

STAFF PAPER

June 2020

IASB® meeting

Project	IBOR Reform and its Effects on Financial Reporting—Phase 2		
Paper topic	Cover paper		
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1. Introduction

1. The Board published the Exposure Draft *Interest Rate Benchmark Reform—Phase 2 (Proposed Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)* (Exposure Draft) on 9 April 2020. The 45-day comment period closed on 25 May 2020.
2. The objectives for this meeting are to:
 - (a) summarise feedback received on the Exposure Draft.
 - (b) provide staff analysis and recommendations about whether, and how, the Board should finalise the proposals in the Exposure Draft.
3. This cover paper provides:
 - (a) background information on the Exposure Draft (paragraphs 7-9);
 - (b) an overview of comment letters received (paragraph 10);
 - (c) an overview of the feedback received (paragraphs 11-14);
 - (d) an overview of the agenda papers for this meeting (paragraphs 15-22);and

- (e) an outline of the next steps (paragraph 23).
- 4. This paper has one appendix: Appendix A— Statistical information.
- 5. The agenda papers for this meeting provide all the feedback received and staff analysis and recommendations on the Exposure Draft except for the feedback received on Question 3 which related to proposals on accounting for qualifying hedging relationships and groups of items. The feedback received on this question will be presented at the July 2020 Board meeting.
- 6. The Board is asked to decide on issues discussed in Agenda papers for this meeting.

2. Background information

- 7. In 2018, the Board decided to add a project to its agenda to consider the financial reporting implications of interest rate benchmark reform. The Board identified two groups of issues that could have financial reporting implications:
 - (a) issues affecting financial reporting in the period before the reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark rate (pre-replacement issues); and
 - (b) issues that might affect financial reporting during the reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark rate (replacement issues).
- 8. In September 2019, the Board amended IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*, to address as a priority the pre-replacement issues (Phase 1).
- 9. Phase 2 of this project, and hence the proposals in the Exposure Draft addressed replacement issues. The Exposure Draft proposed amendments to specific requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4 *Insurance Contracts* and IFRS 16 *Leases* relating to:
 - (a) modifications of financial assets and financial liabilities, including lease liabilities;
 - (b) hedge accounting; and
 - (c) disclosures.

3. Overview of comment letters received

10. The Board received 80 comment letters by the date of posting this agenda paper. All comment letters received are available on our [website](#). The agenda papers for this meeting include analysis of only the comment letters received by the date of posting this agenda paper. Appendix A provides statistical information about the comment letters received by geographical region and respondent type.

4. Overview of feedback received

11. Almost all respondents expressed support for the project and the Board's accelerated process in developing the Exposure Draft. Most respondents broadly agreed with the proposals in the Exposure Draft. They agreed that the proposed amendments achieve the objective of providing support for preparers in applying IFRS Standards when changes are made to contractual cash flows or hedging relationships, as a result of the transition to alternative benchmark rates while also ensuring that entities continue to provide useful information to users of financial statements.
12. Many respondents highlighted the urgency of this project emphasising the importance of the final amendments being issued to the timetable such that it allows for a timely completion of endorsement processes in different jurisdictions.
13. Most respondents raised some issues for the Board to consider before finalising the amendments and suggested some improvements to the proposed amendments. The following are the main issues identified by most respondents:
 - (a) *Modification of financial assets and financial liabilities.* Many respondents broadly agreed or raised no particular concerns with respect to the description of modifications proposed in paragraph 6.9.2 of the Exposure Draft, in the specific context of interest rate benchmark reform. However, some respondents disagreed with this proposed amendment and said that describing what constitutes a modification of financial assets or financial liabilities is not regarded necessary in order to achieve the objective of the practical expedient proposed in paragraph 6.9.3 of the Exposure Draft. Agenda paper 14A for this meeting provides more details on this issue.

