

STAFF PAPER

July 2020

IASB Meeting

| Project | IBOR Reform and its Effects on Financial Reporting—Phase 2 | | |
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| Paper topic | Due process steps and permission for balloting | | |
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Purpose of this paper

1. The International Accounting Standards Board (Board) published the Exposure Draft *Interest Rate Benchmark Reform—Phase 2* (Proposed Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) (Exposure Draft) on 9 April 2020. The 45-day comment period closed on 25 May 2020.
2. At the June 2020 Board meeting the Board discussed the feedback analysis and staff recommendations on the Exposure Draft except for the feedback received on Question 3. Agenda Paper 14A for this meeting provides feedback analysis and staff recommendations on this part of the Exposure Draft. Provided that the Board are able to make the decisions requested in that agenda paper, the staff will be in the position to proceed with the drafting of the final amendments.
3. The objective of this paper is to:

- (a) set out the steps in the [IFRS Foundation Due Process Handbook¹](#) (the Due Process Handbook) that the Board has taken in developing the amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16;
- (b) ask the Board to confirm that it is satisfied that it has complied with the due process requirements;
- (c) seek the Board's permission to begin the balloting process for the amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16; and
- (d) ask whether any Board member intends to dissent from the publication of the final amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

Structure of the paper

4. This paper is structured as follows:
 - (a) Background (paragraphs 6–12);
 - (b) Re-exposure (paragraphs 13–17);
 - (c) Intention to dissent (paragraphs 18–19);
 - (d) Confirmation of due process steps (paragraphs 20–21); and
 - (e) Proposed timetable for balloting and publication (paragraph 22).
5. This paper has one appendix: Appendix A—Due Process Steps.

Background

6. The Exposure Draft proposed amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 and it follows *Interest Rate Benchmark Reform*, which was issued in September 2019. This is the next phase of the project for the Board to consider, as

¹ In November 2017, the Due Process Oversight Committee commenced a review of the Due Process Handbook (Handbook). The objectives of the review are to update the Handbook in line with the Board's and the Interpretations Committee's developing due process conventions, relating particularly to effects analyses and agenda decisions. The Revised Due Process Handbook is expected to be issued in July 2020 after the posting date of this agenda paper.

a priority, the effects of interest rate benchmark reform on an entity's financial statements that arise when interest rate benchmarks are replaced with alternative, nearly risk-free interest rates that are based, to a greater extent, on transaction data (alternative benchmark rates).

7. In 2018, the Board decided to add a project to its agenda to consider the financial reporting implications of interest rate benchmark reform. The Board identified two groups of issues that could have financial reporting implications:
 - (a) issues affecting financial reporting in the period before the reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark rate (pre-replacement issues); and
 - (b) issues that might affect financial reporting during the reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark rate (replacement issues).
8. In September 2019, the Board issued *Interest Rate Benchmark Reform* which amended IFRS 9, IAS 39 and IFRS 7, to address as a priority the pre-replacement issues (Phase 1). These amendments provided temporary exceptions to specific hedge accounting requirements.
9. Phase 2 of this project, and hence the proposals in the Exposure Draft, addressed replacement issues. The objective of Phase 2 is to assist entities with providing useful information to users of financial statements and to support preparers in applying IFRS Standards when changes are made to contractual cash flows or hedging relationships, as a result of the transition to alternative benchmark rates.
10. [IFRS Foundation Due Process Handbook](#) permits a comment letter period of less than the standard minimum period of 120 days if the matter is narrow in scope and urgent. The proposals in the Exposure Draft were both narrow in scope (because the proposed exceptions will apply only to those modifications to contractual cash flows that are (a) required as a direct consequence of interest rate benchmark reform and (b) done on an economically equivalent basis and specified changes in hedge accounting. The proposed relief is also temporary in nature, ie it ceases to apply once a financial instrument has transitioned from an interest rate

benchmark to an alternative benchmark rate) and urgent (because finalising the proposals as quick as possible would allow entities to apply the amendments when the replacement of an interest rate benchmark with an alternative benchmark rate takes place). Consequently, with approval from the Due Process Oversight Committee, the Board set a comment period for the Exposure Draft of 45 days. The 45-day comment period ended on 25 May 2020.

