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Accounting

News

Discussion

IFRS News

Quarter 4 2019

IFRS news is your quarterly update on things relating to International Financial Reporting Standards (IFRS). We'll bring you up to speed on topical issues and significant developments, provide comments and give our point of view.

In this edition we start by considering the latest news from the IASB and conclude with IFRS-related news at Grant Thornton.

If you would like to view a list of the new Standards and Interpretations and their effective dates, please visit ifrs.org or follow the links below:

- Standard-setting projects
- Research, maintenance and other projects
- Completed agenda decisions

A list of documents currently out for comment by the IASB and the comment deadlines is also available at ifrs.org.

We are currently finalising a new publications strategy for 2020 and as a result some of our publications will change in the upcoming months. Watch this space!

Contents

IASB issues Interest Rate Benchmark Reform

(Amendments to IFRS 9, IAS 39 and IFRS 7)

The International Accounting Standards Board (IASB) has published Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7), in response to the ongoing reform of interest rate benchmarks around the world. The amendments aim to provide relief for hedging relationships.

Many interbank offer rates (IBORs) are expected to be replaced by new benchmark Risk-Free Rates (RFRs) in the next few years. One of the biggest issues presented by the replacement of IBORs is the potential effect on hedge accounting given the extensive use of interest rate benchmarks in global financial markets, and it's this subject that's addressed by the IASB's amendments.

The amendments

The main amendments can be summarised as follows:

Topic	Summary
Highly probable requirement and prospective assessments of hedge effectiveness	Where an entity currently designates IBOR cash flows, the replacement of IBORs with new interest rate benchmarks raises questions over whether it will be possible to make the assertion that those cash flows will still occur in a hedge of highly probable future cash flows, and whether the hedging relationship meets the requirements to be viewed as effective on a prospective basis? The Board therefore has provided exceptions for determining whether a forecast transaction is highly probable or whether it's no longer expected to occur. Specifically, the amendments state that an entity should apply those requirements assuming that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of interest rate benchmark reform. It also includes exceptions to the hedge accounting requirements in IFRS 9 and IAS 39 so that an entity assumes that the interest rate benchmark on which the hedged cash flows are based, and/or the interest rate benchmark on which the cash flows of the hedging instrument are based, are not altered as a result of interest rate benchmark reform when the entity determines whether: • there is an economic relationship between the hedged item and the hedging instrument applying IFRS 9 • or the hedge is expected to be highly effective in achieving offsetting by applying IAS 39.
Designating a component of an item as the hedged item	The changes amend the hedge accounting requirements in IFRS 9 and IAS 39 for hedges of the benchmark component of interest rate risk that is not contractually specified and that is affected by interest rate benchmark reform. Specifically, it states that an entity applies the requirement (that the designated risk component or designated portion is separately identifiable) only at the inception of the hedging relationship. There is one exception to this, and that is when an entity frequently resets a hedging relationship because both the hedging instruments and the hedged item frequently change, the entity applies the requirement only when it initially designates a hedged item in that hedging relationship.

Without these amendments, the uncertainty surrounding the replacement of IBORs and the form this will take, could result in entities having to discontinue hedge accounting solely because of the reform's effect on their ability to make forward-looking assessments.

Disclosures about the extent to which an entity's hedging relationships are affected by the amendments are also required.

The IASB has stated that the exceptions above are mandatory for all hedging relationships directly affected by the interest rate benchmark reform. It also confirms that the exceptions apply for a limited period. Specifically, an entity prospectively ceases to apply the amendments at the earlier of:

- when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows; and
- when the hedging relationship is discontinued, or when a forecast transaction is no longer expected to occur, the entire amount accumulated in the cash flow hedge reserve with respect to that hedging relationship is reclassified to profit or loss.

The Board has not provided an end to the application of the proposed exception relating to the separate identification requirement outlined above.

The amendments are not intended to provide relief if a hedging relationship no longer meets the requirements of hedge accounting for any other reasons than those included in the amendments.

Effective date and transition

In acknowledgement of the speed with which interest rate benchmark reform is progressing, the amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. They should be applied retrospectively, with early application permitted.

Grant Thornton International Ltd comment

We welcome the IASB's amendments which provide relief from the effects of interest rate benchmark reform on hedge accounting. Reporting entities need clarity on the impact on hedge accounting urgently and are therefore pleased to see this first phase of this project finalised.

Grant Thornton news

Insights into IFRS 3: Definition of a Business

We have published an article on IFRS 3's new Definition of a Business. In October 2018, the IASB issued 'Definition of a Business' making amendments to IFRS 3 'Business Combinations'.

The amendments are a response to feedback received from the post-implementation review of IFRS 3. They clarify the definition of a business, with the aim of helping entities to determine whether a transaction should be accounted for as an asset acquisition or a business combination.

In our article we explain the new definition and how it has changed. We describe the optional concentration test and provide some practical examples in applying it.

To view this publication, download it from here:

https://www.grantthornton.global/en/insights/articles/ifrs-3---definition-of-a-business/

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