



Reference rate reform

Handbook

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Accounting relief for LIBOR transition activities

LIBOR is a reference rate used in a wide variety of contracts, including loans, leases, investments, deposits and derivatives. Certain LIBOR settings are no longer published, and the major USD LIBOR settings are expected to cease after June 30, 2023.

The array of affected contracts and transactions has led many companies to commit significant resources to transitioning contracts away from LIBOR in preparation for its eventual discontinuation. On top of managing the economic, operational and legal ramifications of the transition, companies also must determine the appropriate accounting for their transition activities.

To mitigate some of the accounting burden, the FASB issued Topic 848 (reference rate reform) – unique because it is dedicated to providing relief from otherwise applicable US GAAP requirements via optional expedients. Further, the guidance in Topic 848 is temporary in nature and sunsets on December 31, 2024.

Although Topic 848 provides significant relief, that relief has boundaries. Many of the optional expedients do not eliminate existing accounting requirements but instead permit entities to apply different – and generally less burdensome – analyses. In addition, each expedient has qualifying criteria that must be met.

We hope you will find this publication helpful in understanding the available relief – and when it is appropriate to apply that relief – as you manage your transition away from LIBOR.

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About this publication

The purpose of this Handbook is to assist you in understanding the standard on reference rate reform, Topic 848.

Accounting literature

Unless otherwise stated, references to the standard and/or Topic 848 comprise the following Accounting Standards Updates:

- ASU 2020-04, Facilitation of the Effects of Reference Rate Reform on Financial Reporting
- ASU 2021-01, Reference Rate Reform (Topic 848): Scope
- ASU 2022-06, Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848

Organization of the text

Each chapter of this Handbook includes excerpts from FASB's Accounting Standards Codification® and overviews of the relevant requirements. Our in-depth guidance is explained through Q&As that reflect the questions we are encountering in practice. We include examples to explain key concepts.

Our commentary is referenced to the Codification and to other literature, where applicable. The following are examples.

- 848-10-15-3 is paragraph 15-3 of ASC Subtopic 848-10
- ASU 2020-04.BC29 is paragraph 29 of the basis for conclusions to ASU 2020-04
- 2019 AICPA Conf is the 2019 AICPA Conference on Current SEC and PCAOB Developments. These references are hyperlinked to the source material
- ARRC letter 05-20 is a letter from ARRC to the SEC's Office of the Chief Accountant dated May 29, 2020. This reference is hyperlinked to the source material on ARRC's website

May 2023 edition

The May 2023 edition of our Handbook is updated to reflect the revised sunset date of December 31, 2024 for Topic 848 (based on ASU 2022-06). Further, this version of our Handbook includes new interpretative guidance based on our experience with companies applying Topic 848.

Compared to the May 2022 edition, a new Question has been added and is identified with ******; items that have been significantly updated or revised are identified with **#**.

Abbreviations

We use the following abbreviations in this publication.

ARRC	Alternative Reference Rates Committee
LIBOR	London Interbank Offered Rate
HTM	Held-to-maturity
SEC	Securities and Exchange Commission

1. Executive summary

Topic 848 provides several optional expedients to ease the potential accounting burden associated with reference rate reform.

The term 'reference rate reform' refers to the efforts undertaken by regulators and market participants in various jurisdictions to eliminate certain reference rates and introduce new reference rates that are based on a larger and more liquid population of observable transactions. At the heart of Topic 848 is the fact that certain reference rates are being discontinued and, as a result, contracts and hedging relationships may be modified or otherwise impacted.

Most notably, LIBOR is a benchmark interest rate referenced in a variety of agreements used by all types of entities. Historically, LIBOR was calculated based on information contributed by a panel of large international banks about the rates at which they could borrow in unsecured funding markets. However, it is being wound down and ICE Benchmark Administration Limited (LIBOR's administrator) has:

- ceased publishing all LIBOR settings that were based on panel bank submissions, other than the major USD LIBOR settings (i.e. Overnight, 1-, 3-, 6- and 12-Months USD LIBOR). It is compelled by its regulator to publish the major USD LIBOR settings based on panel bank submissions through June 2023;
- started publishing certain LIBOR settings using a 'synthetic' methodology based on term rates and a fixed spread adjustment.

Other interest rates, including some rates prevalent internationally, could also be discontinued during this timeframe.

Scope of Topic 848

Topic 848 permits an entity to not apply otherwise applicable US GAAP to contracts or transactions that are modified or otherwise affected due to reference rate reform.

This relief is available when a contract or other transaction satisfies the conditions for electing one of Topic 848's individual optional expedients. Those expedients require that the contract or transaction meet one of the following conditions, depending on the expedient.

Contract references an 'eligible reference rate'

- Eligible reference rates include LIBOR and other reference rates that are expected to be discontinued as a result of reference rate reform.

Contract does not reference an 'eligible reference rate' but is modified for 'derivative discounting transition'

- Derivative discounting transition is when a derivative instrument is modified as a result of reference rate reform to change the interest rate for margining, discounting or contract price alignment.

Contract references an 'eligible reference rate'

- All optional expedients are potentially available when this condition is met.¹

Contract does not reference an 'eligible reference rate' but is modified for 'derivative discounting transition'

- Only some optional expedients are potentially available when this condition is met.¹

Note:

1. In addition to a condition related to scoping, each individual optional expedient has other conditions that must be met for the expedient to be available.

[Chapter 2](#) explains the terms 'eligible reference rates' and 'derivative discounting transition'. [Chapters 3 to 7](#) address the various individual optional expedients, including identifying which are available to derivatives impacted by discounting transition that do **not** reference an eligible reference rate.

Contract modifications

[Chapter 3](#) discusses two types of optional expedients available in Subtopic 848-20 that ease the potential accounting burden associated with contract modifications:

- those based on specified Topics and Subtopics;
- one that is not specific to particular (Sub)Topics.

If a contract modification is eligible for one of the expedients, an entity can:

- account for the modification as a continuation of the existing contract without additional analysis;
- consider embedded features to be clearly and closely related to the host contract without reassessment.

For a contract modification to be eligible for these expedients (i.e. to be in the scope of Subtopic 848-20), the modification must be limited in scope. The acceptable modifications depend on whether the contract references an eligible reference rate, as summarized in the following table.

Contract references an eligible reference rate

- All optional expedients in Subtopic 848-20 are available when a modification consists solely of:
- changes to a contract's terms that are related to replacement of an eligible reference rate;
 - a derivative being modified for discounting transition; and/or
 - contemporaneous changes that do not modify contractual cash flows.

Contract does not reference an eligible reference rate but is modified for derivative discounting transition

- The optional expedient that is not specific to particular (Sub)Topics is available when the modification consists solely of:
- a derivative being modified for discounting transition; and/or
 - contemporaneous changes that do not modify contractual cash flows.

Chapter 3 discusses when a contract modification is in the scope of Subtopic 848-20 and explains the optional expedients available under Subtopic 848-20.

The guidance for determining when a modification is eligible for the optional expedients in Subtopic 848-20 is also relevant for determining whether certain of the expedients for hedging relationships apply, as explained throughout this Handbook.

Hedging relationships: Changes to critical terms

Chapter 4 discusses the optional expedients available in Subtopic 848-30 when an entity changes the critical terms of a hedging relationship. These expedients permit an entity to continue hedge accounting when certain critical terms of a hedging relationship change because of reference rate reform, as summarized in the following table.

Expedient is available to hedging relationships that reference an eligible reference rate	Expedient is available to derivatives that do not reference an eligible reference rate but are modified for discounting transition	Contractual changes must meet the scope conditions of Subtopic 848-20	Other relevant conditions
Changes to formal documentation (all types of hedges) This expedient allows an entity to continue a hedging relationship when its hedge documentation is changed.			
✓	✓		A hedging relationship's critical terms are changed, and the entity elects an optional expedient in Subtopics 848-30, 848-40 or 848-50.
Changes to contractual terms of a hedging instrument, hedged item, or forecasted transaction (all types of hedges) This expedient allows an entity to continue a hedging relationship when the contractual terms of the hedging instrument, hedged item or forecasted transaction are changed.			
✓	✓	✓	

Expedient is available to hedging relationships that reference an eligible reference rate	Expedient is available to derivatives that do not reference an eligible reference rate but are modified for discounting transition	Contractual changes must meet the scope conditions of Subtopic 848-20	Other relevant conditions
Repricing intervals and dates of hedging instruments that are not the same (net investment hedges) This expedient allows an entity to use a cross-currency interest rate swap with two variable legs as the hedging instrument even if both legs do not have the same repricing intervals and dates.			
✓			
Changes to effectiveness assessment method (cash flow hedges)¹ This expedient allows an entity to change a hedging relationship's effectiveness assessment method without dedesignating the hedging relationship.			
✓			An optional expedient from Subtopic 848-50 is elected as the new method, or one of those optional expedient methods is being discontinued.
Rebalancing of hedging relationships (fair value and cash flow hedges) This expedient allows an entity to rebalance a hedging relationship in certain ways without dedesignating the hedging relationship.			
✓			The method of assessing effectiveness of the hedging relationship is changed in certain situations.
Adjusting a fair value hedge basis adjustment accounted for under the shortcut method for cash compensation (fair value hedging relationships) This expedient allows an entity to adjust the basis adjustment for the amount of cash compensation (or equivalent) resulting from derivative discounting transition using a reasonable approach.			
✓	✓		The method of assessing effectiveness of the hedging relationship is changed in certain situations.
Adjusting AOCI for cash compensation (cash flow hedging relationships) This expedient allows an entity to adjust the amount in AOCI for the amount of cash compensation (or equivalent) resulting from derivative discounting transition using a reasonable approach.			
✓	✓		The method of assessing effectiveness of the hedging relationship is changed in certain situations.

Expedient is available to hedging relationships that reference an eligible reference rate	Expedient is available to derivatives that do not reference an eligible reference rate but are modified for discounting transition	Contractual changes must meet the scope conditions of Subtopic 848-20	Other relevant conditions
Excluded components (all types of hedges) This expedient allows an entity to change the method used to recognize in earnings an excluded component or to recognize in current earnings any change in fair value of an excluded component resulting from changes in a derivative's contractual terms.			
✓	✓	✓	
Note: 1. In addition to this optional expedient, certain other optional expedients also permit an entity to change the method of assessing effectiveness for a cash flow hedge.			

Fair value hedges

Chapter 5 discusses the optional expedients available in Subtopic 848-40 that are specific to fair value hedging relationships as summarized in the following table. These expedients are available to relationships that are affected by reference rate reform.

Expedient is available to hedging relationships that reference an eligible reference rate	Expedient is available to derivatives that do not reference an eligible reference rate but are modified for discounting transition	Contractual changes must meet the scope conditions of Subtopic 848-20	Other relevant conditions
Change in the designated benchmark interest rate This optional expedient allows an entity to change the designated benchmark interest rate from an eligible reference rate to a different benchmark rate without dedesignating the hedging relationship.			
✓	✓		— Certain conditions differ depending on whether the hedging instrument references an eligible reference rate ¹ or does not reference an eligible reference rate but is modified for derivative discounting transition). ²

Expedient is available to hedging relationships that reference an eligible reference rate	Expedient is available to derivatives that do not reference an eligible reference rate but are modified for discounting transition	Contractual changes must meet the scope conditions of Subtopic 848-20	Other relevant conditions
			<ul style="list-style-type: none"> — The hedging relationship continues to be highly effective. — The revised benchmark interest rate is used to discount cash flows. — Hedge documentation is updated following the guidance in section 4.3.20.
Hedge effectiveness – shortcut method This optional expedient allows an entity to continue to apply the shortcut method for existing hedging relationships without regard to whether certain qualifying conditions are met.			
✓	✓	✓	<ul style="list-style-type: none"> — The hedging instrument's contractual terms are changed (directly or indirectly) following the guidance in section 4.3.30 or 4.3.60. — Hedge documentation is updated following the guidance in section 4.3.20.
Notes: <ol style="list-style-type: none"> When the hedging instrument references an eligible rate: <ul style="list-style-type: none"> — either the hedging instrument's reference rate changes or the designated hedging instrument is changed to combine two or more derivative instruments; and — the designated benchmark rate being changed is an eligible reference rate. When the hedging instrument does not reference an eligible rate, the hedging instrument is modified for derivative discounting transition and the designated benchmark rate is a rate used for margining, discounting or contract price alignment. 			

Cash flow hedges

Chapter 6 discusses the available optional expedients in Subtopic 848-50 that are specific to cash flow hedging relationships, as summarized in the following table.

Expedient is available to hedging relationships that reference an eligible reference rate	Expedient is available to derivatives that do not reference an eligible reference rate but are modified for discounting transition	Contractual changes must meet the scope conditions of Subtopic 848-20	Other relevant conditions
Probability of hedged forecasted transaction This expedient allows an entity to disregard potential discontinuation of a referenced interest rate when assessing whether a hedged forecasted interest payment is probable.			
✓			Underlying hedged forecasted transaction remains probable.
Change in the designated hedged risk This expedient allows an entity to continue hedge accounting upon a change in the hedged risk.			
✓			<ul style="list-style-type: none"> — The hedging relationship continues to be highly effective. — Hedge documentation is updated under the guidance in section 4.3.20.
Hedge effectiveness assessment This expedient allows an entity to assess effectiveness in ways that essentially disregard a potential mismatch in the variable rate indexes between the hedging instrument and the hedged item.			
✓ ¹	✓		<ul style="list-style-type: none"> — Either the hedged item or the hedging instrument references an eligible reference rate. — Hedge documentation is updated under the guidance in section 4.3.20 when an entity changes its subsequent effectiveness assessment method.

