AGENDA PAPER

IFRS® Foundation Trustees meeting – Due Process Oversight Committee

BRUSSELS	18 FEBRUARY 2020	**Agenda ref 1D**
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IBOR Reform and its Effects on Financial Reporting Phase 2—Comment letter period for proposed narrow-scope amendments to IFRS 9, IAS 39 and IFRS 7

Purpose

1. The purpose of this paper is to seek the approval of the Due Process Oversight Committee (DPOC) for a shortened comment period for the forthcoming Exposure Draft *IBOR Reform Phase 2*. As highlighted at the February 2019 DPOC meeting (Agenda Paper 1B), the International Accounting Standards Board (the Board) has been working on Phase 2 of the project since September 2019. Based on the Board's discussion to date, the Board's current intention is to issue an Exposure Draft that will propose narrow-scope amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures* and IFRS 4 *Insurance Contracts* and IFRS 16 *Leases*.

2. In accordance with paragraph 6.7 of the Due Process Handbook, the IASB normally allows a minimum period of 120 days for comment on an Exposure Draft. If the matter is narrow in scope and urgent the IASB may consider a comment period of no less than 30 days, but it will only set a period of less than 120 days after consulting, and obtaining approval from, the DPOC.

Proposed amendments

3. At its October 2019 meeting, the Board tentatively decided to propose amendments to IFRS 9 with respect to particular classification and measurement requirements that apply

when financial instruments are modified. The Board also tentatively decided to provide similar relief from the modification requirements in IFRS 16.

4. The Board tentatively decided at its December 2019 meeting to amend IFRS 9 and IAS 39 to provide relief from particular hedge accounting requirements so that entities are not required to discontinue hedge accounting solely as a consequence of transitioning from IBOR to an alternative benchmark rate. The amendments made as part of Phase 1 of the project provided relief so that entities are not required to discontinue hedge accounting solely due to uncertainties arising from future IBOR reform. Phase 2 proposed amendments would apply when an entity transitions to alternative benchmark (ie when they change their contracts and/or their hedging relationships as a direct consequence of the reform).

5. The scope of the proposed amendments is narrow in the sense that the proposed relief provided will apply only to those modifications to contractual cash flows that are (a) required as a direct consequence of IBOR reform and (b) done on an economically equivalent basis. Furthermore, the proposed relief is temporary in nature (ie it no longer applies once a financial instrument has transitioned from IBOR to an alternative benchmark rate).

6. In addition, in order to aid investor understanding of the effects of IBOR reform on reporting entities the Board intends to propose disclosure requirements to be added to IFRS 7 about the risks arising from IBOR reform to which an entity is exposed to, and how the entity manages those risks and the entity's progress in transitioning from IBORs to alternative benchmark rates. In developing disclosure proposals, the Board has carefully assessed the costs and benefits of additional disclosure so that additional disclosure does not require costs and effort that outweigh the benefits of the additional information to be provided to users of financial statements or the relief provided by the Board.

7. The proposed relief is intended to provide exceptions from specific requirements in IFRS 9, IAS 39 and IFRS 16. In some cases, this will simplify application for preparers. The proposed amendments will also prevent some potentially disruptive effects on the

financial statements[1] arising from IBOR reform (as described above) while continuing to provide useful information to users of financial statements including through additional disclosure requirements. Therefore, implementing the proposed amendments should not be overly burdensome for preparers and would not result in information loss for the users of financial statements. There is expected to be broad consensus on the proposed amendments.

Recommended comment period

8. At the February 2020 Board meeting, the Board will be asked to set the comment period for the Exposure Draft.

9. The staff's view is that it would be helpful to allow as much time as possible for stakeholders to comment on the Exposure Draft provided that doing so does not impede the timely finalisation of the amendments. The staff are currently aiming to finalise the amendments in 2020 (subject to stakeholder feedback on the Exposure Draft and the Board's decisions during its redeliberations). Considering the timeline to draft and ballot an Exposure Draft, redeliberate the proposals and finalise the amendments, the staff plan to recommend that the Board provide a comment period of 45 days. Given the narrow scope of the Exposure Draft and its intended outcome, 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 some jurisdictions entities have already started transitioning from IBORs to alternative benchmark rates hence stakeholders emphasise that the importance of the amendments being available in 2020. 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. The staff also note that the Board set a comment period of 45 days for the Phase 1 Exposure Draft of the project for similar reasons.

