IBOR Transition Financial Coordination Sub-Working Group

Status and Recommendation Docum

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2 Introduction

2.1 Scope

This Status and Recommendation Document includes the following topics;

- IBOR Transition Schedule
- Assessment of the Potential Impact of the Transition to the Alternative Reference Interest Rate on Contractual Cash Flows In terms of Financial Statements
- The Financial Instruments and Financial Statement Items Affected by the Transition to the Alternative Reference Interest Rate
- The effects of the transition under TFRS 9 ''Financial Instruments'' (''TFRS 9'') standard- ''Derecognition of financial instruments from financial statements"
- The Effect of the IBOR Reform on the Assessment of the Business Model Aiming to Collect Contractual Cash Flows ("SPPI")
- The Effects of the IBOR Reform on Hedge Accounting
- The Effect of the IBOR Reform on Footnotes and Other Standards

2.2 The status and recommendation documents related to this document

The "Annexes" section of article 9 lists the documents related to this document.

3 Summary

The manipulation of IBOR from time to time in the past, declines in unsecured interbank lending markets and the decline in the general opinion that using IBOR is risk-free resulted in the need to transition from IBOR rates to alternative risk-free rates (“RFR”).

The IBOR reform is an important and long-term transformation attempt for many global institutions that will affect products and instruments, contracts, processes, models and systems based on IBOR and needs to be completed until the end of 2021 when the IBOR rates will stop being published.

The aim of this document is to have the relevant stakeholders minimize the potential risks they will face in operational processes such as “Financial Reporting, Accounting, Tax, Legal Reporting, Information Systems and Banking Processes” and perform the transition simultaneously with international agencies.

4 Theoretical Background

As announced by the Financial Stability Board, London Interbank Offered Rate (LIBOR), Euro Interbank Offered Rate (EURIBOR), Euro Overnight Index Average (EONIA) and other Interbank Interest Rates (USD LIBOR, GBP LIBOR etc.) are being rearranged with alternative risk-free interest rates and the arrangement is required to be completed until the end of 2021 when the publication of IBOR rates will be halted.

The International Accounting Standards Board ("IASB") conducted a two-phase project to analyze the effects of this significant change on Financial reporting and accounting and to guide companies:

- Phase 1: Pre-Replacement – Covers the issues that affect financial reporting in the period before a current benchmark interest rate is replaced with the alternative risk-free reference interest rate. Phase 1 was completed in September 2019.

- Phase 2: Replacement Issues – Covers the issues that might affect financial reporting in case a current benchmark interest rate is replaced with the alternative risk-free reference interest rate. Phase 2 was completed in August 2020.

As part of the project executed by the IASB to replace benchmark interest rates, the Interest Rate Benchmark Reform – Phase 1 addressing pre-replacement issues and containing changes in TFRS 9, TMS 39 and TFRS 7 was put into force in December 2019 and the Interest Rate Benchmark Reform – Phase 2 again by the IASB, addressing the post-replacement issues and containing changes in TFRS 9, TMS 39, TFRS 7, TFRS 4 and TFRS 16 by IASB was put into force in December 2020 also by the Public Oversight Authority ("POA").

In this context, this Status and Recommendation Document covers the following topics;

4.1 Assessment of the Potential Impact of the Interest Rate Change on Contractual Cash Flows In terms of Financial Statements

The Phase 2 Privileges published by the IASB and the POA offers practical solutions to companies for the changes in the basis of determining contractual cash flows. The companies will be entitled to benefit from the privileges if the changes are a direct result of the IBOR reform and made in an equivalent basis to the previous contractual terms according to the following 4 criteria.

- Replacement of the current reference interest rate with an alternative risk-free reference interest rate (replacement of IBOR directly with RFR),

- Through the activation of an existing fallback article in the contract (e.g., starting to implement an existing alternative reference interest rate article),

- Changing the calculation method for the interest rate benchmark criterion without changing the contract terms (the case where Euro Short Term Rate (''ESTR'') + 8.5 basis point was used to calculate EONIA in Europe in 2019)

- Replacing a hedging instrument with a new derivative transaction referencing RFR by closing the derivative product based on IBOR as required by the Reform and with the same counterparty and under the same terms, even if the basis of calculating contractual cash flows is not changed

If the changes in contractual cash flows are made under the aforementioned scope, the IASB and the POA offers the privilege of considering such changes as a change in a floating-rate loan under article B5.4.5 in reference to article TFRS/UFRS 9 5.4.7 rather than considering them under article TFRS/UFRS 9 5.4.3 "Restructuring of Contractual Cash Flows".

With this privilege, companies will continue to determine their cash flows by using the original interest rates of the financial instrument without making any changes in the book value and the financial statements will thus not be affected by the IBOR reform.

With the Phase-2 privileges, insurance companies that apply temporary exemption from UFRS/TFRS 9 will also benefit from the same facilitating practice.

Examples of cash flow changes that meet the Economic Equivalence criterion:

- Adding a fixed spread to eliminate the main difference between the current IBOR and the alternative risk-free reference interest rate. For example, in the former contractual terms, the floating rate of a debt instrument based on a coupon rate of IBOR plus 100 basis points can be updated based on RFR+120 basis points or a different basis point. The reason for the emergence of the main difference here is that IBOR is a seasonal rate whereas RFR is an overnight interest rate.
- The repricing periods or the coupon maturities can change. For example, a 3-month maturity IBOR rate with quarterly coupon payments can be replaced with RFR rates with maturities longer or shorter than 3 months.
- An alternative reference interest provision should be added to the contract terms of a financial asset or financial liability in order to apply any of the aforementioned changes.

Changes that are not considered as a direct consequence of the IBOR reform and which cannot benefit from the Phase-2 privileges are specified below:

- Any change in the principal or nominal amount
- Any change in the credit spread
- Any change in the maturity date
- Renewal of a derivative transaction with a different counterparty based on RFR

If the changes are made as mentioned above, the Phase-2 privileges do not apply to such changes and therefore, companies are required to consider such changes under TFRS 9 article 5.4.3 "Restructuring of Contractual Cash Flows" and assess whether they meet the "Derecognition of financial instruments from financial statements" criteria.

4.1.1 The Financial Instruments and Financial Statement Items Affected by the Transition to the Alternative Reference Interest Rate

The transition process to the Alternative Reference Interest Rate affects the following financial statement items;

- **Assets**

- Financial Assets Whose Fair Value Difference is Reflected onto Profit-Loss
- Financial Assets Whose Fair Value Difference is Reflected onto Other Comprehensive Revenues
- Derivative Financial Assets
- Loans
- Receivables from Leasing Transactions
- Financial Assets Measured with Amortized Cost

