

© DRSC e.V. || Zimmerstr. 30 || 10969 Berlin || Tel.: (030) 20 64 12 - 0 || Fax.: (030) 20 64 12 - 15
www.drsc.de - info@drsc.de

Diese Sitzungsunterlage wird der Öffentlichkeit für die FA-Sitzung zur Verfügung gestellt, so dass dem Verlauf der Sitzung gefolgt werden kann. Die Unterlage gibt keine offiziellen Standpunkte der FA wieder. Die Standpunkte der FA werden in den Deutschen Rechnungslegungs Standards sowie in seinen Stellungnahmen (Comment Letters) ausgeführt.

Diese Unterlage wurde von einem Mitarbeiter des DRSC für die FA-Sitzung erstellt.

HGB-FA – öffentliche SITZUNGSUNTERLAGE

Sitzung:	41. HGB-FA / 31.01.2019 / 13:30 – 14:30 Uhr
TOP:	03 – IBOR Reform
Thema:	Bilanzielle Auswirkungen alternativer Zinsbenchmarks
Unterlage:	41_03a_HGB-FA_IBOR

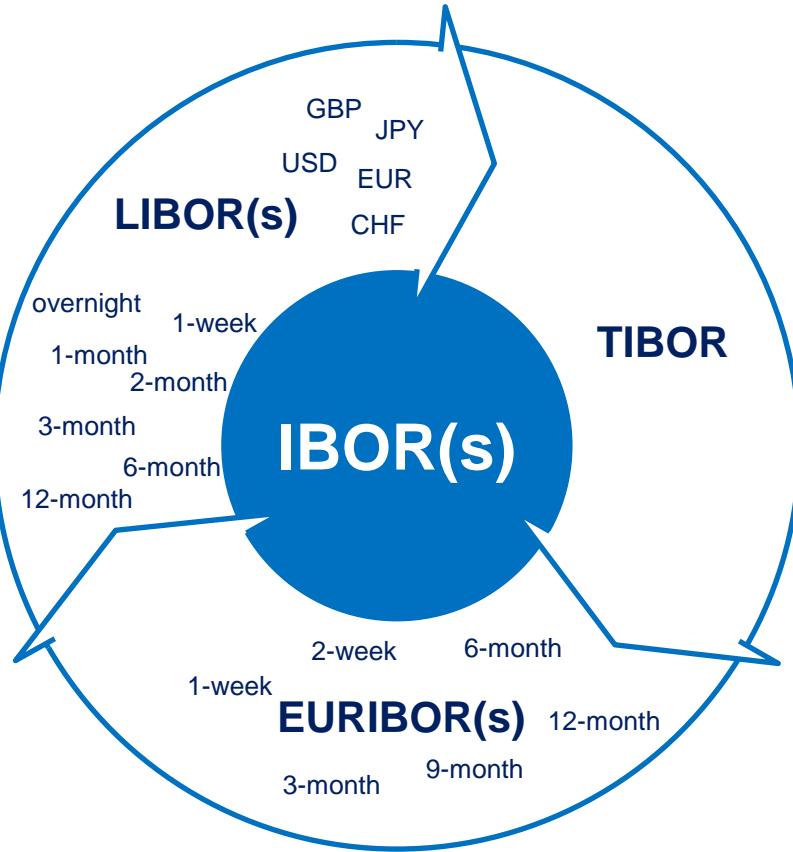
Table of content



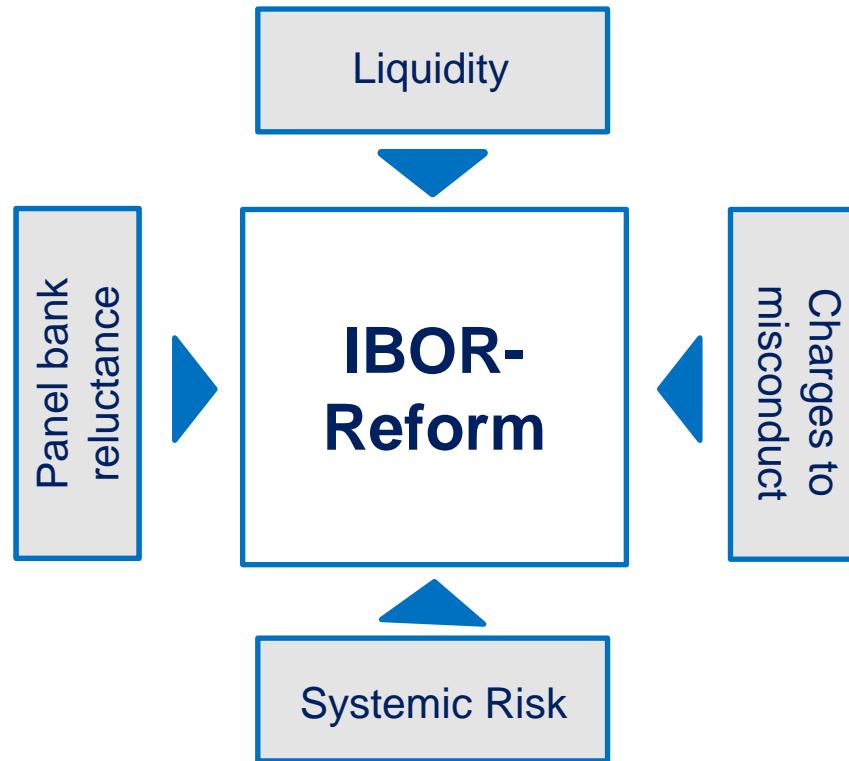
Part I	Background – Transition from IBOR to alternative RFRs <ul style="list-style-type: none">• IBOR definition• Reform driver• Roadmap and key players• Alternative RFRs
Part II	Impact – IBOR uses and market footprint <ul style="list-style-type: none">• IBOR uses• Selected derivatives linked to reference rates• Selected credit products linked to reference rates• Market footprint
Part III	Transition Challenge(s) – Accounting <ul style="list-style-type: none">• Overview of transition challenges• Contract amendments – Differences between IBOR and RFRs• IASB (research) project• Accounting issues leading up to IBOR reform• Accounting issues on transition to RFRs• Other impacts
Part IV	Discussion

