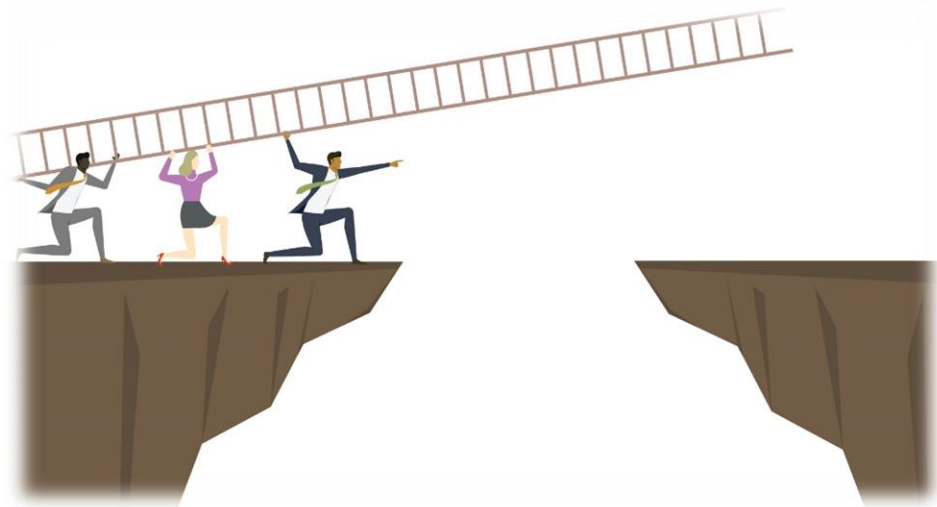


Replacement of Interbank Offered Rates

Why?

LIBOR reference rate included in governmental derivatives and leases – expected to sunset in 2021



Accounting Issues?

Amending reference rate:

- Under Statement 53, terminates the hedge accounting
- Under Statement 87, requires remeasurement of the lease liability (lessees) and the lease receivable (lessors)

Replacement of Interbank Offered Rates

Accounting Issue –Termination of Hedge Accounting

- Hedge accounting allows changes in fair value for hedging derivative instruments to be reported as deferred inflows of resources or deferred outflows of resources on the statement of net position
- Termination would result in deferrals being reported on the flows of resources statement (income statement) in the year of termination
- Future changes in fair value would also be reported on the flows of resources statement

Replacement of Interbank Offered Rates

- Exposure Draft – approved September 2019
- Comment Period – closes November 27, 2019
- Final Statement – anticipated March 2020
- Major proposals when amending for IBOR replacement:
 - Modifies the list of appropriate benchmark rates
 - Eliminates LIBOR as appropriate benchmark rate
 - Provides exception to modification of lease contract
 - Provides exception to termination of hedge accounting



Replacement of Interbank Offered Rates

*Exception to termination of hedge accounting – if **ALL** the following criteria are met:*

- ✓ Instrument is amended or replaced to change IBOR reference rate
- ✓ Adjustments to replacement reference rate (coefficient or constant) limited to those necessary to essentially equate to original rate
- ✓ If ending original instrument and entering new instrument, transactions must occur on same date
- ✓ Term changes necessary are limited to:
 1. Frequency of rate resets
 2. Dates of rate resets
 3. Methodology of rate resets
 4. Dates periodic payments are made