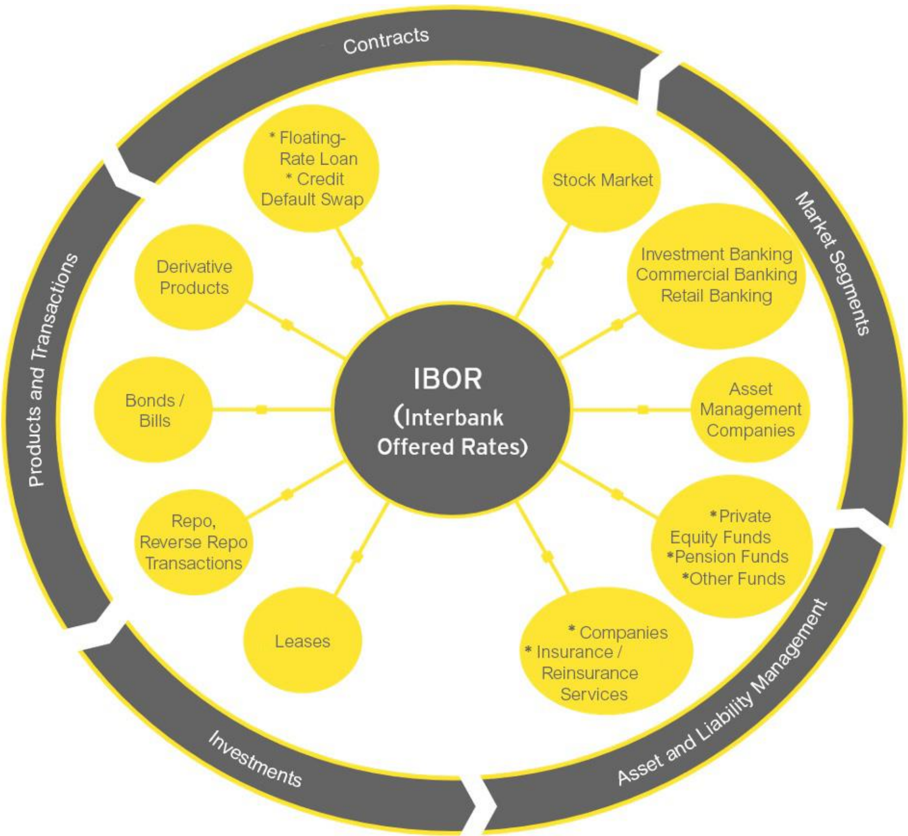
- **Liabilities**

- Credits Obtained
- Payables to Money Markets
- Securities Issued

- Derivative Financial Liabilities
- Liabilities from Leasing Transactions
- Subordinated Debt Instruments

IBOR is a reference interest rate that constitutes a basis for financial instruments and contracts on a global scale and is used by various participants on financial markets on a wide range of products.

In this context, the products and market segments to be affected are as follows;



4.1.2 Derecognition of Financial Instruments

The Effects of the Transition under TFRS 9 Financial Instruments - "Derecognition of Financial Instruments from Financial Statements"

Companies should consider changes in credit spreads or maturity dates not resulting from the IBOR Reform, under the criteria for "Derecognition of financial instruments from financial statements".

Criteria for Derecognition of Financial Instruments from Financial Statements Pursuant to TFRS 9:

- Pursuant to TFRS 9, restructuring or changing the contractual cash flows of a financial instrument may cause an existing financial asset to be derecognized from financial statements.

- Whether an important change took place in the contractual terms of a changed financial asset (Changes in the contractual exchange rate of the financial instrument, the discounted current value of new contractual cash flows calculated with the original financial instrument's effective rate, **has significant** effect on the discounted current value of the original financial instrument's remaining cash flows etc.) Important to determine whether a "new" financial asset is created in terms of TFRS 9. Furthermore, according to TFRS 9 article 3.3.6, the terms are considered to have changed significantly if the current value of the cash flows to be created in the context of the new terms and discounted using the starting effective interest rate, is more than 10% different from the current reduced value of the remaining cash flows of the starting financial liability. As there is no strict 10% criterion specific to the standard for financial assets, it is important for companies to establish a transition policy procedure for the IBOR transition and document what % change they will consider as significant.

- If the changes are considered to be significant and have produced a new financial asset, according to TFRS 9 companies should derecognize the original financial instrument from the financial statement and recognize the financial instrument with the new contractual terms in the financial statement based on its fair value on the date of change. In this context, the difference between the value carried forward of the original financial instrument and the fair value of the new financial instrument should be accounted in the current "Profit or loss" statement.

IASB Assessment of the change to be made in the contractual terms of Derivative Instruments:

IASB sent two scenarios regarding the closure of the derivative transaction with the same counterparty and enters a new derivative transaction based on RFR, which is the 4th criteria it considers as privilege under Phase 2;

- In the first scenario, a double counterparty terminates its IBOR-based derivative contracts with no revenue or loss and enters a new transaction that is RFR-based but economically equivalent to the original transaction. As the fair value will be identical or very close between the two transactions and as the transactions have the same counterparty, the original derivative transaction will not be derecognized from the financial statement and will be considered as a modification.

- In the second scenario, the original derivative transaction is terminated, the unrealized revenue or loss is paid in cash and a new derivative transaction is performed under significantly different terms reflecting the current market rate. In such transactions IASB considers the first derivative transaction as terminated.

4.2 The Effect of the IBOR Reform on the Assessment of the Business Model Aiming to Collect Contractual Cash Flows ("SPPI")

Assets are required to be assessed in two areas before financial assets are accounted under TFRS 9:

- Testing whether the contractual structures of financial assets consist only of principal and interest (SPPI test)
- The business model used by the company for managing financial assets

Pursuant to TFRS 9, the condition required to classify financial assets as measured with amortized costs or as fair value difference reflected onto other comprehensive revenues, is for the contractual cash flows to lead to cash flows consisting solely of principal and interest on principal balance payments on certain dates.

Criteria to be considered in implementing the SPPI test:

- The time value of money (assessment under TFRS 9 B4.1.9)
- Whether costs other that basic costs of borrowing such as credit risk, administrative costs, liquidity risk and profit margin are included
- Whether there is leverage
- Down payment and term extension options
- Differentiation between the exchange rate of the financial instrument and the exchange rate with which the interest is determined
- The reference interest rate renewal term and the interest rate payment frequency matches
- Whether there are performance-based contractual terms

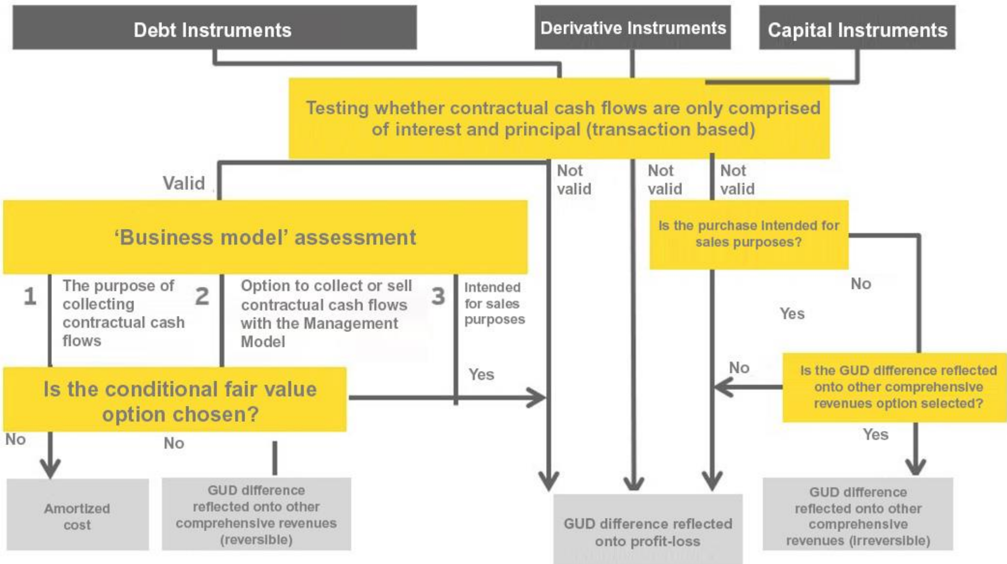
4.2.1 Classification of Financial Instruments

In the context of the assessments, the financial instrument should be accounted as amortized cost if it aims to collect cash flows with respect to the business model and passes the SPPI test. If it aims to collect and sell cash flows if necessary, with respect to the business model and passes the SPPI test, it should be accounted as Financial Assets Whose Fair Value Difference is Reflected onto Other Comprehensive Revenues. In all the remaining cases it should be accounted as Fair Value Difference Reflected onto Profit/Loss.

