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IFRS-FA – öffentliche SITZUNGSUNTERLAGE

Sitzung:	72. IFRS-FA / 07.01.2019 / 14:30 – 15:15 Uhr
TOP:	03 – IBOR Reform
Thema:	Bilanzielle Auswirkungen alternativer Zinsbenchmarks
Unterlage:	72_03a_IFRS-FA_IBOR

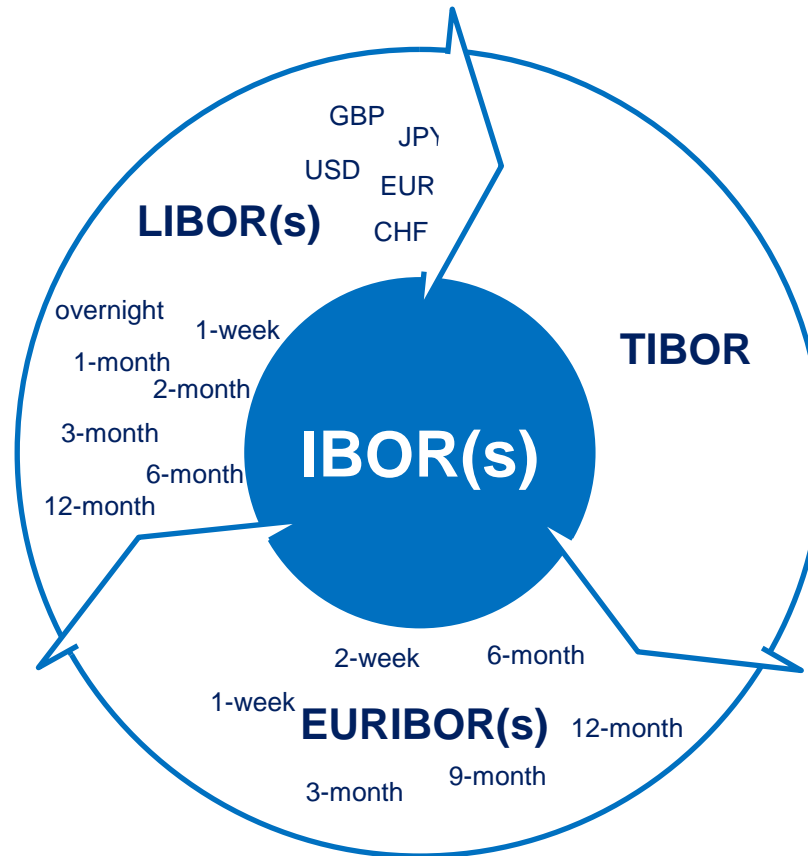
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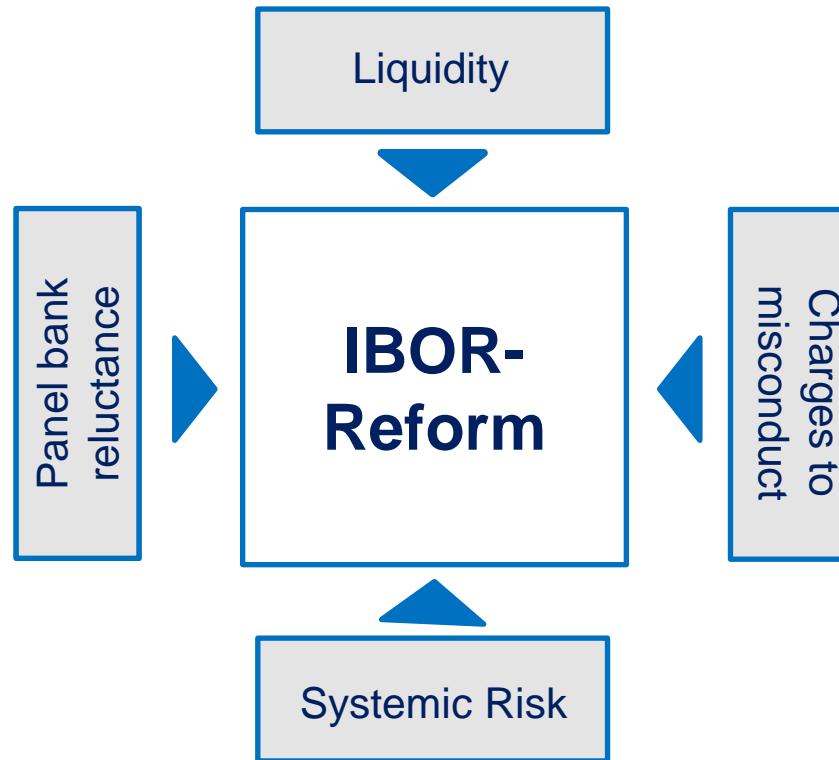
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I. Background – Transition from IBOR to alternative RFRs

