



Working Group on Euro Risk-Free Rates
Subgroup 6 reporting

16 October 2019

>>> Agenda

1

Timeline

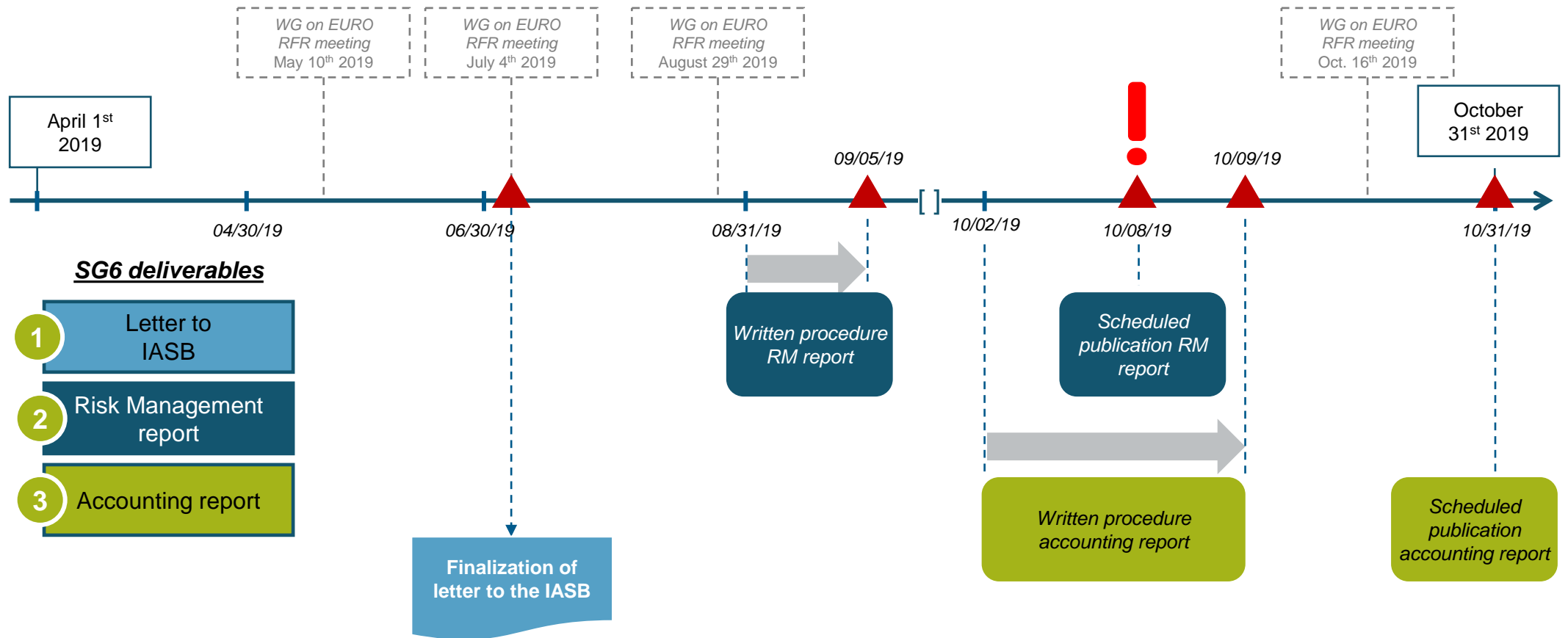
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Status update risk management

3

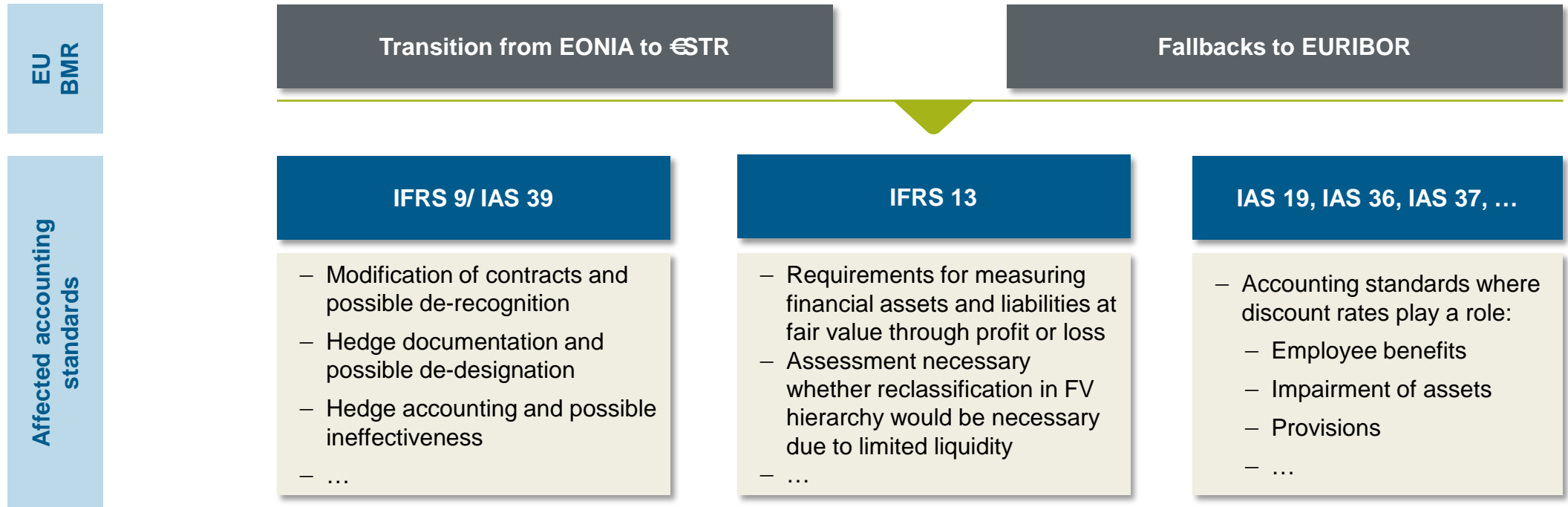
Status update financial accounting

>>> Intended timeline for subgroup 6



Written procedure for financial accounting report just finished

Report covers the three main areas hedge accounting, valuation, and other standards



The BMR can effect financial accounting especially in the fields of hedge accounting and valuation

Next steps from financial accounting standard setters

IASB has already provided relief for phase 1, phase 2 reliefs are in the pipeline

Phase 1 (Pre-replacement phase) amendments

- Apply to annual periods beginning on or after 1 January 2020, with earlier application permitted. Applicability for the financial year 2019 is expected.
- Relief for hedge relationships where **uncertainty about timing and amount of benchmark-based cash flows of hedged item or hedging instrument**. Therefore it provides relief for major challenges during EONIA to €STR transition.
- Relief is provided with respect to:
 - prospective and retrospective effectiveness test, highly probably requirement, Separately identifiable risk components, disclosure requirements

Phase 2 (replacement phase) outlook

- IASB staff has presented preliminary list of potential accounting issues to be considered by the Board for phase 2
- Key topics to be covered: Modification in the context of BMR, hedge designations, other standards

FASB

- FASB has published an Exposure Draft proposing accounting standards update to ease the potential burden in accounting for reference rate reform on financial reporting
- Reliefs are limited to 31 December 2022¹
- Far reaching relief is discussed in the field of modification and hedge accounting