

STAFF PAPER

October 2019

IASB® meeting

Project	IBOR Reform and its Effects on Financial Reporting – Phase 2		
Paper topic	Cover Paper		
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Purpose of this meeting

1. The purpose of this meeting is to discuss the potential accounting issues related to classification and measurement of financial instruments that could arise as a result of interest rate benchmark reform (IBOR reform). As discussed at the September 2019 Board meeting, classification and measurement is the first key area for the Board to consider as part of Phase 2 of the IBOR project.

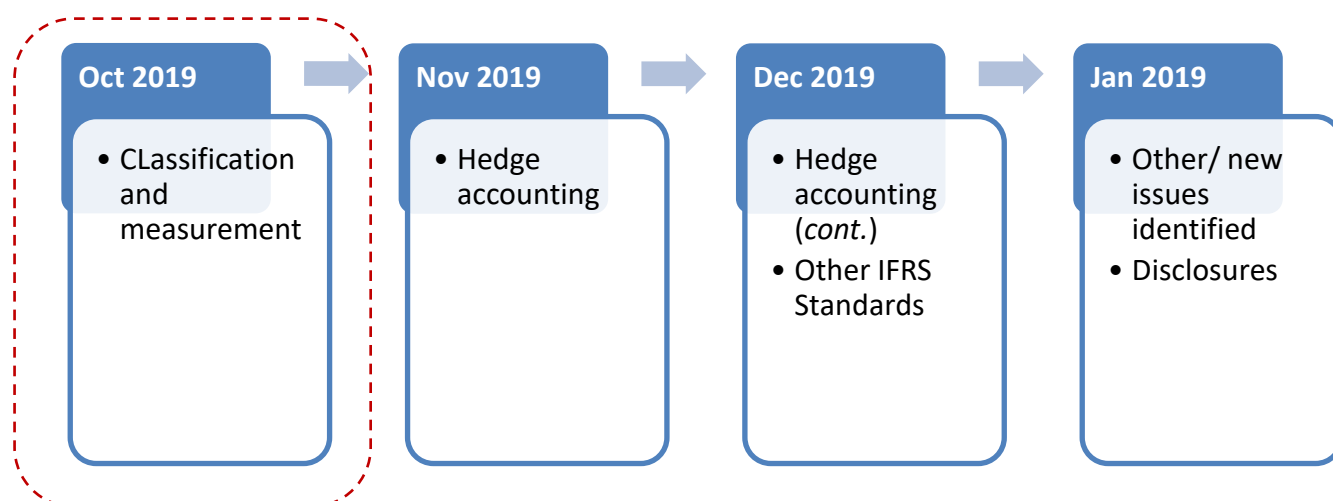
Background

2. In September 2019, the Board issued *Interest Rate Benchmark Reform* (Amendments to IFRS 9, IAS 39 and IFRS 7) to provide exceptions from some specific hedge accounting requirements as a result of uncertainty arising from IBOR reform (ie pre-replacement issues). These pre-replacement issues were addressed as a priority in the first phase of the project, because they could affect financial reporting in the period before the replacement or reform of interest rate benchmarks.

3. The staff have been engaging with securities regulators, central banks, audit firms, industry groups and financial institutions to obtain an understanding of the effects of IBOR reform on financial reporting. The staff also gathered input from the Accounting Standards Advisory Forum and considered the feedback received from comment letters on the May 2019 Exposure Draft *Interest Rate Benchmark Reform* to identify potential issues for the Board to consider as part of Phase 2.
4. With the conclusion of Phase 1 of the project, at the September 2019 Board meeting, the staff presented the preliminary scope of the potential issues to be considered during Phase 2 and the proposed order in which these issues should be discussed with the Board. According to Agenda Paper 14 *Project plan and preliminary timing* of that meeting, classification and measurement of financial instruments is the first key area for discussion with the Board as any decisions the Board makes in this regard will impact the analysis and potential outcome of the other issues in the scope.

Project plan and current stage

5. With the conclusion of Phase 1 of the project, at the September 2019 Board meeting, the staff presented the preliminary scope of the potential issues to be considered during Phase 2 and the proposed order in which these issues should be discussed with the Board. According to Agenda Paper 14 *Project plan and preliminary timing* of that meeting, classification and measurement of financial instruments is the first key area for discussion with the Board as any decisions the Board makes in this regard will impact the analysis and potential outcome of the other issues in the scope.
6. In view of the September 2019 discussions, the staff prepared the following chart which outlines the indicative timing and key areas for discussion with the Board during Phase 2 of the IBOR project.



Note:

--- Current stage

Agenda papers for this meeting

7. This cover paper accompanies the following agenda papers:

- (a) Agenda Paper 14A *Classification and measurement – modification of financial instruments*: The purpose of this paper is to discuss the assessment of whether a change in the contractual cash flows or terms is a substantial modification of a financial instrument and the accounting requirements for modifications that are not substantial (ie do not result in derecognition of a financial instrument when applying IFRS 9).
- (b) Agenda Paper 14B *Accounting implications from derecognition of a financial instrument*: The purpose of this paper is to discuss modifications that result in the derecognition of the existing financial instruments and the accounting implications arising from the recognition of the ‘new’ modified financial instruments.

Next steps

8. The next key area for discussion that will require decisions from the Board is hedge accounting. The staff will bring the hedge accounting issues arising in Phase 2 for discussion with the Board at its November 2019 meeting.