KPMG

IBOR reform – End of second-phase discussion

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"We have now seen all of the proposed amendments and await the ED on Phase 2 of IBOR reform. Preparers of financial statements should be ready to comment on the proposals and communicate any concerns they may have."

Chris Spall,
KPMG's global IFRS financial instruments leader

Preparations now underway for exposure draft in April 2020

Highlights

– Limit to scope of the proposed amendments for modification of financial instruments

– Additional relief from the 'separately identifiable' requirement for a hedge of a risk component

– Application would be mandatory and retrospective – it would require preparers to reinstate certain hedging relationships

– Get ready to have your say

To prepare for a smooth IBOR transition, further reliefs will be provided to preparers of financial statements.

The second phase of discussions on the potential impact of IBOR reform on IFRS® Standards, and on when and how to apply potential amendments, has now concluded.

At its February 2020 meeting, the International Accounting Standards Board (the Board) set out the timeline for finalising the amendments. An exposure draft (ED) on the Phase 2 amendments is expected in April, followed by a 45-day comment period.

Limit to scope of the amendments for modification of financial instruments

The Board tentatively decided to limit the scope of the amendment it proposed in **October** on 'what constitutes a modification of a financial instrument' to changes made only in the context of IBOR reform. This proposed amendment could have had broader application without the scope limitation and the Board decided to discuss this issue separately.

Additional relief for a hedge of a risk component

The Phase 1 amendment on the 'separately identifiable' requirement does not have an end date at which it ceases to apply. However, considering the Phase 2 discussion around hedge accounting, the Board noted that this Phase 1 relief would cease to apply when one of the following conditions arises:

- changes are made to the hedging relationship to reflect modifications directly required by the reform; or
- the hedging relationship is discontinued.

In the early stages of IBOR reform, there could be instances when an alternative benchmark rate would not satisfy the separately identifiable requirement because of the particular market structure. Therefore, the Board tentatively decided to provide temporary additional relief.

A component would be considered to satisfy the separately identifiable hedge requirement only if:

- a company reasonably expects that the alternative benchmark rate will satisfy the separately identifiable requirement under the particular market structure within 24 months; and
- the component can be reliably measured from the date it is designated as the risk component.

Application of Phase 2 proposed amendments

As the Phase 2 amendments will generally be applied when the transition to an alternative benchmark occurs, the application of these amendments has a natural end. The Board tentatively decided that the **Phase 2 amendments** would be effective for annual periods beginning on or after 1 January 2021, with early application permitted.

Also, consistent with its decision on the Phase 1 amendments, the Board proposed to make the application of the Phase 2 amendments mandatory and retrospective. Retrospective application would require reinstating hedging relationships that have been discontinued solely due to changes directly required by IBOR reform, if a company can demonstrate that:

- the hedging relationship would not have been discontinued if the Phase 2 amendments were available at that time; and
- hindsight has not been used.

The Board tentatively decided to provide relief from disclosing certain items[1] in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Have your say

The Board understands the urgency of the Phase 2 amendments and intends to issue final amendments later this year.

Therefore, it is planning to publish its ED in April, followed by a shorter than usual 45-day comment period. It is important that preparers and users of financial statements get ready to comment on the proposals.

Speak with your usual KPMG contact to find out more about the Board's deliberations and visit **home.kpmg/IBORreform** to keep up to date with the latest news and discussion.

1. IAS 8.28(f)

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