I. Background – Transition from IBOR to alternative RFRs

IBOR definition

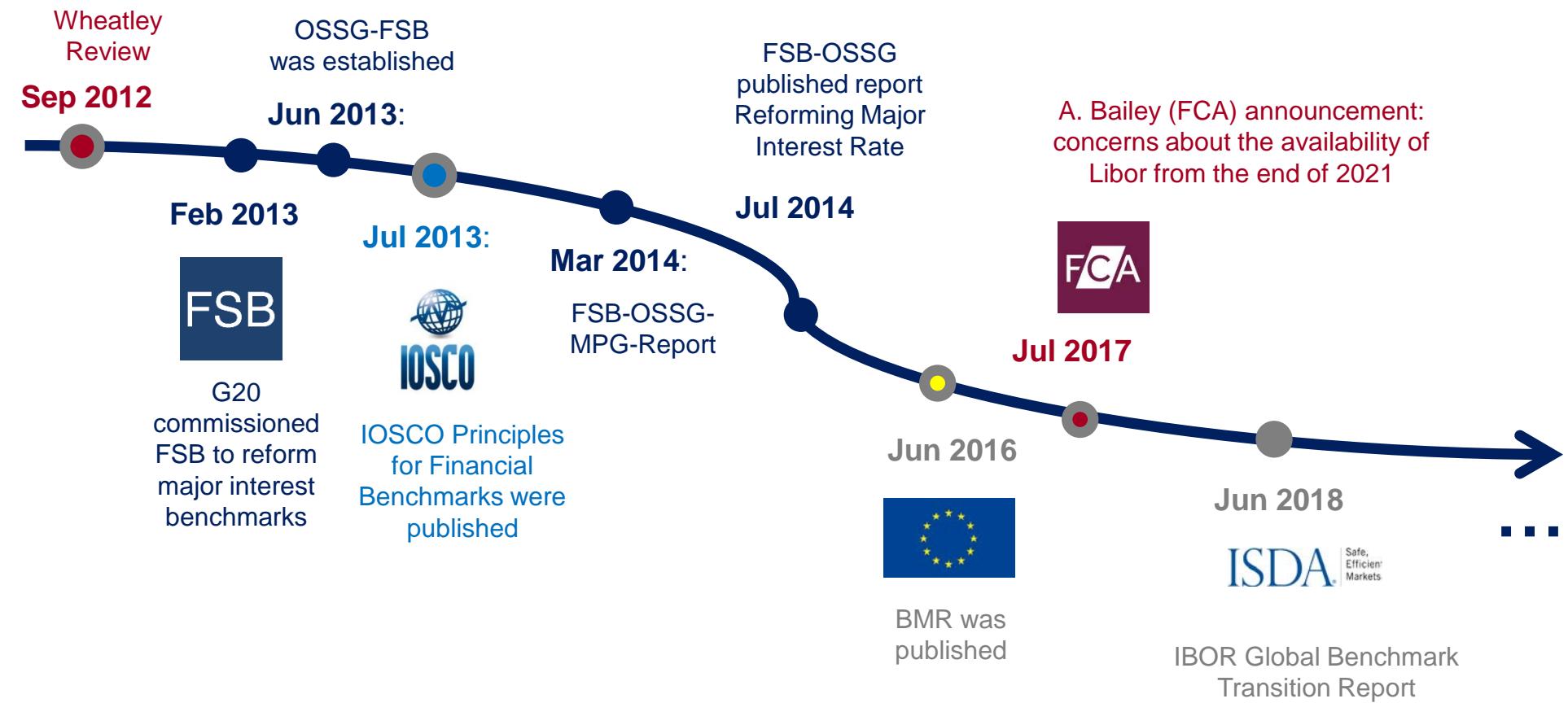


Reform driver



Source: ISDA et al., IBOR Global Benchmark Survey – 2018 Transition Roadmap, February 2018

Roadmap and key players



Alternative RFRs



SONIA (Reformed Sterling Overnight Index Average): Rate type: unsecured, Rate Administrator: Bank of England, Go live date: 23/04/2018