Such classification is dependent on both the bank management model and the contractual cash flows of financial assets.

In short, the detailed decision tree regarding the method of measuring financial instruments is as follows:

Classification of Financial Instruments - Measurement Method Decision Tree



4.2.2 The assessment of the transition under the SPPI test and its effect on classification

IASB states that in analyzing whether Alternative reference interest rates can pass the SPPI test, UFRS 9 provides sufficient information and companies should make judgment in consideration of this information.

According to UFRS 9/ TFRS 9, the time value of money and the price of the credit risk are usually the most important components of interest in a basic loan contract. It is expressed that interest can also include other basic loaning risks and costs and the profit margin. In short, the components of interest are considered as the time value of money (1), risk premium (2), incurred costs (3) and profit margin (4).

(1) Time value of money only reflects the loaning cost related to the passing of time and does not include other risks and costs related to retaining the asset.

(2) Risk premium is the component that reflects the cost of the credit risk of the principal balance for a certain time interval and other risks related to the main borrowing contract (e.g., liquidity risk of the financial instrument).

(3) Cost is the incurred expenses related to retaining the financial asset for a certain period of time. (e.g., administrative costs)

(4) Profit margin is a profit rate consistent with a basic loan contract.

If the contractual terms contain more complex features that could be inconsistent with the principal or interest, the nature and effect of the complex feature should be assessed under the guidance of the standard. Companies are therefore required to assess how the RFRs to be used after the IBOR Reform;

- Are calculated,
- Whether they reflect the time value of money,
- And whether the interest payment frequency of the instrument matches the calculation method of RFRs to be used.

For example: SPPI Test Assessment for SONIA:

Although SONIA is a daily-announced rate, the interest payment rate of a period such as three months is determined through compound interest calculation using retrospective daily rates. The payable interest can thus only be determined at the end of the interest period. Debtors need to know how in advance much interest is to be paid in order to facilitate the payment of the interest on time and to test whether it reflects the time value of money. Therefore, choosing the method of determining the SONIA rate on the payment date 5 days before the payment day allows companies to make a qualitative assessment of whether there is a significant change in the time value of money and therefore, whether the financial asset meets the SPPI criteria.

UFRS 9/TFRS 9 Examples related to the IBOR Reform:

IBOR reform

Example 1; The financial instrument "A" is a floating-rate financial instrument with a certain maturity and allows the debtor to continuously choose the market interest rate. On the date of determining the interest rate, the debtor is entitled to either prefer to pay a three-month LIBOR for a period of three months or a one-month LIBOR for a period of one month.

- Assessment; The interest redetermination period is compatible with the interest rate. A 3-month LIBOR can be chosen for 3 months and a 1-month LIBOR for 1 month. Therefore, redetermining the LIBOR interest rate throughout the maturity of the financial instrument does not change the fact that cash flows result only from the principal or the interest on the principal.

  On the other hand, for example, if the interest is redetermined once every three months and the debtor can choose to pay a one-month interest rate (e.g., the customer requests to pay an interest once every 3 months but is able to only use the 1-month LIBOR rate), the interest rate is redetermined in a way that is incompatible with the maturity of the interest rate. Redetermining the interest rate each month according to the annual interest rate or redetermining the interest rate of the financial asset according to the average of certain short-term and long-term interest rates are also other examples that cause incompatibility and change the time value of money. **Contracts with such feature should be reported and their cash flows should be examined.**

Example 2; Is the interest rate of a product determined by the state or a regulatory authority? Is there such type of product?

- If there is a financial instrument with such structure, assessment should be made on whether the interest rate determined by the state can be considered as a benchmark for the time value of money. The said rate can pass the test only if it includes the time value of money and the risk and cost related to the loan contract.

Example 3; Is the contractual return generated from an index other than the interest rate?

- The financial instrument "A" is a bond with a certain maturity. The payment of the principal and the interest on principle are linked to the inflation index of the currency in which the bond is issued. This inflation link is unleveraged and the principal is protected.

  Assessment; Linking the payment of the principal and the interest on the principal balance to an unleveraged inflation index will bring the time value of money to its current level. (The interest rate of the financial instrument reflects the time value of money.) The contractual cash flow thus passes the feature test.

  On the other hand, if the yield of the bond in the example was linked to the inflation index of a currency other than the one in which the bond was issued, the bond would not pass the cash flow feature test as a link was made to an inflation index not reflecting the time value of money.

4.2.3 The Effects of the Transition on the Effective Interest Rate

According TFRS 9, Effective Interest Method is;

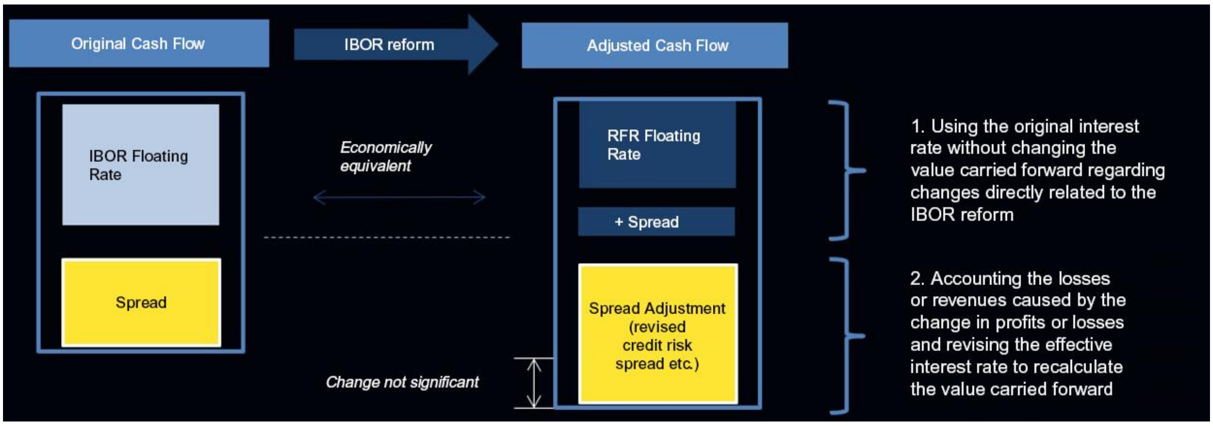
- The method used to calculate the amortized cost of a financial asset or financial liability and distribute the interest revenues or expenses to the profit or loss of the concerned period and recognize them in the financial statements.

  And the effective interest rate used in the effective interest method is,

- The rate that reduces the financial asset's or liability's future cash payments or collections predicted to be realized throughout its lifecycle, to the financial asset's gross book value or the financial liability's amortized cost.

As the financial institutions and organizations subject to BRSA implement the TFRSs and TMSs acknowledged by BRSA, interest rediscount and interest revenue are accounted in banks by calculating with the effective interest method.