11. As noted in paragraph 2 of this paper, at its June Board meeting the Board discussed the feedback analysis and staff recommendations on the Exposure Draft except for the feedback received on Question 3 which related to proposals for accounting for qualifying hedging relationships. At this meeting, Agenda Paper 14A discusses that part of the feedback and the staff recommendations for finalising the amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.
12. The staff has prepared this agenda paper based on the assumption that the Board will be able to make decisions on all of those matters and decide to finalise the amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

Re-exposure

13. We recommend that the Board does not re-expose the amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. In making this recommendation, we have considered the requirements in paragraphs 6.25–6.29 of the [IFRS Foundation Due Process Handbook](#).
14. Almost all respondents expressed support for the project and the Board's accelerated process in developing the Exposure Draft. Most respondents broadly agreed with the proposals in the Exposure Draft. They agreed that the proposed amendments achieve the objective of providing support for preparers in applying IFRS Standards when changes are made to contractual cash flows or hedging relationships, as a result of the transition to alternative benchmark rates while also ensuring that entities continue to provide useful information to users of financial statements. Many respondents also highlighted the urgency of this project emphasising the importance of the final amendments being issued to the timetable

such that it allows for a timely completion of endorsement processes in different jurisdictions.

15. Nonetheless, most respondents raised some issues or suggested improvements for the Board to consider before finalising the amendments, namely:
 - (a) the description of modifications proposed in paragraph 6.9.2 of the Exposure Draft, in the specific context of interest rate benchmark reform;
 - (b) the specific aspects of the proposed accounting for fair value or cash flow hedges at the time that the hedge designation is amended;
 - (c) the requirement to reinstate some discontinued hedging relationships;
 - (d) some aspects of the proposed disclosures; and
 - (e) raised a new issue that was not addressed in the Exposure Draft related to the possible approaches for transition of derivatives to alternative benchmark rates and their potential accounting implications.

16. The staff consider that the recommendations set out in Agenda Papers 14A–14B and 14D-14H of the June 2020 Board meeting and Agenda Paper 14A for this meeting respond to the feedback received on the Exposure Draft. If the Board agrees with the staff recommendations and decides to proceed with the amendments, the staff do not consider there to be any fundamental changes on which respondents have not had the opportunity to comment.

17. Consequently, the staff is of the view that, on the basis of the re-exposure criteria in paragraphs 6.25–6.29 of the [IFRS Foundation Due Process Handbook](#), the proposed amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 should be finalised without re-exposure.

Intention to dissent

18. In accordance with paragraph 6.23 of [IFRS Foundation Due Process Handbook](#), we are asking whether any Board member intends to dissent from the amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

19. No Board member dissented from the Exposure Draft. Any Board members who intend to dissent from the final amendments are asked to make their intention known at this meeting.

Confirmation of due process steps

20. The staff believe that the Board has undertaken all of the due process activities identified as being required in the Due Process Handbook and hence are able to finalise the amendments. In Appendix A to this paper, we have summarised the due process steps taken in developing the amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. We note that the applicable due process steps to date for the issuance of the amendments have been completed.
21. If the Board is satisfied that it has been provided with sufficient analysis, and has undertaken appropriate consultation and due process, to support the issue of the final amendments, the staff request permission to start the balloting process.

Proposed timetable for balloting and publication

22. The balloting process of the Exposure Draft *Interest Rate Benchmark Reform—Phase 2 (Proposed Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)* will commence in July 2020, with the final amendments planned to be issued by end of August 2020.

Questions for the Board

1. **Re-exposure**—does the Board agree with our recommendation not to re-expose the amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16?
2. **Dissent**—does any Board member intend to dissent from the issuance of the amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16?
3. **Permission to ballot**—is the Board satisfied that it has complied with the applicable due process requirements and that it has undertaken sufficient consultation and analysis to begin the balloting process for the amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16?

