

Board Meeting Handout
Topic 815—Hedge Accounting Improvements
March 26, 2025

Meeting Purpose

1. The Board will discuss comments received on the proposed Accounting Standards Update, *Derivatives and Hedging (Topic 815) Hedge Accounting Improvements*, and begin redeliberations.

Questions for the Board

Redeliberations

1. Which alternative does the Board prefer for Topic A: Full Dedesignation If a Risk Becomes Dissimilar?
 - a. *Alternative A1*: Provide an Exception to Allow Hedge Accounting to Continue If a Risk in a Hedged Portfolio Becomes Dissimilar
 - b. *Alternative A2*: Do Not Provide an Exception to Allow Hedge Accounting to Continue If a Risk in a Hedged Portfolio Becomes Dissimilar (Affirm Proposed Amendments)
2. Which alternative does the Board prefer for Topic B: Hedging the Forecasted Issuance of Debt?
 - a. *Alternative B1*: Make the Choose-Your-Rate (CYR) Debt Hedge Accounting Model Optional and Allow Hedge Accounting to Continue Once the CYR Debt Is Issued
 - b. *Alternative B2*: Make the CYR Debt Hedge Accounting Model Optional and Do Not Allow Hedge Accounting to Continue Once the CYR Debt Is Issued
3. Which alternative does the Board prefer for Topic C: Hedging Replacement Debt?
 - a. *Alternative C1*: Allow Hedge Accounting to Continue If an Entity Hedges CYR Debt and Replacement Debt and the Replacement Debt Matures Before the End of the Hedge Period
 - b. *Alternative C2*: Do Not Allow Hedge Accounting to Continue If an Entity Hedges CYR Debt and Replacement Debt and the Replacement Debt Matures Before the End of the Hedge Period
4. Does the Board want to affirm the proposed amendments on Topic D: Cash Flow Hedges of Nonfinancial Forecasted Transactions?
5. Which alternative does the Board prefer for Topic E: Expanding the Net Written Option (NWO) Test Relief Such That More Highly Effective Hedges Qualify for Hedge Accounting?
 - a. *Alternative E1*: Remove the Presumption That a Compound Hedging Instrument Made Up of a Swap and a Written Option Is a NWO in Both Cash Flow and Fair Value Hedges of Interest Rate Risk
 - b. *Alternative E2*: For Cash Flow Hedges, Expand the Assumptions Such That the Hedged Forecasted Transaction's and the Hedging Instrument's Reset and/or Settlement Dates Match If They Are Expected to Be in the Same 181-Day Period. For Fair Value Hedges, Assume That the Benchmark Rate Matches the Hedging Instrument's Index

The staff prepares Board meeting handouts to facilitate the audience's understanding of the issues to be addressed at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect the views of the FASB or its staff. Official positions of the FASB are determined only after extensive due process and deliberations.

Questions for the Board

6. Does the Board want to affirm the proposed amendments on Topic F: Foreign-Currency-Denominated Debt Instrument as Hedging Instrument and Hedged Item (Dual Hedge)?
7. Topic G: Does the Board want to limit the amendments to Example 9 to eliminating the cross-reference to the change in hedged risk paragraph?

Transition, Effective Date, and Early Adoption

8. Topic H: Does the Board want to make all transition guidance for existing hedges elective?
9. Topic I: Does the Board want to allow entities to align accumulated other comprehensive income (AOCI) associated with dedesignated portfolio hedges to match live hedges?
10. Topic J: Does the Board support requiring adoption of the proposed amendments for annual reporting periods (including interim periods within annual reporting periods) beginning after December 15, 2026, for all public business entities with early adoption permitted on any date after issuance of a final Update? If not, what effective date does the Board prefer?
11. Topic K: Does the Board support requiring adoption of the proposed amendments for annual reporting periods (including interim periods within annual reporting periods) beginning after December 15, 2027, for all nonpublic business entities with early adoption permitted on any date after issuance of a final Update? If not, what effective date does the Board prefer?

Benefits and Costs, and Permission to Ballot

12. Topic L: Has the Board received sufficient information and analysis to make an informed decision on the expected benefits and expected costs of change? If not, what other information or analysis is needed?
13. Topic L: Does the Board (a) believe that the expected benefits justify the expected costs of the amendments included in a final Update and (b) give the staff permission to proceed to draft a final Update for vote by written ballot?

Background

2. The proposed amendments address the following five discrete hedge accounting issues and are intended to better reflect those strategies in financial reporting by enabling entities to achieve and maintain hedge accounting for a greater number of highly effective economic hedges:
 - (a) Issue 1: Similar Risk Assessment for Cash Flow Hedges
 - (b) Issue 2: Hedging Forecasted Interest Payments on Choose-Your-Rate Debt Instruments
 - (c) Issue 3: Cash Flow Hedges of Nonfinancial Forecasted Transactions
 - (d) Issue 4: Net Written Options as Hedging Instruments

- (e) Issue 5: Foreign-Currency-Denominated Debt Instrument as Hedging Instrument and Hedged Item (Dual Hedge).

Summary of Comment Letters

3. Twenty-two comment letters were received on the proposed Update. Not all respondents addressed every question; some focused only on specific questions and areas, while others answered all questions and provided detailed comments for each issue. The level of detail in the feedback received by each respondent varied depending on the issue. The following table provides information on the composition of the comment letter respondents by respondent type:

| Type of Respondent | Number of Respondents |
|---------------------------|-----------------------|
| Preparers | 8 |
| Practitioners | 7 |
| Consultants | 2 |
| Industry Groups | 3 |
| Professional Associations | 2 |
| Total Respondents | 22 |

4. Overall, comment letter respondents supported the proposed amendments and stated that they appreciated the steps taken to better align hedge accounting with the economics of transactions and entities' risk management strategies. The amendments were broadly viewed as both clear and operable as well as being an improvement to current GAAP.
5. While preparer, consultant, and industry group respondents supported the proposed amendments, they provided consistent feedback that the amendments would be of limited utility if the scope and proposed solutions were not broadened to encompass more fact patterns faced in practice. Respondents highlighted those concerns specifically related to Issues 1, 2, and 4 (see below).
6. Practitioner respondents generally supported the proposed amendments and provided targeted feedback directed toward improving the operability of the amendments and minimizing potential mistakes and unintuitive accounting outcomes for economically sound hedges.
7. The remainder of the handout will provide a detailed discussion of the comment letter feedback and other stakeholder feedback from additional outreach received on the individual issues included in the proposed Update.

Issue 1: Similar Risk Assessment for Cash Flow Hedges

8. The proposed amendments would expand the hedged risks permitted to be aggregated in a group of individual forecasted transactions in a cash flow hedge by changing the requirement to designate a group of individual forecasted transactions from having a *shared* risk exposure to having a *similar* risk exposure. Entities would be required to assess risk similarity both at hedge inception and on an ongoing basis. The proposed amendments also would clarify that a group of individual forecasted transactions would be considered to have a similar risk exposure if the derivative used as the hedging instrument is highly effective against each risk in the group. In addition, sometimes an entity would be permitted to perform an ongoing qualitative assessment of whether a group of individual forecasted transactions has a similar risk exposure on a hedge-by-hedge basis. The proposed amendments would expand the hedged risks permitted to be aggregated in a group of individual forecasted transactions, thereby enabling entities to apply hedge accounting to broader portfolios of forecasted transactions.
9. The proposed Update included the following question on this issue:

Question 1: Do the amendments in this proposed Update clarify and improve the guidance on cash flow hedges of individual forecasted transactions hedged as a group? In addition, are the proposed amendments clear and operable? Please explain why or why not. If not, what changes would you suggest?
10. Of the 22 comment letter respondents, 20 respondents provided a response to Question 1. Broadly, both preparers and practitioners supported the proposed amendment, viewing the change from “shared risk” to “similar risk” as a necessary amendment to allow entities to hedge broader pools of loans.
11. Despite broad support, stakeholders highlighted areas of the proposed amendments that would benefit from further clarification or improvements to increase the utility and operability of the amendments in practice. Stakeholders commented on the following areas that are discussed individually in the paragraphs below:
 - (a) Full or partial dedesignation if one or more hedged risks become dissimilar
 - (b) Interpretations of the definition of a hedged risk:
 - (i) Effect of out-of-the-money floors.
 - (c) Qualitative testing
 - (d) Allowing a change in hedged risk for an unforeseen cessation event or a change in business.

Full or Partial Dedeignation If One or More Hedged Risks Become Dissimilar

Proposed Update

12. Under the proposed amendments, for a hedge of the interest rate risk of a group of forecasted interest payments related to a pool of variable rate loans, an entity must assess the similarity of risks designated as hedged using the same parameters for assessing hedge effectiveness of the hedging relationship. If, as part of an entity's prospective and ongoing similar risk assessment as referenced in paragraph 815-20-55-23, one or more of the hedged risks are no longer similar, the entity would have to dedesignate the entire hedging relationship, as stated in paragraph 815-20-55-23D.

