IBOR reform - Phase 2 amendments

Summary

Area	Amendments
Modification of a financial asset or a financial liability	– IBOR reform will generally result in a change in the basis for determining the contractual cash flows of that financial asset or financial liability. – As a practical expedient, a company will apply paragraph B5.4.5 of IFRS 9 to account for a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by IBOR reform – i.e. update the effective interest rate of the financial asset or financial liability. For this purpose, a change is required by IBOR reform if the following conditions are met. - The change is *necessary as a direct consequence* of the reform. - The new basis for determining the contractual cash flows is *economically equivalent* to the previous basis (i.e. the basis immediately before the change). – If there are other changes to the basis for determining the contractual cash flows, then a company first applies the practical expedient to the changes required by IBOR reform and then other applicable requirements of IFRS 9. – An insurer applying IAS 39 will also apply amendments similar to the above.
Modification of a lease	– A lessee will apply paragraph 42 of IFRS 16 as a practical expedient to account for a lease modification that is required by IBOR reform – i.e. when remeasuring the lease liability, it will use a revised discount rate that reflects the change in interest rate.
Additional reliefs for hedging relationships	– When a company ceases to apply the IBOR Phase 1 amendments to a hedging relationship, it will apply the following exceptions to the hedging relationship. - The company will amend the formal designation of a hedging relationship to reflect the changes that are required by the reform. This change needs to be made by the end of the reporting period and will not result in a discontinuation of the hedge or designation of a new hedging relationship. - When a hedged item in a cash flow hedge is amended to reflect the changes that are required by the reform, the amount accumulated in the cash flow hedge reserve will be deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined. A similar exception is also provided for a discontinued cash flow hedging relationship. - When a group of items is designated as a hedged item and an item in the group is amended to reflect the changes that are required by the reform, a company will allocate the hedged items to sub groups based on the benchmark rate being hedged, and designate the benchmark rate for each sub-group as the hedged risk. A company will assess each sub-group separately to determine whether the sub-group is eligible to be a hedged item. If any sub group is not eligible to be a hedged item, the hedging relationship is discontinued prospectively in its entirety. In addition, all other hedge requirements – including the requirements for hedge ineffectiveness – are applied to the hedging relationship in its entirety. - If a company reasonably expects that an alternative benchmark rate will be separately identifiable within a period of 24 months, it can designate the rate as a non-contractually specified risk component even if it is not separately identifiable at the designation date. This is applied on a rate-by-rate basis and also applicable to a new hedging relationship. - When performing a retrospective hedge effectiveness assessment under IAS 39, a company may reset the cumulative fair value changes of the hedged item and hedging instrument to zero immediately after ceasing to apply the Phase 1 relief on a hedge-by-hedge basis.

New disclosures	– To enable users of financial statements to understand the effect of IBOR reform on a company's financial instruments and risk management strategy, a company will need to provide additional disclosures on: - how it is managing its transition to alternative benchmark rates, including information on the risks to which it is exposed arising from financial instruments because of the transition and its transition progress at the reporting date; - quantitative information about financial instruments indexed to rates yet to transition due to benchmark reform at the end of the reporting period, disaggregated by significant interest rate benchmark and showing non-derivative financial assets, non-derivative liabilities and derivatives separately; and - the extent to which changes to a company's risk management strategy have occurred due to the risks identified in the transition.
Effective date and transition	– The amendments are applied for annual periods beginning on or after 1 January 2021 with earlier application permitted. – A company applies the amendments retrospectively, except that it will reinstate a discontinued hedging relationship if the following conditions are met. - The hedging relationship was discontinued solely due to changes required by IBOR reform and if the amendments had been applied at that time it would not have been required to discontinue that hedging relationship. - At the beginning of the reporting period in which the company first applies these amendments, that discontinued hedging relationship continues to meet all qualifying criteria for hedge accounting (taking into account the amendments). – In addition, a company is not required to restate prior periods to reflect the application of the amendments. However, the company may restate prior periods if it is possible without the use of hindsight.

Publication name: *IBOR reform – Phase 2 amendments*

Publication date: August 2020

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