IASB Project *IBOR Reform and its Effects on Financial Reporting*

AFME encourages the IASB to accelerate work on "Phase II" accounting issues arising from the Reform

2 April 2019

International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

Dear Sir / Madam,

As noted in our letter (Letter) to the International Accounting Standards Board (IASB or the Board) as of 8 March 2019[1], AFME welcomes and fully supports the IASB's intent to provide certain reliefs in relation to financial reporting issues arising from IBOR (Interbank Offered Rates) reform (Reform). We appreciate the progress made by the IASB in tentatively deciding on a range of amendments to the International Financial Reporting Standards (IFRS) aimed at addressing accounting issues likely to arise in the period leading up to IBOR transition (Phase I). We have commented on some of the tentative decisions in our Letter and are looking forward to providing further feedback on the proposed amendments as per the upcoming exposure draft.

As noted in our Letter, we generally support the IASB's phased approach to the project. We understand that the Board intends to start working on Phase II after better clarity has been obtained on the nature and method of RFRs transition from the regulators, including the identification of term structures. However, we request and urge the IASB to accelerate its work on some matters currently planned to be part of Phase II for the following reasons:

- As raised by EY in their recent publication[2], "*different regulators are moving at different speeds*". AFME Members are therefore concerned that the timing to begin Phase II as envisaged by the IASB could be too late to address the issues in Phase II and would result in entities not to be in a ready position when the IBOR reform in a particular jurisdiction begins to take effect.
- Additionally, and also consistent with the arguments in our Letter to the IASB, we agree with the view expressed by EY that *"some entities may wish to amend their hedged items to reflect 'overnight' RFRs without waiting to see whether term RFRs emerge*", and it is unclear how this would impact the hedge accounting. Alternatively, market standard templates could develop early for fall-back provisions where, instead of transitioning to a specific hard-wired term structure, the contractual language would provide a waterfall of replacement benchmarks (and term structures), one of which is certain to be available (e.g. the overnight RFR). We further note that there is a significant momentum building up among market and industry bodies to develop robust permanent fall-back provisions which would be an integral part of developing sound markets in the new RFRs. Hence, the IASB guidance on modifications of financial instruments (including the application of effective interest rate in situations that do not result in derecognition) and changes to hedge documentation, amongst others, would, in

[1] https://www.afme.eu/globalassets/downloads/consultation-responses/afme-position-paper---ibor-reform-and-its-effects-on-fin-reporting.pdf
[2] https://www.ey.com/Publication/vwLUAssets/ey-devel145-ibor-pt-2-mar2019/$FILE/ey-devel145-ibor-pt-2-mar2019.pdf

this context, be essential to support the accounting judgments required in the run up to the transition, rather than at the moment of transition only.

Therefore, we reiterate that it would be crucial for the IASB to begin its work on some matters currently planned to be part of Phase II as soon as possible, and we note that our request in this respect is consistent with that outlined in the letter[3] to the Board from the Working Group on Sterling Risk-Free Reference Rates (RFRs) formed by the Bank of England and the FCA as well as a paper "*IBOR reform and effects on financial reporting – update*"[4] by the Financial Instruments Working Group of the European Financial Reporting Advisory Board.

We would be pleased, of course, to discuss the content of this letter or to provide any further clarity with regard to the statements made.

Yours faithfully,

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About AFME

AFME (Association for Financial Markets in Europe) advocates for deep and integrated European capital markets which serve the needs of companies and investors, supporting economic growth and benefiting society. AFME is the voice of all Europe's wholesale financial markets, providing expertise across a broad range of regulatory and capital markets issues. AFME aims to act as a bridge between market participants and policy makers across Europe, drawing on its strong and long-standing relationships, its technical knowledge and fact-based work. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. AFME participates in a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) through the GFMA (Global Financial Markets Association). For more information please visit the AFME website: www.afme.eu.

[3] https://www.bankofengland.co.uk/-/media/boe/files/markets/benchmarks/letter-to-international-accounting-standards-board.pdf?la=en&hash=F1BEECBBC21F0796CAC13B8A298108AB119A32DA

[4] http://www.efrag.org/Meetings/1902201018475037/EFRAG-TEG-meeting-March-2019