SOFR (Secured Overnight Financing Rate): Rate type: secured, Rate Administrator: Federal Reserve Bank of New York, Go live date: 03/04/2018



ESTER (Euro Short Term Rate): Rate type: unsecured, Rate Administrator: European Central Bank, Go live date: by October 2019



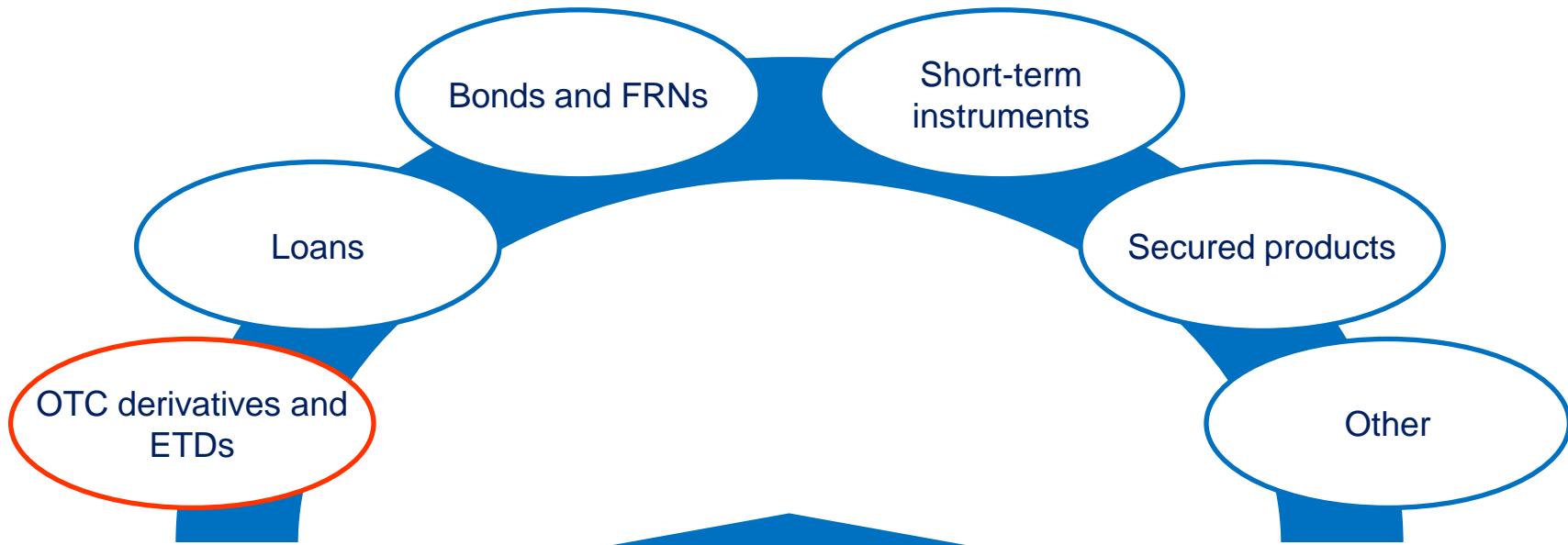
SARON (Swiss Average Rate Overnight): Rate type: secured, Rate Administrator: Swiss National Bank and SIX Swiss Exchange, Go live date: 25/08/2009