Feedback Received

13. All preparers, two industry groups, and two professional associations commented that the requirement to fully dedesignate all hedges related to a pool of variable rate loans if one or more of the risks designated as hedged test dissimilar may prevent entities from taking advantage of the proposed guidance. Those stakeholders noted that in situations in which there are sufficient forecasted transactions (that is, interest payments) related to a pool that pass a similar risk assessment to support the hedging relationship despite one or more of the hedged risks no longer being similar, hedge accounting should be permitted to continue without requiring a full dedesignation.
14. Preparer respondents stated that entities may view the risk of a dedesignation event when risks related to a group of forecasted transactions (that is, interest payments) from a pool of variable rate loans are no longer similar as outweighing the benefits of hedging multiple risks in a single hedge program, such as pooling Prime loans and SOFR loans together. For example, the Prime rate and SOFR could have temporary dislocations that would cause the rates to fail a similar risk assessment, and, as such, an entity would have to assume the costs of terminating the swaps in a full dedesignation and entering into new hedging relationships. One preparer stated that the proposed amendments would effectively limit an entity's ability to include more than one hedged risk in a group of individual forecasted transactions, which it noted is not consistent with the Board's intent to align hedge accounting with an entity's risk management strategies.
15. One preparer, one industry group, and one professional association stated that they would expect entities to use the first-payments-received¹ technique to pool as many loans as possible with the intent of improving the operational ease of their hedging programs under

¹ See paragraphs 815-20-55-88 through 55-96 for an illustrative example of this approach.

the proposed guidance. Along with potentially disincentivizing entities from including multiple hedged risks in a group of forecasted transactions, those respondents noted that some entities' hedge accounting systems are not designed to automatically track dedesignated hedges. This would make dedesignating an entire hedge program burdensome in relation to large pools. One preparer noted that entities may use hundreds of derivative instruments to hedge large pools and, because of that, a complete dedesignation event for an entire hedge program would result in significant complexity. The manual effort that would be needed to track changes in expected cash flows for a fully dedesignated hedge to determine the amount of accumulated other comprehensive income (AOCI) to be reclassified into earnings could prevent entities from using the proposed guidance.

16. Furthermore, one industry group highlighted that dedesignating and redesignating a new hedging relationship will require that an entity consider the effects of an off-market derivative (derivative with a nonzero fair value) for an effectiveness assessment upon redesignation of the hedging relationship when the same derivative is used in the redesignated hedge. The off-market derivative both increases the complexity of conducting the effectiveness assessment as well as increases the likelihood that entities will be unable to achieve hedge accounting because of the ineffectiveness from off-market elements. As a result, there are situations in which an entity could experience additional transaction costs to enter into a hedge with a new at-market derivative to reestablish the hedging relationship following a full dedesignation event.
17. Most preparers, one industry group, one consultant, and two professional associations commented that entities should be permitted to *partially* dedesignate a hedging relationship when a risk fails the similar risk assessment and there are not sufficient cash flows associated with risks that are similar to support the hedge. They indicated that an entity should be allowed to partially dedesignate the hedge until the volume of forecasted transactions can be supported by forecasted transactions with similar risks. One preparer and one industry group stated that the risk no longer considered similar can serve to justify the amortization of cumulative amounts within AOCI associated with the dedesignated portion of the hedge and that amounts recognized in AOCI should remain until the forecasted transactions affect earnings or become probable of not occurring.
18. All but two practitioners largely supported the amendments as proposed. The two practitioners with differing views provided the following feedback:
 - (a) One practitioner encouraged exploring an exception to the proposed guidance that would allow entities to avoid a full dedesignation when one or more hedged risks in a pool of forecasted transactions are no longer similar. This practitioner stated that a full dedesignation, especially when there are enough forecasted transactions

associated with risks that are still similar, may be viewed as punitive in practice and preclude preparers from fully benefitting from the proposed amendments.

- (b) Another practitioner supported permitting partial dedesignation of a hedge in circumstances in which there are insufficient similar forecasted transactions in a pool. (Note: this practitioner supported partial dedesignation as a secondary alternative with its primary suggestion being to eliminate the similar risk assessment requirement.)

Interpretation of the Definition of a Hedged Risk

Proposed Update

- 19. Under the proposed amendments (paragraph 815-20-55-23A) and as stated in paragraph BC21 of the proposed Update, an entity may conclude that the risk exposures in a group of forecasted transactions are deemed similar if the hedging instrument is highly effective against each risk in the group, referred to in practice as a dual-purpose assessment (that is, the same test is used to satisfy the requirements for both similarity and effectiveness). As discussed in paragraph BC22, the dual-purpose assessment is commonly referred to as a “test-to-worst” approach, the premise of which is that if the derivative designated as the hedging instrument is highly effective against the least effective risk in the pool (the identification of which requires judgment that may change over time), it may be considered highly effective against every risk in the pool.
- 20. Proposed paragraphs 815-20-55-99C through 55-99D highlight factors to consider in assessing both effectiveness and similarity of a group of forecasted transactions, specifically stating that differences between the hedged risks and the contractual terms of the hedging instrument related to interest rates, payment dates, reset dates, and interest rate floors should be considered.

Feedback Received

- 21. Because of the dual-purpose testing approach, stakeholders noted that, in practice, entities have included all factors required to be included in effectiveness assessments in similar risk assessments. Therefore, any specifications about what is included as part of the hedged risk for a similar risk assessment could affect the factors considered for effectiveness testing in practice. Any inadvertent amendments to effectiveness testing would be beyond the scope of the proposed amendments.
- 22. Broadly, preparers wanted to exclude certain factors from being considered in the similar risk assessment. One industry group supported excluding specific immaterial factors, stating that the time value associated with the timing of payment, accrual period starting dates, and day-

count conventions are inconsequential to both similar risk and effectiveness assessments. That is, those factors do not affect or influence the results of the quantitative assessments of similar risk or effectiveness over the term of the hedge.

23. A preparer similarly did not support differences in payment dates or rate reset dates being considered as part of the hedged risk in situations in which the cycle of the payments and rate resets remain consistent. This preparer suggested removing the reference to interest rates, payment dates, reset dates, and interest rate floors in proposed paragraphs 815-20-55-99C through 55-99D.
24. However, practitioners generally supported a broader definition for hedged risk that encompasses all factors that potentially could affect the results of an effectiveness assessment. Those practitioners supported explicitly defining attributes that should be considered when assessing the similarity of risks in a pool of forecasted transactions.

Feedback Received—Effect of Out-of-the-Money Floors

25. Two preparers and one consultant emphasized that it is common in practice for entities to have floating rate loans with various out-of-the-money floors in hedged pools. Those respondents requested the ability to assume that all out-of-the-money floors are economically the same for purposes of defining the hedged risk and conducting the dual-purpose test for effectiveness and similarity. This would permit entities to broaden pools without concerns of failing a similarity assessment as a result of different out-of-the-money floors included in the hedge.
26. Most practitioners did not share these same views as preparers, industry groups, and consultants. Instead, those practitioners supported the proposed amendments to Issue 1, which would require that the attributes considered in assessing effectiveness also be considered in assessing similarity. Excluding differences in out-of-the-money floors from being considered for similar risk assessments would effectively exclude those same factors from effectiveness testing as well, which would inadvertently change effectiveness testing in practice.

Qualitative Assessments

Proposed Update

27. In discussing potential qualitative methods for assessing similar risk for hedges of a group of forecasted transactions, the guidance in proposed paragraph 815-20-55-23C for subsequent qualitative assessments of similar risk refers to the guidance in paragraphs 815-20-35-2A through 35-2F. Those paragraphs provide guidance for performing subsequent qualitative

assessments of hedge effectiveness after an initial quantitative hedge effectiveness assessment. For that assessment method, Topic 815 provides implementation guidance in paragraphs 815-20-55-79G through 55-79N. Those paragraphs discuss factors to consider when determining whether qualitative assessments of effectiveness (or similarity in the case of the proposed amendments) can be performed after hedge inception. Paragraph 815-20-55-79G indicates that entities should consider the alignment of the critical terms of the hedging relationship for whether a qualitative assessment of effectiveness or similarity can be performed.

Feedback Received

28. Stakeholders highlighted a need to provide further guidance on the subsequent qualitative similar risk assessment. One industry group suggested defining the critical terms or including examples of terms that are not critical for this assessment. One preparer similarly suggested further explaining factors to consider when determining if a qualitative assessment can be used to support an expectation of similar risk for a group of forecasted transactions.
29. One practitioner supported further highlighting the factors that an entity should consider when determining if it can support an expectation of similar risk qualitatively using the subsequent qualitative test outlined in proposed paragraph 815-20-55-23C.

Allowing a Change in Hedged Risk for an Unforeseen Cessation Event or a Change in Business

Proposed Update

30. The amendments in the proposed Update would supersede the broad change in hedged risk principle included in current GAAP in paragraph 815-30-35-37A. In the proposed Update, that principle would be replaced by a narrow exception-based model to allow a change in hedged risk only for hedges of issued CYR debt instruments (see Issue 2).

Feedback Received

31. Four comment letter respondents—two preparers and two professional associations—requested adding explicit guidance to address interest rate cessation scenarios that would allow entities to remove risks from a pool if that rate is discontinued without affecting the remaining hedging relationship, assuming that there is a sufficient volume of cash flows associated with other similar hedged risks in that pool.

32. The four respondents highlighted that under current guidance entities are required to reclassify amounts out of AOCI into earnings if a rate is discontinued because it is considered a missed forecast even though cash flows continue to occur, albeit, indexed to a new reference rate. Respondents viewed this outcome as punitive and contrary to the economics of the transactions. Similarly, the earnings effect in cessation scenarios is largely disregarded by financial statement users.
33. Of those four respondents, one professional association supported allowing a change in hedged risk when an entity changes its risk management strategies along with if an interest rate cessation scenario occurs. This respondent noted that entities can be economically disincentivized from issuing loans associated with certain rates because of the possibility of a cessation event or a future change in business strategy.
34. Permitting entities to remove risks in a pool associated with a discontinued rate or change in strategy would require expanding the change in hedged risk model beyond the limited exception in Issue 2. To provide relief in interest rate cessation scenarios, entities would need to be permitted to change hedged risks to a rate that was not documented at hedge inception because the cash flows associated with the discontinued rate would no longer be occurring.
35. During further outreach, multiple practitioners and one consultant did not support adding explicit guidance allowing entities to remove risks from a pool upon the cessation of an interest rate or a change in an entity's business strategy. One practitioner stated that it does not see a way to include the requested guidance without expanding the change in hedged risk model beyond CYR debt. This same practitioner also raised concerns about defining what constitutes an interest rate cessation, and indicated that, at this point in time, there is a greater risk of certain derivations of a rate being discontinued than an entire rate itself (for example, SOFR in-advance could be discontinued and replaced by SOFR in-arrears, but it is unlikely that SOFR is discontinued altogether). That firm indicated that with the proposed amendments to the similar risk assessment, entities will be better able to manage the risk of certain derivations of rates being discontinued by grouping similar risks together. One practitioner stated that providing ad hoc relief in situations in which an interest rate cessation occurs would be a more practical solution (not necessarily through standard setting). One practitioner stated that addressing an interest rate cessation scenario as was done through Topic 848, Reference Rate Reform, would be preferable to providing relief through the current project.

