Grant Thornton

IFRS Alert

IASB issues Interest Rate Benchmark Reform Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

Executive summary

The International Accounting Standards Board (IASB) has published Interest Rate Benchmark Reform Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16), finalising its response to the ongoing reform of interest rate benchmarks around the world. The amendments aim to assist reporting entities to provide investors with useful information about the effects of the reform on their financial statements.

Background

Many interbank offer rates (IBORs) are expected to be replaced by new benchmark Risk-Free Rates (RFRs) in future reporting periods. This has resulted is the IASB needing to address potential financial reporting implications after the reform of an interest rate benchmark. The IASB has completed this project in two stages, the first one focussing on providing relief for hedging relationships which was finalised in September 2019 by publishing Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7). This second set of amendments focus on issues arising post replacement, ie, when the existing interest rate benchmark is actually replaced with alternative benchmark rates.

The amendments

The main amendments in this final stage can be summarised as follows:

Topic	Summary
Changes to contractual cash flows	The IASB have added a practical expedient that will mean entities will not need to derecognise the carrying amount of financial assets or financial liabilities for changes required by the reform. Instead reporting entities are required to account for the modification by updating the effective interest rate to reflect the change to the alternative benchmark rate.
Hedge accounting requirements	If hedging still meets other hedge accounting requirements, entities will not need to discontinue hedge accounting purely because of changes as a result of the reform. Hedging documentation and relationships should be updated to reflect modifications to the hedge item, and entities can continue hedge accounting if the new hedging relationship meets all the criteria.
Disclosures	Reporting entities will be required to make additional disclosures about new risks arising from the IBOR reform and how they manage those risks. There are also disclosure requirements for transitioning from IBORs to alternative benchmark rates.

Effective date and transition

The amendments are effective for annual periods beginning on or after 1 January 2021, with earlier application permitted. They should be applied retrospectively, and restatement of prior periods is not required, however entities can restate prior periods, if it is possible without the use of hindsight.

Our thoughts

We welcome the IASB's amendments which provide relief from the effects of Interest rate benchmark reform and are fully supportive of the objectives. We believe it should be possible for most reporting entities to transition from IBOR benchmarks to alternative benchmarks without hedge discontinuation which would be a useful outcome for users of financial statements.