- (b) *Accounting for qualifying hedging relationships.* Most respondents identify some issues with the specific aspects of the proposed accounting for fair value or cash flow hedges at the time that the hedge designation is amended and ask the Board to clarify how these requirements should apply. The feedback and staff analysis on this issue will be discussed at the next Board meeting.
 - (c) *Transition requirements—Requirement to reinstate some discontinued hedging relationships.* Almost all respondents agreed with retrospective application of the proposed amendments. However, some respondents asked the Board to reconsider the proposal that would require entities to reinstate some discontinued hedging relationships. Agenda paper 14E for this meeting provides more details on this issue.
 - (d) *Disclosures.* Almost all respondents supported the disclosure objectives proposed in paragraph 24I of the Exposure Draft. In addition, these respondents broadly agreed with the disclosure requirements set out in paragraph 24J of the Exposure Draft. However, many respondents suggested the Board clarify or reconsider the proposed disclosures in paragraph 24J(b) or 24J(c), or aspects of those disclosures. Agenda paper 14F for this meeting provides more details on this issue.
14. In light of the evolving nature of the interest rate benchmark reform some respondents also raised a new issue that was not addressed in the Exposure Draft related to the possible approaches for transition of derivatives to alternative benchmark rates and their potential accounting implications. These respondents asked the Board to consider the accounting implications that could arise from such approaches. Agenda paper 14G for this meeting provides more details on this issue.

5. Agenda papers for this meeting

15. In light of the general support for the project from respondents and given the urgent nature of the project, we recommend that the Board take steps to finalise the proposals in the Exposure Draft.
16. To this objective, the agenda papers for this meeting:
- (a) provide a detailed summary of the feedback received; and

- (b) present staff analysis and recommendations about whether the Board should make any changes to the related proposed amendments.

17. The following table provides details of topics to be discussed at this meeting and the relevant agenda papers:

Topic	Agenda Paper
Question 1—Modifications of financial assets and financial liabilities	AP14A
Question 2—Amendments to hedging relationships	AP14B
Question 3—Accounting for qualifying hedging relationships and groups of items	AP14C (to be discussed at the July 2020 Board meeting)
Question 4—Designation of risk components and portions	AP14D
Question 5—Effective date and transition	AP14E
Question 6—Disclosures	AP14F
Modification/replacement of derivatives	AP14G
Other comments	AP14H

18. Agenda papers 14–14H use the following terms to describe the extent to which particular feedback was shared by respondents:

Term	Extent of response among respondents
Almost all	all except a very small minority
Most	a large majority, with more than a few exceptions
Many	a small majority or large minority
Some	a small minority, but more than a few
A few	a very small minority

19. In determining which term to use in a particular case, the staff considered not just the number of responses in question, but also more subjective factors, such as whether a response reports the views of a single individual or the views of a broader group.
20. Respondents did not always comment on every area of the Exposure Draft. The staff have indicated in the papers if only a small minority of respondents commented on a particular topic.

21. When preparing the papers, the staff have considered whether we received different messages from individual stakeholder groups or from specific geographic locations. We have indicated so if there was a notable pattern.
22. When preparing the papers, the staff have also considered the nature of the comments and whether they are qualitatively significant to mention despite the number of respondents that may share that view.

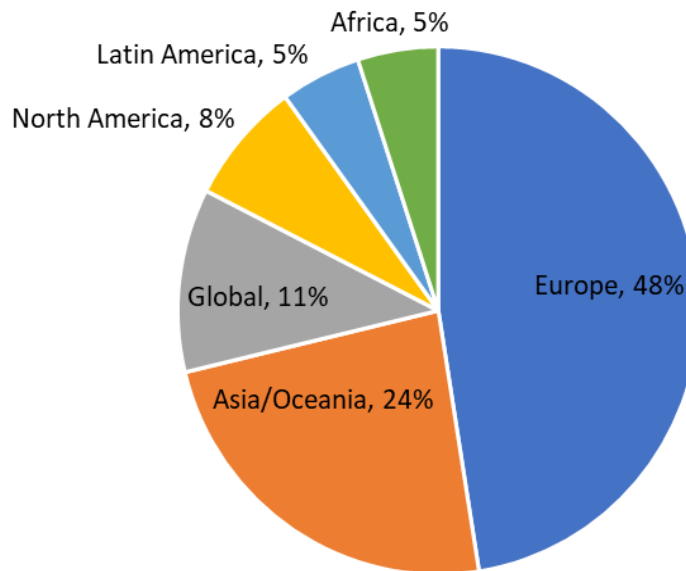
Next steps

23. If the Board agrees with the staff recommendations in the agenda papers for this meeting, the staff plan to discuss Agenda Paper 14C as well as any sweep issues that may be identified, and seek the Board's permission to begin the balloting process for the amendments at the July 2020 Board meeting.

Appendix A—Statistical information

A1. The following is the analysis of comment letters by geographic region and type of respondents.

Comment letter respondents by geographical location



Comment letter respondents by type