TONA (Tokyo Overnight Average Rate): Rate type: unsecured, Rate Administrator: Bank of Japan, Go live date: 01/11/1997

II. Impact – IBOR uses and market footprint

IBOR uses



Sell side institutions (banks) / Corporations / By-side institutions / CCPs...

Source: ISDA et al., IBOR Global Benchmark Survey – 2018 Transition Roadmap, February 2018

Selected derivatives linked to reference rates



	Notional outstanding volume of OTC¹	Volume linked to IBOR	Notional outstanding volume of ETD²	Volume linked to IBOR
USD	\$171 TN	65%	\$32.9TN	92%
EUR	\$186TN	High ³	\$9.8TN	100%
GBP	\$46TN	62%	\$3.5TN	98.5%
CHF	\$6.1TN	98–100%	\$0.2TN	100%
JPY	\$24.3TN	58.3%	\$0.4TN	100%

Source: MPG Final Report currency Market Footprint overviews.

¹ OTC category consists of Interest Rate (IR) swaps, FRA's, IR options and cross currency swaps products.

² ETD category consists of both IR options and IR futures products. ³ no percentage breakdown available in source data.

Selected credit products linked to reference rates



PRODUCT TYPE	USD	% of LI-BOR	EUR	% of EURIBOR	GBP	% of LI-BOR	CHF	% of LI-BOR	JPY	% of LI-BOR
Syndicated Loans	\$3.4 TN	97%	\$0.5 TN	90%	\$0.1 TN	100%	\$0.1 TN	50-70%	<\$0.1 TN	high ¹
Business Loans	\$2.9 TN	30-50%	\$5.8 TN	60%	\$3.3 TN	68%	\$0.2 TN	40-60%	\$0.3 TN	20%
Commercial Mortgages	\$3.6 TN	30-50%	–	60%	\$0.3 TN	low ¹	\$0.2 TN	15-25%	–	–
Retail Mortgages	\$9.6 TN	15%	\$5.1 TN	28%	\$1.7 TN	1-2%	\$0.7 TN	10-20%	–	–
Consumer Loans	\$2.9 TN	low ¹	\$1.9 TN	low ¹	\$0.3 TN	low ¹	–	–	–	–

Source: MPG Final Report currency Market Footprint overviews.

¹ no breakdown available within the source data.

