

# Snapshot

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## Hedge accounting improvements

In November 2025, the FASB issued [ASU 2025-09, \*Hedge Accounting Improvements\*](#), to clarify certain aspects of the hedge accounting guidance in ASC 815. The amendments in the ASU also address certain hedge accounting issues associated with the global transition from interbank offered rates such as LIBOR to alternative reference rates such as SOFR.

### Similar risk assessment for cash flow hedges

#### Who is primarily affected?

Entities holding portfolios of variable-rate loans that hedge the associated interest cash flows

The amended guidance permits entities to designate a group of individual forecasted transactions with a “similar” risk exposure, as opposed to a “shared” risk exposure, as the hedged item in a cash flow hedge. A group of individual forecasted transactions have a “similar” risk exposure if the derivative that is designated to hedge the forecasted transactions is highly effective with respect to each hedged risk in the group. In certain circumstances, entities may perform an ongoing qualitative assessment of whether a group of forecasted transactions has a similar risk exposure.

### Hedging forecasted interest payments on ‘choose-your-rate’ debt instruments

#### Who is primarily affected?

Borrowers that hedge interest-rate risk associated with variable interest-rate cash flows under debt arrangements that permit the debtor to choose from multiple interest-rate indexes and tenors

“Choose-your-rate” debt instruments permit the borrower to change the interest-rate index and the interest-rate tenor used to accrue interest. For example, a debt instrument might permit the borrower to periodically choose to accrue interest based on either 1-Month Term SOFR, 3-Month Term SOFR, or 1-Month U.S. Treasury Rate.

Prior to this ASU, it was challenging for borrowers to designate a cash flow hedge on variable-rate interest payments associated with choose-your-rate debt in such a way that hedge accounting could continue without de-designation and re-designation when choosing a new interest-rate index or tenor from the options provided in the debt arrangement.

The amended guidance provides a model for borrowers to (1) designate cash flow hedges

associated with existing or forecasted choose-your-rate debt instruments, (2) continue applying cash flow hedge accounting when a different interest-rate index or tenor specified in the original hedge documentation is chosen after hedge designation, and (3) assess post-designation changes to the index and tenor options in a debt instrument to determine whether hedge accounting may continue under such circumstances.

## Cash flow hedges of nonfinancial forecasted transactions

### Who is primarily affected?

Entities that hedge component price risk associated with forecasted purchases and sales of nonfinancial assets such as commodities

Before this ASU was issued, entities intending to hedge a pricing component associated with a forecasted purchase or sale of a nonfinancial asset were limited to designating a contractually specified component of the pricing formula. In addition, entities intending to hedge a pricing component associated with a forward contract that is a derivative could only do so if the normal purchases and normal sales (NPNS) scope exception to derivative accounting was applied to the forward contract.

Under the amended guidance, entities are permitted to designate as the hedged risk in a cash flow hedge certain pricing components and subcomponents associated with forecasted purchases and sales of nonfinancial assets in both the spot and forward markets. To be eligible for designation, the price component or subcomponent must be considered “clearly and closely related” to the nonfinancial asset being purchased or sold, as specified in the criteria for applying the NPNS scope exception from derivative accounting in ASC 815.

In addition, the amended guidance allows entities to designate as the hedged risk in a cash flow hedge either a pricing component or subcomponent in a contract accounted for as a derivative that permits the purchase or sale of a nonfinancial asset if the other criteria for hedge accounting in ASC 815 are met.

## Net written options as hedging instruments

### Who is primarily affected?

Lenders that hedge interest-rate risk associated with variable-rate loans subject to a cap or a floor using interest-rate swaps with mirror-image options subject to the “written option test”

To be designated as a hedging instrument before the amendments were issued, a net written option had to pass the “written option test,” which, for a fair value hedge, required the combined hedged item and written option to offer at least as much potential for gains as for losses as a result of changes in the fair value of the combined instruments.

Since the transition from and eventual cessation of LIBOR in 2024, it has become common for hedges of interest-rate risk on variable-rate loans to involve interest-rate swaps for which the variable leg index or tenor does not match the index or tenor associated with the variable-rate loans. Under these circumstances, the written option test would not be passed, and the derivative would be ineligible for designation in a fair value hedge of interest-rate risk.

To permit hedge accounting in these circumstances, the amendments revise the guidance in ASC 815 to preclude the application of the written option test to hedging instruments that consist of a written option and a swap, provided that certain criteria are met.

## Dual hedges

### Who is primarily affected?

Entities that apply a “dual hedge” strategy whereby foreign currency–denominated debt acts as both the hedging instrument in a net investment hedge and the hedged item in a fair value hedge of interest-rate risk

Prior to this ASU, entities that applied a dual-hedge strategy were required to include the basis adjustment associated with the foreign currency–denominated debt designated as the hedged item in a fair value hedge when assessing the effectiveness of the net investment hedge for which the foreign currency–denominated debt is the hedging instrument. This requirement led to ineffectiveness on the net investment hedge that created an earnings mismatch, despite the hedge strategy providing an economic offset.

The amended guidance requires an entity that applies a dual-hedge strategy to exclude the basis

adjustment associated with the fair value hedge from the effectiveness assessment for the net investment hedge, thus providing an earnings offset that reflects the economic substance of the hedge.

### Effective date and transition

The amendments in this ASU are effective for public business entities in annual reporting periods beginning after December 15, 2026 and in interim periods within those annual reporting periods.

For all other entities, the amendments are effective for annual reporting periods beginning after December 15, 2027 and for interim periods within those annual reporting periods. Early adoption is permitted.

Entities are required to apply the amendments on a prospective basis for all hedging relationships, and may elect to apply the amendments to hedging relationships that exist as of the adoption date.

Entities may modify certain critical terms of existing hedging relationships upon adoption without de-designating the hedge.

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