IBOR definition

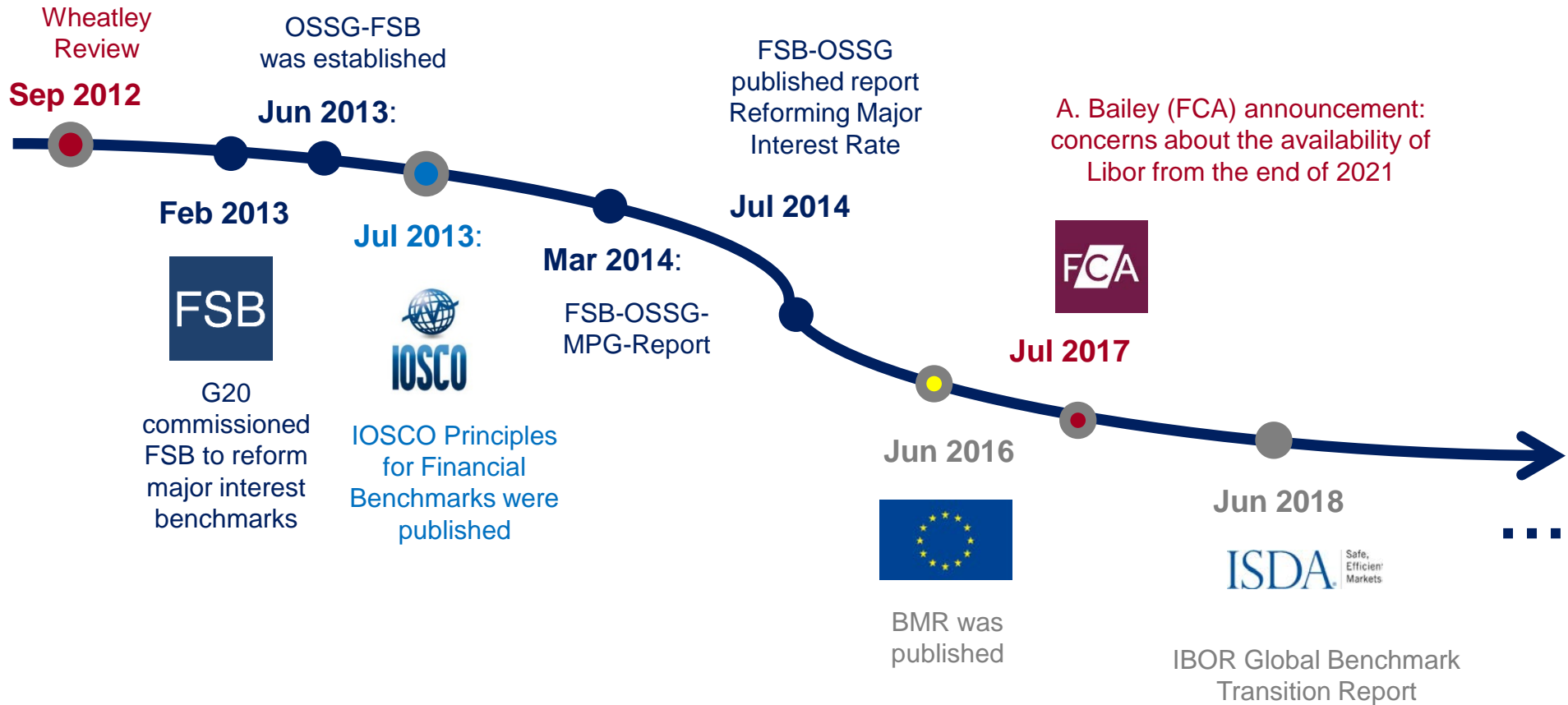


Reform driver



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



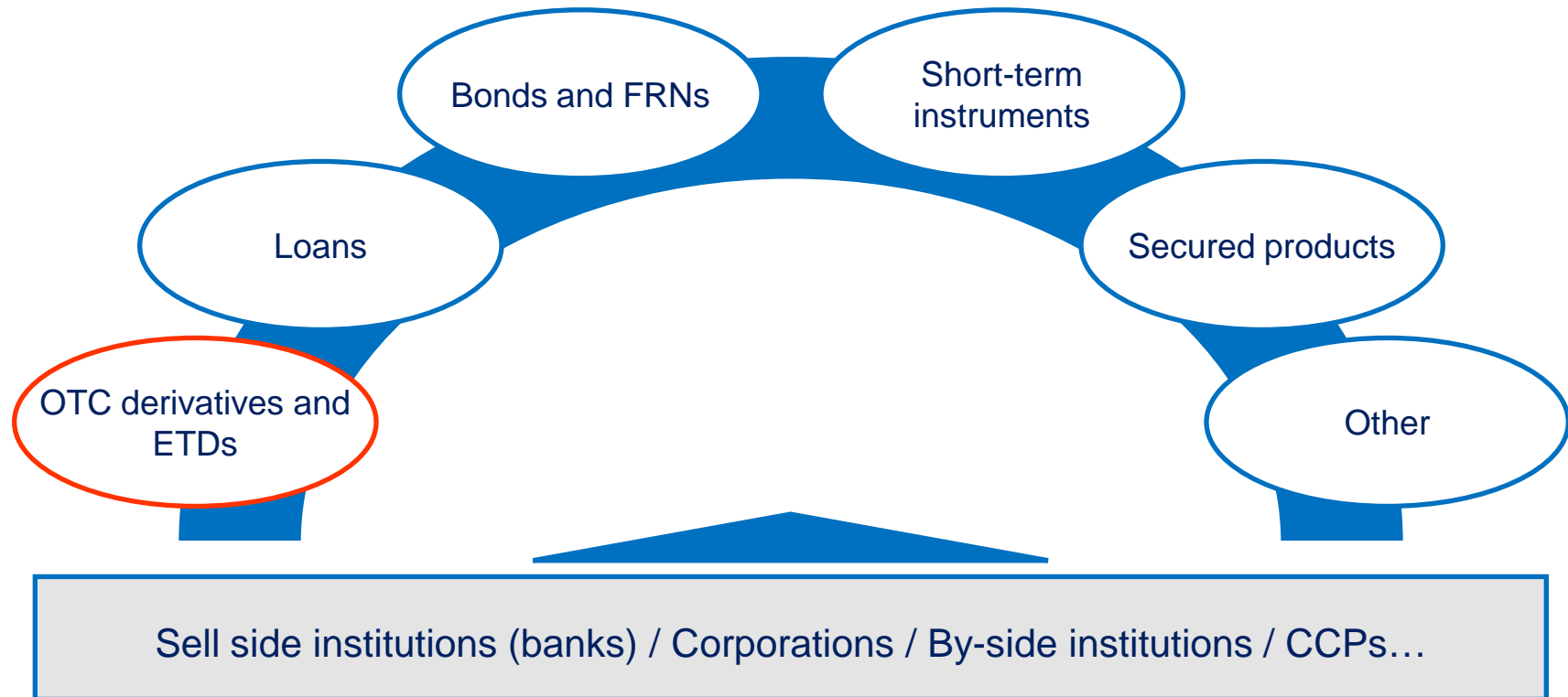
SARON (Swiss Average Rate Overnight): Rate type: secured, Rate Administrator: Swiss National