IBOR reform - Phase 2 exposure draft issued

Summary of the ED

Area	Proposals in the ED
Modification of a financial instrument	– Clarify what constitutes a modification of a financial instrument in the context of IBOR reform. – Provide a practical expedient allowing a company to apply paragraph B5.4.5 of IFRS 9 *Financial Instruments* to account for modifications directly required by IBOR reform. This practical expedient would also apply when an existing contractual term – e.g. a fallback clause – is activated that results in a change in the basis for determining the contractual cash flows. – Provide examples of modifications that are related to IBOR reform, and examples of those that are not. – Amend IFRS 4 *Insurance Contracts* to require insurers that apply the temporary exemption from IFRS 9 to apply the amendments above. See our previous web articles on Blueprint for modifications under IFRS® 9, Broad discussions including new disclosures and End of second-phase discussion.
Hedge accounting	– Provide an exception that certain changes in hedge documentation due to IBOR reform related modification of a hedged item and/or a hedging instrument would not result in discontinuation of the hedge. – Provide a targeted relief for a hedge of a group of items and a portfolio hedge of interest rate risk when items within a designated group or portfolio are amended for modifications directly required by IBOR reform. – Require the amount accumulated in the cash flow hedge reserve (including the amount related to a discontinued hedging relationship) to be deemed to be based on the alternative benchmark rate when there is a change in the basis for determining the contractual cash flows. See our previous web article on Phase 2 discussions on hedge accounting.
End of application for Phase 1 amendments	– For the purpose of assessing retrospective effectiveness, reset the cumulative fair value changes of the hedging instrument and the hedged item to zero at the date on which the relevant Phase 1 exception ceases to apply. – Provide a temporary additional relief from the 'separately identifiable' criterion for hedging relationships that are amended to reflect modifications that are required as a direct consequence of IBOR reform if the company reasonably expects the alternative benchmark rate will become separately identifiable within a period of 24 months. If and when this expectation changes, hedge accounting is discontinued prospectively. See our previous web articles on Broad discussions including new disclosures and End of second-phase discussion.
New disclosures	– Require a company to provide disclosures that enable users of financial statements to understand: - the nature and extent of risks arising from IBOR reform to which the company is exposed, and how it manages those risks; and - the progress of the company in completing the transition to alternative benchmark rates, and how it is managing the transition. See our previous web article on Broad discussions including new disclosures.
Lessee accounting for IBOR reform	– Provide a practical expedient in IFRS 16 *Leases* for a lessee to account for lease modifications directly required by IBOR reform using the existing guidance that applies to changes in lease payments due to changes in floating interest rates. See our previous web article on Broad discussions including new disclosures.

Application of Phase 2 amendments	– The proposals would be effective for annual periods beginning on or after 1 January 2021, with early application permitted. – The application of the Phase 2 amendments would be mandatory and retrospective, which would include reinstating hedging relationships that meet certain criteria and have been discontinued solely due to changes directly required by IBOR reform. – A company would not be required to restate prior periods to reflect the application of the amendments, but it may restate prior periods only if it is possible without the use of hindsight. – Provide an exception for disclosing items required by paragraph 28(f) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. See our previous web article on End of second-phase discussion.

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