

CFO JOURNAL

IASB Provides Additional Relief for Companies Transitioning Away From Libor

Changes to hedge accounting standard are scheduled to go into effect in 2020

By Mark Maurer

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The International Accounting Standards Board issued changes Thursday to its rules on hedge accounting to provide additional relief to companies affected by global reference rate overhauls, including a planned shift away from the London interbank offered rate.

The changes seek to prevent companies from having to discontinue hedge accounting amid concern that uncertainty over reference rate overhauls could affect their ability to make forward-looking analysis, the board said. Also, under the amendments, companies will be required to disclose additional information to investors about hedging relationships they have that are directly affected by the transition from Libor. A hedging relationship usually refers to a company's connection to a type of insurance contract for an underlying asset or liability.

The changes are scheduled to go into effect Jan. 1, but companies can choose to adopt them sooner.

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As a combination of new technologies begins to converge on financial reporting, it's incumbent on CFOs to prepare by reimagining the process in its future form, fully automated end-to-end and designed to supply real-time insights. For finance executives, jumpstarting the transformation may mean adopting specific practices now as well as rethinking and redeploying the function's talent mix.

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Libor, which underpins trillions of dollars of loans including home mortgages and corporate loans, fell out of favor after a manipulation scandal. It is slated for replacement in 2021, though finding a substitute has been a challenge for banks, companies, investors and regulators.

IASB, which sets accounting standards in more than 140 countries, said it has begun considering accounting changes related to the potential impact that replacing an existing benchmark with an alternative could have on financial reporting.

In the U.S., public companies have had to adopt the new standard on hedge accounting, but private companies haven't. The Financial Accounting Standards Board, which sets standards for U.S. companies, has advanced a proposal to delay the effective date of the hedge accounting standard for private companies by one year, until fiscal years starting after Dec. 15, 2020.

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