Bank and SIX Swiss Exchange, Go live date: 25/08/2009



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



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.

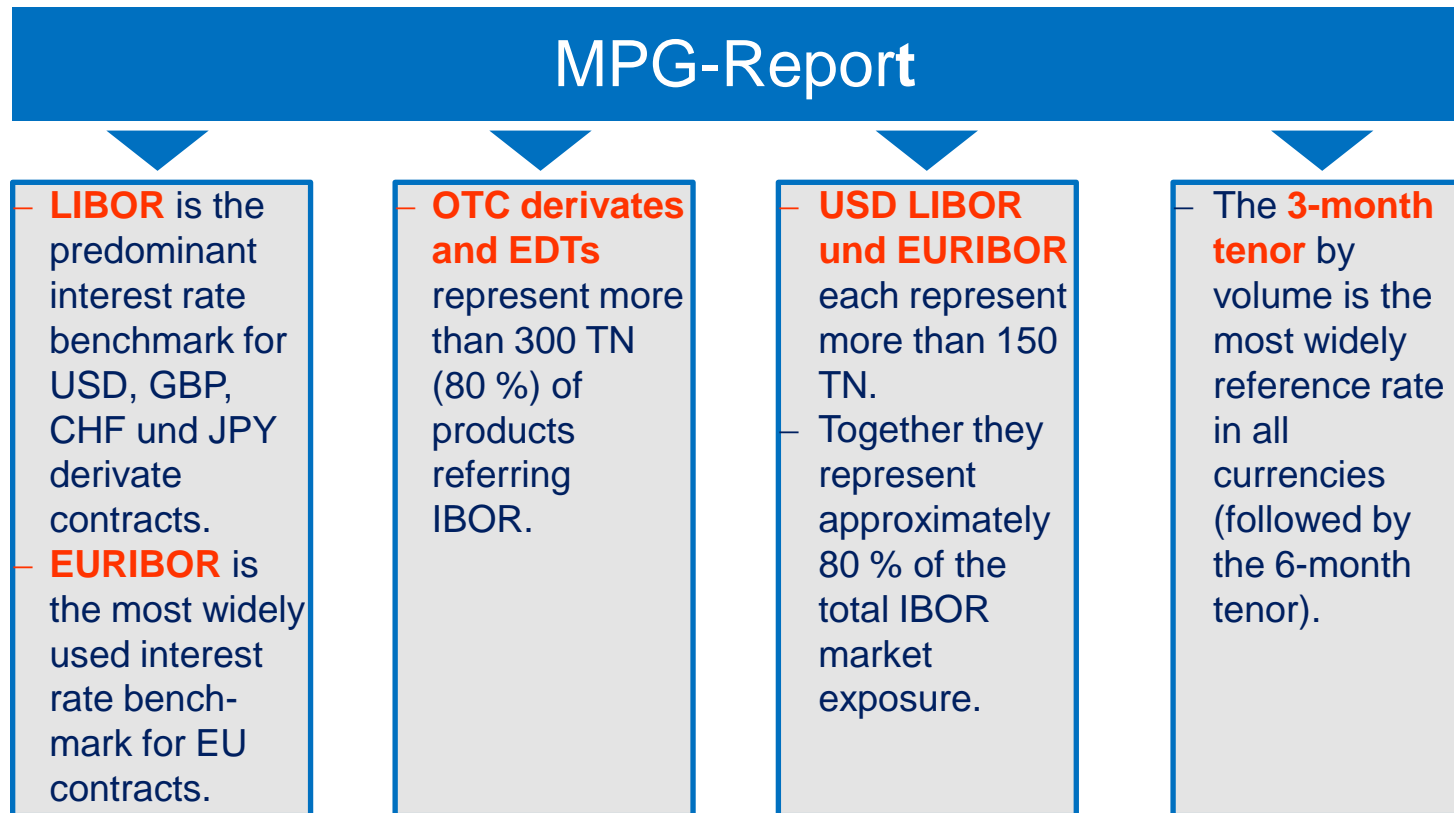
Selected credit products linked to reference rates