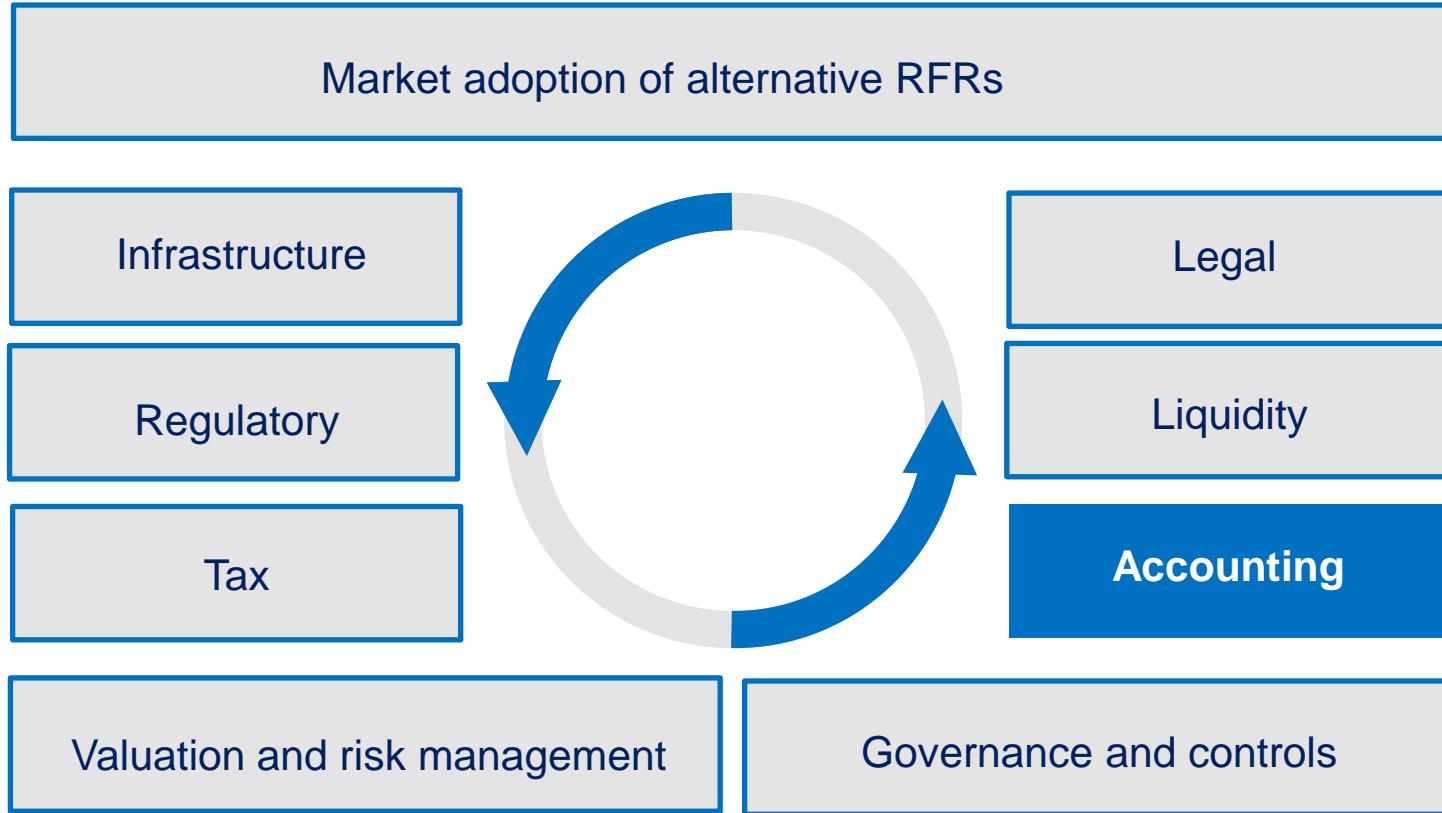
MPG-Report

- **LIBOR** is the predominant interest rate benchmark for USD, GBP, CHF und JPY derivate contracts.
- **EURIBOR** is the most widely used interest rate benchmark for EU contracts.
- **OTC derivates and EDTs** represent more than 300 TN (80 %) of products referring IBOR.
- **USD LIBOR und EURIBOR** each represent more than 150 TN.
 - Together they represent approximately 80 % of the total IBOR market exposure.
- The **3-month tenor** by volume is the most widely reference rate in all currencies (followed by the 6-month tenor).

Source: MPG on Reforming Interest Rate Benchmarks, Final Report, March 2014

III. Transition Challenge(s) – Accounting

Overview of transition challenges



Source: ISDA et al., IBOR Global Benchmark Survey – 2018 Transition Roadmap, February 2018

Contract amendments – Differences between IBOR and RFRs



IBORs include a bank credit risk premium while alternative benchmark RFR are nearly risk-free.

Alternative benchmark RFRs are primarily overnight rates whereas the relevant IBORs are available in different tenors.

