

# *IBOR Reform and its Effects on Financial Reporting*

October 2019 ASAF meeting  
Agenda paper 3

The objective of this meeting is to provide an update on the *IBOR Reform and its Effects on Financial Reporting* project and request further inputs from the ASAF members on potential accounting issues to be considered by the Board during Phase II of the project.

This presentation is structured as follows:

- a) Staff update
  - i) finalisation of Phase I
  - ii) preliminary scope of Phase II
- b) Input request to the ASAF on potential Phase 2 issues

**The staff would ask that ASAF members reach out to stakeholders in advance of the October 2019 ASAF meeting to assist with identifying further potential Phase II issues.**

# Staff update – finalisation of Phase I

As a result of the reform, existing interest rate benchmarks will likely be replaced with an alternative benchmark. Uncertainties regarding what the alternative benchmark will be and when the replacement will occur could result in discontinuation of hedge accounting. The Board considered that discontinuation of hedge accounting solely due to such uncertainties would not provide useful information.

Following feedback received, including from ASAF members, the Board agreed to amend IFRS 9 and IAS 39 to provide an exception from the following hedge accounting requirements:

- (a) the highly probable requirement
- (b) prospective assessments
- (c) IAS 39 retrospective assessment
- (d) separately identifiable risk components

These issues were considered more urgent and therefore were addressed by the Board as a priority. The final amendments to IFRS 9, IAS 39 and IFRS 7 to be published in September 2019.

# Staff update – preliminary scope of Phase II

The objective of Phase II is to provide useful and relevant financial information about the effects of the transition to alternative benchmark rates on an entity’s financial statements. This will help the Board to determine whether it should undertake any further standard-setting activities.

The staff have engaged with securities regulators, central banks, audit firms, industry groups and financial institutions to obtain an understanding of the effects of the reform on financial reporting. Based on these activities and the inputs provided by the ASAF at its July 2019 meeting, the staff developed the following preliminary list of issues to be considered by the Board during Phase II:

Area	Topic	Potential accounting issues
Classification and measurement of financial instruments	Determining what a modification is	i) What is considered to represent a ‘modification of a financial instrument’? ii) When does a modification result in the derecognition of a financial instrument? iii) How should amendments to the interest rate benchmark be accounted for? iv) How should other modifications be accounted for? v) In what order should modifications be accounted for?
	Recognition of new financial instruments	Impact on SPPI and business model assessment for financial assets or embedded derivatives for financial liabilities

# Staff update – preliminary scope of Phase II (cont.)

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Area	Topic	Potential accounting issues
Hedge accounting	Hedge designations	<ul style="list-style-type: none"><li>i) Would a change to the hedged risk in the hedge documentation require discontinuation of hedge accounting?</li><li>ii) Are flexible hedged risk designations permissible (eg designating both IBOR and an alternative interest rate benchmark as the hedged risk)?</li><li>iii) What are the implications when some loans within a portfolio of designated loans are amended to reflect an alternative benchmark and other loans within the same portfolio are not?</li><li>iv) Application of other qualifying criteria to new hedging relationships.</li></ul>
	End of relief	<ul style="list-style-type: none"><li>i) How does the end of relief in Phase I interact with hedge designations under Phase II?</li><li>ii) If a change in the hedged risk does not require discontinuation, how should the valuation adjustments on the hypothetical derivative and fair value hedge adjustment be accounted for?</li></ul>
Other IFRS Standards		What are the potential impacts on other Standards (eg IAS 19, IFRS 16 and IFRS 17)?
Disclosures		Considering whether additional disclosure requirements should be developed.

*Obs.: The staff will present this list of preliminary issues to the Board at its September 2019 meeting.*

# Input request to the ASAF – Phase II

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- 1) Considering the preliminary scope of Phase II, have you become aware of additional potential accounting implications of the reform that should be considered by the Board during Phase II?