PRODUCT TYPE	USD	% of LI-BOR	EUR	% of EURI BOR	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.

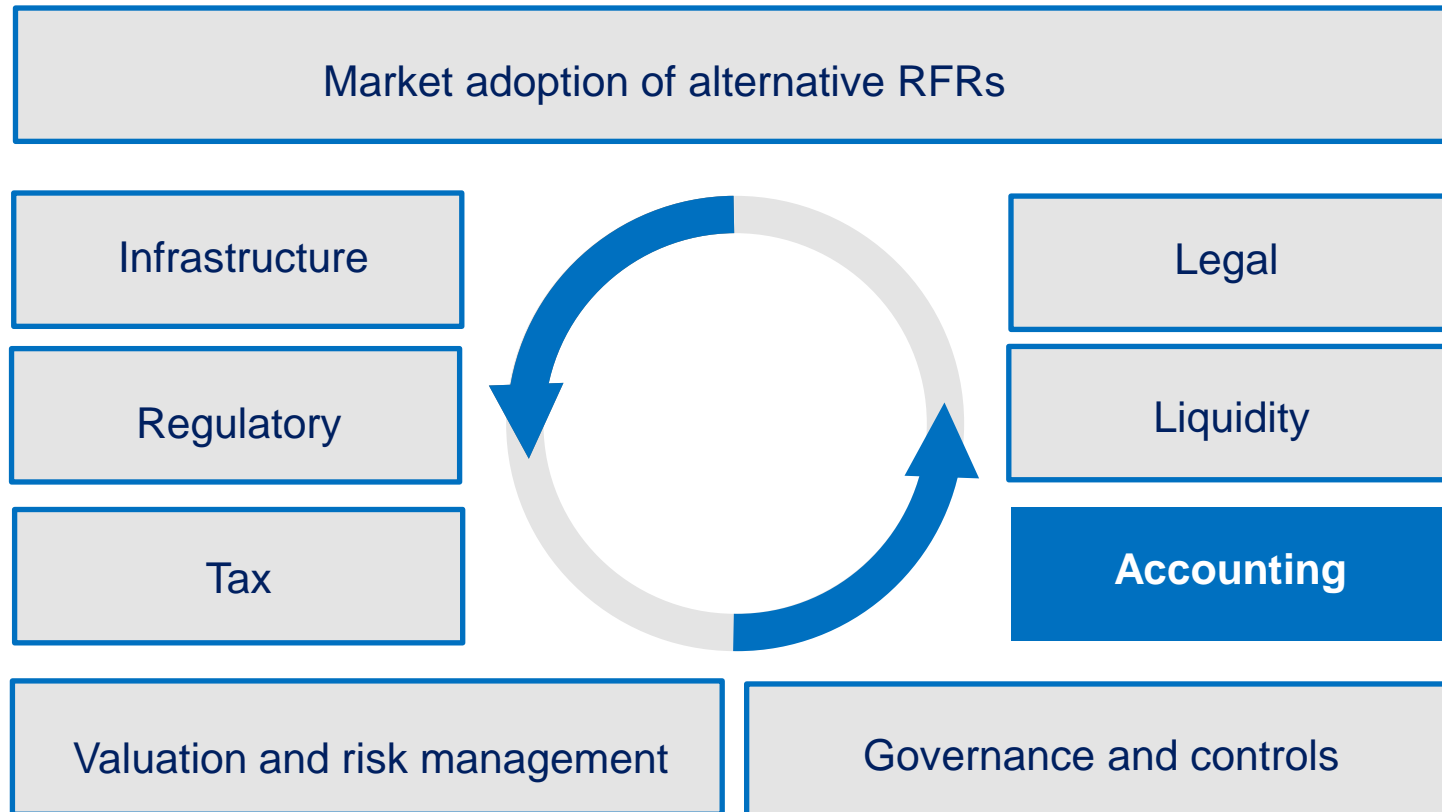
¹ no breakdown available within the source data.