Alternatives

36. The Board will consider the following alternatives for Issue 1:

Alternative A1: Provide an Exception to Allow Hedge Accounting to Continue If a Risk in a Hedged Portfolio Becomes Dissimilar

37. Under this alternative, an entity would be able to assume that the first-payments-received in a portfolio hedge of interest rate risk were those of a similar risk. Under that assumption, an entity would first identify all payments received in the period with a similar risk as hedged and would next identify all payments received with a dissimilar risk as hedged. To the extent that there is a sufficient volume of hedged interest payments with similar risks, no dedesignation would be required if a risk in the pool becomes dissimilar. To the extent that there is a sufficient volume of probable interest payments but an insufficient volume of those payments with similar risks, partial dedesignation would be required such that, in the future, only risks that are similar are identified as hedged transactions.

Alternative A2: Do Not Provide an Exception to Allow Hedge Accounting to Continue If a Risk in a Hedged Portfolio Becomes Dissimilar

38. Under this alternative, the proposed amendments would be affirmed.

Issue 2: Hedging Forecasted Interest Payments on Choose-Your-Rate Debt Instruments

39. The proposed amendments would require a narrow application of the change in hedged risk guidance to a specific cash flow hedging strategy, that is, cash flow hedges of forecasted interest payments on variable-rate debt instruments with contractual terms that permit the borrower to change the interest rate index and interest rate tenor (that is, reset frequency) upon which interest is accrued (commonly referred to as CYR debt instruments). The contractual terms of the debt agreement would determine the alternative interest rate indexes and interest rate tenors that an entity may select during the hedging relationship without needing to discontinue hedge accounting. In addition, the proposed amendments would permit entities to use simplified assumptions when assessing hedge effectiveness and the probability of forecasted transactions occurring. Entities would be prohibited from applying this simplified guidance by analogy to other circumstances.

40. The proposed Update included the following question on this issue:

Question 2: Do the proposed amendments clarify and improve the guidance on cash flow hedges of interest payments on choose-your-rate debt instruments? In addition, are the proposed amendments clear and operable? Please explain why or why not. If not, what changes would you suggest?

41. Eighteen stakeholders responded to Question 2. Broadly, those respondents viewed the proposed amendments on hedging forecasted interest payments on CYR debt instruments as being both clear and operable, as well as better aligning the economics of transactions with hedge accounting for corporate entities issuing CYR debt instruments.
42. However, respondents indicated that the proposed amendments would limit the application of the CYR model to a small population of instruments and transactions. While the amendments are operable, stakeholders highlighted issues to address to widen the applicability of the guidance and provide the relief that the Board intended. Stakeholders commented on the following areas, which are discussed individually in the paragraphs below:
 - (a) Hedges of forecasted issuances of CYR-rate debt
 - (b) Considerations related to replacement debt
 - (c) Optional model for CYR debt
 - (d) Prospective assessments of hedge effectiveness
 - (e) Application of the CYR model to assets
 - (f) Interaction of the CYR model with the first-payments-received technique.

Hedges of Forecasted Issuances of CYR Debt

Proposed Update

43. The proposed model for CYR debt relates only to hedges of existing debt instruments and does not contemplate hedges of forecasted issuances of CYR debt. That is, as proposed, paragraph 815-30-35-37C does not permit an entity to apply the CYR debt model when hedging the forecasted issuance of debt unless that debt is considered replacement debt as described in paragraph 815-30-35-37D. If an entity wishes to hedge the forecasted issuance of CYR debt, that entity would need to dedesignate the initial cash flow hedge of the forecasted issuance and then designate a new hedging relationship once the CYR debt is issued, which would then fall into the narrow model as proposed.

Feedback Received

44. Four comment letter respondents highlighted issues related to hedging forecasted issuances of debt when an entity wishes to obtain the benefit of the CYR model following the issuance of CYR debt.

45. Three practitioners and one consultant requested explicit guidance that would allow entities to hedge forecasted issuances of CRY debt as part of the CYR debt model. Under the proposed amendments, there is no guidance for situations in which an entity wants to hedge a forecasted issuance of debt but has not confirmed whether the debt will be fixed rate, variable rate based on a single interest rate, or variable rate CYR. Those respondents noted that if an entity enters into a hedging relationship in the forecast period, the required dedesignation and redesignation to apply the CYR model following the issuance of the debt could limit the utility of the guidance. One of those practitioners stated that dedesignating the forecasted issuance hedge would likely result in an entity having an off-market derivative, which could cause the hedging relationship to fail effectiveness testing if redesignated. Similarly, conducting an effectiveness test with an off-market derivative is more difficult.

Considerations Related to Replacement Debt

Proposed Update

46. The proposed model for CYR debt would encompass a hedge of existing CYR debt or replacement of that debt. The model stipulates that to hedge replacement debt under the CYR model, the maturity date of the replacement debt must be on or after the end of the hedged period in accordance with proposed paragraph 815-30-35-37C(b). In addition, proposed paragraph 815-30-35-37D would require that for the entity to hedge replacement debt without dedesignation, the contractually specified interest rate must match one of the interest rate options included in the CYR debt instrument at hedge inception. The Board's intent behind those requirements was to ensure that the CYR model is directly connected to the terms of the original CYR debt contract. Because it is an exception model, the Board felt that those requirements provided useful structure. As such, to hedge replacement debt, the proposed Update would require that the terms of the original CYR debt contract govern the entirety of the hedged period.

Feedback Received

Maturity Requirement for Replacement Debt

47. Stakeholders largely questioned the maturity date requirement for replacement debt because the requirement is absent in the core hedging model for cash flow hedges of replacement debt.
48. One industry group respondent supported removing proposed paragraph 815-30-35-37C(b), which would permit entities to hedge forecasted interest payments associated with replacement debt if the maturity of the hedging instrument exceeds that of the replacement

CYR debt instrument. This industry group stated that circumstances arise in practice when an entity executes an interest rate hedge after the origination of a debt instrument and the hedge period extends beyond the maturity of the debt. It asserted that in order to qualify for hedge accounting, absent the maturity date requirement, an entity would still be required to demonstrate that forecasted interest cash flows beyond the existing CYR debt instrument are probable of occurring as a condition for qualifying for hedge accounting and that those cash flows will embody economically similar interest rate characteristics as the existing debt. Therefore, the maturity of the replacement debt should not affect the application of hedge accounting.

49. Two practitioners and one consultant provided similar feedback and highlighted concerns about the requirement in paragraph 815-30-35-37C(b). Those practitioners stated that the outcome of a missed forecast in situations in which the maturity date of the replacement CYR debt does not meet or exceed the maturity of the hedging instrument seems inconsistent with the Board's objectives to align hedge accounting with entities' risk management strategies. Similarly, the consultant emphasized that in practice it is not uncommon for entities to hedge beyond the maturity of existing debt.
50. One practitioner respondent noted that the concept of replacement debt in relation to the CYR debt model is not defined. That practitioner stated that there are diverse interpretations of replacement debt in practice and that the proposed amendments could be improved by providing additional clarification about the replacement debt definition.

Selection of Interest Rate Indexes in Replacement Debt

51. One industry group commented that because the CYR debt guidance is meant to be a narrow-scope exception from the guidance in Topic 815, it is unclear why the addition of a new interest rate index to a replacement CYR debt instrument would require immediate cessation of hedge accounting and reclassification of hedge gains or losses from AOCI to earnings if the replacement debt instrument includes an interest rate option that was identified at inception of the hedge accounting relationship and interest cash flows remain probable of occurring based on one or more interest rates identified at inception of the hedge relationship. For example, it is possible that market practice may evolve between the origination of the existing debt and any replacement debt such that a new type of interest rate option is added to address regulatory or loan market changes.

Optional Model for CYR Debt

Proposed Update

52. As proposed, the CYR debt model would be mandatory for entities that issue and apply hedge accounting to single choose-your-rate debt instruments (that is, not CYR debt instruments included in portfolio hedges designated under the first-payments-received technique).

Feedback Received

53. One practitioner stated that the proposed guidance for CYR debt should be optional. This practitioner highlighted that it is unclear whether an entity can, and how that entity would, enter the CYR model following the hedged forecasted period upon the issuance of CYR and then again if the CYR debt is replaced with debt containing a single contractual rate. That is, there is a lack of clarity on transitioning between the core hedge accounting model and the CYR debt specific guidance (and vice versa).
54. Similarly, the proposed model creates limitations that are not present in standard cash flow hedge accounting guidance related to hedging forecasted issuances of CYR debt and replacement debt. As such, this practitioner noted that entities should have the ability to opt-out of the new model for CYR debt instruments and be able to continue applying current GAAP to cash flow hedges if it provides a better outcome and results in an operably easier hedge accounting program.
55. In further outreach, other practitioners did not object to making the CYR model optional given the potential difficulties in applying the model to forecasted issuances and replacement of CYR debt.
56. Making the CYR model optional also would alleviate concerns that one practitioner had regarding swaps with embedded optionality or CYR swaps. In the guidance as proposed, an entity may be precluded from achieving hedge accounting if a CYR debt instrument is hedged with a CYR swap. This is because an entity must disregard any optionality created by the various interest rate options in the debt instrument for purposes of conducting the effectiveness assessment, but the optionality must be considered in the swap. Despite a perfect economic offset, the hedging relationship may fail an effectiveness assessment. However, further outreach conducted with practitioners and a consultant highlighted that those derivative instruments are not currently utilized in practice because the high cost would outweigh the benefits of matching the optionality in the CYR debt.

