AGENDA PAPER

IFRS® Foundation Trustees meeting – Due Process Oversight Committee

Kuala Lumpur	January 2019	**Agenda ref 1C**
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IBOR Reform—Comment letter period for potential narrow-scope amendments to IFRS 9 and IAS 39

1. The purpose of this paper is to provide an update to the Due Process Oversight Committee (DPOC) with respect to the *IBOR Reform and its Effects on Financial Reporting* project. More specifically, this paper highlights that at forthcoming Board meetings in February and March 2019, the staff plans to ask the Board to consider possible narrow-scope amendments to IFRS 9 *Financial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement*. If the Board agrees, these would be exposed for comment and the staff is considering a short comment period.

2. The DPOC is not being asked to make any decisions on this issue at this meeting. This paper is preparation for an anticipated future request to the DPOC for a short comment period for an exposure draft (ED). At this stage we anticipate that it will be necessary to arrange a call with the DPOC to make that decision.

Background

3. The Trustees discussed the strategic and other aspects of IBOR reform at their October 2018 meeting. In December 2018 the Board decided to move its *IBOR Reform and its Effects on Financial Reporting* project to its standard-setting programme. In addition, the Board decided to break the project into two phases and address the issues arising in the first phase as a priority. The first phase will focus on issues that are more urgent as they might affect financial reporting before IBOR reform is enacted. These issues can lead in particular to discontinuation of

hedge accounting as the uncertainty arising from the IBOR reform means some hedging relationships may no longer satisfy the requirements for hedge accounting in IFRS 9 and in IAS 39. Discontinuation of hedge accounting would have a major effect on an entity's financial position and performance as reflected in its financial statements. (For example, amounts currently held in other comprehensive income may need to be immediately recognised in profit or loss. These amounts could well be significant.[1]) The staff note that discontinuation of hedge accounting due to a major change in market structure, such as IBOR reform, was not contemplated when IFRS 9 and IAS 39 were written.

4. The second phase of the project will address situations affecting financial reporting on transition from IBORs to alternative risk free rates. This phase cannot be undertaken until more information is available about the replacement interest rates. As more information becomes available, the staff will assess the potential implications of these second-phase issues and recommend whether the Board would need to take any action.

5. Accordingly, as noted in paragraph 1 of this paper, at the February and March 2019 Board meetings, the staff plans to ask the Board to consider possible narrow-scope amendments to IFRS 9 and IAS 39 regarding accounting issues arising in the first phase only. If the Board agrees, these would be exposed for comment.

Why the potential narrow amendments contemplate both IFRS 9 and IAS 39?

6. Although IFRS 9 is now effective, due to the ongoing project on dynamic risk management, entities can currently choose either to continue to apply IAS 39 hedge accounting or to change to IFRS 9 hedge accounting. The staff note that a significant number of IFRS preparers, particularly financial institutions and insurance companies, have elected to continue to apply hedge accounting according to IAS 39. In addition, companies applying IFRS 4 *Insurance Contracts*

[1] Regarding highly probable forecast transactions, if the hedged future cash flows are no longer highly probable but still expected to occur, the amount in the cash flow hedge reserve is reclassified to profit or loss when the future cash flows occur. However, if the hedge future cash flows are no longer expected to occur, that amount in the cash flow hedge reserve is immediately reclassified to profit or loss.

that meet specified conditions (essentially 'pure' insurance companies), may continue to apply IAS 39 until 2021 (or 2022 as tentatively decided by the Board at its November 2018 meeting). Therefore, the potential narrow-scope amendments will contemplate both IFRS 9 and IAS 39.

Comment period considerations

7. Paragraph 6.7 of the Due Process Handbook states that the IASB normally allows a minimum period of 120 days for comment on an ED. However, if the matter is narrow in scope and urgent, the IASB may consider a comment period of no less than 30 days. This is subject to obtaining approval from the DPOC.

8. The staff are of the view that any amendments contemplated during the first phase will be narrow in scope because they will address only those issues arising in the period leading up to IBOR reform as outlined in paragraph 3 of this paper. The potential amendments to IFRS 9 and IAS 39 (if the Board agrees) are designed to assist entities in the (current) period of uncertainty introduced by IBOR reform. It is thus important that they are introduced expeditiously to provide the intended relief.

9. The staff have also received feedback from stakeholders that have emphasised the urgency of a solution for the financial reporting issues in the period leading up to IBOR reform. The staff note that the proposed amendments would not require entities to implement changes to their financial reporting other than introducing possible additional disclosures. Instead, possible amendment will consider proposals that will prevent the discontinuation of existing hedging relationships. Therefore, implementing the amendments should not be burdensome for preparers. There is expected to be broad consensus on this topic.

10. The staff note that, previously the Board considered the potential financial reporting effects arising from novations that resulted from new laws or regulations. The Board decided to amend IAS 39 in June 2013 to provide relief from discontinuing hedge accounting as a result of this change in regulation. Because the amendments were short and there was an expectation of a broad

consensus on that topic, the Board decided to consider a comment period of 30 days for those proposed amendments.[2]

Comment period

11. As described in paragraphs 8–9 of this paper, if the Board decides to amend IFRS 9 and IAS 39 to address the issues arising in the first phase of the project, any such amendments would need to be finalised as quickly as possible, so that entities would be able to benefit from the proposed amendments. Considering the amendment that the staff is contemplating, the timeline to draft and ballot an ED, redeliberate the proposals, finalise the amendment and allow a short implementation period, the staff are currently considering a comment period of 30 days for the ED. Given the narrow scope of the ED and its specialised nature, we believe that such a comment period would still provide stakeholders with sufficient time to consider and comment on the proposals. The staff also note that stakeholders are repeatedly emphasising the need to make any amendments as quickly as possible. In that regard, the staff have created a project page on the IFRS Foundation website that keeps stakeholders informed about every stage of the project.

[2] Paragraph BC15 of the ED/2013/2 *Novation of Derivatives and Continuation of Hedge Accounting,* which was exposed for 30 days. In 2017, ED/2017/3 *Prepayment Features with Negative Compensation* was exposed for 30 days for similar reasons.

Proposed timeline

12. The proposed timeline is as follows:

Timeline	**Project plan**
March 2019	Board finishes deliberations, including determining the comment period, considering due process steps and permission to ballot. Proceed with drafting the amendments to IFRS 9 and IAS 39.
April/May 2019	Issue an Exposure Draft
June/July 2019	Comment period ends
September/October 2019	Board redeliberations
November/December 2019	Issue final amendments

Question for the DOPC

13. Assuming the scope of the potential amendments is as outlined in paragraphs 8 and 9, does the DPOC have any comments on the staff's current thinking about the need for a shortened comment period on the ED if the Board decides to amend IFRS 9 and IAS 39?