The effects of starting to use the RFR interest rates as part of the IBOR reform on the Effective interest rate in consideration also of the Phase-2 privileges should be assessed with the following decision tree:



In conclusion, for transactions that are direct consequences of the IBOR reform and realized in an economically equivalent basis, the privilege was given to continue to determine cash flows using the original interest rates of the financial instrument and therefore, make the transition without affecting the financial statements.

4.3 The Effects of the IBOR Reform on Hedge Accounting

Hedge Accounting was no doubt the most elaborated topic during the IBOR reform transition and Hedge Accounting was broadly covered in the Phase-1 and Phase-2 privileges in order to eliminate the effect of the uncertainty that arises until an alternative interest rate is determined to replace the current benchmark interest rates.

In order to better understand the effects of the IBOR reform on Hedge Accounting in the document, first the Phase-1 privileges are discussed which address pre-replacement issues and entered into force as of January 1, 2020 (Permitted for early implementation) and then the Phase-2 privileges are discussed which address post-replacement issues after 2020 and entered into force as of January 1, 2021 (Permitted for early implementation) and have parallels with the Phase-1 privileges.

4.3.1 Phase-1 Privileges Provided by the IASB/POA (Public Oversight Authority)

IASB/POA published the Phase-1 privileges to be implemented as part of Hedge Accounting in all hedging relationships directly affected by the IBOR reform.

Such hedging relationships are directly affected by the IBOR reform only if the reform causes uncertainties in the following issues:

- The benchmark interest rate (contractual or non-contractual) identified as the hedged risk and/or
- The timing and amount of the hedged item's or hedging instrument's cash flows based on the benchmark interest rate.

The practices of Phase-1 include changes in the following sub-topics to provide privileges regarding the termination of the hedging relationship due to the uncertainties that arise during the transition phase:

1) Facilitating provision related to taking the realization probability of Forecast transactions into consideration as high:

Due to the IBOR reform transition, in order to determine whether the realization probability of the Forecast transaction (or a component thereof) is high, the company assumes that the benchmark interest rate (contractual or non-contractual) on which the hedged cash flows are based, does not change as a consequence of the benchmark interest rate reform.

2) Provision on when the amount accounted in the cash flow hedge fund is to be reclassified as profit or loss:

In order to determine whether future cash flows subject to hedging are expected to be realized, companies assume that the benchmark interest rate (contractual or non-contractual) on which the hedged cash flows are based, does not change as a consequence of the benchmark interest rate reform.

3) Provision on assessing the economic relationship between the hedged item and the hedging instrument:

Assumes that the benchmark interest rate (contractual or non-contractual) on which the hedged cash flows and/or hedged risk are based or on which the cash flows related to the hedging instrument are based, does not change as a consequence of the IBOR reform.

4) Provision on the requirement to identify the risk component separately for companies when the alternative reference interest rate is identified as a risk component in the hedging relationship:

The Phase-1 privileges allow companies to apply the provisions related to the determinability of the risk component separately, only when a hedged item is first identified in a hedging relationship unless the privileges are applied to a transaction for hedging the interest rate risk from a non-contractual benchmark item. Regardless of whether the assessment is made at the start of the transaction or later, a hedged item assessed when identified for the first time in the hedging relationship will not be reassessed in any future re-identification performed in the same hedging relationship.

In conclusion, with Phase 1, in the application of each facilitating provision, the benchmark interest rate (contractual or non-contractual) on which the hedged cash flows are based and/or, for exemption 3, the benchmark interest rate on which the cash flows related to the hedging instrument are also based, are assumed to not change as a consequence of the benchmark interest rate Reform.

The Phase-1 privileges also bring the following changes that cover all the aforementioned issues and additionally, apply only for the TMS 39 standard specifically:

- For a retrospective assessment of effectiveness, an entity can continue to apply hedge accounting to a hedging relationship with an effectiveness outside the range 80-125% throughout the period of uncertainty caused by the Reform.
- The Phase-1 Facilitating practice provision related to the 80-125% limit in retrospective tests will end when no uncertainty remains regarding the cash flows of both the hedged item and the hedging instrument and the hedging relationship ends.
- In prospective assessment tests where hedging is expected to be very effective, the benchmark interest (contractual or non-contractual) on which the hedged cash flows are based and/or the benchmark interest on which the cash flows of the hedging instrument are based are assumed to be unchangeable as a consequence of the Reform.
- In order to protect the benchmark part (instead of a risk element under UFRS 9) of an interest rate affected by the reform, the condition that the concerned part should be separately identifiable is required to be met only at the start of the hedging.

The Risk-1 changes provide no facilitating provision regarding the requirement to **reliably measure** any changes in the risk element's fair value or cash flows and, in case a hedging instrument's cash flows are changed in reference to an RFR and the hedged item's cash flows are still based on IBOR (or vice versa), it is stated that the non-effective parts resulting from the changes in the fair value should continue being accounted in the income statement.

Example on Implementing the Phase-1 Facilitating Provision
Entity A is using cash flow hedge accounting for a “Borrowed Credit” with an eight-year floating interest linked to 3-month US LIBOR. It is known that any interest coupon payable after the credit is re-negotiated will be determined according to the new RFR and not US LIBOR. Although the debt instrument was previously subject to a cash flow hedge accounting based on the 3-month US LIBOR interest rate as the hedged item and this will be revised with the RFR, uncertainties still remain due to the transition, regarding the timing and amount of the cash flows based on the benchmark interest rate of the credit and the relevant hedging instruments. With the applied Phase-1 privileges, although these uncertainties remain, the opportunity is given to entity A to ignore this fact and still use US LIBOR-based cash flows to assess and measure the effectiveness of hedged interest coupons related to the debt instrument and the relevant hedging instrument. These privileges will continue until uncertainties are eliminated regarding the hedged asset and the hedging instrument.

For companies, the Phase-1 privileges to be effective as of January 1, 2020 and permitted to be implemented early will continue indefinitely and end only when the following conditions are met:

- When the hedged item or hedging instrument subject to hedge accounting is terminated,
- When all the amounts accumulated in the hedge fund accounted in the equities for cash flow hedge accounting are reclassified in the income statement
- For the hedged item or the hedging instrument, when the uncertainty caused by the Reform is eliminated in terms of the timing and amount of the hedged item's/hedging instrument's IBOR-based cash flows

4.3.2 Phase 2 Privileges Provided by the IASB/POA (Public Oversight Authority)

As the Phase-1 changes cover only the pre-transition issues, Phase-2 covers the issues that affect financial reporting in the event that the benchmark interest rate is replaced with an alternative RFR.

Although the privileges related to hedge accounting under Phase 2 are in parallel with the privileges under Phase 1, they include additional exemptions under the following sub-topics:

- Exemptions related to performing the revisions needed in the setup and documentation of hedge accounting due to the IBOR reform, before the hedging relationship is terminated
- Exemptions for minimizing the Effects on Cash Flow Hedge Accounting
- Exemptions on macro hedge accounting
- 24 months of provisional exemptions regarding the requirement to identify the risk component separately when the alternative reference interest rate is identified as a risk component in the hedging relationship
- Exemptions under Fair Value Hedge Accounting and
- Exemptions Applied under the TMS 39 Standard

a) Exemptions Related to the Setup and Documentation of Hedge Accounting

As part of the Phase-2 exemptions, permission is given to performing the revisions needed in the setup and documentation of hedge accounting due to the IBOR reform, before the hedging relationship is terminated.

