THE EUROPEAN ASSOCIATION OF CORPORATE TREASURERS

IBOR reform - IASB proposes amendments to IFRS and IAS

The **International Accounting Standards Board (IASB) has proposed amendments to a number of IFRS and IAS reporting standards in the context of the ongoing transition from interest rate benchmarks to risk free rates**.

In particular the amendments cover situations in which financial instruments are modified (treatment under IFRS 9), implications for hedge accounting (IFRS 9 and IAS 39) and risk disclosures (IFRS 7, 9 and IAS 39).

The proposed amendments can be found here and are open for comments until 25 May.

You can also find a helpful breakdown of the proposed changes here.

Amendments proposed cover the following standards and would be applicable on a mandatory basis for annual reporting periods after 1 January 2021:

- IFRS 9 Financial Instruments;
- IAS 39 Financial Instruments: Recognition and Measurement;
- IFRS 7 Financial Instruments: Disclosures;
- IFRS 4 Insurance Contracts; and
- IFRS 16 Leases.

Modifications

- Modifications carried out with regard to financial instruments as part of the IBOR reform efforts can be accounted for by means of an update of the effective interest rate from the IBOR to the RFR.
    - This also applies for estimates of future cash receipts and payments as a result of triggering an existing contractual clause.
- The same amendments are proposed to IFRS 4, 9, and 16 for insurers and lessees.

Discontinuation of hedging relationship

- **Clarification that changes to hedge designations and hedge documentations that are required as part of IBOR reform do not result in a discontinuation of the hedge**, as long as the hedge relationship continues to meet all other necessary criteria.
- Clarifications on the cumulative fair value changes of hedged items under IAS 39 and clarification of the amounts accumulated in the cash flow hedge reserve.
- Modifications proposed for the requirements for applying hedge accounting to groups of items.

Identification of risk components

- Proposed amendments would mean that alternative benchmark rates would need to be identified as a separate risk component so long as there is a reasonable expectation that the component will meet this requirement within 24 months of the date it is designated as a non-contractually specified risk component.

Disclosure

- Companies are expected to make additional disclosures under IFRS 7 to provide a better overview of the effects IBOR reform is having on the company.

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