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IBOR Reform and its Effects on Financial Reporting Cover Note

Objective

- 1 The objective of this session is to inform EFRAG TEG-CFSS members about the status of the IBOR project, the IASB's preliminary scope for Phase II and to obtain views on the issues to be included in Phase II.

Background

- 2 The Interest Rate Benchmark Reform (IBOR) project of the IASB is divided into two phases:
 - (a) Phase I deals with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative benchmark rate (pre-placement issues); and
 - (b) Phase II will deal with issues that might affect financial reporting when an existing interest rate benchmark is replaced with an alternative benchmark rate (replacement issues).
- 3 The IASB issued Exposure Draft ED/2019/1 *Interest Rate Benchmark Reform (Proposed amendments to IFRS 9 and IAS 39)*, covering the first phase of the project in May 2019 and, following the feedback received, agreed to provide an exception from the following hedge accounting requirements:
 - (a) the highly probable requirement;
 - (b) prospective assessments;
 - (c) IAS 39 retrospective assessment; and
 - (d) separately identifiable risk components.
- 4 The final amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures* are expected to be published by the IASB in September 2019. EFRAG is aware that the amendments are considered urgent and entities are seeking the opportunity to early adopt them for 2019 financial statements. Consequently, EFRAG is undertaking a high-speed preparation of its endorsement advice to the EC.
- 5 A news item was issued last week with the invitation to comment on a Preparatory Draft Endorsement Advice on Phase I. A second call for comments will be issued

following the approval of the Draft Endorsement Advice by the EFRAG Board. The comment period will end on 10 October.

- 6 **EFRAG Secretariat invites members of the CFSS to encourage constituents from their jurisdictions to provide their comments.**
- 7 Acknowledging the urgency of the other issues and following the feedback from constituents, the IASB started working on Phase II in parallel with Phase I.

Preliminary scope of Phase II

- 8 The objective of Phase II is to provide relevant financial information about the effects of the transition to alternative benchmark rates on an entity's financial statements.
- 9 The IASB staff have developed the following preliminary list of potential issues to be considered by the IASB in the second phase of the project:
 - (a) Classification and measurement of financial instruments:
 - (i) Modification of existing financial instruments;
 - (ii) Recognition of new financial instruments.
 - (b) Hedge accounting:
 - (i) Hedge designations;
 - (ii) End of relief.
 - (c) Other IFRS Standards; and
 - (d) Disclosures.
- 10 More details are provided in agenda paper 09-02.
- 11 Most of these issues were raised by EFRAG in its comment letter to the IASB on Phase I. The IASB staff listed some additional issues, such as:
 - (a) Will the change in financial liabilities give rise to embedded derivatives;
 - (b) Will changes in hedged risk require hedge discontinuation;
 - (c) Are flexible hedged risk designations permissible;
 - (d) Interaction of reliefs for Phase I and II with hedge designations;
 - (e) Recycling of OCI amounts when relief for Phase I ends; and
 - (f) Additional disclosure requirements for Phase II.
- 12 The only issue not directly addressed by the IASB staff was a relief from the changes in hedge accounting documentation.

Questions for EFRAG TEG-CFSS

- 13 Do EFRAG TEG-CFSS members agree with the preliminary list of issues for the Phase II as proposed by the IASB staff?
- 14 Are EFRAG TEG-CFSS members aware of any additional potential accounting implications of the reform that should be considered by the IASB during Phase II?

Agenda Papers

- 15 In addition to this cover note, agenda paper 09-02 – *ASAF 03 IBOR reform Phase II* – has been provided for the session.