Prospective Assessments of Hedge Effectiveness

Proposed Update

57. Proposed paragraph 815-30-35-37F provides guidance on conducting the prospective assessment of hedge effectiveness when a new contractually specified interest rate included in a CYR debt instrument is selected. To perform the prospective assessment, an entity estimates changes in cash flows associated with the newly selected interest rate using the method designated at hedge inception based on market data as of hedge inception.

Feedback Received

58. One industry group respondent suggested amending the guidance in paragraph 815-30-35-37F to allow the prospective assessment of hedge effectiveness in the CYR model to be conducted considering both the newly selected interest rate as well as any previous interest rates actually selected throughout the life of the hedge. In that scenario, an effectiveness assessment would consider the cash flows associated with the CYR debt before the change in interest rate index as well as those after the change in index.
59. In further outreach, multiple practitioners and one consultant did not support this “blended approach” for conducting the prospective effectiveness assessment. Using a blended approach could result in a previously selected interest rate with a long history of effectiveness compensating for a newly selected rate that is ineffective because the previous effective cash flows would carry a much larger weight in the effectiveness assessment. Entities would be able to predict when a hedging relationship under the CYR model would become ineffective based on calculating when the cash flows associated with the new, ineffective rate would dominate the prospective effectiveness test and overcome the effectiveness provided by the past effective cash flows.

Application of the CYR Model to Assets

Proposed Update

60. In accordance with proposed paragraph 815-30-35-37C(a), the forecasted interest payments designated as being hedged under the CYR model must “relate to an existing choose-your-rate debt instrument accounted for as a liability.”

Feedback Received

61. One practitioner, two preparers, and one professional association commented on the applicability of the CYR model to assets. The two preparers and the professional association requested expanding the application of the CYR model to assets (that is, the model should be able to be applied by lenders of CYR debt instruments). The practitioner, however, stated that if the Board's intent was to preclude the application of the CYR model to assets, the guidance should explicitly state that the model cannot be applied to assets to avoid confusion in practice.

Interaction of the CYR with the First-Payments-Received Technique

Proposed Update

62. The first-payments-received technique in a cash flow hedge of interest rate risk allows an entity to identify the hedged forecasted transactions as the first interest payments received based on the contractually specified interest rate. As stated in paragraph BC41 of the proposed Update, because the elements of the CYR model have been tailored to the features of variable-rate debt instruments that permit a borrower to select at each reset period the interest rate index (including the tenor of the interest rate, if applicable) from a contractually specified list upon which interest is accrued (that is, CYR debt), the model should not be applied by analogy to other hedging relationships, including relationships in which forecasted transactions are identified in accordance with the first-payments-received technique.
63. The proposed transition provisions in paragraph 815-20-65-7(d)(4) would permit entities to prospectively apply the CYR model to an individual existing CYR debt instrument (and replacement debt instrument) and cease including them in a hedge of a group of forecasted transactions under the first-payments-received technique.

Feedback Received

64. Three comment letter respondents recommended clarifying the CYR guidance as it relates to the application of the first-payments-received technique for a hedge of a group of forecasted transactions related to a pool of loans. One practitioner noted that it interprets the guidance in proposed paragraph 815-20-65-7(d)(4) to mean that the CYR model can be applied only to a choose-your-rate debt instrument that is not designated as a hedged item in a first-payments-received/paid hedge. This practitioner and one professional association supported including examples of documentation for first-payments hedging strategies that either include or exclude CYR debt instruments. Similarly, both this practitioner and one

preparer recommended expressly permitting CYR debt instruments be included in groups of transactions hedged under the first-payments-received technique.

Alternatives

65. The Board will consider Alternatives B1 and B2 related to hedging the forecasted issuance of debt, and Alternatives C1 and C2 related to hedging replacement debt.

Alternative B1: Make the CYR Debt Hedge Accounting Model Optional and Allow Hedge Accounting to Continue Once the CYR Debt Is Issued

66. Under this alternative, entities hedging the forecasted issuance of CYR debt that would like to continue to apply hedge accounting when the debt is issued would be allowed to do so without dedesignating and redesignating the hedge. To be afforded that flexibility, an entity would need to document the interest rates that it expects to be included in its CYR debt when issued based on the customary terms of CYR debt available in the marketplace. At hedge inception an entity would look to the terms of CYR debt currently being offered in the market and document the rates commonly available in those agreements. An entity would then assert that it is probable that it will pay interest at one of the rates documented over the hedge period.

Alternative B2: Make the CYR Debt Hedge Accounting Model Optional and Do Not Allow Hedge Accounting to Continue Once the CYR Debt Is Issued

67. This alternative would preserve the guidance in the proposed Update with the exception that the application of the CYR debt hedging model would be optional. Under this alternative, if an entity was hedging the forecasted issuance of CYR debt and would like to apply the CYR hedging model to that debt once issued, hedge accounting would need to be discontinued when the debt was issued. In contrast to the proposal, this alternative would provide an entity with an option to either (a) dedesignate the hedge and change to the CYR debt hedging model when the debt is issued or (b) continue to apply the same hedge accounting model when the CYR debt is issued (and not change to the CYR debt hedging model).

Alternative C1: Allow Hedge Accounting to Continue If an Entity Hedges CYR Debt and Replacement Debt and the Replacement Debt Matures Before the End of the Hedge Period

68. Under this alternative, entities hedging CYR debt would be able to continue to apply hedge accounting if the debt is replaced by debt that has a contractual maturity date before the end of the hedge period if it is probable that both (a) the interest rate paid on the replacement debt is one of the options included in the original CYR debt instrument designated as hedged

at inception (same criterion as was in the proposed Update) and (b) replacement debt will be outstanding during the full term of the hedge period.

Alternative C2: Do Not Allow Hedge Accounting to Continue If an Entity Hedges CYR Debt and Replacement Debt and the Replacement Debt Matures Before the End of the Hedge Period

69. This alternative would preserve the guidance in the proposed Update, with the exception that the application of the CYR debt hedging model would be optional. Under this alternative, if an entity wanted to hedge CYR debt (and its replacement) and the replacement debt had a contractual maturity date before the end of the hedge period, hedge accounting would need to be discontinued when the replacement debt was issued.

Issue 3: Cash Flow Hedges of Nonfinancial Forecasted Transactions

Proposed Update

70. The proposed amendments would expand hedge accounting for forecasted purchases and sales of nonfinancial assets. Entities would be permitted to designate variable price components of the forecasted purchase or sale of a nonfinancial asset that meet the clearly-and-closely-related criteria within the normal purchases and normal sales scope exception. Relative to current GAAP, which limits designation of nonfinancial components to those that are contractually specified, a model based on the clearly-and-closely-related criteria would permit hedge accounting for eligible components of forecasted spot-market transactions and subcomponents of explicitly referenced components in an agreement's pricing formula. As such, the proposed amendments would remove the hedge accounting limitation placed on entities depending on whether the nonfinancial purchase or sale occurs in the spot or forward market.
71. The proposed Update included the following question on this issue:

Question 3: Do the proposed amendments clarify and improve the guidance on cash flow hedges of nonfinancial forecasted transactions? In addition, are the proposed amendments, including those that require the application of the clearly-and-closely-related assessment, clear and operable? Please explain why or why not. If not, what changes would you suggest?

Feedback Received

72. All 13 stakeholders that responded to Question 3 supported the proposed amendments. Specifically, respondents supported the increased ability to hedge nonfinancial spot market transactions as a result of the proposed amendments incorporating the clearly-and-closely-related criteria into the cash flow hedge accounting model for nonfinancial forecasted transactions. One consultant highlighted that under current GAAP based on the contractually

specified component model, spot market purchases in nonfinancial markets are very difficult to designate as hedged transactions. As stated by this consultant, the clearly-and-closely-related framework under the normal purchases and the normal sales scope exception is well understood in practice and will assist in alleviating difficulties in applying hedge accounting for transactions conducted in the spot market.

73. Many of the preparer stakeholders that submitted comment letters do not apply hedge accounting to forecasted transactions of nonfinancial assets and, therefore, did not comment on Issue 3. Those preparers supported the general direction of the proposed amendments to expand an entity's ability to apply hedge accounting and reduce the risk of not obtaining hedge accounting for highly effective economic hedges.
74. To further improve the operability of the proposed guidance, one consultant and two practitioners recommended adding an example that illustrates less straightforward scenarios and the application of the guidance in those circumstances. The proposed amendments consist of (a) examples whereby the hedged component could be determined to be clearly and closely related qualitatively and (b) circumstances whereby more judgment is required to arrive at a conclusion of whether the components are clearly and closely related could lead to diversity in practice absent an illustrative example. One of the practitioners also recommended providing a clear explanation on how to conduct the clearly-and-closely-related assessment.
75. In further outreach, multiple practitioners stated that providing further examples or clarification on the clearly-and-closely related guidance as it pertains to Issue 3 could change the application of the guidance in practice in relation to determining which transactions qualify for the clearly-and-closely-related derivative scope exception. These practitioners expressed concerns that further amendments to Issue 3 could affect the determination of whether transactions in practice qualify for the normal-purchases-normal-sales derivative scope exception, which would have broader implications than expanding component hedging for nonfinancial transactions because the derivative scope exception is more widely applied than nonfinancial component hedging.
76. The proposed Update also sought to clarify the accounting for hedging nonfinancial components in contracts accounted for as derivatives. As a result, the amendments would explicitly allow an entity to designate a variable price component in a forecasted purchase or sale of a nonfinancial asset under a contract that is accounted for as a derivative as the hedged risk in a cash flow hedge (paragraph 815-20-25-15(e)). As stated in paragraph 72 above, comment letter respondents broadly supported the amendments in Issue 3, and two practitioners specifically supported the clarification to paragraph 815-20-25-15(e). One

practitioner stated that limiting the ability to hedge a variable price component in these situations is overly restrictive and inconsistent with entities' risk management strategies.