Expedient is available to hedging relationships that reference an eligible reference rate	Expedient is available to derivatives that do not reference an eligible reference rate but are modified for discounting transition	Contractual changes must meet the scope conditions of Subtopic 848-20	Other relevant conditions
Shared risk exposure in a group of forecasted transactions For hedges of portfolios of forecasted transactions that reference a rate affected by reference rate reform, this expedient allows an entity to disregard the requirement that individual hedged transactions must share the same risk exposure.			
✓			
Note: 1. For a hedging relationship with a hedging instrument that does not reference an eligible reference rate but is modified for derivative discounting transition, an entity may elect certain optional expedients for subsequently assessing effectiveness.			

Sale and/or transfer of HTM debt securities

Chapter 7 discusses an available optional expedient in Topic 848 that allows an entity to make a one-time election to sell or transfer certain HTM debt securities without calling into question the entity's pre-election intent to hold the securities to maturity.

The election is available only for debt securities that:

- reference an eligible reference rate (see chapter 2); and
- were classified as HTM before January 1, 2020.

Effective date, transition and termination

The other chapters of this Handbook assume that an entity has adopted ASU 2020-04, Facilitation of the Effects of Reference Rate Reform on Financial Reporting, ASU 2021-01, Reference Rate Reform (Topic 848): Scope, and ASU 2022-06, Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848.

Chapter 8 discusses the effective date, transition and sunset provisions for optional expedients available in Topic 848.

ASU 2020-04 effective date and transition

- Effective for all entities as of March 12, 2020.
- Entities can apply the ASU as of the beginning of the interim period that includes March 12, 2020 (e.g. January 1, 2020 for calendar year-end entities) or any date thereafter.
- The ASU's expedients relating to contract modifications and hedging relationships are applied **prospectively**.
- The one-time election to sell and/or transfer debt securities classified as HTM may be made at any time after March 12, 2020.

ASU 2021-01 effective date and transition

- Effective for all entities as of January 7, 2021.
- Expedients may be elected:
 - **retrospectively** to eligible hedging relationships existing as of – and new hedging relationships entered into after – the beginning of the interim period that includes March 12, 2020 (e.g. January 1, 2020 for calendar year-end entities);
 - **prospectively** to eligible hedging relationships on or after any date within the interim period that includes January 7, 2021 (e.g. January 1, 2021 for calendar year-end entities).
- Any adjustments as a result of electing the expedients are reflected as of the application date of the election and recognized in accordance with Subtopics 848-30, 848-40 and 848-50 (as applicable).

ASU 2022-06 effective date and transition

- Effective for all entities as of December 21, 2022.
- The ASU deferred the sunset date of Topic 848 from December 31, 2022 to December 31, 2024.

Sunset date

Topic 848's guidance generally sunsets on December 31, 2024. This means the optional expedients and one-time HTM election generally do not apply to the following transactions or events occurring after that date: contract modifications, sales and transfers of HTM debt securities, and hedging relationships entered into or evaluated.

However, as exceptions to the sunset date, certain hedging relationship expedients are retained through the end of the hedging relationships.

2. Scope of Topic 848

Detailed contents

Item significantly updated in this edition

2.1 How the standard works

2.2 Reference rate reform overview

2.3 Identifying eligible reference rates

Questions

2.3.10 Are only certain maturities of LIBOR considered eligible reference rates?

2.3.20 Does Topic 848 provide a list of eligible reference rates?

2.4 Derivative discounting transition

Question

2.4.10 What are the effects of discounting transition on a derivative?

2.1 How the standard works

Topic 848 permits an entity to not apply otherwise applicable US GAAP to contracts or transactions that are modified or otherwise affected due to reference rate reform.

This relief is available when a contract or other transaction satisfies the conditions for electing one of Topic 848's individual optional expedients. Those expedients require that the contract or transaction meet one of the following conditions, depending on the expedient.

Contract references an 'eligible reference rate'

- Eligible reference rates include LIBOR and other reference rates that are expected to be discontinued as a result of reference rate reform.
- All optional expedients are potentially available when this condition is met.¹

Contract does not reference an 'eligible reference rate' but is modified for 'derivative discounting transition'

- Derivative discounting transition is when a derivative instrument is modified as a result of reference rate reform to change the interest rate for margining, discounting or contract price alignment.
- Only some optional expedients are potentially available when this condition is met.¹

Note:

1. In addition to a condition related to scoping, each individual optional expedient has other conditions that must be met for the expedient to be available.

This chapter explains the terms 'eligible reference rates' and 'derivative discounting transition'. [Chapters 3 to 7](#) address the various individual optional expedients, including identifying which are available to derivatives impacted by discounting transition that do **not** reference an eligible reference rate.

2.2 Reference rate reform overview#



Excerpt from ASC 848-10

05-2 Reference rates such as the London Interbank Offered Rate (LIBOR) are widely used in a broad range of financial instruments and other agreements. Regulators and market participants in various jurisdictions have undertaken efforts, generally referred to as reference rate reform, to eliminate certain reference rates and introduce new reference rates that are based on a larger and more liquid population of observable transactions. As a result of the reference rate reform initiative, certain widely used reference rates such as LIBOR are expected to be discontinued. Also, as part of the market transition to new reference rates, certain derivative instruments may be modified to change the rate used for margining, discounting, or contract price alignment.

05-3 This Topic provides optional expedients for applying the guidance in certain Topics or Industry Subtopics for contract modifications or other situations affected by reference rate reform. The guidance in this Topic is temporary in accordance with the guidance in paragraph 848-10-65-1(a).

> Overall Guidance

15-1 The Scope and Scope Exceptions Section of the Overall Subtopic establishes the pervasive scope for the Reference Rate Reform Topic. Unless explicitly addressed within the specific Subtopics, the following guidance applies to all Subtopics of the Reference Rate Reform Topic.

> Entities

15-2 The guidance in this Topic applies to all entities.

> Scope

15-3 The guidance in this Topic, if elected by an entity, shall apply to contracts or other transactions that reference the London Interbank Offered Rate (LIBOR) or a reference rate that is expected to be discontinued as a result of reference rate reform.

15-3A Certain provisions of the guidance in this Topic, if elected by an entity, shall apply to derivative instruments that do not meet the scope of paragraph 848-10-15-3 that use an interest rate for margining, discounting, or contract price alignment that is modified as a result of reference rate reform.

The term 'reference rate reform' refers to the efforts undertaken by regulators and market participants in various jurisdictions to eliminate certain reference rates and introduce new reference rates that are based on a larger and more liquid population of observable transactions. At the heart of Topic 848 is the fact that certain reference rates are being discontinued and, as a result, contracts and hedging relationships may be modified or otherwise impacted. [\[848-10-05-2\]](#)

Most notably, LIBOR is a benchmark interest rate referenced in a variety of agreements used by all types of entities. Historically, LIBOR was calculated based on information contributed by a panel of large international banks about the rates at which they could borrow in unsecured funding markets. However, it

is being wound down and ICE Benchmark Administration Limited (LIBOR's administrator) has:

- ceased publishing all LIBOR settings that were based on panel bank submissions, other than the major USD LIBOR settings (i.e. Overnight, 1-, 3-, 6- and 12-Months USD LIBOR). It is compelled by its regulator to publish the major USD LIBOR settings based on panel bank submissions through June 2023;
- started publishing certain LIBOR settings using a 'synthetic' methodology based on term rates and a fixed spread adjustment.

Further, US banking regulators issued a joint statement encouraging banks to stop entering into new USD LIBOR contracts by the end of 2021. Other interest rates, including some rates prevalent internationally, could also be discontinued during this timeframe.

LIBOR or other reference rates that are expected to be discontinued due to reference rate reform are referred to as 'eligible reference rates' (see [section 2.3](#)).

Market initiatives to transition away from using rates that are expected to be discontinued – and **to** alternative reference rates – have also resulted in changes to the rate used for margining, discounting or contract price alignment of derivative instruments.

Topic 848 provides several optional expedients to ease the potential accounting burden associated with reference rate reform.

- All entities can apply Topic 848. [\[848-10-15-2\]](#)
- Although each optional expedient in Topic 848 may require specific conditions to be met, all expedients are generally available when the contract or transaction references an eligible reference rate (see [section 2.3](#)). Certain expedients are also available when a derivative that does not reference an eligible reference rate is modified for discounting transition. [\[848-10-15-1, 15-3 – 15-4\]](#)

2.3 Identifying eligible reference rates



Excerpt from ASC 848-10

>> Identifying an Eligible Reference Rate

15-4 The guidance in this Topic applies to all maturities of LIBOR in all jurisdictions and currencies. For other reference rates, an expectation of the discontinuance of the rate may result from any of the following:

- a. A public statement or publication of information by or on behalf of the administrator of the relevant reference rate or by the regulatory supervisor for the administrator
- b. Initiatives by a significant number of market participants or by market participants representing a significant number of transactions to move away from the reference rate

- c. The production method for the calculation of the published reference rate that is either:
1. Fundamentally restructured
 2. Reliant on another rate that is expected to discontinue.

All optional expedients in Topic 848 are available when a contract or other transaction references LIBOR or another reference rate that is expected to be discontinued as a result of reference rate reform. These rates are collectively referred to as eligible reference rates. [\[848-10-15-3 – 15-4\]](#)



Question 2.3.10

Are only certain maturities of LIBOR considered eligible reference rates?

Interpretive response: No. All maturities of LIBOR in all jurisdictions and currencies are eligible reference rates in the scope of Topic 848. [\[848-10-15-4\]](#)



Question 2.3.20

Does Topic 848 provide a list of eligible reference rates?

Interpretive response: No. Instead, Topic 848 provides guidance on how to determine an eligible reference rate. Judgment may be required in applying that guidance. [\[848-10-15-4\]](#)

Examples of eligible reference rates other than LIBOR include the following. [\[ASU 2020-20.BC21, 848-10-15-4\(c\)\(1\) – 15-4\(c\)\(2\)\]](#)

- Rates that use an Interbank Offered Rate (IBOR) that is expected to be discontinued as an input into the calculation of the reference rate – e.g. the Singapore Dollar Swap Offer Rate (SOR).
- Reference rates for which the publication of the rate is not discontinued, but there is an effort to change the production method of how the rate is calculated – e.g. the Euro Interbank Offered Rate (Euribor). If the entity concludes that market participants assess this as a fundamental restructuring of the reference rate that – in substance – represents a discontinuation of the previous reference rate, that rate is also an eligible reference rate.

The Board declined to compile a list of eligible reference rates because some jurisdictions were still evaluating whether they will discontinue certain reference rates. [\[ASU 2020-20.BC22\]](#)

2.4 Derivative discounting transition

'Derivative discounting transition' refers to modifying a derivative as a result of reference rate reform to change the interest rate for margining, discounting or contract price alignment.

When the Board identified market-wide changes in the interest rates used for margining, discounting or contract price alignment related to reference rate reform, it decided to make certain optional expedients available to derivatives impacted by those changes. Derivative discounting transition may be made to centrally cleared or bilateral trades of noncleared derivatives. For example, in 2020 some central clearing parties began using SOFR for the margining, discounting or contract price alignment of certain derivatives. Those changes are not necessarily made in connection with replacement of an eligible reference rate, and some impacted derivatives may not reference an eligible reference rate. [\[ASU 2021-01.BC3-BC6\]](#)

All optional expedients in Topic 848 are available to a derivative instrument modified for discounting transition if that derivative references an eligible reference rate. However, if the derivative does not reference an eligible reference rate, not all expedients are available. [\[848-10-15-3A, ASU 2021-01.BC3-BC6\]](#)



Question 2.4.10

What are the effects of discounting transition on a derivative?

Interpretive response: The potential effects of derivative discounting transition include: [\[ASU 2021-01.BC4\]](#)

- changes in a derivative's fair value, required variation margin payments and interest paid/received on variation margin; and/or
- cash compensation adjustments and basis swaps, which may be issued to neutralize those effects.

3. Contract modifications

Detailed contents

3.1 How the standard works

3.2 Scope and applicability

- 3.2.10 Overview
- 3.2.20 Contracts that reference eligible reference rates
- 3.2.30 Accounting policy considerations

Questions

- 3.2.10 Must changes be made directly to a contract's terms to be eligible for the contract modification optional expedients?
- 3.2.20 How does an entity account for a contract modification that is not eligible for an optional expedient?
- 3.2.30 Which contract modification optional expedients are available for a derivative that does not reference an eligible reference rate but is modified for discounting transition?
- 3.2.40 What changes to contractual terms result in a modification being in the scope of Subtopic 848-20?
- 3.2.50 What changes to contractual terms are related to replacement of an eligible reference rate?
- 3.2.60 Is a modification that changes a reference rate index to a fixed rate in the scope of Subtopic 848-20?
- 3.2.70 What is an example of a modification that has the 'potential to change' the amount or timing of contractual cash flows?
- 3.2.80 How does an entity evaluate whether added (or changed) contractual fallback terms are related to replacement of an eligible reference rate?
- 3.2.90 How does an entity determine whether contractual fallback terms are 'consistent with' those developed by a regulator or private-sector working group convened by a regulator?
- 3.2.100 Is an entity required to demonstrate that an added (or changed) spread adjustment strictly compensates for differences in reference rates?
- 3.2.110 Is a change to a contract's (or financial instrument's) counterparty considered a related change?
- 3.2.120 Is adding a cap or floor considered a related change?
- 3.2.130 Can an entity apply the optional expedients in Subtopic 848-20 on a contract-by-contract basis?

- 3.2.140 Can an entity that modifies a contract in anticipation of an eligible reference rate being discontinued apply the expedients in Subtopic 848-20?