In the reform transition, the hedging relationship and the documentation can be revised multiple times as the hedging instrument and the hedged item is changed at various times in reference to the RFR and the Phase-2 exemptions can be applied for all such revisions resulting from the reform.

As part of the Phase-2 exemptions, the opportunity is provided for the changes made in the hedge setup and documentation to include the following changes that are direct consequences of the IBOR reform:

- Reidentification of the hedged risk component in reference to the RFR
- Reidentification of the hedging instruments and/or hedged items to reflect the RFR and the revisions made in the descriptions in this regard
- Adding a fixed profit margin to the hedging instrument or the hedged item to eliminate the basis different between the new RFR and the old IBOR during the transition stage
- Not terminating the hedging instrument or replacing it with a new transaction based on economical equivalence (with the same counterparty)

Companies will change the setup and documentation in compliance with TMS 39 or TFRS 9 until the end of the reporting period during which the replacement required by the benchmark interest rate reform is performed in the hedged risk, the hedged item or the hedging instrument and to avoid any doubts, any reform-induced changes in the official definition of the hedging relationship will not require the termination of the hedging relationship or defining a new hedging relationship.

b) Phase-2 Privileges for Cash Flow Hedge Accounting

The Phase-1 privileges for cash flow hedging will continue until the hedging instrument and the hedged item are changed so as to take the RFR as reference.

With the Phase-2 privileges, as soon as companies change the descriptions regarding the hedged item in cash flow hedge accounting, the amount accumulated in the cash flow volatility hedge fund is deemed to be dependent on the alternative benchmark rate taken as basis in determining future hedged cash flows.

In case a terminated hedging relationship is in question, if the benchmark interest rate taken as basis in determining future hedged cash flows is to be changed as required by the IBOR reform, in order to determine whether the future hedged cash flows are expected to be realized, the amount accumulated in the cash flow volatility hedge fund for the relevant hedging relationship is considered to be dependent on the alternative benchmark rate taken as basis in determining future hedged cash flows.

Example of Applying the Phase-2 Facilitating Provision as part of Cash Flow Hedge Accounting
Type of Hedge Accounting: Cash Flow Hedge Accounting **Hedged Item:** US Borrowed Credit (Payment Conditions: 3-Month US Libor + 100 basis interest) **Hedged Risk:** 3-Month US Libor **Hedging Instrument:** Interest Rate Swap (“IRS”): (Payable: Fixed: 3%, Receivable: 3-Month US Libor) **Hypothetical Derivative Product Established at the Start of Hedge Accounting:** (Payable: Fixed: 3%, Receivable: 3-Month US Libor) **Hedging Relationship:** The hedging instruments and the instruments related to the hedged item were transacted on the same date of December 1, 2019, involve the same exchange rate and payment dates and therefore, a 100% effective hedge relationship is present. November 1, 2020: The Hedging Instrument was changed to take SOFR - which replaced US Libor - as reference. As the difference between US LIBOR and SOFR was 30 basis points on November 1, 2020, the new transaction was changed as a direct consequence of the IBOR reform so as to pay fixed 2.7% to the same counterparty and take 3-Month SOFR as reference. **The transaction is under the scope of the Phase-1 privileges as it is a direct consequence of the IBOR reform and conducted with economic equivalence and the hedge relationship is not required to be terminated.** **The cash flows related to the hedging instrument will be changed on November 1, 2020 and the cash flows of the hypothetical derivative product will continue to be based on the US Libor benchmark interest rate.** At the end of each accounting period, from the time when the swap transaction is changed to the time when the US Borrowed Loan is changed to take SOFR as reference, the cash flow hedge reserve will be re-measured according to the lowest of the following: ➢ The fair value cumulative revenue or loss of the SOFR swap; and ➢ The fair value cumulative revenue or loss of the US LIBOR hypothetical derivative. As the swap transaction is indexed to SOFR and the hypothetical derivative product to US LIBOR, an ineffective situation will start to be encountered in hedge accounting due to the difference between the two interest rates. However, as the currently hedged item cannot be changed to take RFR as reference and the uncertainty continues, even if the effectiveness measurement of the transaction is outside the 80%-125% range, it will be possible to continue implementing cash flow hedge accounting as part of the Phase-1 privileges; however, the amounts related to the ineffective part will be accountable in profit or loss. The hedge documentation and setup will be revised for the 1st time until the end of December 2020 to reflected the changes in the hedging instrument and as this is permitted by the Phase-2 privileges, it will be possible to continue hedge accounting. January 15, 2021: The Borrowed Credit was changed such that the difference between the 3-month US Libor and SOFR was 25 basis points on this date, to take SOFR as reference. Accordingly, the hypothetical derivative product cash flows will be changed as a direct consequence of the IBOR reform to now pay fixed 2.75% and take 3-Month SOFR. At this stage; • Phase-1 privileges are terminated as the hedging instrument and the hedged item both take the

RFR as reference.

- Hedge accounting and setup will be revised for the 2nd time as part of the Phase-2 privileges.
- The Phase-2 privileges will continue to remain in force for 24 months after January 15, 2021 as it is not certain whether SOFR currently meets the criterion of being identified as a separate risk element.

New Setup:

Type of Hedge Accounting: Cash Flow Hedge Accounting
Hedged Item: US Borrowed Credit (Payment Conditions: 3-Month SOFR + 100 basis interest)
Hedged Risk: 3-Month SOFR
Hedging Instrument: Interest Rate Swap ("IRS"): (Payable: Fixed: 2.7%, Receivable: 3-Month SOFR)
Hypothetical Derivative Product Established at the Start of Hedge Accounting: (Payable: Fixed: 2.75%, Receivable: 3-Month SOFR)
Hedging Relationship: As the hypothetical derivative product and hedging instrument were changed on different rates to take SOFR as reference, whether they remain in the 80%-125% effectiveness range will be assessed in every period due to the difference from the interest rate.

The cash flow hedge reserve will now be re-measured according to the lowest of the following:

- The fair value cumulative revenue or loss of the changed swap transaction; and
- The fair value cumulative revenue or loss of the revised hypothetical derivative.

c) Exemptions on macro hedge accounting

The Phase-2 changes allow the hedging strategy to be maintained and continued without termination for a certain group of items issued due to changes directly required by the Reform.

With the Phase-2 privileges, as companies change item groups identified as items hedged under fair value change hedging or cash flow volatility hedging transactions due to the IBOR reform, to take RFR as reference, the opportunity was provided for them to distribute the hedged items to sub-groups based on the hedged benchmark rate and identify the benchmark rate as the hedged risk for each sub-group. For example, in a hedging relationship where a group of items is hedged against changes that occur in a benchmark interest rate as part of the benchmark interest rate reform, the hedged cash flows or fair values of certain items in the group may be changed to take an alternative benchmark rate as reference before the other items in the group are changed. In this example, the company will be able to identify the alternative benchmark rate as the hedged risk for the relevant sub-group related to the hedged items. Until the hedged cash flows or the fair values related to such items are changed to take an alternative benchmark rate as reference or the items expire and are replaced by hedged items taking the alternative benchmark rate as reference, the company will continue to identify the current benchmark interest rate as the hedged risk for the other sub-groups related to the hedged items.

In macro cash flow hedge accounting, when the sub-groups are opened by referencing each RFR, the hypothetical derivative products in the sub-groups will also be updated.