Issue 4: Net Written Options as Hedging Instruments

77. The proposed amendments would permit certain compound derivatives comprising a written option and a non-option derivative (for example, an interest rate swap with a written cap or floor) to qualify for designation as a hedging instrument in a cash flow hedge by adjusting the eligibility criteria for when a NWO may be designated as a hedging instrument. The proposed amendments are intended to accommodate differences in the loan and swap markets that exist as a result of the cessation of LIBOR for hedging relationships involving a variable-rate loan with an interest rate floor hedged by an interest rate swap that contains a mirror-image interest rate floor.
78. The proposed amendments would permit an entity to assume that certain terms of the hedged forecasted transactions match those of the hedging instrument for purposes of applying the NWO test. As proposed, the guidance in paragraph 815-20-25-88(a) through (c) would allow an entity to make simplifying assumptions for the application of the NWO test for a cash flow hedge of interest rate risk in which the hedging instrument is a combination of a written option and any other non-option derivative instrument. An entity may assume that the interest rate embedded within the hedged forecasted transaction and the interest rate in the hedging instrument match if they are based on derivations of the same index and that the reset and settlement dates match if they occur within the same 31-day period or fiscal month.
79. The proposed Update included the following question on this issue:
- Question 4: Do the proposed amendments improve the guidance on net written options as hedging instruments? Please explain why or why not. If not, what changes would you suggest? In addition, the Board rejected an alternative to the proposed amendments related to the net written option test in paragraph 815-20-25-88 that would have removed the test from Topic 815 (see paragraph BC81). Do you have any views on the alternative rejected by the Board and whether it would be more operable, be less complex, and provide more decision-useful information compared with the proposed amendments?*
80. Eighteen stakeholders responded to Question 4. Broadly, respondents supported addressing the issues faced in practice with the application of the NWO test in a post-LIBOR environment. While the proposed amendments were designed to address targeted issues stemming from LIBOR cessation, many stakeholders commented that the proposed amendments would not have a widespread effect on practice because of the applicability to only certain fact patterns, noting that combinations of written and purchased options and written options coupled with non-option derivatives could still be precluded from achieving hedge accounting under the NWO test. Similarly, limiting the window for the settlement and reset of the hedging instrument and the expected occurrence of the hedged forecasted

transaction to the same 31-day period or fiscal month would exclude instruments with settlement windows exceeding 1 month from receiving the intended relief.

81. In the proposed Update, stakeholders were explicitly asked whether they had any views on the alternative rejected by the Board (explained in paragraph BC81 of the proposed Update), which would remove the NWO test from Topic 815 in its entirety and whether it would be more operable, be less complex, and provide more decision-useful information compared with the proposed amendments.
82. Comment letter respondents proposed a variety of alternatives for the Board to consider in relation to the NWO test, listed below:
 - (a) Eliminate the NWO test (discussed in paragraph BC81 of the proposed Update)
 - (b) Narrow the application of the NWO option test (discussed in paragraph BC82 of the proposed Update)
 - (c) Modify how the NWO test is conducted
 - (d) Expand the assumptions that the hedged forecasted transaction's and the hedging instrument's reset and settlement dates match if they are expected to be within the same 181-day period
 - (e) Expand the scope of the proposed amendments to combinations of options
 - (f) No changes to the proposed amendments.
 - (g) Other feedback on the NWO test.
83. Each of these is discussed individually in the paragraphs below.

Eliminate the NWO Test (Discussed in Paragraph BC81 of the Proposed Update)

Proposed Update

84. The alternative discussed in paragraph BC81 would permit certain instruments to be used in hedging relationships that were previously precluded from achieving hedge accounting by the NWO test. Paragraph BC 81 states the following:

BC81. The Board considered, but rejected, an alternative that would have removed the net written option test from Topic 815. Some stakeholders noted that the test may not be necessary given that current guidance requires hedging relationships to be highly effective and that the test limits application of hedge accounting for certain risk management activities, thereby not reflecting the economics of those hedges. For example, although Daily SOFR and SOFR Term are derived from the same index and move in tandem (albeit, with a timing lag), the fact that those rates

are not identical automatically precludes hedge accounting for what may otherwise be considered a highly effective economic hedging strategy. In addition, some stakeholders noted that eliminating the net written option test could reduce the cost burden associated with hedging using option contracts and could increase the application of hedge accounting for common highly effective hedging strategies.

Feedback Received

85. Respondents' views varied on whether the alternative would be more operable and provide better, more decision-useful information than the amendments as proposed. Three of the four preparers, all industry groups, and two professional associations that responded to Question 4 supported the proposed amendments as a way to resolve issues in practice that resulted from LIBOR cessation. Those respondents further supported the alternative proposed in paragraph BC81 as a means of further allowing highly effective economic hedges to achieve hedge accounting. One consultant only expressed support for the alternative proposed in paragraph BC81. The respondents stated that effectiveness testing is a sufficient guardrail to prevent entities from achieving hedge accounting for written options that are not intended to mitigate risk. Even without the NWO test, an entity using written options as a hedging strategy will have to show that the instrument is effective at offsetting cash flows associated with the hedged risk.
86. One preparer and an industry group noted that receiving an upfront cash premium from writing an option should not preclude an entity from applying hedge accounting in scenarios in which that entity can demonstrate that the hedging relationship is highly effective and that it is effectively managing the hedged risk. In conjunction with removing the NWO test, those stakeholders proposed that the Board could explicitly prohibit specific strategies involving a NWO from obtaining hedge accounting if the Board believes that certain strategies should not qualify. The potential concern that certain transactions that were previously precluded from achieving hedge accounting because of the NWO test would now be able to qualify could be eliminated by expressly prohibiting those transactions from achieving hedge accounting.
87. These same respondents noted that because of the complexity of applying the quantitative NWO test, entities in practice may choose to forego hedge accounting rather than incur the cost of applying this guidance. That is, the benefit of achieving hedge accounting for those instruments is outweighed by the costs of applying the test, and, therefore, highly effective hedges are effectively precluded from achieving hedge accounting.

88. Similarly, two preparers, one consultant, and one professional association provided descriptions on how effectiveness testing sufficiently prevents abuse from written options achieving hedge accounting when an entity's intention is to sell the gain potential of an asset while retaining all the downside risk. Specifically, the professional association stated that:

In hedge effectiveness testing under ASC 815-20-25-79(a) all reasonably possible changes in fair values or cash flows must be considered. This requirement effectively reduces the use of net written options to limited circumstances that would generally pass the net written option test. As a result, strategies that would involve asymmetry of the gain and loss potential of the combined hedged position when using options or combinations of options would not qualify for hedge accounting.

89. Furthermore, one consultant noted no incremental benefits that the NWO test provides beyond those of effectiveness testing. In the hypothetical derivative method for testing effectiveness when the derivative is compared with a hypothetical derivative that represents the exposure within the hedged transactions, this consultant stated that:

Extraneous elements in the derivative that would serve to increase risk are not present in the exposure by definition and would not be reflected in the hypothetical derivative. If those extraneous elements are meaningful, they will cause the effectiveness assessment to fail.

90. In relation to conducting the NWO test, the same consultant stated that a quantitative test is not routinely performed for interest rate swaps with embedded, written floors. The guidance as proposed, therefore, would require that an entity apply the NWO test in situations in which it has not been required by auditors in practice.
91. While most preparers supported the alternative proposed in paragraph BC81 as a way of improving the operability and expanding the applicability of the amendments in Issue 4, of those who responded to Question 4, all practitioners, one preparer, and one consultant did not support eliminating the NWO test.
92. Some practitioners noted that there are incremental benefits provided by the NWO test in prohibiting certain transactions from qualifying for hedge accounting. One practitioner specifically highlighted that certain transactions consisting solely of freestanding written options as the hedging instrument (such as when an entity owns an equity security and writes a call option on that security) should not qualify for hedge accounting. In that case, the NWO test provides the necessary barrier preventing this transaction from qualifying for hedge accounting. The other two practitioners supported the Board's reasoning for keeping the NWO test as explained in paragraph BC83 of the proposed Update.

93. One practitioner cited the basis for conclusions in FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, for keeping the NWO test. This practitioner noted concerns about written options being designated as hedging instruments because they allow entities to receive an upfront cash premium while reducing the potential for gains with an unlimited potential for losses. This practitioner supported the NWO test to guard against entities achieving hedge accounting for transactions intended to monetize an asset's or liability's gain potential in the form of the upfront cash premium received upon selling an option. This practitioner referenced the Board's specific mention of covered call and collar strategies being precluded from hedge accounting by the NWO test in Statement 133.
94. While supportive of keeping the NWO test, this practitioner noted that if the Board were to eliminate the test, it should consider the instruments that should be eligible to be designated as hedging instruments. Specifically, the Board should consider whether standalone written options should be eligible. Without the NWO test, standalone written options could qualify for hedge accounting while solely exposing an entity to a greater degree of risk. Similarly, this practitioner emphasized that the concern surrounding written options is less significant in situations in which written options are combined with a non-option derivative.
95. Other practitioners stated that there could be unintended consequences if the NWO test is removed from Topic 815. Neither practitioner stated what those consequences may be or what strategies could potentially qualify for hedge accounting with the removal of the test that otherwise should not qualify.
96. Although supportive of considering changes to the NWO test as a part of a future standard-setting initiative, one practitioner stated that any amendments to the NWO test beyond what was proposed should be avoided in an effort to issue a final Update in a timely fashion.