[1] For example by enabling hedge accounting relationships affected by IBOR reform to continue uninterrupted.

10. Consequently, the staff is asking the DPOC to approve a shortened comment period of no less than 30 days for the Exposure Draft. Although the current plan of the staff is to recommend to the Board a comment period of 45 days, given the importance of the timely finalisation of the amendments, we would like to ask for the DPOC approval of a comment period of no less than 30 days in case the Board decides on a period shorter than 45 days.

11. Appendix A to this paper contains the Board agenda paper which sets out our rationale for a shortened comment period for the Board (paragraphs x–x), together with a summary of the due process steps taken by the Board to date in developing the proposed amendments.

Question for the DOPC

12. Does the DPOC give its approval for a shortened comment period of no less than 30 days for the forthcoming Exposure Draft of a narrow-scope amendment to IFRS 9, IAS 39, IFRS 7 and IFRS 16?

Appendix A –[draft] February 2020 Board meeting Agenda Paper

Agenda ref **[14x]**

STAFF PAPER

February 2020

IASB® Meeting

Project	**IBOR Reform and its Effects on Financial Reporting—Phase 2**
Paper topic	Due process steps

CONTACT(S)

Introduction

1. Based on the Board's discussions to date, the Board's current intention is to issue an Exposure Draft that will propose narrow-scope amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*.[2]

Purpose of this paper

2. This paper:

   (a) proposes a comment period of 45 days for the Exposure Draft of the proposed amendments;

   (b) asks whether any Board member intends to dissent from the proposed amendments;

[2] The Exposure Draft will also propose consequential amendments to IFRS 16 *Leases* and IFRS 4 *Insurance Contracts*.

(c) explains the steps in the IFRS Foundation Due Process Handbook (the Due Process Handbook) that the Board has taken in developing the proposed amendments (see Appendix A), and asks the Board to confirm that it is satisfied that it has complied with the applicable due process requirements; and

(d) seeks the Board's permission for the staff to begin the process for balloting the Exposure Draft.

Comment period

3. Paragraph 6.7 of the Due Process Handbook states that the IASB normally allows a minimum period of 120 days for comment on an Exposure Draft. 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 Due Process Oversight Committee (DPOC).

4. The staff is of the view that the scope of the proposed amendments is narrow in the sense that the proposed exceptions will apply only to those modifications to contractual cash flows that are (a) required as a direct consequence of IBOR reform and (b) done on an economically equivalent basis. Furthermore, the proposed relief is temporary in nature (ie it no longer applies once a financial instrument has transitioned from IBOR to an alternative benchmark rate).

5. In addition, the Board intends to propose disclosure requirements to be added to IFRS 7 about the risks arising from IBOR reform to which an entity is exposed to, and how the entity manages those risks and the entity's progress in transitioning from IBORs to alternative benchmark rates. In developing disclosure proposals, the Board has carefully assessed the costs and benefits of additional disclosure so that additional disclosure does not does not require costs and effort that outweigh the benefits of the additional information to be provided to users of financial statements or the relief provided by the Board.

6. The proposed relief is intended to provide exceptions from specific requirements in IFRS 9 and IAS 39[3] such that the effects of IBOR reform (as described in paragraph 4 above) on the financial statements are limited while continuing to provide useful information to users of financial statements through additional disclosure requirements. Therefore, implementing the proposed amendments should not be burdensome for preparers and would not result in information loss for the users of financial statements. There is expected to be broad consensus on the proposed relief.

7. The staff think that the urgency around these proposed amendments is similar to that of the amendments the Board made to IFRS 9, IAS 39 and IFRS 7 in September 2019, which provided relief from the effects of IBOR reform uncertainties on particular hedge accounting requirements. In that case, the Board set a comment period of 45 days for the Exposure Draft given the urgency, narrow-scope nature of the proposed amendments and the expectation of a broad consensus on them.

