

## STAFF PAPER

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## IASB Meeting

Project	IBOR Reform and its Effects on Financial Reporting		
Paper topic	Due process steps and permission for balloting		
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (the Board) and does not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS® Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB® *Update*.

**Purpose of this paper**

1. Agenda Paper 14A *Redeliberation of proposed amendments to IFRS 9 and IAS 39* for this meeting ask the Board to consider the key issues identified by respondents in the feedback provided on the Exposure Draft *Interest Rate Benchmark Reform* (proposed amendments to IFRS 9 and IAS 39) (the ED). Provided that the Board are able to make the decisions requested in that paper, the staff will be in the position to proceed with the drafting of the final amendments.
2. The objective of this paper is to:
  - (a) set out the steps in the [IFRS Foundation Due Process Handbook](#) (the Due Process Handbook) that the Board has taken in developing the amendments to IFRS 9 and IAS 39;
  - (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 and IAS 39; and
  - (d) ask whether any Board member intends to dissent from the publication of the final amendments to IFRS 9 and IAS 39.

## Structure of the paper

3. This paper is structured as follows:
  - (a) Background (paragraphs 4–11);
  - (b) Re-exposure (paragraphs 12–15);
  - (c) Intention to dissent (paragraphs 16–17);
  - (d) Confirmation of due process steps (paragraphs 18–19); and
  - (e) Proposed timetable for balloting and publication (paragraph 20).

## Background

4. Interest rate benchmarks such as interbank offer rates (IBORs) play an important role in global financial markets. These interest rate benchmarks index trillions of dollars and other currencies in a wide variety of financial products, from derivatives to residential mortgages. However, cases of attempted market manipulation of some interest rate benchmarks, together with the post-crisis decline in liquidity in interbank unsecured funding markets, have undermined confidence in the reliability and robustness of some existing interest rate benchmarks.
5. In 2018, the Board noted the increasing level of uncertainty about the long-term viability of some interest rate benchmarks and decided to add a project to its agenda to consider the financial reporting implications of the interest rate benchmark reform (the reform). Based on outreach with stakeholders, the Board identified two groups of issues that could have financial reporting implications. These are:
  - (a) issues affecting financial reporting in the period before the reform and/or replacement of an existing interest rate benchmark with an alternative interest rate (pre-replacement issues); and
  - (b) issues that might affect financial reporting when an existing interest rate benchmark is reformed and/or replaced with an alternative interest rate (replacement issues).

6. The Board decided to address the pre-replacement issues as a priority because these issues are more urgent. In particular, the Board considered the implications for specific hedge accounting requirements in IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement*, which require forward-looking analysis. As a result of the reform, contractual cash flows of hedged items and hedging instruments that are based on an existing interest rate benchmark will likely change when the existing interest rate benchmark is reformed and/or replaced with an alternative interest rate. Until decisions are made with respect to what the alternative interest rate is and when that reform will occur, uncertainties will exist regarding the timing and the amount of future cash flows of the hedged items and the hedging instruments. These uncertainties about the timing and the amount of future cash flows could affect an entity's ability to meet specific forward-looking hedge accounting requirements in the periods before reform. In some cases, solely due to such uncertainties, entities could be required to discontinue hedge accounting for hedging relationships that would otherwise qualify for hedge accounting.
7. In the Board's view, discontinuation of hedge accounting solely due to such uncertainties before the reform's economic effects are known would not provide useful information to users of financial statements. Therefore, the Board decided to propose exceptions to specific hedge accounting requirements in IFRS 9 and IAS 39 to provide relief during this period of uncertainty. Those proposals were published in the Exposure Draft *Interest Rate Benchmark Reform* (proposed amendments to IFRS 9 and IAS 39) (the ED) in May 2019.
8. [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 ED were both narrow in scope (because they address only those hedge accounting issues arising in the run up to the reform as outlined in paragraph 6 of this paper) and urgent (because finalising the proposals as quick as possible would allow entities to apply the amendments before the reform starts affecting existing hedge relationships). 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 17 June 2019.

9. In its July 2019 meeting, the Board discussed a summary of the feedback of the comment letters received on the ED. [Agenda Paper 14A Summary of feedback from comment letters](#) of the July 2019 Board meeting set out a summary of the feedback received on the specific questions asked in the ED. [Agenda Paper 14B Additional issues for consideration before finalising the proposed amendments](#) for the same meeting set out a summary of the additional issues and potential approaches respondents requested the Board to consider, either as part of the finalisation of the proposed amendments or as part of the next phase of the project.
10. At this meeting, in addition to this paper, the Board will discuss the issues described in Agenda Paper 14A *Redeliberation of proposed amendments to IFRS 9 and IAS 39* and the recommendations from the staff for finalising the amendments to IFRS 9 and IAS 39.
11. The staff has prepared this 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 and IAS 39.