The company should separately assess for each sub-group whether the hedge accounting requirements related to the suitability of the hedged items are met and if any sub-group fails to meet the requirements, terminate the hedge accounting for the whole hedging relationship for the future.

d) The Effects of the Transition on the Criteria of Separate Identifiability of the Risk Components

TFRS 9 / TMS 39 require a risk component to be "separately identifiable" in addition to being reliably measurable in order to be subject to hedge accounting.

The Phase-1 and 2 privileges regarding the identification of RFRs as separate risk components, apply both to new hedge accounting practices and the ongoing transactions.

With the privileges, companies are given provisional exemption such that in cases where the alternative reference rate is identified as a risk component in a hedge relationship, they will reasonably fulfill the criterion of the requirement to identify risk components separately within 24 months after the first identification date. The 24-month period will apply separately for each transaction and be calculated starting from the first day when the RFR is first identified as a risk component.

The standards do not contain a strict explanation on the conditions under which an interest rate can be clearly identified as a separate risk component, however, based on TFRS 9 article B6.3.10(d), it can be stated that fulfilling the following criteria can be supportive in having the RFR identified as a separate risk component:

- Having high liquidity,
- Being an index rate based on which fixed and floating-rate debt instruments are frequently priced,
- Being a rate used as basis in swap markets.

e) Exemptions Brought Under Fair Value Hedge Accounting

Unlike cash flow hedge accounting, under fair value hedge accounting, in the cumulative assessment of retrospective hedging effectiveness, companies are given the opportunity to reset the cumulative fair value changes of the hedged item and the hedging instrument for each hedging relationship if the implementation of the facilitations provided by Phase 1 are terminated.

Example of Applying the Phase-2 Facilitating Provision as part of Fair Value Hedge Accounting

Hedged Item: US Bond (Payment Conditions: 4% Fixed Interest)
Hedged Risk: 3-Month US Libor
Hedging Instrument: Interest Rate Swap (“IRS”): (Payable: Fixed: 3%, Receivable: 3-Month US Libor)
Hedging Relationship: The hedging instruments and the instruments related to the hedged item were transacted on the same date of December 1, 2019, involve the same exchange rate and payment dates and a 100% effective hedge relationship was established where the 3% of the US Bond will be hedged.

November 1, 2021: The Hedging Instrument was changed to take SOFR - which replaced US Libor - as reference. As the difference between US LIBOR and SOFR was 30 basis points, the new transaction was changed as a direct consequence of the IBOR reform so as to pay fixed 2.7% to the same counterparty and take 3-Month SOFR as reference.

New Setup:
Hedged Item: US Bond (Payment Conditions: 4% Fixed)
Hedged Risk: 3-Month SOFR
Hedging Instrument: Interest Rate Swap (“IRS”): (Payable: Fixed: 2.7%, Receivable: 3-Month SOFR)
Hedging Relationship: On November 1, 2021, a 100%-effective hedge relationship was established in which 2.7% of the US Bond will be hedged.
Actions to be Taken:

- The transaction is under the scope of the Phase-1 privileges as it is a direct consequence of the IBOR reform and conducted with economic equivalence and the hedge relationship is not required to be terminated.
- As 2.7% instead of 3% will be paid due to changing the cash flows of the hedging instrument to take SOFR as reference, now 2.7% of also the US Bond will be hedged and 100% effectiveness will be achieved. This transaction is considered as conforming to the standard as the Phase-2 exemptions allow companies to reset the cumulative fair value changes of the hedged item and the hedging instrument for each hedging relationship in the cumulative assessment of retrospective hedging effectiveness if the implementation of the facilitations provided by Phase 1 are terminated.
- Due to hedging 2.7% instead of 3%, the difference of 0.3% will be accounted as profit or loss.

- The Phase-2 exemptions will continue until November 1, 2023 as uncertainties are continuing regarding the identification of SOFR as a separate risk component.
- Hedge documentation and setup will be revised until 31 December, 2021 as part of the Phase-2 privileges.

f) Exemptions Applied under the TMS 39 Standard

Although not all the aforementioned exemptions cover TMS 39, the following changes that only apply specifically to the TMS 39 standard are also brought for the Phase-2 privileges as for the Phase-1 privileges:

- Pursuant to TMS 39, in the cumulative assessment of retrospective hedging effectiveness, companies may reset the cumulative fair value changes of the hedged item and the hedging instrument for each hedging relationship if the implementation of the facilitations provided by Phase 1 are terminated.
- For a retrospective assessment of effectiveness, an entity can continue to apply hedge accounting to a hedging relationship with an effectiveness outside the range 80-125% throughout the period of uncertainty caused by the Reform. However, the realized hedging ineffectiveness will continue being measured and classified in profit or loss.
- The Phase-2 changes also clarify that the changes made in the assessment method of hedging effectiveness due to the changes required by the IBOR reform will not result in the termination of hedge accounting.

Companies will be entitled to implement the Phase-2 changes in the annual accounting period that starts on January 1, 2021 or later and early implementation is also permitted. If early implementation is made, it will be explained in the footnotes.

The exemptions brought with the Phase-2 privileges will apply retrospectively with respect to TMS 8 except in the following cases:

a) If the entity defines a new hedging relationship only prospectively (in other words, if the entity is prohibited from defining the new hedge accounting in the previous periods). However, the entity may restart a hedging relationship it terminated if and only if the following conditions are met:

(1) The entity terminated the concerned hedging relationship only due to the changes brought by the benchmark interest rate reform and the entity would not have had to terminate the hedge relationship if those changes had been implemented at that date as well and

(2) At the start of the reporting period during which the entity implemented these changes for the first time (on the first implementation date of these changes), the terminated hedging relationship fulfills the required criteria for hedge accounting (after these changes are taken into consideration).

b) Rearranging the previous period information is not required to reflect the implementation of such changes. The past periods may be rearranged only if rearranging is possible without taking into consideration the conditions related to the future periods. If the previous period information is not rearranged, any difference between the previous book value and the book value at the start of the reporting period including the first implementation date of the mentioned changes, will be reflected onto the opening balance of the undistributed profits (or to another equity component if available) related to the reporting period including the first implementation date of the mentioned changes.

4.4 The Effect of the IBOR Reform on Footnotes and Other Standards

Other than UFRS 9 and UMS 39, the IASB also carried out studies specific to the other standards affected by the IBOR reform and provided facilitations for UFRS 7 with the Phase-1 privileges and also for UFRS 7 and also UFRS 4 and 16 with the Phase-2 privileges. This section will discuss footnotes and their effects on other standards.

4.4.1 The Effects of the Transition on the UFRS/TFRS 4/UFRS/TFRS 17 Standards

The UFRS/TFRS 17, “Insurance Contracts”; applies to the annual reporting periods that start on January 1, 2023 or later. This standard supersedes UFRS/TFRS 4 that currently allows a wide range of practices. UFRS/TFRS 17 will fundamentally change the accounting of all entities that issue insurance contracts and investment contracts with discretionary participation.

Companies deciding to postpone the implementation of UFRS/TFRS 9 and which therefore continue implementing the ‘frozen’ UMS/TMS 39, should account the changes in financial instruments required for the Reform by implementing the changes made in UFRS/TFRS 9 in paragraphs 5.4.6-5.4.9.

