IBOR reform – Approaching the end of phase two

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Chris Spall
Partner
KPMG in the UK

The Board has completed its redeliberations and plans to publish final amendments in August

Highlights

– Final amendments expected to be issued by the end of August 2021

– Clarifications to the hedge accounting amendments

– Next steps

The remaining feedback on the proposed hedge accounting amendments in the IBOR phase 2 Exposure Draft[1] (ED) has now been analysed by the International Accounting Standards Board (the Board), and at its July meeting it completed its redeliberation process. The Board is now satisfied that it has been provided with sufficient analysis and has undertaken appropriate consultation and due process to approve the proposed amendments.

The final phase 2 amendments are expected to be published by the end of August with an effective date of 1 January 2021. Earlier application would be permitted.

The Board's redeliberation process allayed some concerns and clarified the application of the amendments. It's time for preparers of financial statements to start considering how the final amendments would be applied to their IBOR transitions.

Chris Spall,
KPMG global IFRS financial instruments leader

Clarifications to the hedge accounting amendments

During the July meeting, the Board tentatively agreed to permit, rather than require, companies to reset cumulative fair values to zero for the purpose of performing a retrospective hedge effectiveness assessment under IAS 39 *Financial Instruments: Recognition and Measurement* on a hedge-by-hedge basis.

The Board also tentatively agreed to confirm the other proposals in the ED related to the accounting for qualifying hedging relationships, subject to some clarifications and improvements in the wording of the final amendments, including:

– clarifying the rationale for including any measurement differences that arise as a result of transition as ineffectiveness – and considering providing more detail as to how permitted amendments to the hedged portion (agreed at the June meeting) could mitigate that impact;

– articulating more clearly that the standard does not require remeasurement of both the hedged item and hedging instrument when only one of the two has been amended;

1. Interest Rate Benchmark Reform — Phase 2: Proposed amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

- explaining that for a cash flow hedge the cumulative fair value change of the hedged item or hedging instrument should not be calculated based on what the fair value would have been had it been based on the alternative benchmark rate from inception. Instead it should be based on current market assumptions and expected cash flows, while noting that no adjustments are made to amounts in the cash flow hedge reserve for previously discontinued hedges;
- considering specifying that the proposed amendment allowing an assumption that deferred amounts on discontinued cash flow hedges arise from the alternative benchmark rate on which the hedged future cash flows will be based is equally applicable to open portfolios;
- applying the proposed amendment for hedging a group of items to both fair value and cash flow hedges; and
- clarifying that the proposed amendments for hedging a group of items is not intended to change the requirement in IFRS 9 *Financial Instruments* – i.e. that the 'proportionality test' is only required for a cash flow hedge in which the hedged risk is not foreign currency risk.

Next steps

Now that the redeliberations have concluded, the balloting process has started and the final amendments are expected to be issued by the end of August 2020.

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

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