Examples

- 3.2.10 Short-term payment deferral on loan
3.2.20 Contractual fallback terms that include a stated fixed rate
3.2.30 Option to apply expedients

3.3 Optional expedients

Questions

- 3.3.10 How are contract modifications accounted for under the specified optional expedients?
3.3.20 If an optional expedient is applied to a debt modification, how is the 10% test performed for a subsequent modification that is not eligible for the optional expedient?
3.3.30 How are contract modifications accounted for under the expedient that is not specific to particular (Sub)Topics?
3.3.40 Must an entity evaluate whether a modified derivative instrument meets the definition of a derivative when a modification is in the scope of Subtopic 848-20?
3.3.50 Can an issuer of an equity-classified preferred share apply the expedient that is not specific to particular (Sub)Topics to an amendment of the share's terms?
3.3.60 Do debt instruments with certain interest reset features based on Overnight SOFR include embedded derivatives that must be evaluated for bifurcation?

Example

- 3.3.10 Series of debt modifications

3.1 How the standard works

Topic 848 permits an entity to not apply otherwise applicable US GAAP when contracts or transactions are modified or otherwise affected due to reference rate reform. Subtopic 848-20 provides this relief for contract modifications by offering several optional expedients that ease the potential accounting burden associated with contract modifications.

Subtopic 848-20 provides two types of optional expedients:

- those based on specified Topics and Subtopics;
- one that is not specific to particular (Sub)Topics.

If a contract modification is eligible for one of the expedients, an entity can:

- account for the modification as a continuation of the existing contract without additional analysis;
- consider embedded features to be clearly and closely related to the host contract without reassessment.

For a contract modification to be eligible for these expedients (i.e. to be in the scope of Subtopic 848-20), the modification must be limited in scope. The acceptable modifications depend on whether the contract references an eligible reference rate as summarized in the following table.

Contract references an eligible reference rate	Contract does not reference an eligible reference rate but is modified for derivative discounting transition
<p>All optional expedients in Subtopic 848-20 are available when a modification consists solely of:</p> <ul style="list-style-type: none"> — changes to a contract's terms that are related to replacement of an eligible reference rate; — a derivative being modified for discounting transition; and/or — contemporaneous changes that do not modify contractual cash flows. 	<p>The optional expedient that is not specific to particular (Sub)Topics is available when the modification consists solely of:</p> <ul style="list-style-type: none"> — a derivative being modified for discounting transition; and/or — contemporaneous changes that do not modify contractual cash flows.

This chapter discusses when a contract modification is in the scope of Subtopic 848-20 and explains the optional expedients available under Subtopic 848-20.

The guidance for determining when a modification is eligible for the optional expedients in Subtopic 848-20 is also relevant for determining whether certain of the expedients for hedging relationships apply, as explained throughout this Handbook.

3.2 Scope and applicability

3.2.10 Overview



Excerpt from ASC 848-20

15-1 This Subtopic provides guidance on optional expedients for accounting for contract modifications when one or more terms are modified because of reference rate reform.

> Modification of Terms

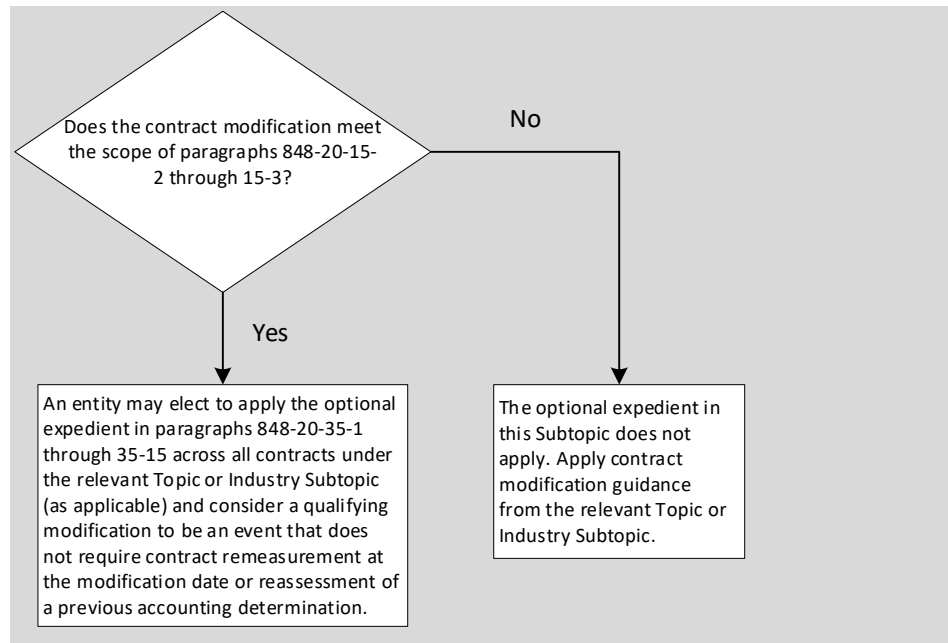
15-2 The guidance in this Subtopic, if elected, shall apply to contracts that meet the scope of paragraph 848-10-15-3 if either or both of the following occur:

- a. The terms that are modified directly replace, or have the potential to replace, a reference rate within the scope of paragraph 848-10-15-3 with another interest rate index. If other terms are contemporaneously modified in a manner that changes, or has the potential to change, the amount or timing of contractual cash flows, the guidance in this Subtopic shall apply only if those modifications are related to the replacement of a reference rate. For example, the addition of contractual fallback terms or the amendment of existing contractual fallback terms related to the replacement of a reference rate that are contingent on one or more events occurring has the potential to change the amount or timing of contractual cash flows and the entity potentially would be eligible to apply the guidance in this Subtopic.
- b. The interest rate used for margining, discounting, or contract price alignment is modified as a result of reference rate reform.

15-2A Certain optional expedients in this Subtopic, if elected, shall apply to derivative instruments that meet the scope of paragraph 848-10-15-3A (see paragraph 848-10-55-1).

> Implementation Guidance

55-1 The following flowchart summarizes the guidance in this Subtopic.



For a contract modification to be eligible for the optional expedients in Subtopic 848-20, the types of contractual changes that can be made depend on whether the contract references an eligible reference rate. [848-10-55-1, 848-20-15-2 – 15-2A, 15-4]

Contract references an eligible reference rate	Contract does not reference an eligible reference rate but is modified for derivative discounting transition
<p>All optional expedients in Subtopic 848-20 are available when a modification consists solely of:</p> <ul style="list-style-type: none"> — changes to a contract's terms that are related to replacement of an eligible reference rate (see section 3.2.20); — a derivative being modified for discounting transition; and/or — contemporaneous changes that do not modify contractual cash flows. 	<p>The optional expedient that is not specific to particular (Sub)Topics is available (see Question 3.3.30) when a modification consists solely of:</p> <ul style="list-style-type: none"> — a derivative being modified for discounting transition; and/or — contemporaneous changes that do not modify contractual cash flows.

The guidance for determining when a modification is eligible for the optional expedients in Subtopic 848-20 is also relevant for determining whether certain other expedients for hedging relationships can be applied, as explained throughout this Handbook.



Question 3.2.10

Must changes be made directly to a contract's terms to be eligible for the contract modification optional expedients?

Interpretive guidance: No. We believe the contract modification optional expedients are available regardless of whether changes to the terms of a contract (including a derivative instrument) are made directly or indirectly.

Examples of indirect changes include:

- terminating the existing contract and simultaneously entering into a new contract with revised terms; and
- entering into an offsetting contract that effectively cancels an existing derivative contract and simultaneously entering into a new derivative contract with revised terms (see [Question 4.3.30](#)).

In all situations, an entity evaluates whether the changes made to the contract are the types of changes permitted based on the guidance in Subtopic 848-20.

For example, ABC Corp. has an interest rate swap whose variable rate leg is indexed to LIBOR. Instead of modifying the swap, ABC and the swap counterparty agree to terminate the previous swap and simultaneously enter into a new interest rate swap with a variable rate leg indexed to SOFR. To determine whether a contract modification optional expedient can be applied, ABC assesses all of the differences between the two swaps to determine if the changes result in the modification being in the scope of Subtopic 848-20 (see [section 3.2.20](#)).



Question 3.2.20

How does an entity account for a contract modification that is not eligible for an optional expedient?

Interpretive response: When a contract modification is not eligible for an optional expedient (or when an optional expedient is not elected), an entity applies otherwise applicable US GAAP to determine how to account for the modification.

The following are examples that apply to contracts in the scope of these Topics.

- **Topic 470 (debt).** Determine whether to account for the modified contract as a continuation of the existing contract (or an extinguishment) based on whether the modification is substantial under the guidance in Subtopic 470-50. See chapter 4 of KPMG Handbook, [Debt and equity financing](#), for guidance about accounting for modifications of debt instruments under Topic 470.
- **Topic 606 (revenue).** Determine whether the contract modification is treated as a separate contract or part of the existing contract and whether it should be accounted for prospectively, on a cumulative catch-up basis, or a combination of the two approaches. See chapter 11 of KPMG Handbook,

[Revenue recognition](#), for guidance about accounting for contract modifications under Topic 606.

- **Topic 842 (leases).** Determine whether to account for the modification as a separate contract, or as a modification of one or more existing leases. See section 6.7 (lessees) and section 7.6 (lessors) of KPMG Handbook, [Leases](#), for guidance about accounting for modifications of lease contracts under Topic 842.



Question 3.2.30

Which contract modification optional expedients are available for a derivative that does not reference an eligible reference rate but is modified for discounting transition?



Excerpt from ASC 848-10

> Implementation Guidance

55-1 The optional expedients in this Topic that may be applied to derivatives that meet the scope of paragraph 848-10-15-3A are specified in the following table.

Codification Subtopic	Provisions That Apply to Derivatives That Meet the Scope of Paragraph 848-10-15-3A
848-20	<ul style="list-style-type: none"> a. Option to apply certain expedients in the contract modification relief to derivative instruments that meet the scope of paragraph 848-10-15-3A (paragraph 848-20-15-2A). b. Option to apply contract modification relief if terms that do not change contractual cash flows are modified contemporaneously with the modification of the interest rate used for margining, discounting, or contract price alignment (paragraph 848-20-15-4). c. Option to elect contract modification relief for a change in the interest rate used for margining, discounting, or contract price alignment separately from other derivative instrument modifications (paragraphs 848-20-35-1 and 848-20-35-5). d. Option to not reassess a previous accounting determination (paragraph 848-20-35-4). e. Flowchart that summarizes how to navigate Subtopic 848-20 (paragraph 848-20-55-1). f. Implementation guidance that illustrates relief in paragraph 848-20-35-4, including relief from reassessing whether a modified derivative is a hybrid instrument and whether it includes a financing element (paragraph 848-20-55-2).

Interpretive response: The optional expedients listed in the above table are available when a derivative that does not reference an eligible reference rate is modified for discounting transition. They are also identified in the discussion in [section 3.3](#) as relevant to the individual expedients. [848-10-55-1]

3.2.20 Contracts that reference eligible reference rates



Excerpt from ASC 848-20

> Modification of Terms

15-3 Other than a modification of the interest rate used for margining, discounting, or contract price alignment in accordance with paragraph 848-20-15-2(b), for contracts that meet the scope of paragraph 848-10-15-3, the guidance in this Subtopic shall not apply if a contract modification is made to a term that changes, or has the potential to change, the amount or timing of contractual cash flows and is unrelated to the replacement of a reference rate. That is, this Subtopic shall not apply if contract modifications are made contemporaneously to terms that are unrelated to the replacement of a reference rate.

15-4 Contemporaneous modifications of contract terms that do not change, or do not have the potential to change, the amount or timing of contractual cash flows shall not preclude application of the guidance in this Subtopic, regardless of whether those contemporaneous contract modifications are related or unrelated to the replacement of a reference rate or the modification of the interest rate used for margining, discounting, or contract price alignment as a result of reference rate reform.

>> Identifying Changes to Terms Related and Unrelated to the Replacement of the Reference Rate

15-5 Changes to terms that are related to the replacement of the reference rate are those that are made to effect the transition for reference rate reform and are not the result of a business decision that is separate from or in addition to changes to the terms of a contract to effect that transition. Examples of changes to terms that are related to the replacement of a reference rate in accordance with the guidance in paragraph 848-20-15-2(a) include the following:

- a. Changes to the referenced interest rate index (for example, a change from London Interbank Offered Rate [LIBOR] to another interest rate index)
- b. Addition of or changes to a spread adjustment (for example, adding or adjusting a spread to the interest rate index, amending the fixed rate for an interest rate swap, or paying or receiving a cash settlement for any difference intended to compensate for the difference in reference rates)
- c. Changes to the reset period, reset dates, day-count conventions, business-day conventions, payment dates, payment frequency, and repricing calculation (for example, a change from a forward-looking term rate to an overnight rate or a compounded overnight rate in arrears)

- d. Changes to the strike price of an existing interest rate option (including an embedded interest rate option)
- e. Addition of an interest rate floor or cap that is out of the money on the basis of the spot rate at the time of the amendment of the contract
- f. Addition of a prepayment option for which exercise is contingent upon the replacement reference interest rate index not being determinable in accordance with the terms of the agreement
- g. Addition of or changes to contractual fallback terms that are consistent with fallback terms developed by a regulator or by a private-sector working group convened by a regulator
- h. Changes to terms (including those in the examples in paragraph 848-20-15-6) that are necessary to comply with laws or regulations or to align with market conventions for the replacement rate.