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

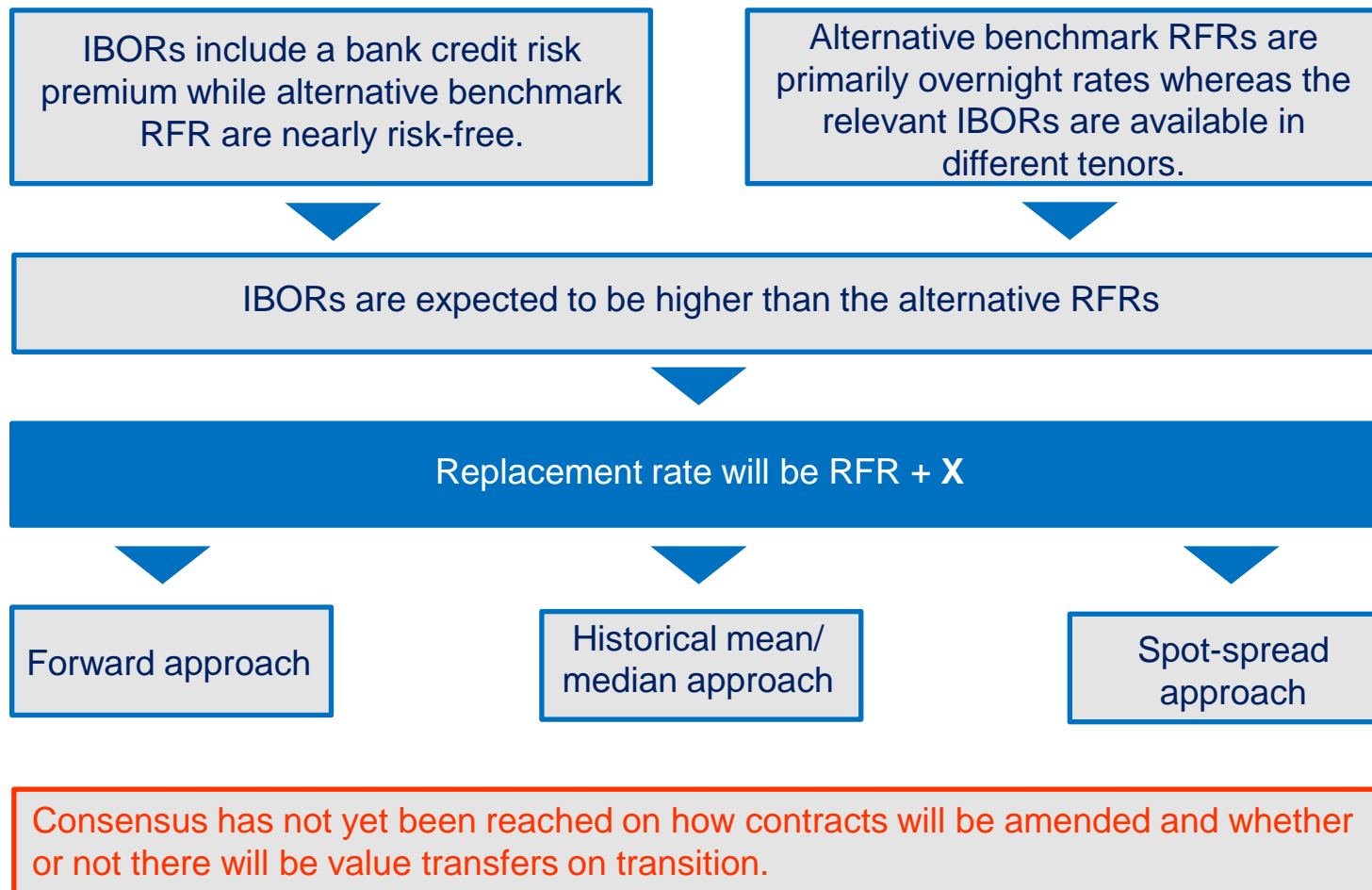
III. Transition Challenge(s) – Accounting

