Reference Rate Reform

- Background:
  - LIBOR and other interbank offered rates (IBORs) are an essential part of the financial market
  - Due to the concerns about the reliability IBORs, central banks and advisory working groups recommended transaction-based overnight rates to replace IBORs
  - October 2018, the FASB added the recommended USD LIBOR replacement rate as a new benchmark interest rate for hedge accounting purposes to support reference rate reform
- New “Reference Rate Reform” project:
  - Objective: To facilitate the effects on financial reporting of the market-wide migration from IBORs to alternative reference rates
  - Initial deliberation phase
- Areas of focus:
  - Contract modifications — for example, whether (for accounting purposes) a change in the reference rate results in the extinguishment or modification of an existing instrument
  - Hedge accounting — for example, whether existing hedging relationships can be preserved if the reference rate changes.

FASB FINANCIAL ACCOUNTING STANDARDS BOARD

Reference Rate Reform

- Project path:
  - Board meeting on June 19, 2019, discussed contract modifications
    - Scoping criteria
    - Relief guidance
    - Option to apply relief
  - Next Board meeting will focus on hedge accounting
    - Change in critical terms
    - Cash flow hedge effectiveness
    - Fair value hedge effectiveness
  - Issue Exposure Draft in fall 2019