$10	7.5	USD LIBOR issued bond of the same maturity and nominal of the swap	To transition derivatives via ISDA protocol
	Receive EONIA, pay € fixed interest rate swap	2023	€40	36	Euro denominated €STR bank loan of the same maturity and nominal of the swap	Derivative and bank loan transitioned to €STR
	Receive GBP fixed, pay 3-month GBP LIBOR interest rate swap	2022	£70	70	Portfolio cash flow hedges of GBP LIBOR and EONIA interest rate risk associated with GBP LIBOR and EONIA floating rate customer advances/deposits and pricing of future fixed rate customer advances/ deposits	To transition derivatives via ISDA protocol
	Receive € fixed, pay 3-month EONIA interest rate swap	2022	€50	45		To transition derivatives via ISDA protocol
Net investment hedge	Pay 1-month JPY LIBOR, receive 1-month GBP LIBOR cross currency interest rate swap	2025	¥7,000 / £50	50	¥7,000m net investment in Japanese foreign operation	To transition derivatives via ISDA protocol
Total derivative nominal				**403.5**		
Total derivative nominal transitioned to alternative benchmark rates				**36**		
Total derivative nominal subject to the interest rate benchmark reform				**367.5**		

As stated in Note [X] the Group will continue to apply the Phase 1 amendments to IFRS 9/IAS 39 until the uncertainty arising from the interest rate benchmark reform with respect to the timing and the amount of the underlying cash flows that the Group is exposed to ends.

The Group expects this uncertainty will continue until the Group's contracts that reference IBORs are amended to specify the date on which the interest rate benchmark will be replaced, and the basis for the cash flows of the alternative benchmark rate are determined including any fixed spread.

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Designed and produced by CoRe Creative Services RITM0604771