The references made in UFRS/TFRS 9 to B5.4.5 should be considered in reference to UMS/TMS 39 paragraph AG 7 and references to 5.4.3 and B5.4.6 in reference to AG 8. This means that insurance agencies will follow the same path as other organizations that implement TFRS 9 in their analysis for derecognition from financial statements and in their assessment of the transition's effect on cash flows.

4.4.2 The Effects of the Transition on the UFRS/TFRS 13 Standard and Fair Value Studies

UFRS/TFRS 13 currently provides sufficient guidance on whether a financial asset or liability is to be transferred to a different level within the fair value hierarchy, when such transfer will take place and whether such transfers reflect the economic reality of the IBOR reform and thereby provides valuable information to financial statement readers.

As IBOR values financial instruments based on observable inputs, if the observable inputs are removed in the transition to the alternative reference interest rates, this may result in a transition from Level 2 to Level 3 in the fair value hierarchy.

If IBOR is replaced with an alternative reference interest rate, if the replacement specifically affects the discount rate and valuation of financial statement items other than financial instruments under the scope of the IBOR Reform project, the changes in the reduction rate should be accounted as a change in accounting forecast under UMS/TMS 8 in parallel with the current accounting practices. Therefore, according to UMS/TMS 8 Paragraph 34 and 36;
It may be necessary to revise the forecast if the conditions under which the forecast is made change, new information is obtained or experience is gained. As per its nature, revising a forecast is not an error correction and also not related to past periods.
The effects of any change in an accounting forecast should be accounted prospectively (like fair value measurements).

4.4.3 The Effects of the Transition on the UFRS/TFRS 16 Standard and the Effects of the Transition on Other Standards

According to TFRS 16: Changing a lease is a change in the scope of the lease or in the lease fee, which is not a part of the essential provisions or conditions of the lease contract (e.g., adding or terminating the usufruct of one or more underlying assets or extending or shortening the contractual lease term).

Therefore, changes in a lease may have the following results:

- A separate lease. Accounted as follows;
    - The change broadens the scope of the lease by adding the usufruct of one or more underlying assets and
    - Changing the lease fee in proportion solely to the price of the broadening in scope and to the corrections made in such price to reflect the relevant contractual terms.

- A change not accounted as a separate lease. Accounted as follows;
    - For changes narrowing the scope of the lease, it reduces the book value of the usufruct asset to reflect the partial or full termination of the lease. The lessee will reflect the revenues or losses related to the partial or full termination of the lease to profit or loss.
    - For all other changes, a suitable correction is made in the usufruct asset.

UFRS/TFRS 16 was changed to require lessees to use a practical method when accounting lease changes that change the basis of determining future lease payments as a consequence of the IBOR reform (e.g., where lease payments are indexed to an IBOR rate).

The transition of an IBOR-referenced lease contract to an Alternative Risk-Free Interest Rate will be considered as a change in a floating-rate lease. With this privilege, lessees will be required to re-measure the lease obligation as reduced based on the original discount rate during the transition.

However, if lease changes are made in addition to those required by the IBOR reform, the lessee should implement the effective provisions in the standard to account all the lease changes simultaneously, including those required by the IBOR reform.

4.4.4 The Effects of the Transition on Footnotes Under UFRS/TFRS 7

Entities affected on a global scale from the Benchmark Interest Rate Reform published in September 2019 which made changes in FRS 9, TMS 39 and TFRS 7 following also the finalization of the Phase-2 arrangements in August 2020, started to accelerate their efforts to establish a systemic and operational structure that can collect and present information that can meet the footnote requirements. The effects of the Phase-1 and Phase-2 arrangement under UFRS/TFRS 7 are provided below.

a) The Phase-1 Changes and Transition Footnotes

The Phase-1 Changes made final arrangements in UFRS/TFRS 7 which require companies to explain the following information regarding the hedging relationships to which they applied the exemptions arranged in TFRS 9 paragraphs 6.8.4–6.8.12 or TMS 39 paragraphs 102D-102N:

- Significant benchmark interest rates that affect the entity’s hedging relationships,
- The scope of the risk managed by the entity and directly affected by the benchmark interest rate reform,
- The way the entity managed the process of transition to alternative benchmark rates,
- The definition of the significant assumptions or assessments used by the entity in implementing these paragraphs (e.g., assumptions and assessments on when the uncertainties caused by the benchmark interest rate reform in terms of the timing and amount of the cash flows based on a benchmark interest rate disappeared)
- The nominal amount of the hedging instruments in the relevant hedging relationships

b) The Phase-2 Changes and Transition Footnotes

As the Phase-2 privileges address the post-transition issues of the IBOR reform in general, the privileges brought to TFRS 7 in this regard require companies to provide explanations that allow them to assess the following;

- The significance of the financial instruments in terms of the entity’s financial position and performance
- The nature and scope of the risks to which the entity is exposed during the period and which arise from the financial instruments and how the entity manages such risks

Companies are required to disclose the following information to ensure that financial statement readers can understand the effect of the IBOR reform on an entity's financial instruments and risk management strategy:

- Qualitative disclosure of the nature and scope of the risks arising from the IBOR reform (Explanation of the entity's ongoing project to manage the risk and to change the risks from being based on IBOR to RFR)
- How the entity manages transition to alternative risk-free interest rates, progress at the reporting date and the risks arising from financial instruments due to the transition
- Numerical information on financial instruments broken down according to significant interest rate benchmarks (US Libor, Euribor etc.) subject to the benchmark interest rate reform;
    - Non-derivative financial assets
    - Non-derivative financial liabilities
    - Should be indicated separately as derivatives.

The quantitative disclosures provided by Entities in the footnotes can be prepared by excluding risks expected to expire or mature before the IBOR ends and the reason for this is that for these instruments, the conclusion can be reached that the entity is not exposed to risks related to the IBOR Reform.

Examples are provided below for the approach that entities may follow as specified in the Grounds for Decision of the changes in TFRS 7 for the numerical information they will provide on financial instruments that did not yet transition to an alternative benchmark rate:

- The net book values of non-derivative financial assets, the net book value of non-derivative financial liabilities and the nominal amount of the derivatives
- Amounts related to identified financial assets (e.g., the contractual nominal amount of non-derivative financial instruments and non-derivative financial assets and the nominal amounts of derivatives) or

- Amounts provided to the entity’s key executive staff (as defined in UMS/TMS 24) regarding these financial instruments, e.g., the entity’s chairperson of the board of directors or executive board

One of the points that banks will question when preparing to submit such quantitative disclosures is that even if reports can be prepared for key executive staff and regulators using instruments still subject to the Reform, the information may not have the quality (in terms of integrity and accuracy) normally expected from audited financial statements. The reason for this is that, as in any provisional report used to monitor a transition project, the information is based on the best-effort principle and intended to reach the accuracy level of ordinary accounting disclosures.

4.5 Assessment of the IBOR Reform in terms of the Tax Legislation

This section discusses the potential tax effects of the IBOR Reform on the debt and securities issue and trading transactions conducted by Banks and other institutions. Therefore, the topic of this section is the assessment of the transition in terms of the tax legislation.

4.5.1 Outlook on the Tax Effect of the Transition

Considering the exemptions provided in the Turkish Tax Legislation to Banking transactions and securities, and the structure of the tax legislation, the tax legislation is not expected to constitute a significant financial obligation on the IBOR Reform or a significant reform is not expected in the tax legislation due to the transition. Hence, based on the comments of tax authorities throughout the world, for example, in a report published by the UK Tax Authority it is stated that the tax effect of the IBOR Reform would be fairly limited.