Overview of transition challenges



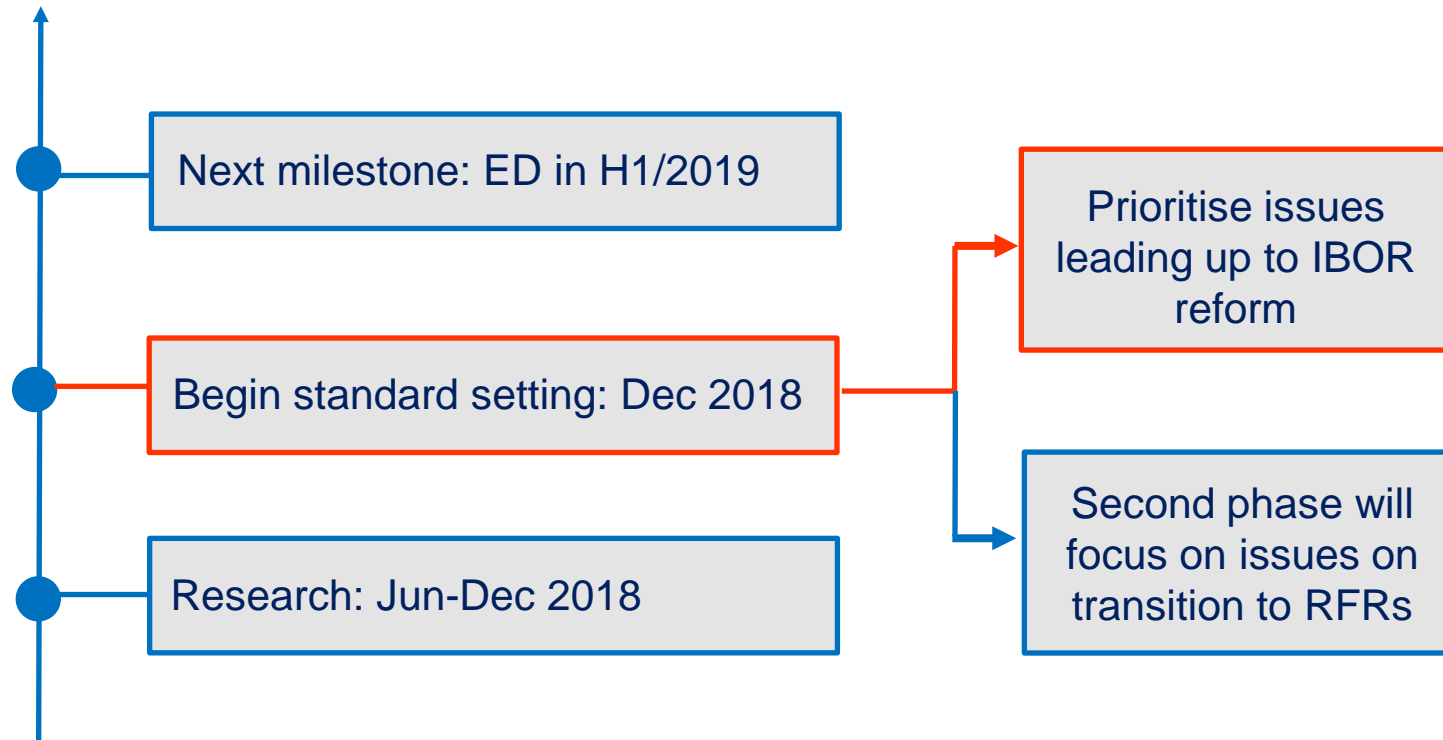
Source: ISDA et al., IBOR Global Benchmark Survey – 2018 Transition Roadmap, February 2018

Contract amendments – Differences between IBOR and RFRs

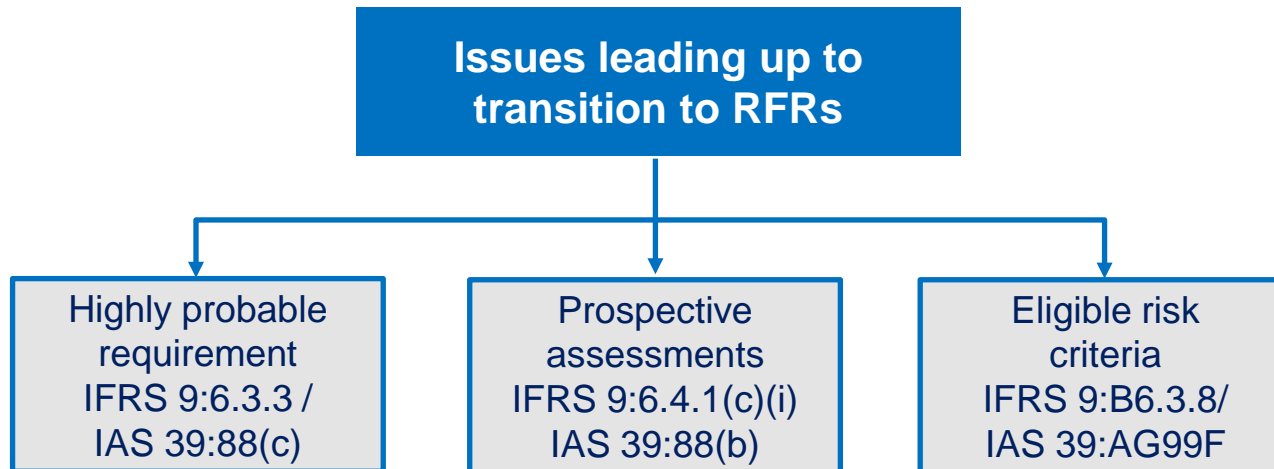


Source: IASB, Agenda-Paper – IBOR Reform and the Effects on Financial Reporting, December 2018