15-6 Examples of changes to terms that are generally unrelated to the replacement of a reference rate in accordance with paragraph 848-20-15-3 include the following:

- a. Changes to the notional amount
- b. Changes to the maturity date
- c. Changes from a referenced interest rate index to a stated fixed rate
- d. Changes to the loan structure (for example, changing a term loan to a revolver loan)
- e. The addition of an underlying or variable unrelated to the referenced rate index (for example, addition of payments that are indexed to the price of gold)
- f. The addition of an interest rate floor or cap that is in the money on the basis of the spot rate at the time of the amendment of the contract
- g. A concession granted to a debtor experiencing financial difficulty
- h. The addition or removal of a prepayment or conversion option except for the addition of a prepayment option for which exercise is contingent upon the replacement reference interest rate index not being determinable in accordance with the terms of the agreement
- i. The addition or removal of a feature that is intended to provide leverage
- j. Changes to the counterparty except in accordance with paragraphs 815-20-55-56A, 815-25-40-1A, and 815-30-40-1A
- k. Changes to the priority or seniority of an obligation in the event of a default or a liquidation event
- l. The addition or termination of a right to use one or more underlying assets in a lease contract
- m. Changes to renewal, termination, or purchase option provisions in a lease contract.

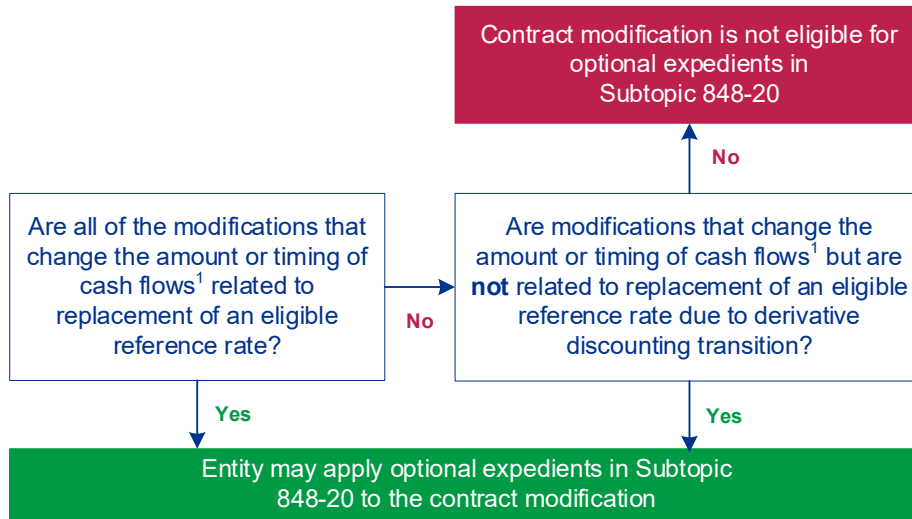
If a modification of a contract that references an eligible reference rate is in the scope of Subtopic 848-20, all of Subtopic 848-20's optional expedients are available.



Question 3.2.40

What changes to contractual terms result in a modification being in the scope of Subtopic 848-20?

Interpretive response: The considerations for determining whether the modification of a contract that references an eligible reference rate is in the scope of Subtopic 848-20 are summarized in the following decision tree. [848-20-15-2 – 15-3]



Note:

1. In this decision tree, modifications are considered to change the amount or timing of contractual cash flows if they have the potential to do so.

When the decision tree results in a conclusion that the entity may apply the optional expedients in Subtopic 848-20 to the contract modification, contemporaneous modifications of contractual terms that do **not** change (or do **not** have the potential to change) the amount or timing of contractual cash flows are also permitted. [848-20-15-4]

The remainder of this section addresses whether a modification is related to the replacement of an eligible reference rate.



Question 3.2.50

What changes to contractual terms are related to replacement of an eligible reference rate?

Interpretive response: Changes made to affect the transition for reference rate reform are considered related to replacement of an eligible reference rate and therefore are in the scope of Subtopic 848-20. In contrast, changes to terms that are the result of new business decisions separate from the transition for reference rate reform are not considered related and therefore are not in scope. [848-20-15-5]

The table below lists examples of changes to contractual terms and identifies whether they are related or unrelated to replacement of the reference rate. The list, which is based on paragraphs 848-20-15-5 to 15-6, is not exhaustive. [\[ASU 2020-04.BC29\]](#)

Changes that are related [848-20-15-5]	Changes that are generally unrelated [848-20-15-6]
<ul style="list-style-type: none"> — Changing the reference rate index: <ul style="list-style-type: none"> — e.g. a change from LIBOR to another interest rate index. — Adding or changing a spread adjustment – e.g.: <ul style="list-style-type: none"> — adding or adjusting a spread to the interest rate index — amending the fixed rate for an interest rate swap — paying or receiving a cash settlement for any difference intended to compensate for the difference in reference rates. <p>See Question 3.2.100.</p> — Changing: <ul style="list-style-type: none"> — reset period — reset dates — day-count conventions — business-day conventions — payment dates — payment frequency — repricing calculation (e.g. a change from a forward-looking term rate to an overnight rate, a compounded overnight rate in arrears). — Changing the strike price of an existing interest rate option (including an embedded interest rate option). — Adding an interest rate floor or cap that is out-of-the-money based on the spot rate at the time of the contract amendment. See Question 3.2.120. — Adding a prepayment option for which exercise is contingent on the replacement reference interest rate index not being determinable under the terms of the agreement. — Adding or changing contractual fallback terms that are consistent with fallback terms developed by: <ul style="list-style-type: none"> — a regulator; or 	<ul style="list-style-type: none"> — Changing the notional amount. — Changing the maturity date. — Changing from a referenced interest rate index to a stated fixed rate. See Questions 3.2.40 and 3.2.50. — Changing the loan structure: <ul style="list-style-type: none"> — e.g. changing a term loan to a revolver loan. — Adding an interest rate floor or cap that is in-the-money based on the spot rate at the time of the contract amendment. See Question 3.2.120. — Adding an underlying or variable unrelated to the reference rate index: <ul style="list-style-type: none"> — e.g. adding payments indexed to the price of gold. — Granting a concession to a debtor experiencing financial difficulty. See chapter 4 of KPMG Handbook, Debt and equity financing, and chapter 11 of KPMG Handbook, Credit impairment, for guidance on troubled debt restructurings. — Adding or removing a prepayment or conversion option, except for adding a prepayment option for which exercise is contingent upon the replacement reference interest rate index not being determinable in accordance with the terms of the agreement. — Adding or removing a feature that is intended to provide leverage. — Changing the counterparty except certain derivative novations. See Question 3.2.100. — Changing the priority or seniority of an obligation in the event of a default or a liquidation event. — Adding or terminating a right to use one or more underlying assets in a lease contract.

Changes that are related [848-20-15-5]	Changes that are generally unrelated [848-20-15-6]
<ul style="list-style-type: none"> — a private-sector working group convened by a regulator. See Question 3.2.90. — Making changes to terms that are necessary: <ul style="list-style-type: none"> — to comply with laws or regulations; or — to align with market conventions for the replacement rate (even if those changes are included as examples of ‘unrelated’ changes). 	<ul style="list-style-type: none"> — Changing renewal, termination or purchase option provisions in a lease contract.



Example 3.2.10 Short-term payment deferral on loan

On April 15, 2020, Bank modified a single-family residential loan. The loan had an original term of 15 years, maturing on March 31, 2025, and required monthly payment of interest (based on 3-month LIBOR) and principal. At the time of the modification, Bank had not received the payment due on March 31, 2020, but the loan had not been delinquent before that payment. The modification included the following changes.

- **Replacement of reference rate.** Interest to be based on SOFR plus a spread adjustment, instead of 3-month LIBOR.
- **Payment deferral.** The borrower was not required to make the payments due on the last day of each month from March through May 2020. The loan was reamortized such that the unpaid principal balance (and accrued interest during the deferral period) would be repaid through higher monthly payments over the remaining term.

Bank concluded that the loan modification was not a troubled debt restructuring. This is because the modification did not represent a concession granted to a debtor experiencing financial difficulty, which would have been a change unrelated to replacement of the reference rate.

The modification was not eligible for the contract modification optional expedient in Subtopic 848-20 (related to Topic 310). Although the modification included replacement of an eligible reference rate (i.e. replaced a LIBOR-based rate), the payment deferral was a modification that changed the amount and timing of the loan’s cash flows but was unrelated to replacement of the reference rate. Therefore, the modification did not meet the scoping conditions of Subtopic 848-20.



Question 3.2.60

Is a modification that changes a reference rate index to a fixed rate in the scope of Subtopic 848-20?



Excerpt from ASC 848-20

>> Changes from a Referenced Interest Rate Index to a Stated Fixed Rate

15-9 A contract modification that directly replaces a reference rate index with a stated fixed rate is unrelated to reference rate reform in accordance with paragraph 848-20-15-6(c). However, the selection of a rate that is the last published rate of an interest rate index that is discontinued is not considered a stated fixed rate for the purpose of paragraph 848-20-15-6(c) (for example, a reference to the last published LIBOR rate is not considered unrelated to reference rate reform).

Interpretive response: Generally no, not if the reference interest rate index is directly changed to a stated fixed rate (e.g. 5%). [848-20-15-6(c), 15-9]

However, when contractual fallback terms are added or amended to include a stated fixed rate, additional analysis is required under the guidance for contractual fallback terms; see [Question 3.2.80](#).

In addition, a rate that is the last published rate of an interest rate index that is discontinued is not considered a *stated* fixed rate. For example, a fallback term specifies that, if LIBOR ceases to be published, a contract's rate will become fixed at the last published LIBOR rate; this does not include a stated fixed rate and is not considered unrelated to reference rate reform. [848-20-15-9]



Question 3.2.70

What is an example of a modification that has the 'potential to change' the amount or timing of contractual cash flows?

Interpretive response: An example is changing or adding contractual fallback terms. Contractual fallback terms are provisions that specify an alternative rate (or series of potential alternative rates) that is activated when a contingent event occurs – e.g. when an eligible reference rate is discontinued. Such a change or addition to fallback provisions can be made before the contract's actual rate is discontinued. [ASU 2020-04.BC25, BC26]

Although such a modification may not change the amount or timing of contractual cash flows at the time of the modification, it would have the potential to change the amount or timing of contractual cash flows in the future (i.e. when the reference rate is discontinued).



Question 3.2.80

How does an entity evaluate whether added (or changed) contractual fallback terms are related to replacement of an eligible reference rate?



Excerpt from ASC 848-20

>>> Changes to Contractual Fallback Terms

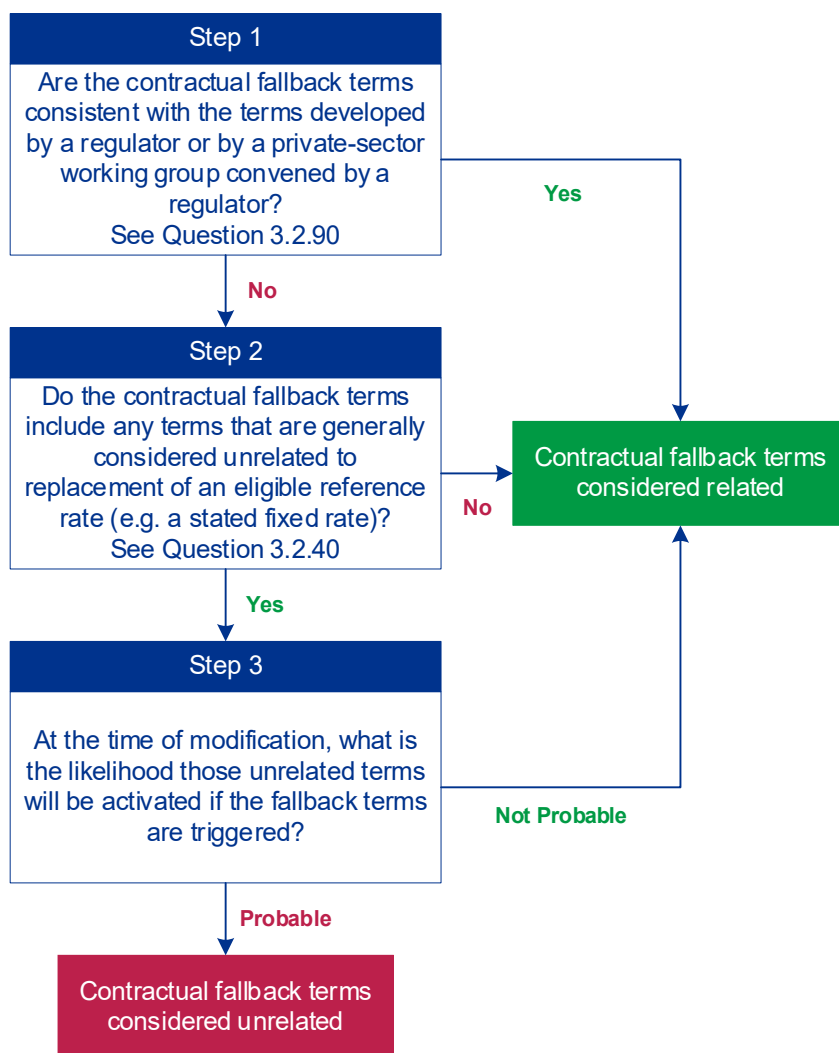
15-7 The addition of contractual fallback terms, or the amendment of existing contractual fallback terms, to be consistent with fallback terms developed by a regulator or by a private-sector working group convened by a regulator is presumed to be related to reference rate reform in accordance with paragraph 848-20-15-5(g). That includes a predefined method to replace the current reference rate upon the discontinuance (or an anticipated discontinuance) of the reference rate.