Narrow the Application of the NWO Test (Discussed in Paragraph BC82 of the Proposed Update)

Proposed Update

97. The alternative discussed in paragraph BC82 would eliminate the requirement to apply the NWO test for a specific subset of hedging instruments (compound hedging instruments made up of a written option and any other non-option derivative instrument). Paragraph BC82 states the following:

BC82. The Board also considered, but rejected, another alternative that would have changed the scope of the net written option test by removing the requirement that compound hedging instruments made up of a written option and any other non-option derivative instrument (for example, an interest rate swap) are presumed to be a net written option. This would have addressed situations in which an interest rate swap with a written option is designated as a hedge of a loan with the same embedded purchased option, where the addition of the written option to the interest rate swap results in a better economic hedge but would cause the strategy to fail the net written option test. This alternative would have addressed many of the same concerns as removing the net written option test altogether but would have taken a more targeted approach by excluding a particular compound instrument from the test to address the most common circumstance creating unintuitive outcomes under current GAAP.

Feedback Received

98. Although not supportive of removing the NWO test, one practitioner and one preparer stated that the proposed amendments would not address all potential issues with the application of the test in practice. They stated that the scope of the amendments is too narrow to alleviate concerns for financial institutions that issue variable-rate debt with embedded caps or floors. As such, those respondents supported the alternative referenced in paragraph BC82 of the proposed Update to remove the requirement that compound hedging instruments comprising a written option and any other non-option derivative instrument are presumed to be a NWO.
99. In outreach, one practitioner stated that the alternative referenced in paragraph BC82 could be considered, but that there could be confusion related to what constitutes a “non-option” derivative. This practitioner highlighted that non-option derivatives can be deconstructed into a combination of purchased options and written options in the same way that a forward contract can be broken down into a written call and a purchased put with the same strike price. This practitioner expressed concerns about certain foreign exchange forward strategies being eligible to bypass the NWO test. This practitioner suggested that if the approach in paragraph BC82 is taken, it should be limited to interest rate risk hedges, particularly hedges involving swaps in which one underlying is interest rate risk. This practitioner also highlighted concerns that an entity could structure a transaction whereby the notional of the non-option derivative is inconsequential compared with the notional of the written option derivative, yet the instrument would still bypass the NWO test. As such, this practitioner supported requiring the notionals of the written option and non-option component to match if the alternative proposed in paragraph BC82 were to be further considered.
100. One practitioner stated that in certain circumstances a hedging instrument could be made more effective if it contained an embedded written floor that mirrored a floor associated with interest being received. However, including the written floor in a swap would require the

application of the written option test, which in turn could prohibit hedge accounting despite the hedge being more effective. The alternative in paragraph BC82 would allow hedge accounting to continue assuming that the hedging relationship is highly effective.

101. One consultant stated that it would support the alternative referenced in paragraph BC82 if eliminating the NWO test is not currently plausible. This consultant emphasized that a common hedging strategy in practice involves hedging a pool of loan assets with an interest rate swap. The loans in the pool could have a variety of floors, and the current NWO test would limit the variety of floors that can be included into a single pool. Similarly, one practitioner echoed this sentiment in stating that the proposed amendments do not provide relief for entities in situations in which the strike prices of the caps and floors embedded within the loans in a pool do not match.

Replace the Written Option Test with a Different Test

102. One practitioner stated that additional improvements are needed to address issues with the NWO test more broadly and had multiple suggestions for how to improve the test. One suggested approach is to replace the existing test with a provision that would permit hedge accounting for a strategy involving a NWO only in certain circumstances when the item being hedged contains significant optionality. The reasoning is that those hedges are made more highly effective by the inclusion of a written option, and two examples were specifically cited. First, the fair value of a fixed-rate debt agreement that is callable by the issuer may not have significant exposure to declines in interest rates because the issuer could call the instrument and issue new debt at current market rates; in those situations, derivatives with embedded options (including written options) often serve as the most economically effective hedge. Second, interest rate swaps with caps and/or floors often are more economically effective at hedging variable interest rate instruments with embedded caps and floors. In line with this suggestion, transactions solely involving written options when the hedged item does not contain significant optionality should not qualify for hedge accounting; an example of this is when an entity owns an equity security and writes a call option on that equity security. This approach would require developing guidance to identify when the hedged item includes a substantive purchased option.
103. A second suggested approach would be a different way to assess whether the underlyings match for purposes of performing the NWO test. The suggestion is to assess whether the underlying of the derivative is highly effective at hedging the designated hedged risk in a non-option based hedge; if so, then an entity could assume the underlyings match for the purposes of performing the NWO test. The practitioner stated that this suggestion could be used in conjunction with or as an alternative to its proposal not to require the application of

the NWO test when the hedged item has significant optionality, as discussed in the previous paragraph. The practitioner noted that the advantage of this alternative is that it could go beyond interest rate risk hedges.

104. This same practitioner also stated that another alternative model could be developed whereby the application of the NWO test for hedging instruments with written option and non-written option components would not be required if the written option components are not the predominant risk of the hedging instruments. This alternative would be similar to the alternative proposed in paragraph BC82 but would be broader; for example, under this alternative certain collar strategies could qualify for relief from the NWO test.

Expand the Assumptions That the Hedged Forecasted Transaction's and the Hedging Instrument's Reset and Settlement Dates Match If They Are Expected to Be in the Same 181-Day Period

105. One preparer and one industry group recommended that if eliminating the NWO test is not currently possible, the Board should modify the assumptions in proposed paragraph 815-20-25-88(b) and (c)² so that the hedged forecasted transaction's and the hedging instrument's reset and settlement dates could be assumed to match if they occur within the same 181-day period. Those respondents noted that, in practice, there are common hedging strategies whereby the coupon payments on swaps and loans settle and reset quarterly or semiannually, and those strategies would be precluded from hedge accounting because of the NWO test.
106. One practitioner recommended the above as its preferred approach to improve the operability and reduce the operational burden of the NWO test.

Expand the Scope of the Proposed Amendments to Combinations of Options

107. If eliminating the NWO test is not possible at this time, one industry group and one professional association supported extending the relief in paragraph 815-20-25-88(a)³ to hedging instruments that are a combination of options. The industry group and professional association requested that the Board extend the application of proposed paragraph 815-20-25-88(a) to paragraph 815-20-25-89(b)⁴ such that when entities enter into combined options strategies whereby the strike prices and notional amounts remain constant, the entity may

² The proposed relief provisions in these paragraphs would permit the hedged forecasted transaction's and the hedging instrument's reset and/or settlement dates to be assumed to match if they occur within the same 31-day period.

³ The proposed relief provision in this paragraph would allow an entity to assume the underlying interest rate embedded within the hedged forecasted transaction matches the interest rate in the hedging instrument if that interest rate is a derivation of the same non-leveraged index (Daily SOFR and SOFR Term).

⁴ Paragraph 815-29-25-89 provides qualitative guidance for assessing whether the interest rates are the same to determine whether a combination of options can be considered a net purchased option or zero cost collar (and therefore not subject to the NWO assessment). Paragraph 815-20-25-89(b) requires that the components of the combination of options are based on the same underlying.

assume that the underlying rates in the options are the same if they are indexed to closely related benchmarks, for example, the SOFR Overnight Index Swap rate (OIS) and Term SOFR. This would allow entities to avoid preclusion from hedge accounting for option strategies due to minor differences in the indexes underlying the options that would be combined to form the hedging instrument, assuming hedge effectiveness is satisfied.

No Changes to the Proposed Amendments

108. Four practitioners and one consultant supported the proposed amendments. They viewed the proposed amendments as both clear and operable and noted that they resolved the issues that emerged after LIBOR cessation in relation to the NWO test and hedging strategies involving a compound derivative comprising a written option and any other non-option derivative.

Other Feedback on the NWO Test

109. In further outreach, one practitioner highlighted a fact pattern under which fixed-rate debt offerings have been issued with par calls (embedded purchased call options) and the debt is hedged with an interest rate swap that has a mirror image call option (a written option from the perspective of the issuer). In this scenario, the swap is indexed to Term SOFR because the issuer is using the swap as an economic hedge of Term SOFR-based assets that the debt is being used to fund (most swaps are typically based on SOFR-OIS). Because the hedge is a fair value hedge, a benchmark rate must be designated as the hedged risk, which is SOFR-OIS because Term SOFR is not an allowable benchmark rate under Topic 815. Therefore, the transaction fails the NWO test because of the differences between SOFR-OIS and Term SOFR rates.

110. To provide relief for the above fair value hedging fact pattern, four practitioners indicated in further outreach that they support expanding the NWO test relief provided by the proposed amendments to fair value hedges.⁵

Alternatives

111. The Board will consider the following alternatives in Issue 4:

⁵ This issue exists because Term SOFR is not a benchmark rate available for designation in a fair value hedge under Topic 815. For example, if a Term SOFR swap that is cancelable is designated as a hedge of fixed-rate callable debt at par, there will be an inherent mismatch between the benchmark rate (SOFR-OIS) designated by the entity hedging the debt and the swap rate, resulting in a mismatch in rates that would generally not pass the NWO test.