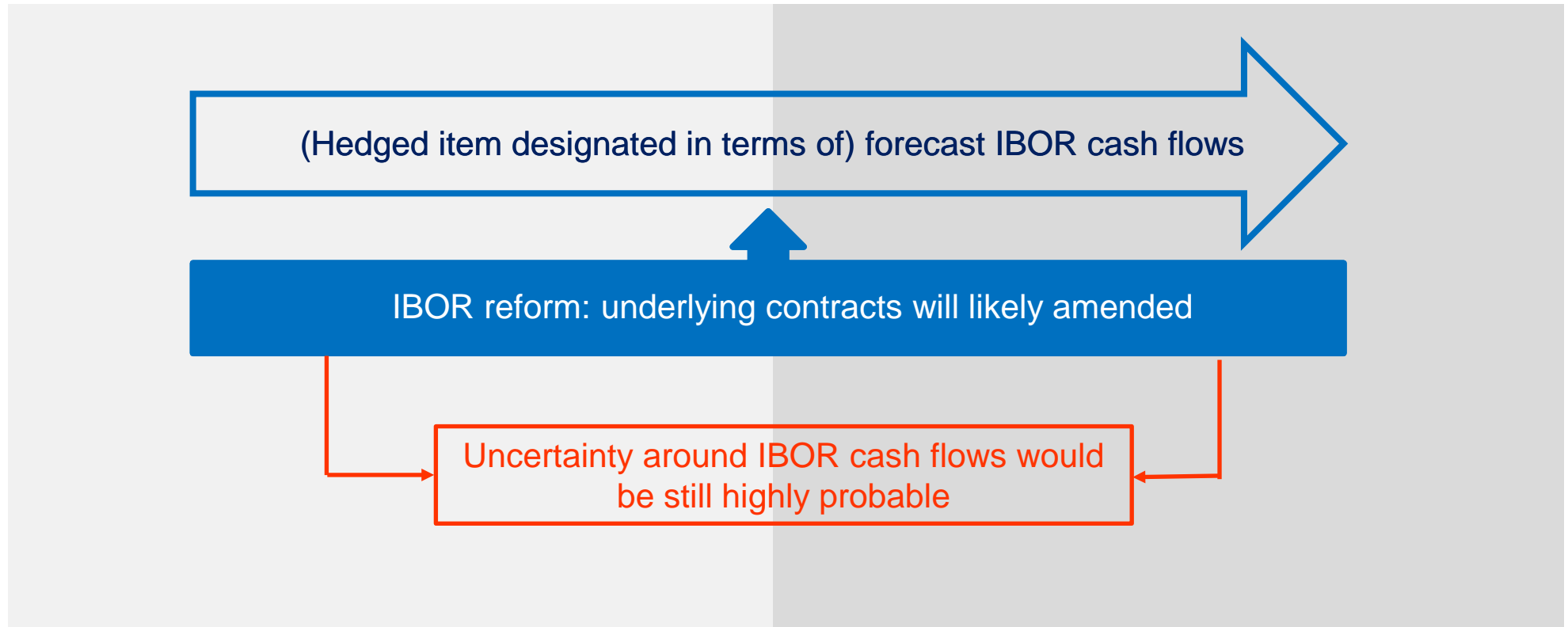
IASB (research) project



Accounting issues leading up to IBOR reform



Highly probable requirement (1/2)



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

Highly probable requirement (2/2)



According to paragraph 6.3.3 of IFRS 9, when a forecast transaction is designated as hedged item that transaction must be **highly probable**.

Are forecast IBOR cash flows beyond 2021 **highly probable**?

To the extent that the hedged cash flows beyond 2021 are no longer expected to occur
amounts deferred in reserves will have to be recycled to P&L.

According to paragraph 6.4.1(c)(i) of IFRS 9, a hedging relationship qualifies for hedge accounting only if there is an **economic relationship** between the hedged item and the hedging instrument.



For hedging relationships going beyond 2021, it may be more difficult to demonstrate whether there is an **economic relationship**, because the general conditions for the replacement of IBOR and therefore the future cash flows from the new benchmark RFRs are not yet determined.



Discontinuation of hedge accounting will affect P&L as the fair value hedge adjustment is amortized and the cash flow hedge reserve is reclassified to P&L.