15-8 If an entity modifies a contract to add contractual fallback terms or to change contractual fallback terms in a manner that is not consistent with fallback terms developed by a regulator or by a private-sector working group convened by a regulator, the entity shall assess whether the fallback terms include, or have the potential to include, a term that is unrelated to reference rate reform in accordance with paragraph 848-20-15-6 (for example, whether it is possible that the replacement rate could be a stated fixed rate). However, the inclusion of fallback terms that include, or have the potential to include, a term that is unrelated to reference rate reform shall be disregarded by an entity if at the time that the contractual fallback terms are added or amended the entity determines that activation of the term unrelated to reference rate reform is not probable of occurring if the fallback terms are triggered.

>>> Changes from a Referenced Interest Rate Index to a Stated Fixed Rate

15-10 If a contract has existing contractual fallback terms that replace the current reference rate with a stated fixed rate upon the discontinuation of that current reference rate, a modification to those contractual fallback terms to replace the stated fixed rate with a new interest rate index is a change that is related to the replacement of the reference rate in accordance with paragraph 848-20-15-5.

Interpretive response: The following decision tree summarizes the requirements for determining whether contractual fallback terms are in the scope of Subtopic 848-20. [848-20-15-7 – 15-8, ASU 2020-04.BC25, BC31]



Example 3.2.20

Contractual fallback terms that include a stated fixed rate

ABC Corp. has an outstanding debt obligation that currently bears interest at LIBOR plus 300 basis points. ABC modifies the debt agreement to add contractual fallback terms, which will be triggered if LIBOR is discontinued. The contractual fallback terms to be added are not consistent with the fallback terms developed by a regulator or by a private-sector working group convened by a regulator.

The contractual fallback terms include the following series of potential rates that will be activated in the event LIBOR is discontinued; the first rate in the

sequence that is determinable under the debt agreement will be applied if the fallback terms are activated:

- a rate based on SOFR plus an appropriate spread adjustment
- a rate based on the US Prime Rate plus an appropriate spread adjustment
- a stated fixed rate of 5%.

Because 5% is a stated fixed rate, the contractual fallback terms include a term that would be considered unrelated to replacement of the reference rate. Therefore, ABC evaluates the likelihood that the 5% rate will be activated if the contractual fallback terms are triggered (Step 3 in [Question 3.2.80](#)).

ABC determines that activation of the 5% fallback term is not probable because both SOFR and the US Prime Rate are not expected to be discontinued and therefore are expected to be determinable. As such, ABC determines that it can disregard this term and concludes that the contractual fallback terms are in the scope of Subtopic 848-20. Therefore, the contract modification is eligible for the optional expedient.



Question 3.2.90

How does an entity determine whether contractual fallback terms are 'consistent with' those developed by a regulator or private-sector working group convened by a regulator?

Interpretive response: We believe an entity should perform a qualitative assessment to determine whether contractual fallback terms are substantially similar to fallback terms developed by a regulator or private-sector working group convened by a regulator. Examples of private-sector working groups convened by a regulator include the Alternative Reference Rates Committee (ARRC) and the International Swaps and Derivatives Association (ISDA). [\[ASU 2020-04.BC31\]](#)



Question 3.2.100

Is an entity required to demonstrate that an added (or changed) spread adjustment strictly compensates for differences in reference rates?

Interpretive response: No. Subtopic 848-20 indicates that addition of (or changes to) a spread adjustment is a change to terms that is related to replacement of the reference rate without limitations. [\[848-20-15-5\(b\)\]](#)

Further, we believe that when a spread adjustment is made without cash compensation, the Board did not intend to require entities to determine whether the spread adjustment is strictly to reflect differences in the original and replacement reference rates.



Question 3.2.110

Is a change to a contract's (or financial instrument's) counterparty considered a related change?

Interpretive response: It depends. Typically, a change to a contract's or financial instrument's counterparty (including a hedged item in a hedging relationship) is considered unrelated to replacement of the reference rate. [848-20-15-6(j)]

However, a change to the counterparty of a derivative hedging instrument resulting from a derivative novation based on Topic 815's guidance is an exception; such changes are *not* considered unrelated to replacement of the reference rate. [848-20-15-6(j)]

The guidance in Topic 815 is summarized in the following table.

A change in the counterparty to a derivative instrument that has been designated as the hedging instrument in:	
an existing hedging relationship is not, in and of itself, considered a change in a critical term of the hedging relationship. [815-20-55-56A]	an existing fair value or cash flow hedging relationship is not, in and of itself, considered a termination of the derivative instrument. [815-20-40-1A, 815-30-40-1A]

Topic 815's derivative novation guidance applies only when a derivative is a designated hedging instrument. It does not apply to a derivative that is not designated as the hedging instrument in a hedging relationship; in that situation, a change to the derivative's counterparty is considered unrelated to replacement of the reference rate.

Section 6.10.30 in KPMG Handbook, [Derivatives and hedging](#), provides additional guidance on derivative novations.



Question 3.2.120

Is adding a cap or floor considered a related change?

Interpretive response: It depends on whether the added cap or floor is in-the-money or out-of-the-money based on the spot rate at the time of the modification. The Board's rationale for this distinction is summarized as follows. [ASU 2020-04.BC34]

- **In-the-money cap or floor.** The Board decided this is an *unrelated* change because adding an in-the-money cap or floor could result in an immediate transfer of value associated with that feature.
- **Out-of-the-money cap or floor.** The Board decided this is considered *related* to replacement of the reference rate because it may protect an entity from exposure to the potential volatility of a new reference rate.

3.2.30 Accounting policy considerations



Excerpt from ASC 848-20

> Option to Apply Expedients

35-1 An entity may elect to apply the guidance in this Subtopic to account for contract modifications that meet the scope of paragraphs 848-20-15-2 through 15-3. If an entity elects to apply the guidance in this Subtopic, the entity shall apply it for all contract modifications that meet the scope of paragraphs 848-20-15-2 through 15-3 that otherwise would be accounted for in accordance with the same Topic or Industry Subtopic with the exception of derivative instruments that change the interest rate used for margining, discounting, or contract price alignment. The election to apply the guidance in this Subtopic to account for the modification of the interest rate used for margining, discounting, or contract price alignment for derivative instruments is separate from the election to apply the guidance in this Subtopic to account for other derivative instrument modifications. For example:

- a. If an entity applies the guidance in this Subtopic to modifications of a lease for a lessee accounted for in accordance with Topic 842, it shall apply the guidance in this Subtopic to all modifications of leases accounted for in accordance with Topic 842 that meet the scope of paragraphs 848-20-15-2 through 15-3.
- b. If an insurance entity applies the guidance in this Subtopic to modifications of a contract accounted for in accordance with Topic 310 on receivables, it shall apply the guidance in this Subtopic to all modifications of contracts accounted for in accordance with Industry Subtopic 944-310 that meet the scope of paragraphs 848-20-15-2 through 15-3. The entity does not need to apply the guidance in this Subtopic to contracts within the scope of other Industry Subtopics of Topic 944 that meet the scope of paragraphs 848-20-15-2 through 15-3.
- c. If an entity applies the guidance in this Subtopic to modifications of an interest rate used for margining, discounting, or contract price alignment for derivative instruments as of July 1, 2020, it shall apply the guidance in this Subtopic to all modifications of an interest rate used for margining, discounting, or contract price alignment for derivative instruments on and after July 1, 2020. The entity is not required to apply the guidance in this Subtopic to other modifications of derivative instruments (for example, changes in the reference rate index) as of July 1, 2020. For example, the entity may elect to apply the guidance in this Subtopic to other derivative instrument modifications as of January 1, 2021. Alternatively, the entity may elect not to apply the guidance in this Subtopic to other derivative instrument modifications at any date.

> Optional Expedient: Contract Modifications Due to Reference Rate Reform

35-5 If the optional expedient in paragraphs 848-20-35-3 through 35-4 is elected, it shall be applied to all contracts accounted for under the relevant Topic or Industry Subtopic with the exception of derivative instruments that

change the interest rate used for margining, discounting, or contract price alignment, as described in paragraph 848-20-35-1.

>> Embedded Derivatives within the Scope of Subtopic 815-15

35-15 If the optional expedient in paragraph 848-20-35-14 is elected, it shall be applied to all contracts under Subtopic 815-15 as described in paragraph 848-20-35-1.



Question 3.2.130

Can an entity apply the optional expedients in Subtopic 848-20 on a contract-by-contract basis?

Interpretive response: No. Once an entity elects an optional expedient for a contract modification, it is required to apply that expedient to all eligible contract modifications that fall in the same Topic (e.g. Topic 470 on debt) or industry Subtopic, with the exception of derivatives impacted by discounting transition. Further, an entity that elects the Subtopic 815-15 optional expedient – to not reassess whether a contract contains an embedded derivative that is clearly and closely related to the host contract – must apply that expedient to all contracts under Subtopic 815-15. [848-10-55-1, 848-20-35-1, 35-5, 35-15]

When an entity elects the contract modification optional expedients for derivatives impacted by discounting transition, it is required to apply the expedients to other derivatives modified due to discounting transition. However, the entity is not required to apply the contract modification optional expedients to other types of modifications of derivatives (e.g. changes in the reference rate index). [848-10-55-1, 848-20-35-1(c), 35-5]

[Section 2.4](#) discusses a derivative modification due to discounting transition.



Example 3.2.30

Option to apply expedients

Scenario 1: Modifications of leases

ABC Corp. has several lease agreements accounted for under Topic 842. ABC is the lessee for some leases and is the lessor for others. These agreements have variable payments that reference LIBOR.

In June 2020, ABC modified a lease for which it was the lessee to replace LIBOR as the reference rate. The modification met the conditions of (and ABC elected) the optional expedient in Subtopic 848-20 related to Topic 842 (see [Question 3.3.10](#)). Therefore, it did not reassess the lease classification, remeasure lease payments or perform other reassessments or remeasurements that would otherwise have been required (including not remeasuring the lease liability).

In September 2020, ABC modified a lease for which it is the lessor to change LIBOR as the reference rate. The modification met the conditions of the same optional expedient in Subtopic 848-20. Therefore, ABC was required to apply

that expedient because it must be applied to all eligible modifications of lease agreements that would otherwise be accounted for under Topic 842's modification guidance.

Scenario 2: Modifications of loan and debt security

Bank is a financial institution that originates commercial loans and invests in debt securities. The interest rates on certain loans and debt securities reference LIBOR.

In July 2020, Bank modified a commercial loan to replace LIBOR because the reference rate and the modification met the conditions of the optional expedient in Subtopic 848-20 related to Topic 310 (see [Question 3.3.10](#)). Bank elected the optional expedient and therefore accounted for the modification as if it was only minor under paragraph 310-20-25-10.

In October 2020, Bank modified a debt security to replace LIBOR as the reference rate and the modification met the conditions of the same optional expedient in Subtopic 848-20. Therefore, Bank was required to apply that expedient because it must be applied to all eligible modifications that would otherwise be accounted for under Topic 310's modification guidance.



Question 3.2.140

Can an entity that modifies a contract in anticipation of an eligible reference rate being discontinued apply the expedients in Subtopic 848-20?



Excerpt from ASC 848-20

> Modifications before the Discontinuance of a Reference Rate

15-11 An entity may modify the terms of a contract in anticipation of the discontinuance of the reference rate (that is, before the actual discontinuance of the reference rate).

Interpretive response: Yes. An entity that modifies a contract's terms in anticipation of an eligible reference rate being discontinued can apply the expedients in Subtopic 848-20. [\[848-20-15-11\]](#)

3.3 Optional expedients



Excerpt from ASC 848-20

05-1 This Subtopic provides optional expedients for contract modifications undertaken because of reference rate reform. It specifically addresses the accounting for modifications of contracts within the scope of Topics 310 on

receivables, 470 on debt, and 840 and 842 on leases and Subtopic 815-15 on derivatives and hedging—embedded derivatives. This Subtopic also provides a principle to account for modifications of contracts within the scope of other Topics or Industry Subtopics not specifically addressed within this Subtopic.

> Option to Apply Expedients

35-2 If a contract modification does not meet the guidance for applying the optional relief in this Subtopic and, therefore, an entity must apply the guidance in another Topic or Industry Subtopic to assess the contract modification, that result shall not preclude the entity from applying the optional expedients in this Subtopic if other contract modifications meet the guidance for applying this Subtopic.

> Optional Expedient: Contract Modifications Due to Reference Rate Reform

35-3 This Subtopic provides optional expedients for accounting for modifications of contracts accounted for in accordance with the following Topics that meet the scope of paragraphs 848-20-15-2 through 15-3:

- a. Topic 310 on receivables
- b. Topic 470 on debt
- c. Topic 840 or 842 on leases.

35-4 If a contract is not within the scope of the Topics referenced in paragraph 848-20-35-3, an entity shall have the option to account for and present a modification that meets the scope of paragraphs 848-20-15-2 through 15-3 as an event that does not require contract remeasurement at the modification date or reassessment of a previous accounting determination required under the relevant Topic or Industry Subtopic. Paragraph 848-20-55-2 includes examples that illustrate the application of that guidance.

Subtopic 848-20 provides two types of optional expedients – expedients based on specified Topics and Subtopics (‘specified optional expedients’) and one that is not specific to particular Topics or Subtopics. [\[848-20-35-3 –35-4\]](#)

The specified Topics and Subtopics are: [\[848-20-35-3\]](#)

- Topic 310 (receivables);
- Topic 470 (debt);
- Topics 840 and 842 (leases); and
- Subtopic 815-15 (embedded derivatives).