8. The staff is currently aiming to finalise the amendments in 2020 (subject to stakeholder feedback on the Exposure Draft and the Board's decisions during its redeliberations). To achieve this timetable, a short comment period is necessary.

Timeline	**Project plan**
February / March 2020	Board finishes deliberations, including the comment period, due process steps and permission to ballot. Proceed with drafting those amendments.
April 2020	Publish an Exposure Draft
May 2020	Comment period ends
June 2020 and thereafter	Provide feedback to the Board Board re-deliberations Issue final amendments

[3] The proposed relief would also provide exceptions from specific requirements in IFRS 16 with respect to accounting for lease modifications directly required by IBOR reform.

9. Considering the timeline to draft and ballot an Exposure Draft, redeliberate the proposals and finalise the amendments, the staff recommend a comment period of 45 days for the Exposure Draft. Given the narrow scope of the Exposure Draft and its intended outcome, 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 the context of the market-wide expectation that some major interest rate benchmarks will cease to be published by the end of 2021, in some jurisdictions entities have already started transitioning from IBORs to alternative benchmark rates hence stakeholders emphasise that the importance of the amendments being available in 2020. 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.

10. [The staff plan to seek the DPOC's approval for a comment period of no less than 30 days at its February 2020 meeting.]

Intent to dissent

11. In accordance with paragraph 6.9 of the Due Process Handbook, we are asking whether any Board member intends to dissent from the proposed amendments.

Confirmation of due process steps

12. In Appendix A to this paper, we have summarised the due process steps taken so far in the development of the proposed amendments. We note that the applicable due process steps to date have been completed.

Questions

Questions for the Board
1. Comment period—subject to the DPOC approval, does the Board agree with our recommendation to have a comment period of 45 days for the Exposure Draft of proposed amendments? 2. Dissent—does any Board member intend to dissent from the publication of the Exposure Draft?

3. Permission to begin the process for balloting the Exposure Draft—is the Board satisfied that it has complied with the applicable due process steps and that we can begin the process for balloting the Exposure Draft?

Appendix A—Due process steps taken

Step	*Actions*
Board meetings held in public, with papers available for observers. All decisions are made in public session.	Based on the Board's discussions to date, the Board discussed in public the potential issues of the second phase of the *IBOR Reform and the Effects on Financial Reporting* project and tentatively decided to propose amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*. The project webpage has been updated by the staff after every meeting. Agenda Papers were posted on the website before every meeting on a timely basis.
Consultation with the Trustees and the Advisory Council.	The Trustees were informed about the proposed amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures* as part of the regular reporting to them (October 2019). The Advisory Council were informed of the second phase of this project at its meeting in September 2019 and will be given an update at its next meeting (31 March 2020 - 01 April 2020).
Analysis of the likely effects of the forthcoming Standard or major amendment, for example, initial costs or ongoing associated costs.	We assessed the likely effects of the proposed amendment as being limited because it is narrow in scope and it provides relief such that the effects of IBOR reform on the financial statements are limited while continuing to provide useful information to users of financial statements through additional disclosure requirements. A description of the potential financial reporting effects of the proposed amendment was provided to the IASB in September 2019, October 2019, December 2019, January 2020 Board meetings and will be provided in the February 2020 Board meeting, which will be included in the Basis for Conclusions of the Exposure Draft.
Due process steps reviewed by the IASB.	This step will be met by this Agenda Paper.

Step	***Actions***
The ED has an appropriate comment period.	To be discussed by the Board at this meeting. We recommend a comment period of 45 days. The Staff plan to seek the approval from the DPOC for a shortened comment period. See paragraphs 3–10 of this agenda paper.
Drafting	
Drafting quality assurance steps are adequate.	The translations, XBRL and editorial teams will review drafts during the balloting process.
Drafting quality assurance steps are adequate.	
Publication	
ED published.	The Exposure Draft will be made available on our website when published.
Press release to announce publication of ED.	A press release will be published on our website with the Exposure Draft.