Alternative E1: Remove the Presumption That a Compound Hedging Instrument Made Up of a Swap and a Written Option Is a NWO in Both Cash Flow and Fair Value Hedges of Interest Rate Risk

112. This alternative would remove the requirement to perform the NWO test for interest rate risk hedges with a compound swap and option hedging instrument.

Alternative E2: For Cash Flow Hedges, Expand the Assumptions Such That the Hedged Forecasted Transaction's and the Hedging Instrument's Reset and/or Settlement Dates Match If They Are Expected to Be in the Same 181-Day Period. For Fair Value Hedges, Assume That the Benchmark Rate Matches the Hedging Instrument's Index

113. This alternative preserves the premise that the NWO test should be performed for all hedges that include NWOs but modifies the test to exclude certain mismatches that exist between the hedged forecasted transaction and hedging instrument because of post-LIBOR cessation market mechanics. For cash flow hedges, it would allow an entity to assume that a forecasted transaction's and hedging instrument's reset and settlement dates match if they fall within the same 181-day period. For fair value hedges, this alternative would allow an entity to assume that the benchmark interest rate designated matches the interest rate in the hedging instrument for the purposes of performing the NWO test if both interest rates are derivations of the same index.

Issue 5: Foreign-Currency-Denominated Debt Instrument as Hedging Instrument and Hedged Item (Dual Hedge)

114. The proposed amendments would eliminate the recognition and presentation mismatch related to a dual hedge strategy (that is, a hedge for which a foreign-currency-denominated debt instrument is both designated as the hedging instrument in a net investment hedge and designated as the hedged item in a fair value hedge of interest rate risk). As such, the proposed amendments would improve GAAP by enabling entities that utilize dual hedging strategies to reflect the economic offset of changes attributable to both interest rate risk and foreign exchange risk.

115. The proposed Update included the following question on this issue:

Question 5: Do the proposed amendments improve the guidance on a foreign-currency-denominated debt instrument that is used as the hedging instrument and hedged item (commonly referred to as a "dual hedge")? In addition, are the proposed amendments on dual hedges clear and operable? Please explain why or why not. If not, what changes would you suggest?

116. Of the 15 comment letter respondents that provided an answer to Question 5, all supported the proposed amendments.

117. However, one practitioner requested the addition of an example to help illustrate the application of the proposed guidance.

Other Feedback

118. Comment letter respondents highlighted a variety of areas outside the scope of the proposed amendments to address as part of this project or as a future standard-setting initiative.
119. Relating to the current proposed Update, respondents highlighted a variety of issues with *Example 9: Changes in a Cash Flow Hedge of Forecasted Interest Payments with an Interest Rate Swap*, that do not pertain to the CYR debt model (despite the amendments to the example included under Issue 2 in the proposed Update), and, as such, that feedback has been included in this section.
120. Some comment letter respondents provided other feedback for future standard setting. This feedback came from one preparer, one practitioner, and two industry groups.

Example 9: Changes in a Cash Flow Hedge of Forecasted Interest Payments with an Interest Rate Swap

Proposed Update

121. In the proposed Update, *Example 9: Changes in a Cash Flow Hedge of Forecasted Interest Payments with an Interest Rate Swap*, was amended to remove reference to change in hedged risk guidance from the example as well as amend other inconsistencies that emerged due to LIBOR cessation. The proposed amendments were positioned under Issue 2 as it related to change in hedged risk; however, the amendments do not pertain to the CYR debt model.

Feedback Received

122. Despite the limited scope of the proposed amendments, stakeholders submitted feedback on all aspects of the example, and this feedback ranged from respondents requesting that the Board eliminate Case B of Example 9 to others supporting an expansion of the example's application to other areas of hedge accounting. Some practitioners and consultants utilize the example when assisting clients with hedge documentation, while other practitioners believe that the example can apply only to limited fact patterns and currently is misinterpreted in practice.
123. While recommendations varied, three practitioners requested specific amendments to Example 9. One of those practitioners raised concerns that the example creates diversity in practice because the example relies on the assumption that the entity has only one borrowing

program and one outstanding debt arrangement. The guidance does not explicitly state that the assumption is critical, yet this practitioner asserted that it is a critical assumption. That results in entities analogizing to the example when they should not be able to apply that guidance (that is, when entities have more than one borrowing program or outstanding debt arrangement). To alleviate this issue, this practitioner recommended narrowing the scope of the example by explicitly stating that the example is applicable only to those entities with a single borrowing program and one outstanding debt arrangement, which would effectively limit the application of the example to circumstances that rarely occur in practice.

124. Furthermore, another practitioner encouraged eliminating Example 9, Case B from Topic 815. This respondent noted that the proposed amendments would permit an entity to continue applying hedge accounting when a hedged risk changes and the hedged item is not a CYR debt instrument. Permitting this change in hedged risk would contradict the goal of limiting the ability for an entity to change hedged risk solely to the CYR debt model. However, this practitioner highlighted the importance of Case A, Example 9 because there is some existing practice based on Case A for the discontinuation of hedging relationships.
125. One practitioner supported keeping Example 9 in Topic 815, yet identified targeted changes that would make the example more consistent with its original purpose in a post-LIBOR environment. In further outreach, one practitioner stated that it supports eliminating the reference to a contractually specified component in a hedge of a forecasted issuance of fixed-rate debt.
126. One consultant stated that entities utilize the fact pattern in Example 9, Case A to determine the accounting when a hedged exposure has changed from a floating rate to a fixed rate, assuming that interest continues to be recognized over the life of the hedging relationship. This consultant recommended expanding the application of Example 9 because the example “would be more appropriate to determine whether hedge accounting can continue and whether the amount recognized in AOCI should be released to earnings” for a broader set of transactions and circumstances.

Other Feedback

127. One respondent broadly highlighted the burden that cooperatives in the commodities industry face to document hedge effectiveness and comply with a variety of hedge accounting requirements. As such, this preparer requested a simplified approach for effectiveness testing that better reflects the operations of cooperatives when hedging commodities. This respondent also supported reducing the complexity and volume of the documentation that is required to achieve hedge accounting along with increasing the flexibility of hedge accounting to expand the population of transactions eligible for hedge accounting.

128. An industry group highlighted how the proposed amendments will not eliminate the limitations that entities in the insurance industry face in achieving hedge accounting for the interest rate risk associated with forecasted bond purchases. As such, this industry group requested more research into providing the insurance industry with tools to achieve hedge accounting. This industry group further supported the Board's initiatives related to a potential project surrounding the expansion of the portfolio layer method to liabilities.
129. Another industry group provided a detailed appendix to its comment letter providing a summary of other hedge accounting opportunities for the Board to consider that would further align hedge accounting with entities' risk management strategies. The appendix consists of opportunities related to allowing more eligible hedged items, risk, and hedging instruments; creating more operable methods of assessing hedge effectiveness; and further reducing missed forecasts.
130. One practitioner noted that under current GAAP implied component hedging is not permitted for cash flow hedges of interest rate risk. For example, an entity would currently be precluded from designating an implied SOFR subcomponent of the contractually specified interest rate of Prime as a hedged risk in a hedging relationship. However, the proposed amendments to Issue 3 allow for implied component and subcomponent hedging of nonfinancial transactions under the proposed clearly-and-closely-related model. This practitioner suggested potentially taking on a separate project to address this inconsistency and expand implied component hedging to interest rate risk hedges.

Transition

Proposed Update

131. The proposed amendments would require that an entity apply the guidance on a prospective basis for existing hedging relationships as of the date of adoption. Early adoption would be permitted for all entities on any date on or after issuance of a final Update. Upon adoption of the amendments, entities may either be required or permitted to modify critical terms of certain existing hedging relationships, without dedesignating the hedge.
132. The proposed Update included the following question on transition:
Question 6: Are the proposed transition requirements operable? If not, why not, and what transition method would be more appropriate and why? Would the proposed transition disclosures be decision useful? Please explain why or why not.

Feedback Received

133. Eighteen respondents responded to Question 6 and those respondents supported the transition provisions in the proposed amendments. Some practitioner and consultant stakeholders supported additional guidance to ease the transition to the new guidance for existing hedges.
134. One consultant supported including a transition provision that would allow entities to redocument hedging relationships to permit entities to include CYR debt in portfolio hedges.
135. One practitioner recommend that the Board consider whether to make elective all transition guidance for existing cash flow hedges as of the date of adoption, rather than requiring all entities to apply the new guidance for existing hedges. This practitioner indicated that this would help avoid unintended “foot faults” for entities. As an example, this practitioner noted that some entities that hedge CYR debt today may be less sophisticated and upon the issuance of a new standard may not realize that the hedge documentation and accounting for its CRY debt will need to change (given that the proposed Update would require a new model to be applied).
136. During further outreach, multiple practitioners and one consultant expressed support for grandfathering current GAAP for existing cash flow hedges as of the date of adoption of the final guidance by making transition guidance elective for existing hedges. New hedges designated after the date of adoption would still be required to apply the amendments in a final Update.
137. One practitioner requested additional guidance affording entities the ability to update hedge documentation for *dedesignated* hedging relationships with amounts deferred in AOCI if an entity amends its portfolio hedges in accordance with the amendments in Issue 1. Without that transition provision, an entity that wishes to combine different risks into one pool in transition would have to track and monitor AOCI amounts related to the legacy and new pools separately if, at the date of implementation of the proposed guidance, there were amounts deferred in AOCI associated with a terminated hedging relationship and the related hedged risk is now included in a hedging relationship for a broader, live pool. Tracking the amounts deferred in AOCI for a dedesignated hedge would be necessary to determine when those AOCI amounts must be released into earnings. Stated another way, tracking a separate AOCI amount solely to support the accounting for terminated hedges could be operably burdensome for entities.