In this context, the IBOR Reform will probably not be in the agenda of the Turkish tax authority and the reform will probably not have a significant effect on the Turkish treasury. The most significant expected effect of the transition is that it will have a significant effect on minority sectors where fallback language is used, in other words, on banks for the financial sector.

The IBOR Reform may affect 3 types of contracts: derivative product contracts, loan and syndication contracts and debt instrument contracts.

ISDA prepared a draft protocol for derivative contracts under ISDA. Therefore, the ISDA draft protocol is recommended to be used for the changes in such contracts. As for other derivative contracts, the changes can be made after the parties negotiate and reach an agreement.

No protocol has currently been published by competent authorities regarding Loan and Syndication and Debt Instrument Contracts. Therefore, the changes in such types of contracts can be made after the parties negotiate and reach an agreement.

In the renewal of the mentioned contracts, the fallback language updated with the determined alternative reference rate is important for the transfer pricing risk.

4.5.2 Assessment of the Transition in terms of the Transfer Pricing Legislation

According to the transfer pricing legislation, the interest rate to be determined in contracts signed/to be signed with the related parties should be compatible with the interest rates to be determined with the counterparties. While LIBOR offers an imputed rate in this respect, with the IBOR transition, the alternative reference interest rate to be used in contracts signed with related parties may be subject to criticism in terms of use as an imputed rate. In such case, organizations such as banks etc. will be required to document - particularly for contracts not under the scope of ISDA - that the use of alternative rates for the contracts indexed to alternative reference rates that they signed with related persons or changed, comply with the contracts signed with other parties and the transfer pricing legislation, and how the alternative rate to replace LIBOR is determined and that no profit is distributed to related companies or that correct pricing is done. Otherwise, the tax authority is likely to make a criticism in terms of the transfer pricing related to the pricing in contracts issued according to the new reference interest.

When the IBOR Reform is assessed in terms of taxation, it is considered that the most important issue to be taken into consideration in the transition will be transfer pricing.

4.5.3 Assessment of the Transition in terms of the Stamp Duty Legislation

Papers issued for credits loaned by banks, foreign credit agencies and international agencies and their derivative contracts and security issuance contracts are exempt from stamp duty. In this context, Banks will not incur any or will incur very limited additional stamp duty in contracts to be issued with the IBOR Reform.

On the other hand, before Banks transact papers signed among their customers, they are required to authenticate that stamp duty was paid on such papers. In this respect, if LIBOR-indexed loan contracts etc. signed between two non-financial institutions are renewed after the IBOR Reform, such contracts may incur stamp duty. Due to the IBOR Reform, Banks will be required to pay attention in this respect to contracts submitted to them.

4.5.4 Assessment of the Transition in terms of the Income Tax, Expenditure Tax and the Tax Procedure Law Legislations

Securities issued as indexed to TLREF or other countries' reference interests after the IBOR Reform or issued before and then renewed after the IBOR reform will continue to be taxed in accordance with the provisional article 67 of the Income Tax Law, article 33 of the Expenditure Tax Law and article 279 of the Tax Procedure Law. No revision is expected in these legislations after the transition.

Also, the phrase “London Interbank Offered Rate” in article 280 of the Tax Procedure Law will need to be updated after the transition. This change may be made as “the reference interest rate published by the competent authority of the country to which the currency belongs”.

5 Global Approach to the IBOR Reform

As announced by the Financial Stability Board, London Interbank Offered Rate (LIBOR), Euro Interbank Offered Rate (EURIBOR), Euro Overnight Index Average (EONIA) and other Interbank Interest Rates (USD LIBOR, GBP LIBOR etc.) are being rearranged with alternative risk-free interest rates and the arrangement is required to be completed until the end of 2021 when the publication of IBOR rates will be halted.

Dates related to important events regarding the global IBOR Reform that will impact Companies' Financial Accounting and Reporting are as follows;

February 2018: ISDA published a roadmap for the IBOR Reform.

March 2018: The TONAR – Swap was announced.

April 2018: The SONIA – SOFR Reforms were published.

May 2018: The IBOR Reform was published in Canada.
June 2019: BIST started to publish TLREF rates.

September 2019: The IASB published the Phase-1 privileges.

December 2019: The POA published the Phase-1 privileges.

January 1, 2020: Set as the date for implementing the Phase-1 IASB privileges. (Early implementation permitted)

August 2020: The IASB published the Phase-2 privileges.

December 2020: The POA - Benchmark Interest Rate Reform – 2nd Phase (Changes in TFRS 9, TMS 39, TFRS 7, TFRS 4 and TFRS 16)

January 1, 2021: Set as the date for implementing the Phase-2 IASB privileges. (Early implementation permitted)

December 31, 2021: Set as the date for halting the publication of the IBOR rates.

The International Accounting Standards Board ("IASB") conducted a two-phase project to analyze the effects of this significant change on Financial reporting and accounting and to guide companies:

- Phase 1: Pre-Replacement – Covers the issues that affect financial reporting in the period before a current benchmark interest rate is replaced with the alternative risk-free interest rate. Phase 1 was completed in September 2019.
- Phase 2: Replacement Issues – Covers the issues that might affect financial reporting in case a current benchmark interest rate is replaced with the alternative risk-free interest rate. Phase 2 was completed in August 2020.

The major actions taken by entities affected on a global scale after the Phase-2 arrangements were finalized;

- Entities started to accelerate their work schedules and conduct impact analyses to complete their assessments regarding the effects of scenarios expected to be encountered during the transition process on financial statements and to adapt to the new requirements.

- Entities started to accelerate their efforts to establish a systemic and operational structure that can collect and present information that can meet the footnote requirements.

National Working Groups continued their works on the IBOR transition despite COVID-19. Significant progress was made in terms of eliminating the transition's effects on local currencies and the effects of IBOR losing its representation capability and in terms of the relevant timeline. Banks are expected to start providing debt instruments based on alternative risk-free interest rates as of the end of 2020.

As part of the IBOR transition, the following risk-free interest rates are proposed by other countries as alternative to IBOR;

Country	**Alternative Reference Interest Rate**	**Institution**	**Borrowing Method**
United States of America	Secured Overnight Financing Rate (SOFR)	The New York Federal Reserve	Secured
United Kingdom	Sterling Overnight Index Average (SONIA)	Bank of England	Unsecured
Switzerland	Swiss Average Rate Overnight (SARON)	SIX Exchange	Secured
Japan	Tokyo Overnight Average Rate (TONAR)	Bank of Japan	Unsecured
Euro Zone	Euro short-term rate (€STR)	European Central Bank	Unsecured
Australia	Interbank Overnight Cash Rate (AONIA)	Reserve Bank of Australia	Unsecured
Brazil	Selic	Central Bank of Brazil	Secured
Canada	Canadian Overnight Repo Rate Average (CORRA)	Bank of Canada	Secured
Hong Kong	HONIA	Treasury Markets Association	Unsecured
Singapore	SORA	Association of Banks	Unsecured
Turkey	TLREF	Borsa Istanbul	Secured
South Africa	ZARONIA	-	Unsecured

6 Annexes

You may find the Phase-1 and Phase-2 privileges in the following document published by the IASB. You may also find the Phase-1 and Phase-2 privileges published by the Public Oversight Agency (POA) below.

IASB_ibor-2020.pdf KGK kurul kararı.pdf

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