# In brief

## A look at current financial reporting issues

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## Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – interest rate benchmark (IBOR) reform


### At a glance

The IASB has issued amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 that address issues that arise during the reform of an interest rate benchmark, including the replacement of one benchmark with an alternative one. Given the pervasive nature of IBOR-based contracts, the reliefs could affect companies in all industries. The amendments are effective for annual periods beginning on or after 1 January 2021, with early application permitted.


### What is the issue?

The IASB has undertaken a two-phase project to consider what, if any, reliefs to give from the effects of IBOR reform. The Phase 1 amendments, issued in September 2019, provided temporary reliefs from applying specific hedge accounting requirements to relationships affected by uncertainties arising as a result of IBOR reform (‘the Phase 1 reliefs’). The Phase 2 amendments that were issued on 27 August 2020 address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one.

### What is the nature of the amendments?

**Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform**

For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform (for example, where lease payments are indexed to an IBOR rate).

**End date for Phase 1 relief for non contractually specified risk components in hedging relationships**

The Phase 2 amendments require an entity to prospectively cease to apply the Phase 1 reliefs to a non contractually specified risk component at the earlier of when changes are made to the non contractually specified risk component, or when the hedging relationship is discontinued. No end date was provided in the Phase 1 amendments for risk components.

**Additional temporary exceptions from applying specific hedge accounting requirements**

The Phase 2 amendments provide additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform:

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| Changes to designations and hedge documentation | When the Phase 1 reliefs cease to apply, entities are required to amend the hedge documentation to reflect changes that are required by IBOR reform by the end of the reporting period during which the changes are made. Such amendments do not constitute a discontinuation. |
| Amounts accumulated in the cash flow hedge reserve | When amending the description of a hedged item in the hedge documentation, the amounts accumulated in the cash flow hedge reserve are deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined. |
| Retrospective effectiveness test (IAS 39 only) | For the purposes of assessing the retrospective effectiveness of a hedge relationship on a cumulative basis, an entity may, on an individual hedge basis, reset to zero the cumulative fair value changes of the hedged item and hedging instrument when ceasing to apply the retrospective effectiveness assessment relief provided by the Phase 1 amendments. |
| Groups of items | When amending the hedge relationships for groups of items, hedged items are allocated to sub-groups based on the benchmark rate being hedged, and the benchmark rate for each sub-group is designated as the hedged risk. |
| Risk components – separately identifiable requirement | An alternative benchmark rate designated as a non-contractually specified risk component, that is not separately identifiable at the date when it is designated, is deemed to have met the requirements at that date if the entity reasonably expects that it will meet the requirements within a period of 24 months from the date of first designation. The 24-month period will apply to each alternative benchmark rate separately. The risk component will, however, be required to be reliably measurable. |

**Additional IFRS 7 disclosures related to IBOR reform**

The amendments require disclosure of: (i) how the entity is managing the transition to alternative benchmark rates, its progress and the risks arising from the transition; (ii) quantitative information about derivatives and non-derivatives that have yet to transition, disaggregated by significant interest rate benchmark; and (iii) a description of any changes to the risk management strategy as a result of IBOR reform

## When do the amendments apply?

These amendments should be applied for annual periods beginning on or after 1 January 2021. Earlier application is permitted.

## Where do I get more details?

For more information, please contact Marie Kling (marie.kling@pwc.com), Scott Bandura (scott.bandura@pwc.com) or Elizabeth Dicks (elizabeth.a.dicks@pwc.com).