Effective Date

Proposed Update

138. The proposed Update included the following question on the effective date:

Question 7: In evaluating the effective date, how much time would be needed to implement the proposed amendments? Should the effective date for entities other than public business entities be different from the effective date for public business entities? Please explain why or why not. If the effective dates should be different, how much additional time would entities other than public business entities need to implement the proposed amendments?

Feedback Received

139. All respondents supported early adoption on any date after issuance of a final Update for both public business entities (PBEs) and non-PBEs. Specific feedback related to the effective date for PBEs and non-PBEs is provided below.

PBEs

140. In relation to PBEs, preparers, consultants, and industry groups that responded to Question 7 supported a 12-to-18-month implementation period.⁶ They supported permitting early adoption on any date after the issuance of the final Update. Because hedge accounting is elective and can be started or stopped at any point, there were no expressed concerns that financial statement comparability would meaningfully decrease if entities were permitted to early adopt on any date.

141. Those practitioners that responded to Question 7 deferred to the feedback from preparers regarding the effective date for PBEs.

Non-PBEs

142. One industry group stated that there should be no distinction between PBEs and non-PBEs when considering the effective date.

143. However, those practitioners and consultants that serve a large population of non-PBE clients supported an effective date for non-PBEs one year after that of PBEs.⁷ Other practitioners deferred to feedback from preparers on an appropriate effective date for non-PBEs.

⁶ For example, if a final Update is issued in the fall of 2025, a 12-to-18-month implementation period would indicate that the guidance should be effective for PBEs with annual periods beginning after December 15, 2026 (that is, a January 1, 2027 effective date for PBEs with a calendar year-end).

⁷ Annual periods beginning after December 15, 2027, for non-PBEs (assuming annual periods beginning after December 15, 2026, for PBEs as stated above).

Benefits and Costs

Proposed Update

144. Discussion of the benefits and costs of the proposed amendments was included in paragraphs BC6 through BC11 of the basis for conclusions of the proposed Update.
145. The proposed Update included the following question on benefits and costs:

Question 9: Would the expected benefits of the proposed amendments justify the expected costs? If not, please describe the nature and magnitude of those costs, differentiating between one-time costs and recurring costs.

Feedback Received

146. Seventeen comment letter respondents responded to Question 9. Broadly, comment letter respondents supported the proposed amendments as a means to better align hedge accounting with the economics of transactions and entities' risk management activities.
147. However, preparer, consultant, and industry group respondents supported the proposed amendments with reservations that the guidance would be of limited utility if not expanded to apply to a broader range of fact patterns that commonly occur in practice. Stakeholders highlighted the following specific areas of the proposed amendments that would limit the utility of the guidance as proposed:
- (a) Full dedesignation of a pool if one or more risks test dissimilar despite a sufficient volume of remaining similar cash flows (Issue 1)
 - (b) The inability to hedge forecasted debt issuances and certain replacement debt under the CYR debt guidance (Issue 2)
 - (c) The limited scope of the NWO test amendments (Issue 4).
148. Practitioner respondents broadly did not hold the same reservations as preparers, consultants, and industry groups, although some suggested addressing the same limitations to improve the operability of the guidance (see paragraphs 18, 45, 49, 50, and 102 for reference).
149. All practitioners either stated that the benefits of the proposed amendments would justify any implementation costs or deferred to preparer stakeholders to best respond regarding any incremental costs. The proposed amendments simplify existing hedge assessment guidance on a go-forward basis, and, as a result, no restatement or adjustment of previous amounts associated with existing hedges will be required in transition, minimizing potential costs of implementation.

Board Meeting Handout
PCC Credit Losses—Topic 606 Receivables
March 26, 2025

Meeting Purpose

1. The Board will discuss endorsement of the PCC decisions related to the proposed Accounting Standards Update, [*Financial Instruments—Credit Losses \(Topic 326\)—Measurement of Credit Losses for Accounts Receivable and Contract Assets for Private Companies and Certain Not-for-Profit Entities*](#), and begin redeliberations.

Questions for the Board

Endorsement of PCC Decisions on Asset Scope, Practical Expedient and Accounting Policy Election, and Disclosure

1. Does the Board endorse the following PCC decisions?
 - a. *Asset Scope* – The proposed amendments should apply to current accounts receivable and current contract assets arising from transactions accounted for under Topic 606, Revenue from Contracts with Customers, including current accounts receivable and current contract assets acquired in a transaction accounted for under Topic 805, *Business Combinations*
 - b. *Practical Expedient and Accounting Policy Election* – The proposed amendments should include (a) a recognition and measurement practical expedient and (b) an accounting policy election to consider subsequent cash collection activity, including the requirement that entities must elect the practical expedient in order to elect the accounting policy to consider cash collection activity subsequent to the balance sheet date
 - c. *Disclosure* – The proposed amendments require disclosure of (a) the exercise of the practical expedient and the accounting policy election to consider subsequent cash collections (if applicable) and (b) the date through which subsequent cash collection activity was considered for entities that have elected the accounting policy

Entity Scope

2. Does the Board believe that the proposed amendments should apply to private companies and *all* not-for-profit entities?

Endorsement of PCC Decisions on Transition and Effective Date

3. Does the Board endorse the following PCC decisions?
 - a. *Transition* – The proposed amendments should apply prospectively and without requiring entities to perform a preferability assessment

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in accordance with Topic 250, Accounting Changes and Error Corrections, upon initial adoption of the proposed amendments

- b. *Effective Date* – The proposed amendments would be effective for interim and annual periods beginning after December 15, 2025, with early adoption permitted for financial statements that have not yet been made available for issuance

Benefits and Costs, and Permission to Ballot

4. Has the Board received sufficient information and analysis to make an informed decision on the expected benefits and expected costs of change? If not, what other information or analysis is needed?
5. Does the Board (a) believe that the expected benefits justify the expected costs of the amendments included in a final Update and (b) therefore give the staff permission to proceed to draft a final Update for vote by written ballot? If not, why?

Background

2. The FASB and the PCC have undertaken this project to address challenges encountered when applying the guidance in Topic 326, Financial Instruments—Credit Losses, to current accounts receivable and current contract assets arising from transactions accounted for under Topic 606. Private company and not-for-profit entity stakeholders indicated that estimating expected credit losses for those balances can be costly and complex.
3. To address this feedback, the amendments in this proposed Update introduced a practical expedient and a related accounting policy election for private companies and certain not-for-profit entities related to the application of Subtopic 326-20, Financial Instruments—Credit Losses—Measured at Amortized Cost, to current accounts receivable and current contract assets arising from transactions accounted for under Topic 606.
4. Refer to the meeting materials for the March 6, 2025, PCC meeting¹ for a summary of feedback received on the proposed Update.

PCC Decisions

5. At the March 6th, 2025, PCC meeting, the PCC made the following decisions:
 - (a) *Asset Scope*: The PCC decided that the proposed amendments should apply to current accounts receivable and current contract assets arising from transactions accounted for under Topic 606, with the clarification that the proposed amendments apply to the estimate of expected credit losses for current accounts receivable and current contract

¹ March 6, 2025 PCC meeting materials relating to feedback received on proposed Accounting Standards Update, Financial Instruments—Credit Losses (Topic 326)—Measurement of Credit Losses for Accounts Receivable and Contract Assets for Private Companies and Certain Not-for-Profit Entities: [PCC Meeting March 6, 2025—Agenda Topic 3—Memo](#)

assets acquired in a transaction accounted for under Topic 805. The PCC decided not to include other assets at this time.

- (b) *Practical Expedient and Accounting Policy Election*: The PCC affirmed the practical expedient and accounting policy election, including the requirement that entities must elect the practical expedient in order to elect the accounting policy to consider post-balance sheet date cash collection activity.
- (c) *Disclosure*: The PCC affirmed the requirement to disclose the use of the practical expedient and accounting policy election, and decided that disclosure should be provided of the date through which subsequent cash collection activity was considered for entities that have elected the accounting policy.
- (d) *Transition*: The PCC affirmed that the amendments should be applied prospectively, without requiring entities to perform a preferability assessment in accordance with Topic 250, upon initial adoption.
- (e) *Effective Date*: The PCC decided that the proposed amendments should be effective for interim and annual periods beginning after December 15, 2025, with early adoption permitted for financial statements that have not yet been made available for issuance.
- (f) *Benefits and Costs*: The PCC believes that the expected benefits justify the expected costs of the proposed amendments and instructed the staff to proceed with drafting a final Accounting Standards Update, subject to the Board's endorsement.

Entity Scope

6. The amendments in the proposed Update would apply to private companies and not-for-profit entities, excluding not-for-profit entities that have issued, or are conduit bond obligors for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market. The Board will consider whether to expand the applicability of the proposed amendments to include additional entities, including all not-for-profit entities.

Board Meeting Handout
Presentation of Contract Assets and Contract Liabilities for
Construction Contractors
March 26, 2025

Meeting Purpose

1. The purpose of this meeting is for the Board to discuss the Private Company Council's (PCC) recommendation to remove the Presentation of Contract Assets and Contract Liabilities for Construction Contractors project from the Board's technical agenda.

Question for the Board

1. Does the Board want to remove the Presentation of Contract Assets and Contract Liabilities for Construction Contractors project from its technical agenda, as recommended by the PCC?

Background Information

2. At the March 6, 2025 PCC meeting, the PCC voted to remove a project from its technical agenda on the presentation of contract assets and contract liabilities for private companies in the construction industry. PCC members concluded that the issues raised by stakeholders could be addressed through educational efforts rather than standard setting. Additionally, the PCC made a recommendation to the Board to remove the project from its technical agenda and directed the staff to move forward with releasing a FASB Staff Educational Paper on the issue. A draft of the educational paper was shared with PCC members at that meeting.

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