Appendix A—Due process steps

A1. The following table sets out the required due process steps taken by the Board.

| Step | Required / Optional | Actions |
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| Consideration of information gathered during consultation | | |
| The Board posts all of the comment letters that are received in relation to the Exposure Draft on the project pages. | Required | All comment letters received by the Board (81 comment letters) have been posted on the project website. The link is: https://www.ifrs.org/projects/work-plan/ibor-reform-and-its-effects-on-financial-reporting-phase-2/comment-letters-projects/ed-ibor-phase-2/#comment-letters |
| Board and Interpretation Committee meetings are held in public, with papers being available for observers. All decisions are made in public sessions. | Required | The Board discussed the summary of feedback from comment letters prepared by the staff at its June 2020 meeting (see Agenda Paper 14A Feedback analysis—Modifications of financial assets and financial liabilities , Agenda Paper 14B Feedback analysis—Amendments to hedging relationships , Agenda Paper 14D Feedback analysis—Designation of risk components , Agenda Paper E Feedback on the Exposure Draft—Effective date and transition , Agenda Paper F Feedback analysis—Disclosures , Agenda Paper 14G Feedback analysis—Modification/replacement of derivatives , Agenda Paper 14H Feedback analysis—Other comments which are publicly available staff papers). In addition, at this meeting the Board will discuss Agenda Paper 14A <i>Accounting for qualifying hedging relationships</i> which is also a publicly available staff paper). The project webpage has up-to-date information about all technical papers related to the project: https://www.ifrs.org/projects/work-plan/ibor-reform-and-its-effects-on-financial-reporting-phase-2/#project-history |
| Analysis of likely effects of the forthcoming Standard or major amendment, for example, costs or ongoing associated costs. | Required | We assessed the likely effects of the proposed amendment as being limited because it is narrow in scope and it provides relief such that the effects of interest rate benchmark reform on the financial statements are limited while continuing to provide useful information to users of financial statements through additional disclosure requirements. A description of the potential financial reporting effects of the proposed amendment was provided to the IASB in September 2019, October 2019, December 2019, January 2020, and February 2020 Board meeting, which was included in the Basis for Conclusions of the Exposure Draft. |
| Round-table and outreach meetings to promote debate and hear views on proposals that are published for public comment | Optional | The staff have performed informal one-to-one meetings with users, securities regulators, central banks, audit firms, financial institutions and other accounting standard setters to obtain their views on various aspects of the proposals and potential financial reporting issues arising during the reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark rate. Outreach meetings were conducted with a few investors and participants of the Banking sub-group of the Corporate |

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| | | Reporting Users Forum to discuss the proposed disclosures and members of Capital Markets Advisory Committee. |
| Finalisation | | |
| Due process steps are reviewed by the Board. | Required | This step will be met by this Agenda Paper. |
| Need for re-exposure of a Standard is considered. | Required | Analysis of the need to re-expose is included in the main body of this paper. There are no fundamental changes to the proposals in the ED on which respondents have not had the opportunity to comment. Consequently, it is unlikely that re-exposure would reveal any concerns, so the staff recommend that the Board should not re-expose the amendments. |
| The Board sets an effective date for the Standard, considering the need for effective implementation, generally providing at least one year. | Required | The Exposure Draft proposed an effective date of 1 January 2021. Respondents were overwhelmingly supportive of this date. Refer to Agenda Paper 14E Feedback on the Exposure Draft—Effective date and transition of the June 2020 Board meeting for the staff analysis. |
| Drafting | | |
| Drafting quality assurance steps are adequate. | Required | To be completed in due course. The Translations, Taxonomy and Editorial teams will review the pre-ballot draft. The staff intend to send a draft of the amendments to external parties for review before finalisation. This process allows external parties to review and report back to the staff on the clarity and understandability of the draft. |
| Publication | | |
| Press release to announce the final Standard. | Required | To be completed in due course. A press release will be published with the final amendments. |
| A Feedback Statement is provided which provides high level executive summaries of the Standard and explains how the Board has responded to the comments received. | Required | Not considered necessary because these amendments are narrow in scope. According to paragraph 6.38 of the Due Process Handbook, a Feedback Statement is required for all new IFRS Standards and major amendments. Basis for Conclusions on the amendments would explain how the Board has responded to the comments received. |
| Standard is published. | Required | The final amendments will be made available on our website when published. |