The optional expedient that is not specific to particular Topics or Subtopics applies when a contract meets Subtopic 848-20’s scope criteria (see [section 3.2.10](#)) but is not also in the scope of one of the specified Topics or Subtopics. It allows an entity to elect not to remeasure a contract at the modification date and not to reassess a previous accounting determination made under the Topic or Subtopic that would otherwise apply. [\[848-10-55-1,848-20-35-4\]](#)

As discussed in [Question 3.2.140](#), once an entity elects an optional expedient for a contract modification, it is required to apply that expedient to all eligible contract modifications that fall in the same Topic or Industry Subtopic, with the exception of derivatives impacted by discounting transition. Further, an entity

that elects the Subtopic 815-15 optional expedient must apply that expedient to all contracts under Subtopic 815-15. [848-10-55-1, 848-20-35-1, 35-5, 35-15]



Question 3.3.10

How are contract modifications accounted for under the specified optional expedients?



Excerpt from ASC 848-20

>> Contracts within the Scope of Topic 310

35-6 If an entity elects the optional expedient in this paragraph, the entity shall account for a modification of a contract within the scope of Topic 310 that meets the scope of paragraphs 848-20-15-2 through 15-3 as if the modification was only minor in accordance with paragraph 310-20-35-10.

35-7 If the optional expedient in paragraph 848-20-35-6 is elected, it shall be applied to all contracts subject to Topic 310 as described in paragraph 848-20-35-1.

>> Contracts within the Scope of Topic 470

35-8 If an entity elects the optional expedient in this paragraph, the entity shall account for a modification of a contract within the scope of Topic 470 that meets the scope of paragraphs 848-20-15-2 through 15-3 in accordance with paragraphs 470-50-40-14, 470-50-40-17(b), and 470-50-40-18(b) as if the modification was not substantial. That is, the original contract and the new contract shall be accounted for as if they were not substantially different from one another, and the modification shall not be accounted for in the same manner as a debt extinguishment in accordance with paragraph 470-50-40-13.

35-9 If the optional expedient in paragraph 848-20-35-8 is elected, it shall be applied to all contracts under Topic 470 as described in paragraph 848-20-35-1.

>> Contracts within the Scope of Topic 840 or 842

35-11 If an entity elects the optional expedient in this paragraph for a modification of a contract within the scope of Topic 840 or 842 that meets the scope of paragraphs 848-20-15-2 through 15-3, the entity shall not do any of the following:

- a. Reassess lease classification and the discount rate (for example, the incremental borrowing rate for a lessee)
- b. Remeasure lease payments
- c. Perform other reassessments or remeasurements that would otherwise be required under Topic 840 or 842 when a modification of a lease contract is not accounted for as a separate contract.

35-12 If the optional expedient in paragraph 848-20-35-11 is elected, it shall be applied to all contracts under Topic 840 or 842 as described in paragraph 848-20-35-1.

>>> Lessees

35-13 If the optional expedient in paragraph 848-20-35-11 is elected, the modification of the reference rate and other terms related to the replacement of the reference rate on which variable lease payments in the original contract depended shall not require an entity to remeasure the lease liability. The change in the reference rate shall be treated in the same manner as the variable lease payments that were dependent on the reference rate in the original lease. That change shall not be included in the calculation of the lease liability; that is, the change shall be recognized in profit or loss in the period in which the obligation for those payments is incurred.

>> Embedded Derivatives within the Scope of Subtopic 815-15

35-14 If the optional expedient in this paragraph is elected, modification of a contract that meets the scope of paragraphs 848-20-15-2 through 15-3 (including the addition of an interest rate floor or cap that is out of the money in paragraph 848-20-15-5(e)) shall not require an entity to reassess its original conclusion about whether that contract contains an embedded derivative that is clearly and closely related to the economic characteristics and risks of the host contract for the purposes of paragraph 815-15-25-1(a).

Interpretive response: The following table summarizes the accounting for a contract modification under the specified optional expedients.

Contract in the scope of	Accounting under the optional expedient (without additional analysis needed)
Topic 310 (receivables)	<p>Account for the modification as a continuation of the existing contract</p> <p>Treat the modification as if it is only minor under paragraph 310-20-25-10. [848-20-35-6]</p>
Topic 470 (debt)	<p>Account for the modification as a continuation of the existing contract</p> <p>Treat the modification as if it is not substantial under paragraphs 470-50-40-14, 40-16, 40-17(b), and 40-18(b) – i.e. the original contract and the new contract are not substantially different; not a debt extinguishment. [848-20-35-8]</p>
Topics 840 or 842 (leases)	<p>Account for the modification as a continuation of the existing contract</p> <ul style="list-style-type: none"> — Do not: [848-20-35-11] <ul style="list-style-type: none"> — reassess lease classification and the discount rate (e.g. the incremental borrowing rate for a lessee); — remeasure lease payments; or — perform other reassessments or remeasurements that would otherwise be required when a modification of a lease contract is not accounted for as a separate contract. — Changes to variable lease payments (lessees): [848-20-35-13] <ul style="list-style-type: none"> — do not remeasure the lease liability; instead, recognize the change in profit or loss in the period in which the obligation for those payments is incurred.

Contract in the scope of	Accounting under the optional expedient (without additional analysis needed)
Subtopic 815-15 (embedded derivatives)	<p>Continue to treat embedded features as clearly and closely related to the host contract</p> <p>Do not reassess the original conclusion about whether the contract contains an embedded derivative that is clearly and closely related to the economic characteristics and risks of the host contract for the purposes of paragraph 815-15-25-1(a). [848-20-35-14]</p>



Question 3.3.20

If an optional expedient is applied to a debt modification, how is the 10% test performed for a subsequent modification that is not eligible for the optional expedient?



Excerpt from ASC 848-20

>>> Debt Exchanges or Modifications within a Year of the Current Modification

35-10 If the optional expedient in paragraph 848-20-35-8 is elected, an entity that applies the 10 percent cash flow test described in paragraph 470-50-40-10 for any subsequent contract modification within a year shall consider only terms and provisions that were in effect immediately following the election of the optional expedient for the particular contract.



Excerpt from ASC 470-50

> Modifications and Exchanges

40-12 The following guidance shall be used to calculate the present value of the cash flows for purposes of applying the 10 percent cash flow test described in paragraph 470-50-40-10: ...

- f. If within a year of the current transaction the debt has been exchanged or modified without being deemed to be substantially different, then the debt terms that existed a year ago shall be used to determine whether the current exchange or modification is substantially different.

Background: Under Subtopic 470-50, a 10% test is applied to determine whether a debt modification is substantially different – and therefore is to be accounted for as an extinguishment instead of as a continuation of the debt. If within a year of the current transaction the debt has been exchanged or

modified without being deemed substantially different, the debt terms that existed a year ago are used to determine whether the current exchange or modification is substantially different. [470-50-40-12(f)]

Interpretive response: The 10% test is applied to subsequent modifications using the debt terms existing immediately after the modification to which the expedient is applied. Therefore, the terms of the subsequent modification are not compared to the debt terms that existed one year earlier – i.e. to the debt terms existing before the modification to which the expedient is applied. [848-20-35-10]



Example 3.3.10 Series of debt modifications

On January 1, 2018, Debtor borrowed \$1 million under a 5-year debt agreement maturing on December 31, 2023. The interest rate was originally based on 3-month LIBOR, payable annually on December 31. The debt agreement did not include prepayment features.

The following debt modifications were made in 2020.

- **April 1, 2020.** The payment frequency was changed from annually to semi-annually. Interest payments are now due June 30 and December 31. This modification was not eligible for an expedient in Topic 848 and Debtor concluded the modification was not substantial under Topic 470.
- **June 1, 2020.** Fallback language was added that replaced LIBOR with SOFR in the event 3-month LIBOR is discontinued. Debtor concluded the modification was eligible for (and elected to apply) the optional expedient in Subtopic 848-20 related to Topic 470.
- **November 1, 2020.** The debt's maturity date was extended by 2 years (to December 31, 2025). Debtor concluded that the modification was not eligible for the expedient in Subtopic 848-20 related to Topic 470.

Because Debtor applied that optional expedient to the June 1, 2020 modification, Debtor applied the 10% test to the November 1, 2020 modification based on a comparison to the debt's terms after the June 1, 2020 modification. This was instead of making a comparison to the debt's terms on November 1, 2019 – i.e. the terms that existed a year ago.



Question 3.3.30

How are contract modifications accounted for under the expedient that is not specific to particular (Sub)Topics?



Excerpt from ASC 848-20

> Implementation Guidance

55-2 The following table illustrates the potential outcomes of applying the guidance in paragraph 848-20-35-4 to contract modifications that meet the scope of paragraphs 848-20-15-2 through 15-3 but are not within the scope of the Topics listed in paragraph 848-20-35-3. This table is not intended to be all-inclusive of the potential application of paragraph 848-20-35-4.

Contract or Instrument Modified as a Result of Reference Rate Reform	Potential Outcome of Applying Paragraph 848-20-35-4
An instrument accounted for as a derivative instrument in accordance with Subtopic 815-10	An entity should not reassess the modified instrument to determine whether it is a hybrid instrument and whether it includes a financing element in accordance with paragraphs 815-10-45-11 through 45-15. The modified instrument should be accounted for and presented in the same manner as the instrument existing before the modification.
A contract issued by an insurance entity and accounted for in accordance with Topic 944	An entity should not reassess the modified contract to determine whether it is substantially unchanged in accordance with Subtopic 944-30. The modified contract should be accounted for and presented as a continuation of the contract existing before the modification.
A contract accounted for in accordance with Topic 606 on revenue from contracts with customers	An entity should not reassess the modified contract in accordance with the contract modification guidance in paragraphs 606-10-25-10 through 25-13. Cash flow changes resulting from variability in the replacement reference rate should be accounted for and presented in the same manner as the cash flow changes that resulted from variability in the replaced reference rate before the modification for reference rate reform.
A contract with a counterparty entity that is within the scope of the Variable Interest Entities (VIE) Subsections in accordance with Topic 810 on consolidation	An entity should not reconsider the determination of the counterparty entity's VIE status in accordance with paragraph 810-10-35-4. The counterparty entity's VIE status should remain unchanged from the VIE status determined before the modification.

Interpretive response: This expedient applies when US GAAP in Topics or Subtopics other than those identified in the specified optional expedients provide guidance on how to account for a contract modification.

The following table provides examples of how this expedient is applied. It is based on the examples in paragraph 848-20-55-2. [\[848-10-55-1, 848-20-55-2\]](#)

Contract in the scope of	How this expedient is applied:
Subtopic 815-10 (derivatives)	Account for the modification as a continuation of the existing contract Do not reassess whether the modified derivative instrument: <ul style="list-style-type: none"> — is a hybrid instrument; or — includes a financing element that is other-than-insignificant.
Topic 944 (insurance)	Account for the modification as a continuation of the existing contract Do not reassess the modified insurance contract to determine whether it is substantially unchanged under Subtopic 944-30.
Topic 606 (revenue)	Account for the modification as a part of the existing contract <ul style="list-style-type: none"> — Do not treat the contract as modified for accounting purposes – i.e. do not apply the contract modification guidance in paragraphs 606-10-25-10 to 25-13. — Treat cash flow changes arising from replacing the reference rate in the same manner as cash flow changes resulting from variability in the original reference rate were treated before the modification.
Topic 810 (variable interest entities, VIEs)	Continue to treat the counterparty entity's VIE status the same as before the modification <ul style="list-style-type: none"> — Do not reconsider the determination of the counterparty entity's VIE status under paragraph 810-10-35-4. — Therefore, the counterparty entity's VIE status remains unchanged from the VIE status determined before the modification.



Question 3.3.40

Must an entity evaluate whether a modified derivative instrument meets the definition of a derivative when a modification is in the scope of Subtopic 848-20?

Background: When derivative counterparties agree to amend the terms of a derivative, in some cases the amendment is viewed as a termination of the existing derivative and an issuance of a new instrument. For example, this may occur if the derivative's substantive terms (e.g. strike price, maturity date) are changed. In these cases, it is necessary to determine whether the newly issued

instrument meets the definition of a derivative, including whether it meets the initial net investment characteristic.

KPMG Handbook, [Derivatives and hedging](#), section 6.10.30, including Question 6.10.70, discusses changes in a derivative's substantive terms.

Interpretive response: No. Although US GAAP does not provide explicit guidance for determining whether an amendment is viewed as a termination of the existing derivative and issuance of a new instrument, Subtopic 848-20 provides guidance on how its expedient that is not specific to particular Topics or Subtopics is applied to derivative instruments.

That guidance states that when all changes are related to replacement of the reference rate, a modified derivative instrument: [\[848-20-55-2\]](#)

- is not reassessed to determine whether it is a hybrid instrument or includes a financing element that is other-than-insignificant; and
- is accounted for and presented in the same manner as before the modification.

We believe that when Subtopic 848-20 applies, an entity should not reassess whether the modified instrument meets the definition of a derivative.



Question 3.3.50

Can an issuer of an equity-classified preferred share apply the expedient that is not specific to particular (Sub)Topics to an amendment of the share's terms?

Background: An issuer may amend the terms of its equity-classified preferred shares to replace a LIBOR-based index for paying dividends. US GAAP does not provide guidance on how to account for modifications of equity-classified preferred shares and Topic 848 does not specifically address amendments to equity-classified preferred shares.

However, the SEC staff has expressed views about how an issuer should:

- **determine whether an amendment is a modification (i.e. continuation of the existing instrument) or extinguishment.** The staff observed that the most common approach to making this determination is to qualitatively assess the business purpose for the change and the new, removed and changed contractual terms. If an issuer assesses these changes to be significant, it treats the amendment or exchange as an extinguishment. Otherwise, the change is considered a modification to the preferred shares.

Question 5.4.60 in KPMG Handbook, [Debt and equity financing](#), further discusses making this determination, including a description of other approaches that may be used (the fair value, cash flow and legal approaches).

