



IBOR Reform and the Effects on Financial Reporting

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- Project overview
- Proposals on the Exposure Draft
- Overview of feedback on the Exposure Draft
- Key themes on additional issues arising from the reform
- Following the IBOR reform
- Questions for the boards

Objective of the session today

- To provide an overview of the proposals in Exposure Draft *Interest Rate Benchmark Reform* (proposed amendments to IFRS 9 and IAS 39) (ED) and the feedback received from stakeholders.
- To obtain feedback from board members if they have any observations relevant to this project.

Project overview—IBOR reform

- Two-phase project—addressing issues as progress is made towards replacing existing interest rate benchmarks such as interbank offer rates (IBORs) with nearly risk-free rates (RFRs).
- The IASB identified two groups of accounting issues:
 - ***Phase I—pre-replacement issues:*** Issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark RFR; and
 - ***Phase II—replacement issues:*** Issues that might affect financial reporting when an existing interest rate benchmark is replaced with RFR.

Proposals on the Exposure Draft

Highly probable requirement

- When determining if a forecast transaction is highly probable, an entity shall assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the reform.

Prospective assessments

- When performing prospective assessments, an entity shall assume that the interest rate benchmark on which the hedging instrument and hedged item are based is not altered as a result of the reform.

Risk components

- An entity shall apply the separately identifiable requirement only at the inception of a hedging relationship.

- Application of the proposed amendments are mandatory.
- Specific disclosures required about the magnitude of the relief.
- Effective date—1 January 2020

Other hedge accounting requirements did not change

Overview of feedback received

ED proposals	Feedback received	Few considerations before finalising ED
Highly probable and prospective assessments	<ul style="list-style-type: none">• Strong support on the proposed amendments• Relief required for the effects of the reform on IAS 39 retrospective assessment	<ul style="list-style-type: none">• The effects of the reform on IAS 39 retrospective assessment
Risk components	<ul style="list-style-type: none">• Agreement with proposals• Relief required for macro hedge accounting relationships	<ul style="list-style-type: none">• The effects of the reform on macro hedge accounting relationships
End of application	<ul style="list-style-type: none">• Broad support but more application guidance is needed	<ul style="list-style-type: none">• Enhance clarity• Add application guidance
Disclosure, transition & effective date	<ul style="list-style-type: none">• Cost > benefits on disclosures• Clarify transition requirements• Support for mandatory application and effective date—1 January 2020	<ul style="list-style-type: none">• Consider extent of disclosure requirements• Clarify transition requirements

Key themes on additional issues arising from the reform

Relief for other hedge accounting relationships (eg foreign currency)

Changes made to hedge documentation

Relief from reclassification of gains or losses deferred in OCI

Respondents highlighted additional issues arising from the reform to be considered in the next phase of the IBOR project

Modification vs. derecognition of financial instruments

Other issues from applying IFRS 9 and other IFRS Standards

Following the IBOR reform

The reform impacts multiple jurisdictions, with different transition approaches for different rates over different timeframes for example SONIA, EONIA, EURIBOR, SOFR.

REFORM

FSB report
Reforming Major
Interest Rate
Benchmarks

Some RFRs
published (eg
SONIA)

Spread between
€STR and
EONIA published

Panel banks
transition to
hybrid
EURIBOR

Use of
EONIA
restricted

LIBOR may
cease to
exist

2014

2018

H1 2019

H2 2019

2020

2021

The IAB added a
project to its
research agenda
for IBOR reform.

Exposure Draft
published on
Phase I issues

Publish Phase
I amendments

January 2020
effective date
for Phase I

Monitor market
developments
and action as
necessary

- Since publishing the ED research and outreach was done on potential issues and approaches for next phase.
- Deliberations on replacement issues will commence soon.

THE IASB

Questions for the Boards

- Do the boards have any questions about the proposals set out in the Exposure Draft or the feedback received?
- Do the boards have any observations or views to share on the issues listed in slide 7?

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