## Re-exposure

12. We recommend that the Board does not re-expose the amendments to IFRS 9 and IAS 39. In making this recommendation, we have considered the requirements in paragraphs 6.25–6.29 of the [IFRS Foundation Due Process Handbook](#).
13. Most respondents welcomed the Board's timely response to address the pre-replacement issues and broadly supported the amendments proposed in the ED. There was also general consensus among respondents that the proposals in the ED should be finalised and published as quickly as possible and that any issue that could potentially result in the re-exposure of the proposals in the ED should be dealt with as part of the next phase of the project. Nonetheless, some respondents suggested that the Board should consider the following matters before finalising the proposed amendments: a) analyse whether the Board should provide an

exception from the retrospective assessment required by IAS 39; b) consider how the proposed exceptions should apply to ‘macro hedges’ and when a group of items is designated as the hedged item; c) consider clarifications to the scope of the proposed amendments; and d) analyse whether the disclosures proposed in the ED should be simplified.

14. The staff consider that the recommendations set out in Agenda Paper 14A *Redeliberation of proposed amendments to IFRS 9 and IAS 39* for this meeting respond to the feedback received on the ED. 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.
15. 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 and IAS 39 should be finalised without re-exposure.

### **Intention to dissent**

16. 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 and IAS 39.
17. No Board member dissented from the ED. 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**

18. 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 and IAS 39. We

note that the applicable due process steps to date for the issuance of the amendments have been completed.

19. 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**

20. The balloting process of *Interest Rate Benchmark Reform (Amendments to IFRS 9 and IAS 39)* will commence in August 2019, with the final amendments planned to be issued in September 2019.

**Questions for the Board**

1. **Re-exposure**—does the Board agree with our recommendation not to re-expose the amendments to IFRS 9 and IAS 39?
2. **Dissent**—does any Board member intend to dissent from the issuance of the amendments to IFRS 9 and IAS 39?
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 and IAS 39?

## Appendix A—Due process steps

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

<i>Step</i>	<i>Required / Optional</i>	<i>Actions</i>
<b>Consideration of information gathered during consultation</b>		
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 (84 comment letters) have been posted on the project website. The link is: <a href="https://www.ifrs.org/projects/work-plan/ibor-reform-and-its-effects-on-financial-reporting-phase-1/comment-letters-projects/exposure-draft/#comment-letters">https://www.ifrs.org/projects/work-plan/ibor-reform-and-its-effects-on-financial-reporting-phase-1/comment-letters-projects/exposure-draft/#comment-letters</a>
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 July meeting (see <a href="#">Agenda Paper 14A Summary of feedback from comment letters</a> and <a href="#">Agenda Paper 14B Additional issues for consideration before finalising the proposed amendments</a> which are publicly available staff papers).  The project webpage has up-to-date information about all technical papers related to the project: <a href="https://www.ifrs.org/projects/work-plan/ibor-reform-and-its-effects-on-financial-reporting-phase-1/#project-history">https://www.ifrs.org/projects/work-plan/ibor-reform-and-its-effects-on-financial-reporting-phase-1/#project-history</a>
Analysis of likely effects of the forthcoming Standard or major amendment, for example, costs or ongoing associated costs.	Required	Because of the narrow scope of the amendments (they address only those hedge accounting issues arising in the run up to the reform as outlined in paragraph 6 of this paper) and the expected limited consequences of the amendments (these are not major amendments to IFRS 9 and IAS 39) we have not prepared an effect analysis.  However, the Board has considered the consequences of these amendments. The effect of the amendments is that exceptions are provided to specific hedge accounting requirements so that entities would not fail those requirements solely due to the effects of uncertainties arising from interest rate benchmark reform.
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 from the reform.
<b>Finalisation</b>		
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.

<p>The Board sets an effective date for the Standard, considering the need for effective implementation, generally providing at least one year.</p>	<p>Required</p>	<p>The ED proposed an effective date of 1 January 2020. Respondents were overwhelmingly supportive of this date. Refer to <a href="#">Agenda Paper 14 Issues leading up to IBOR Reform</a> of the February 2019 Board meeting for the staff analysis.</p>
<p><b>Drafting</b></p>		
<p>Drafting quality assurance steps are adequate.</p>	<p>Required</p>	<p>To be completed in due course.</p> <p>The Translations, Taxonomy and Editorial teams will review the pre-ballot draft.</p> <p>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.</p>
<p><b>Publication</b></p>		
<p>Press release to announce the final Standard.</p>	<p>Required</p>	<p>To be completed in due course. A press release will be published with the final amendments.</p>
<p>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.</p>	<p>Required</p>	<p>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.</p> <p>Basis for Conclusions on the amendments would explain how the Board has responded to the comments received.</p>
<p>Standard is published.</p>	<p>Required</p>	<p>The final amendments will be made available on our website when published.</p>