IBORs are expected to be higher than the alternative RFRs

Replacement rate will be RFR + X

Forward approach

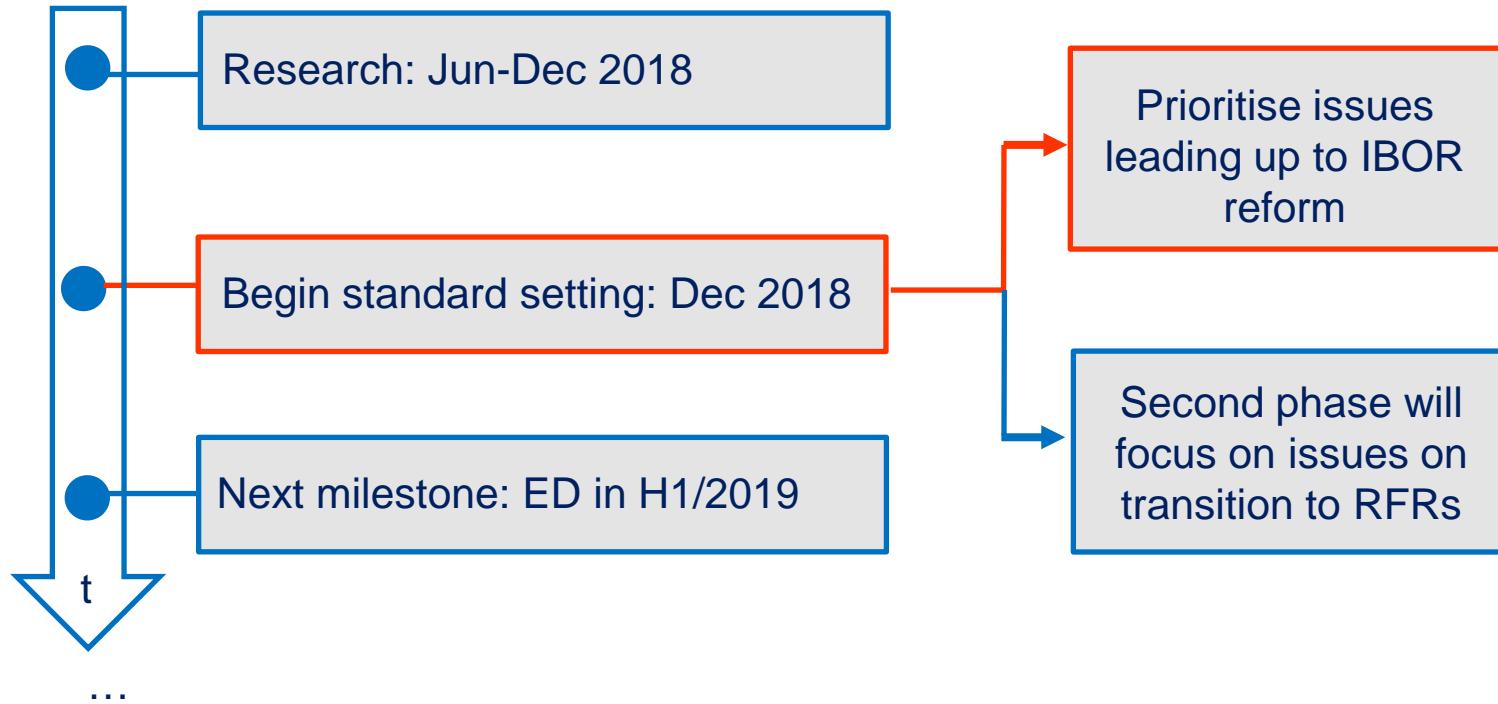
Historical mean/
median approach

Spot-spread
approach

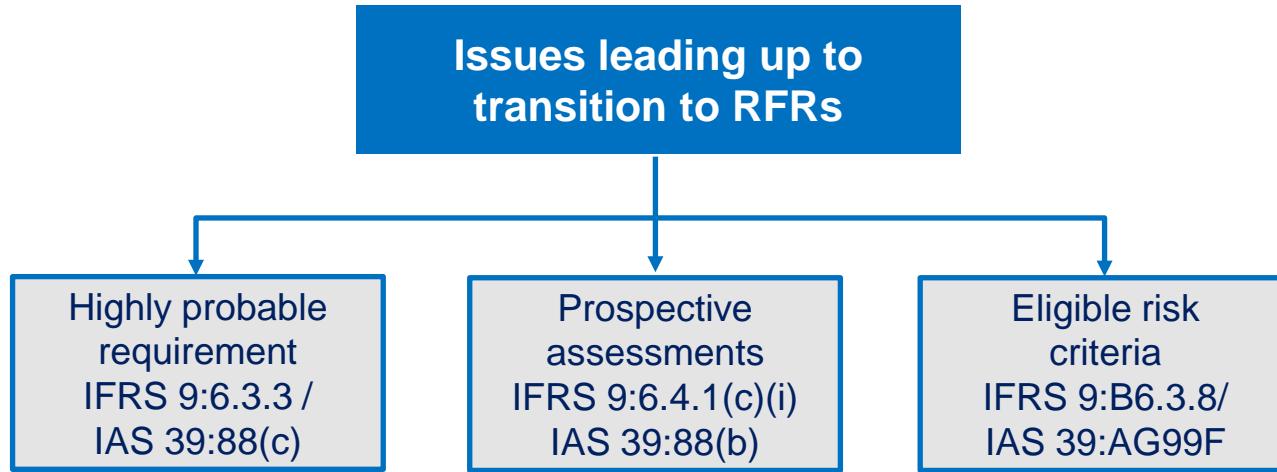
Consensus has not yet been reached on how contracts will be amended and whether or not there will be value transfers on transition.