- **account for a modification.** When an entity concludes that an amendment to (or exchange of) preferred shares is a modification, the staff has not objected to recording the incremental fair value of the modified instrument as a deemed dividend or (in certain unique circumstances) in earnings.

Questions 5.4.70 to 5.4.90 in KPMG Handbook, [Debt and equity financing](#), further discuss accounting for an amendment.

Interpretive response: No, that expedient does not apply because US GAAP does not provide guidance on how to account for such modifications.

Instead, we believe the issuer should apply the SEC staff views for determining whether the amendment is a modification or extinguishment and for accounting for the amendment. Those views permit an entity to apply several approaches in making that determination and for recognizing the effects of a modification.

However, the SEC staff has addressed its views about accounting for an amendment of an equity-classified perpetual preferred share to replace the LIBOR-based index when the following conditions are met: [\[2019 AICPA Conf, ARRC 12-19\]](#)

- the preferred shares have LIBOR-linked dividends;
- the amendments replace the current LIBOR index with a replacement index upon the cessation of LIBOR (in anticipation of the cessation of LIBOR);
- the sole business purpose of the amendments made to the preferred shares is to designate a new variable index to replace LIBOR that is currently being used to determine the preferred share dividend amounts (as opposed to transferring value from one party to another); and
- no cash is exchanged between the issuer and investor.

When those conditions are met, the SEC staff does not object to the following accounting. [\[2019 AICPA Conf, ARRC letter 12-19\]](#)

Accounting aspect	Application guidance
Determining whether the amendment is a modification or extinguishment	When the issuer applies a qualitative approach for making this determination, it concludes that the amendment is a modification (i.e. a continuation of the existing instrument).
Recognizing the modification	An issuer does not recognize any incremental fair value. This conclusion considers that the sole business purpose of the modification was to permanently replace LIBOR and not to transfer value to the holder. Further, the conclusion presumes that the modification will be negotiated at fair value and that market participants increasingly consider the expected cessation of LIBOR when determining fair value of LIBOR-linked contracts. As a result, any potential increase in fair value from the modification would be expected to be minimal.

Question 5.4.100 in KPMG Handbook, [Debt and equity financing](#), discusses accounting for an amendment of an equity-classified preferred share to replace the LIBOR-based index.

**Question 3.3.60**

Do debt instruments with certain interest reset features based on Overnight SOFR include embedded derivatives that must be evaluated for bifurcation?

Background: Because of its expected discontinuation, initiatives to use reference rates other than LIBOR are in process. Some alternative reference rates involve interest rate reset features based on Overnight SOFR. Those include the following.

SOFR-based interest rate reset convention	Description
Term SOFR	Interest is calculated based on a published forward-looking term SOFR for the corresponding tenor. ¹
Compounded SOFR 'In-Arrears'	Interest is calculated based on a daily compounded average of SOFR for the corresponding tenor implemented in arrears.
Compounded SOFR 'In-Advance'	Interest is calculated based on a daily compounded average of SOFR for the corresponding tenor implemented in advance.
Average SOFR 'In-Advance'	Interest is calculated based on a daily simple or compounded average of SOFR implemented in advance. The tenor of the SOFR rate may not match the reset frequency.
Note: 1. 'Corresponding tenor' means a period equivalent to the LIBOR tenor for the instrument – e.g. 1-month or 3-month.	

Ordinarily, any provision in a contract that affects contractually promised cash flows (other than certain foreign currency features) represents an embedded feature that an entity must evaluate as a potential embedded derivative that could require bifurcation.

Interpretive response: No. The SEC staff will not object to an entity considering the SOFR-based interest rate reset features identified in the Background to be terms of the host debt contract, instead of embedded derivative features. As a result, an entity is not required to evaluate whether they require bifurcation under Topic 815's embedded derivatives guidance. [\[AICPA Conf 2020, ARRC letter 05-20\]](#)

The SEC staff's views were based on expectations of how markets for commercial and consumer-based SOFR products would develop. As markets continue to develop and changes in facts or circumstances occur, entities will need to evaluate any new interest rate features.

4. Hedging relationships: Changes to critical terms

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4.1 How the standard works

This chapter discusses the available optional expedients in Subtopic 848-30 when an entity changes the critical terms of a hedging relationship. These expedients permit an entity to continue hedge accounting when certain critical terms of a hedging relationship change because of reference rate reform, as summarized in the following table.

Expedient is available to hedging relationships that reference an eligible reference rate (chapter 2)	Expedient is available to derivatives that do not reference an eligible reference rate but are modified for discounting transition (chapter 2)	Contractual changes must meet the scope conditions of Subtopic 848-20 (section 3.2)	Other relevant conditions
Changes to formal documentation (all types of hedges) (section 4.3.20) This expedient allows an entity to continue a hedging relationship when its hedge documentation is changed.			
✓	✓		A hedging relationship's critical terms are changed, and the entity elects an optional expedient in Subtopics 848-30, 848-40 or 848-50.
Changes to contractual terms of a hedging instrument, hedged item, or forecasted transaction (all types of hedges) (section 4.3.30) This expedient allows an entity to continue a hedging relationship when the contractual terms of the hedging instrument, hedged item or forecasted transaction are changed.			
✓	✓	✓	
Repricing intervals and dates of hedging instruments that are not the same (net investment hedges) (section 4.3.40) This expedient allows an entity to use a cross-currency interest rate swap with two variable legs as the hedging instrument even if both legs do not have the same repricing intervals and dates.			
✓			
Changes to effectiveness assessment method (cash flow hedges) (section 4.3.50) ¹ This expedient allows an entity to change a hedging relationship's effectiveness assessment method without dedesignating the hedging relationship.			
✓			An optional expedient from Subtopic 848-50 is elected as the new method or one of those optional expedient methods is being discontinued.

4. Hedging relationships: Changes to critical terms

Expedient is available to hedging relationships that reference an eligible reference rate (chapter 2)	Expedient is available to derivatives that do not reference an eligible reference rate but are modified for discounting transition (chapter 2)	Contractual changes must meet the scope conditions of Subtopic 848-20 (section 3.2)	Other relevant conditions
Rebalancing of hedging relationships (fair value and cash flow hedges) (section 4.3.60) This expedient allows an entity to rebalance a hedging relationship in certain ways without dedesignating the hedging relationship.			
✓			The method of assessing effectiveness of the hedging relationship is changed in certain situations.
Adjusting a fair value hedge basis adjustment accounted for under the shortcut method for cash compensation (fair value hedging relationships) (section 4.3.70) This expedient allows an entity to adjust the basis adjustment for the amount of cash compensation (or equivalent) resulting from derivative discounting transition using a reasonable approach.			
✓	✓		The method of assessing effectiveness of the hedging relationship is changed in certain situations.
Adjusting AOCI for cash compensation (cash flow hedging relationships) (section 4.3.80) This expedient allows an entity to adjust the amount in AOCI for the amount of cash compensation (or equivalent) resulting from derivative discounting transition using a reasonable approach.			
✓	✓		The method of assessing effectiveness of the hedging relationship is changed in certain situations.
Excluded components (all types of hedges) (section 4.3.90) This expedient allows an entity to change the method used to recognize in earnings an excluded component or to recognize in current earnings any change in fair value of an excluded component resulting from changes in a derivative's contractual terms.			
✓	✓	✓	
Note: 1. In addition to this optional expedient, certain other optional expedients also permit an entity to change the method of assessing effectiveness for a cash flow hedge; see Question 4.3.60 .			

4.2 Scope and applicability

4.2.10 Scope



Excerpt from ASC 848-30

05-1 This Subtopic provides guidance on optional expedients for allowing hedging relationships to continue when one or more of the critical terms of the hedging relationship change because of reference rate reform.

15-1 The guidance in this Subtopic provides optional expedients for the requirements of Subtopic 815-20 related to changes in the critical terms of a hedging relationship that may be applied if the hedging instrument or the hedged item or the hedged forecasted transaction in the hedging relationship references a rate that meets the scope of paragraph 848-10-15-3. Certain optional expedients in this Subtopic may be applied if the hedging instrument meets the scope of paragraph 848-10-15-3A (see paragraph 848-10-55-1).

25-1 This Section sets forth the conditions that allow amendments to be made to the formal designation and documentation of hedging relationships upon a change due to reference rate reform.

Generally, Topic 815 requires a hedging relationship to be discontinued when its critical terms are modified. However, Topic 848 provides optional expedients that allow a hedging relationship to continue when one or more of its critical terms change because of reference rate reform. [\[848-30-05-1\]](#)

The expedients for each critical term that may be changed without discontinuing the hedging relationship – and the conditions that must be met – are further explained in [section 4.3](#). However, all of the expedients require the hedging relationship to meet one of the following conditions, depending on the expedient. [\[848-30-15-1\]](#)

Hedging relationship references an eligible reference rate

- This condition is met when one or both of the following reference an eligible reference rate:
 - hedging instrument; and/or
 - hedged item or forecasted transaction.
- All optional expedients are available when this condition is met.

Hedging relationship does not reference an eligible reference rate but is modified for derivative discounting transition

- This condition is met when the derivative hedging instrument is modified as a result of reference rate reform to change the interest rate for margining, discounting or contract price alignment.
- Only some optional expedients are available when this condition is met.

[Chapter 2](#) discusses eligible reference rates and derivative discounting transition.



Question 4.2.10

Which 'changes to contractual terms' optional expedients are available for a derivative that does not reference an eligible reference rate but is modified for discounting transition?



Excerpt from ASC 848-10

> Implementation Guidance

55-1 The optional expedients in this Topic that may be applied to derivatives that meet the scope of paragraph 848-10-15-3A are specified in the following table.

Codification Subtopic	Provisions That Apply to Derivatives That Meet the Scope of Paragraph 848-10-15-3A
848-30	<ul style="list-style-type: none"> a. Option to apply the hedging relief on an individual hedge and individual expedient basis (paragraph 848-30-25-2). b. Option to not dedesignate a hedging relationship due to a change in a critical term (paragraph 848-30-25-3). c. Requirement to update hedge documentation for a change in a critical term (paragraph 848-30-25-4). d. Option to change the contractual terms of a hedging instrument, hedged item, or forecasted transaction and to not dedesignate a hedging relationship (paragraph 848-30-25-5). e. Option to change the contractual terms of a hedging instrument by entering into a fully offsetting derivative and contemporaneously entering into a new derivative with revised terms (paragraph 848-30-25-6). f. Guidance that a change in the interest rate used for margining, discounting, or contract price alignment for a derivative hedging instrument should not be considered a change to the critical terms of the hedging relationship (paragraph 848-30-25-7). g. Option to continue to apply a perfectly effective assessment method for a cash flow hedge by electing the corresponding optional expedient for subsequent assessments under that method (paragraph 848-30-25-11A). h. Option to adjust the cumulative fair value hedge basis adjustment and to continue to apply the shortcut method by electing the corresponding optional expedient for the application of the fair value hedge shortcut method for a fair value hedge under the shortcut method affected by a payment or receipt of a cash settlement (or equivalent) intended to compensate

	for a modification of the interest rate used for margining, discounting, or contract price alignment for the derivative hedging instrument (paragraph 848-30-25-11B).
i.	Option to adjust the recorded amount in accumulated other comprehensive income and to apply certain effectiveness assessment expedients for a cash flow hedge affected by a payment or receipt of a cash settlement (or equivalent) intended to compensate for a modification of the interest rate used for margining, discounting, or contract price alignment for the derivative hedging instrument (paragraph 848-30-25-11C).
j.	Option to change the systematic and rational amortization method for excluded components (paragraphs 848-30-25-12 through 25-13).

Interpretive response: The optional expedients listed in the above table are available when a derivative that does not reference an eligible reference rate is modified for discounting transition. They are also identified in the discussion in [section 4.3](#) as relevant to the individual expedients. [848-10-55-1]



Question 4.2.15**

Do the optional expedients in Topic 848 apply to discontinued hedges that have amounts remaining in AOCI?

Background: The forecasted transaction in a discontinued cash flow hedging relationship with amounts remaining in AOCI may involve forecasted interest payments that are based on a rate that is expected to be discontinued. When a cash flow hedging relationship is discontinued, accounting for the related net derivative gain or loss reported in AOCI depends on whether it is at least reasonably possible that the forecasted transaction will occur within the original specified time period plus two months. If so, amounts in AOCI are reclassified into earnings when the forecasted transaction affects earnings. Otherwise, the net derivative gain or loss in AOCI is immediately recognized in earnings. See section 10.5 of KPMG Handbook, [Derivatives and hedging](#), for guidance about discontinued hedges. [815-30-40-4 – 40-6A]

Interpretive response: Yes, we believe an entity can apply the optional expedients to discontinued hedges that have amounts remaining in AOCI as long as the expedients' respective qualifying criteria are met. The following table includes expedients we believe can be applied to discontinued hedges.

Optional expedient	Reference to qualifying criteria
Changes to formal documentation	Section 4.3.20
Changes to the contractual terms of a hedging instrument, hedged item, or forecasted transaction	Section 4.3.30 Question 6.3.120

Optional expedient	Reference to qualifying criteria
Probability of hedged forecasted transactions	Section 6.3.20
Change in designated hedged interest rate risk	Section 6.3.30

4.2.20 Accounting policy considerations



Excerpt from ASC 848-30

> Option to Apply Expedients

25-2 An entity may elect to apply the guidance in this Subtopic for hedging relationships affected by reference rate reform on an individual hedging relationship basis. In addition, an entity may elect to apply the different optional expedients specified in paragraphs 848-30-25-3 through 25-13 on an individual hedging relationship basis. That is, each optional expedient may be elected for each individual hedging relationship and may not be elected for other similar hedging relationships. In addition, an entity may elect multiple optional expedients for the same individual hedging relationship and may elect those optional expedients in different reporting periods. For example, for a cash flow hedge, an entity may elect the optional expedient for the changes in the critical terms of the hedging instrument in accordance with paragraphs 848-30-25-5 through 25-7 when the fallback protocol of the hedging instrument is changed. In a different reporting period, the entity may elect to apply the optional expedient in paragraph 848-30-25-8 to change the method used in assessing hedge effectiveness and may elect to apply an optional expedient for subsequent assessments of effectiveness set forth in Subtopic 848-50.



