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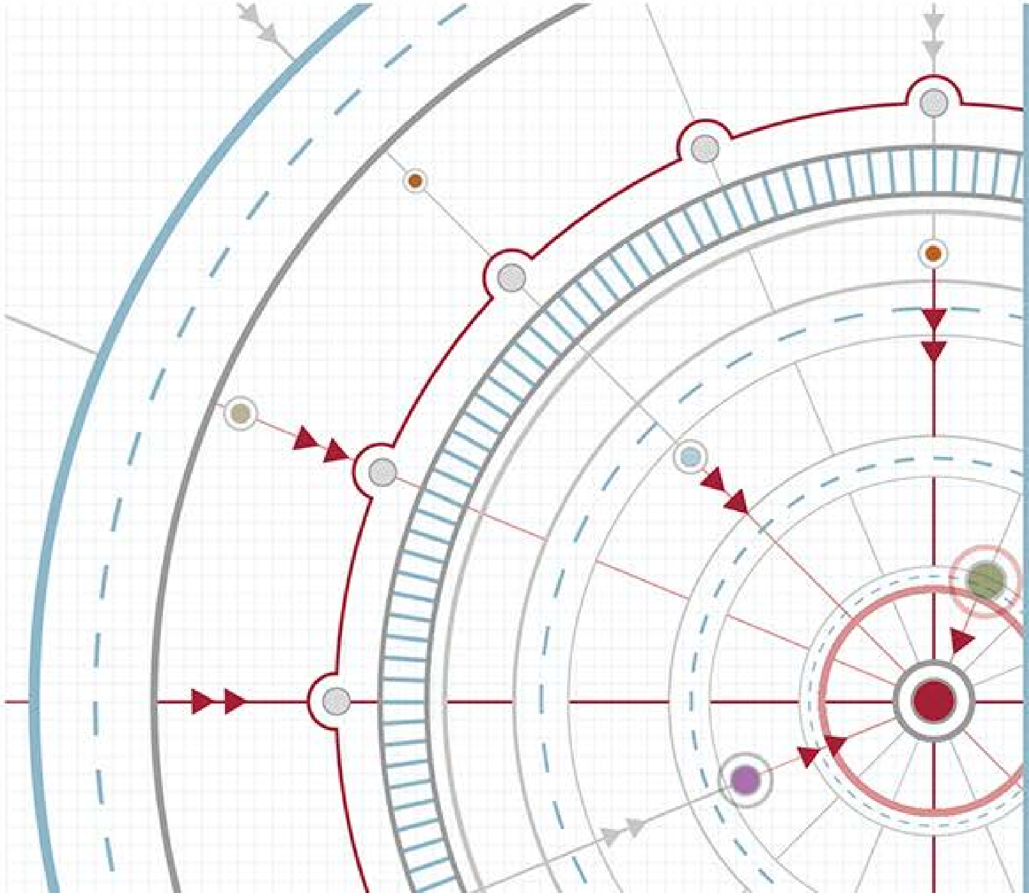
Agenda Paper 2



IBOR Reform and its Effects on Financial Reporting

Fernando Chiqueto| fchiqueto@ifrs.org

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Purpose of the session

The purpose of this session is to provide an update on the *IBOR Reform and its Effects on Financial Reporting* project and obtain input from GPF members on potential accounting issues to be considered by the Board during Phase 2 of the project.

This presentation is structured as follows:

a) Staff update

b) Potential Phase 2 issues

Introduction

Problem: The potential discontinuation of interest rate benchmarks (ie IBOR reform) could affect the usefulness of information provided in the IFRS financial statements.

Approach

Phase 1—Assess the nature and extent of the issues affecting financial reporting before IBOR reform is enacted (‘pre-replacement issues’).

Finalising the amendments

Phase 2—The staff are conducting research to address issues arising when IBOR reform is enacted (‘replacement issues’).

Deliberations to start in October

Board’s proposal for Phase 1

Board’s decisions (Phase 1)

Address concerns related to the uncertainties arising from IBOR reform by providing relief when applying the following qualifying criteria for hedge accounting required by IFRS 9 and IAS 39:

- highly probable
- prospective assessment
- separately identifiable risk components

That relief does not affect the actual economics of the transactions which should continue to be reflected in financial reporting.

Phase 1 – Feedback on the Exposure Draft

Highly probable and prospective assessments

- Highly probable requirement
- Prospective assessment
- IAS 39 retrospective assessment (*)

Risk components and application

- Separately identifiable risk components
- Mandatory / end of application

Disclosure and other information

- Disclosures
- Effective Date
- Transition

Key

- Green: broadly agree with no or limited qualifications
- Amber: partially agree with some issues that need addressing or mixed views
- Red: broadly disagree and/or concerns raised

84 comment letters

(*) Although the ED did not include any proposed relief from IAS 39 retrospective assessment, many commented that it is needed.

IBOR Reform – Phase I redeliberations

- Remove IAS 39 requirement for retrospective assessment for affected hedges
- Clarify that hedges of foreign currency + interest rate risk are also in scope
- Extend relief for separately identifiable risk components so that entities only need to test once for a hedged item designated in a 'macro hedge'
- Clarify application for groups of hedged items
- Simplify the disclosure requirements

Next steps: Publish amendments.

Phase 2 – preliminary scope (1/2)

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. The staff has also requested inputs from the ASAF in order to identify potential Phase 2 issues.

Based on these activities, the staff developed the following preliminary list of issues to be considered by the Board during Phase 2:

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 solely payments of principal and interest (SPPI) and business model assessment for financial assets or embedded derivatives for financial liabilities

Phase 2 – preliminary scope (2/2)

Area	Topic	Potential accounting issues
Hedge accounting	Hedge designations	i) Would a change to the hedged risk in the hedge documentation require discontinuation of hedge accounting? ii) Are flexible hedged risk designations permissible (eg designating both IBOR and an alternative interest rate benchmark as the hedged risk)? 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? iv) Application of other qualifying criteria to new hedging relationships.
	End of relief	i) How does the end of relief in Phase I interact with hedge designations under Phase II? 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?
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.

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

Input from GPF members – Phase 2

1) Considering the preliminary scope of Phase 2, are you aware of any other potential accounting implications of the reform that should be considered by the Board during Phase 2?

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