Source: IASB, Agenda-Paper – IBOR Reform and the Effects on Financial Reporting, December 2018

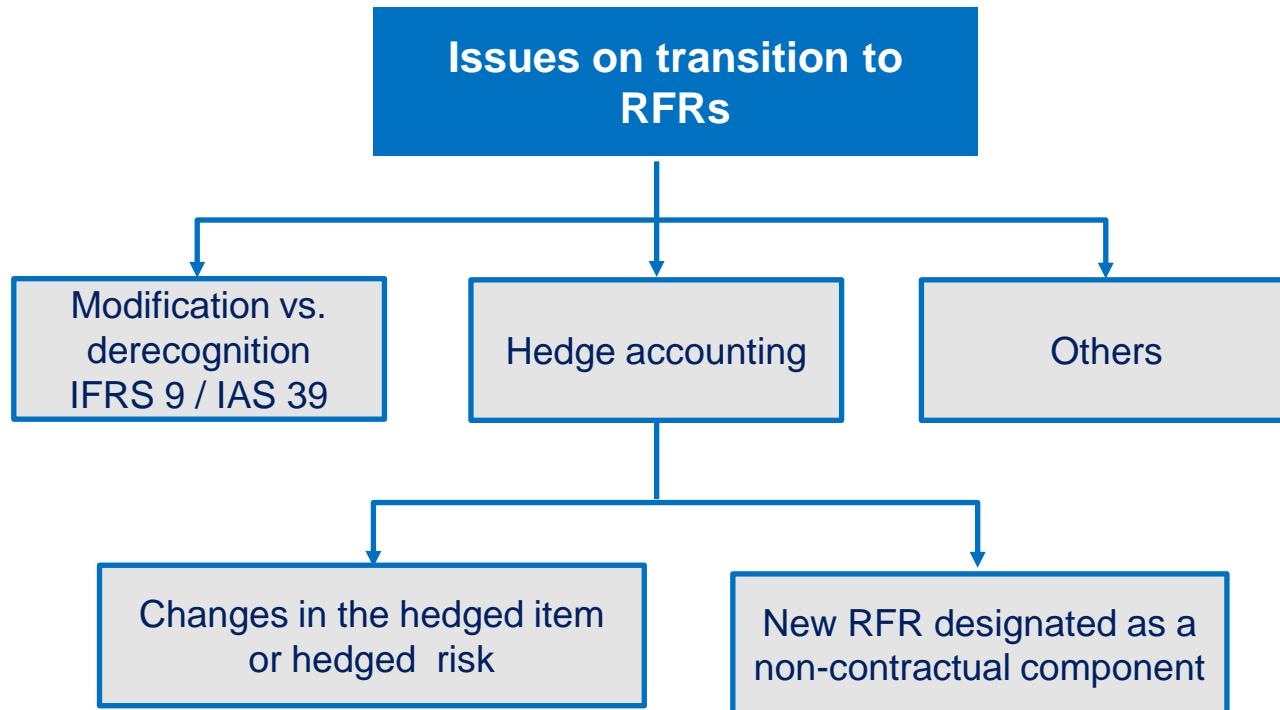
IASB (research) project



Accounting issues leading up to IBOR reform



Accounting issues on transition to RFRs



Other impacts



Accounting impact is not limited solely to financial instruments

IBOR rates are often key component of used discount rate, e.g.
IFRS 2, IFRS 3, IFRS 5, IFRS 15, IFRS 16, IFRS 17, IAS 19, IAS
36, IAS 16, IAS 37, IAS 40,...

Replacement of IBOR will effect the accounting from any change to
the terms of the contract, e.g. a change in the contractual interest
rate on which lease payments are indexed would change the cash
flows and require an adjustment to the amounts recognised under
IFRS 16.

Source: IASB, Agenda-Paper – IBOR Reform and the Effects on Financial Reporting, December 2018 and
Deloitte, Thinking Allowed – IBOR replacement, December 2018

IV. Discussion