Eligible risk criteria

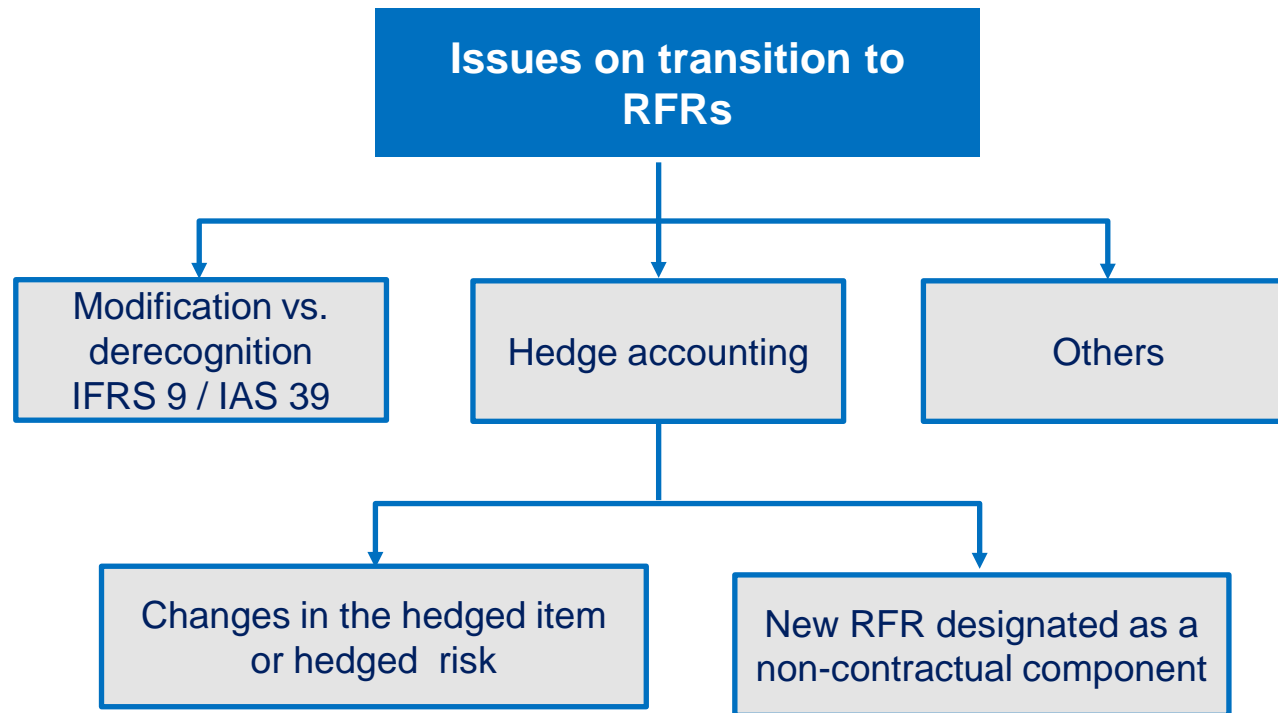


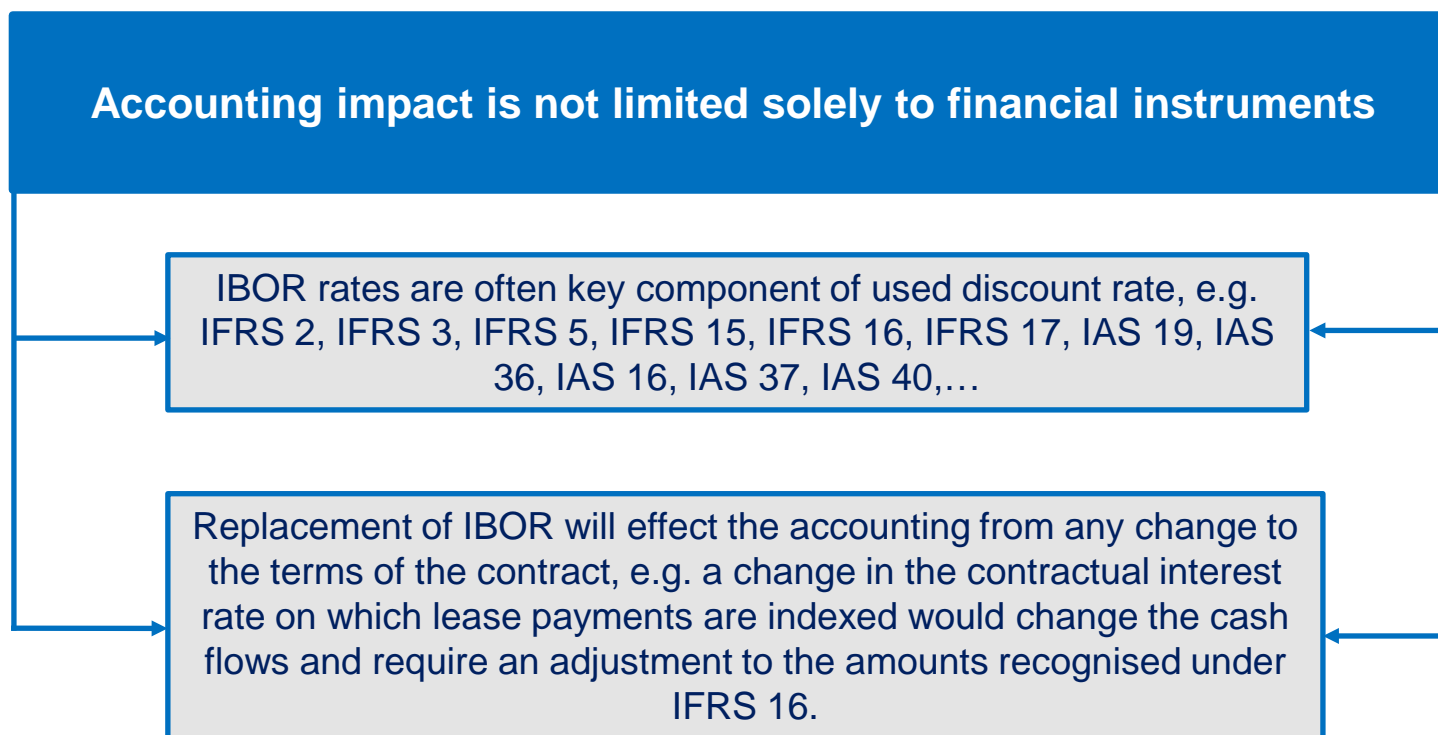
For a hedged risk to be **eligible** under IFRS Standards it must be **separately identifiable and reliably measurable**. This condition is expected to be met when a hedged risk is **contractually specified** in the hedged item and the risk variable is **quoted based on a liquid curve**.



The major IBOR benchmarks continued to be quoted based on liquid curves for the future periods beyond 2021 and therefore in these cases the IBOR risk continues to be eligible risk component. However, whether this will be the case for the whole period up to when IBOR is actually replaced remains to be seen and is a key issue that could affect the eligibility of hedges of IBOR risk.

Accounting issues on transition to RFRs





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

IV. Discussion