Question 4.2.20

Is an entity required to apply the optional expedients similarly for similar hedges?

Interpretive response: Typically, no. Topic 848 generally permits an entity to apply the optional expedients related to hedging relationships on a hedge-by-hedge and an expedient-by-expedient basis. This includes allowing: [\[848-10-55-1, 848-30-25-2\]](#)

- individual expedients to be elected at different dates for the same hedging relationship; and
- different effectiveness assessment methods to be used for similar hedges without justification.

For example, an entity may elect expedients relevant to changes in critical terms of interest rate swaps (hedging instruments) as the terms of those

swaps are amended, which may happen in different reporting periods for swaps designated in similar hedging relationships. As another example, an entity may elect the optional expedient to amend the critical terms of a cash flow hedging relationship and later elect the optional expedient to change the method used to assess hedge effectiveness for that relationship (see [chapter 5](#)). [848-30-25-2]

However, depending on the circumstances, an entity may find it necessary to elect certain expedients in connection with each other.

For example, ABC Corp. has an existing fair value hedging relationship and assesses effectiveness using the shortcut method. The original designated benchmark interest rate and the variable rate leg of the interest rate swap (hedging instrument) reference LIBOR, however the swap's contractual terms have subsequently been changed to reference SOFR. To apply the optional expedient for continuing to apply the shortcut method (see [section 5.3.30](#)), ABC would also need to apply (and qualify to apply) the following optional expedients.

- Optional expedient to change the designated benchmark interest rate (see [section 5.3.20](#)). If this expedient is not applied, the index of the swap's variable leg (SOFR) would not match the designated benchmark rate (LIBOR). The expedient for continuing to apply the shortcut method does not permit an entity to disregard the shortcut method criterion that requires those indexes to match.
- Optional expedients to not dedesignate the hedging relationship even though:
 - the contractual terms of the hedging instrument have changed. If the 'changes to contractual terms' optional expedient are not applied (see [section 4.3.30](#)), the hedging relationship would have to be discontinued when the swap's contractual terms are changed to reference SOFR instead of LIBOR;
 - the entity amends the formal documentation of the hedging relationship. If the 'change in formal documentation' optional expedient is not applied (see [section 4.3.20](#)), the hedging relationship would have to be discontinued because the other expedients require amending the hedging relationship's formal documentation.

4.3 Optional expedients

4.3.10 Overview



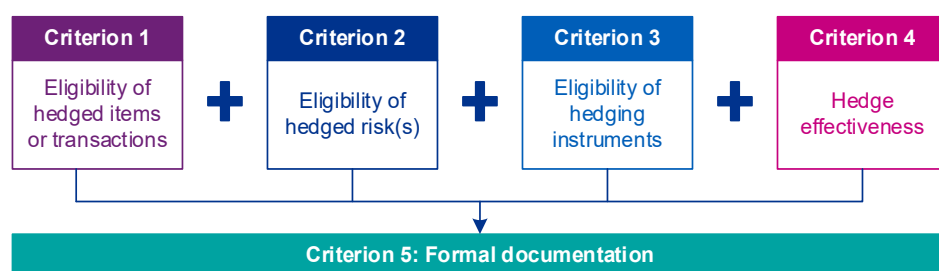
Excerpt from ASC 815-20

>>> Changes in Quantitative Assessment Methods

55-56 This Subtopic permits a hedging relationship to be dedesignated (that is, discontinued) at any time. (See paragraphs 815-25-40-1(c) and 815-30-40-1(c).) If an entity wishes to change any of the critical terms of the hedging relationship (including the method designated for use in assessing hedge

effectiveness), as documented at inception, the mechanism provided in this Subtopic to accomplish that change is the dedesignation of the original hedging relationship and the designation of a new hedging relationship that incorporates the desired changes. The dedesignation of an original hedging relationship and the designation of a new hedging relationship represents the application of this Subtopic and is not a change in accounting principle under Topic 250, even though the new hedging relationship may differ from the original hedging relationship only with respect to the method designated for use in assessing the hedge effectiveness of that hedging relationship. Although paragraph 815-20-35-19 refers to discontinuing an existing hedging relationship and then designating and documenting a new hedging relationship using an improved method for assessing effectiveness, that reference was not meant to imply that the perceived improved method had to be justified as a preferable method of applying an accounting principle under Topic 250.

Generally, under Topic 815 hedge accounting must be discontinued if critical terms of a hedging relationship are modified. A hedging relationship's critical terms are generally those that relate to the following five criteria.



Chapter 6 of KPMG Handbook, [Derivatives and hedging](#), provides guidance about these criteria and when Topic 815 requires a hedging relationship to be discontinued.

Subtopic 848-30 provides eight optional expedients that represent exceptions to Topic 815's requirement to discontinue a hedging relationship when its critical terms are changed. Some of the expedients apply to all types of hedging relationships (i.e. fair value, cash flow and net investment hedging relationships) while others are available only to certain types of relationships.

Expedient	Application	See section:
1. Changes to formal documentation (all types of hedges)	Allows an entity to continue a hedging relationship when its hedge documentation is changed.	4.3.20
2. Changes to contractual terms of a hedging instrument, hedged item or forecasted transaction (all types of hedges)	Allows an entity to continue the hedging relationship without dedesignation when the contractual terms of the hedging instrument, hedged item or forecasted transaction are changed.	4.3.30
3. Repricing intervals and dates of hedging instruments that are not	Allows an entity to use a cross-currency interest rate swap with two variable legs as the hedging instrument	4.3.40

4. Hedging relationships: Changes to critical terms

Expedient	Application	See section:
the same (net investment hedges)	even if both legs do not have the same repricing intervals and dates.	
4. Changes to effectiveness assessment method (cash flow hedges)	Allows an entity to change a hedging relationship's effectiveness assessment method without dedesignating the hedging relationship.	4.3.50
5. Rebalancing of hedging relationships (fair value and cash flow hedging relationships)	Allows an entity to rebalance a hedging relationship in certain ways without dedesignating the hedging relationship.	4.3.60
6. Adjusting a fair value hedge basis adjustment accounted for under the shortcut method for cash compensation (fair value hedging relationships)	Allows an entity to adjust the basis adjustment for the amount of cash compensation (or equivalent) resulting from derivative discounting transition using a reasonable approach.	4.3.70
7. Adjusting AOCI for cash compensation (cash flow hedging relationships)	Allows an entity to adjust the amount in AOCI for the amount of cash compensation (or equivalent) resulting from derivative discounting transition using a reasonable approach.	4.3.80
8. Excluded components (all types of hedges)	Allows an entity to change the method used to recognize in earnings an excluded component or to recognize in current earnings any change in fair value of an excluded component resulting from changes in a derivative's contractual terms.	4.3.90

4.3.20 Changes to formal documentation (all types of hedges)



Excerpt from ASC 848-30

> Optional Expedient: Change to the Formal Designation and Documentation for Change in Critical Terms

25-3 This paragraph provides an optional expedient for the guidance in paragraph 815-20-55-56. A change in the critical terms of the hedging relationship as documented at inception because of the election of an optional expedient in this Subtopic and Subtopics 848-40 and 848-50 shall not, in and of itself, be considered a dedesignation of the hedging relationship.

25-4 If an entity elects the optional expedient in paragraph 848-30-25-3, the entity shall update its hedge documentation (as applicable) noting the changes made no later than when the entity performs its first assessment of effectiveness after the change was identified in accordance with paragraphs 815-20-25-3(b)(2)(iv)(02) and 815-20-25-3A.

A hedging relationship is established through formal documentation – created at the relationship’s inception – that specifies the critical terms of the relationship. Formally designating and documenting a hedging relationship is one of five criteria required to apply hedge accounting (see diagram in [section 4.3.10](#)).

Under Topic 815, a change in a hedging relationship’s formal documentation generally requires an entity to dedesignate the hedging relationship. However, Topic 848 includes several optional expedients that permit an entity to change a hedging relationship’s critical terms without discontinuing the hedging relationship. Therefore, Topic 848 also has this optional expedient that allows an entity to continue a hedging relationship when its hedge documentation is changed and the entity elects one of the optional expedients in Subtopics 848-30, 848-40 or 848-50. [\[815-20-55-56, 848-10-55-1, 848-30-25-3\]](#)

This optional expedient is called the ‘change in formal documentation’ optional expedient. It is available for all types of hedging relationships – i.e. fair value, cash flow and net investment hedging relationships.



Question 4.3.10

When is an entity required to update its hedge documentation?

Interpretive response: An entity electing the change in formal documentation expedient is required to update its hedge documentation no later than when its first assessment of effectiveness is performed after the election. [\[848-30-25-4\]](#)

The following table summarizes what we believe is the required timing of updating hedge documentation. [\[848-10-55-1, 848-10-65-1\(a\)\(2\)\(i\), 848-30-25-4\]](#)

Type of entity	Timing of subsequent effectiveness assessments (and updating hedge documentation)
Private companies that are not financial institutions under paragraph 942-320-50-1	Quarterly hedge effectiveness assessments need not be performed until the next interim (if applicable) or annual financial statements are available to be issued. See also section 16.3.30. ¹
Not-for-profit entities that have not issued and are not a conduit bond obligor for, securities that are traded, listed or quoted on an exchange or an over-the-counter market.	Quarterly hedge effectiveness assessments are required to be performed whenever financial statements or earnings are reported and at least every three months. See section 13.2.20. ¹
All other entities	Quarterly hedge effectiveness assessments are required to be performed whenever financial statements or earnings are reported and at least every three months. See section 13.2.20. ¹
Note: 1. References are to KPMG Handbook, Derivatives and hedging , which provides further discussion on timing of effectiveness assessments.	

4.3.30 Changes to contractual terms of a hedging instrument, hedged item or forecasted transaction (all types of hedges)



Excerpt from ASC 848-30

>> Optional Expedient: Changes in the Critical Terms of a Hedging Instrument, a Hedged Item, or a Forecasted Transaction Designated in a Fair Value Hedge, a Cash Flow Hedge, or a Net Investment Hedge

25-5 An entity may change the contractual terms of a hedging instrument, a hedged item, or a forecasted transaction designated in a fair value hedge, a cash flow hedge, or a net investment hedge that is affected or expected to be affected by reference rate reform and not be required to dedesignate the hedging relationship if the changes to the contractual terms meet the scope of paragraphs 848-20-15-2 through 15-3.

25-6 Some derivative instruments designated as hedging instruments may be modified through direct contract amendments to effectuate a change because of reference rate reform. Alternatively, a derivative designated as a hedging instrument may be modified to effectuate the changes because of reference rate reform by both:

- a. Entering into a fully offsetting derivative contract to effectively cancel the original derivative contract.
- b. Contemporaneously entering into a new derivative contract with the revised contractual terms.

Both methods of effectuating changes to contractual terms as a result of reference rate reform qualify for the optional expedient in paragraph 848-30-25-5.

25-7 A change to the interest rate used for margining, discounting, or contract price alignment for a derivative that is a hedging instrument in a fair value hedge, a cash flow hedge, or a net investment hedge shall not be considered a change to the critical terms of the hedging relationship that requires dedesignating the hedging relationship because of that change.

The critical terms in a hedging relationship include the contractual terms of the designated hedging instrument, hedged item and/or hedged transaction (see criteria 1 and 3 in the diagram in [section 4.3.10](#)).

Topic 848 allows the hedging relationship to continue without dedesignation if the changes to the contractual terms of the hedging instrument, the hedged item or the forecasted transaction meet the scope conditions of Subtopic 848-20 (see [section 3.2](#)). These changes in critical terms apply to fair value hedges, cash flow hedges and net investment hedges because any type of hedging relationship could be affected by reference rate reform. [[815-20-55-56](#), [848-10-55-1](#), [848-30-25-3](#), [ASU 2020-04.BC50](#)]

**Question 4.3.20****What modifications to contractual terms are permitted under the changes to the contractual terms optional expedient?**

Interpretive response: Changes to the contractual terms of the hedging instrument, hedged item or forecasted transaction permitted by the expedient include: [848-10-55-1, 848-20-15-2 – 15-3, 848-30-25-5, 25-7]

- a modification of the interest rate used for margining, discounting or contract price alignment for a derivative; or
- other changes that relate to replacement of an eligible reference rate; see [section 3.2.20](#) for guidance about changes that are related to replacement of the reference rate.

The changes made under this optional expedient do not require dedesignating the hedging relationship. [848-10-55-1, 848-30-25-5]

**Question 4.3.30****Must changes be made directly to a derivative instrument's contractual terms to qualify for this expedient?**

Interpretive guidance: No. Topic 848 is potentially available when an entity amends a derivative instrument's contractual terms: [848-10-55-1, 848-30-25-6]

- directly; or
- indirectly, by entering into an offsetting contract that effectively cancels the existing derivative contract and simultaneously entering into a new contract with revised terms.

Both methods of changing contractual terms are eligible for this optional expedient.

4.3.40 Repricing intervals and dates of hedging instruments that are not the same (net investment hedges)

**Excerpt from ASC 848-30****>> Optional Expedient: Changes to Repricing Intervals and Dates of Hedging Instruments in a Net Investment Hedge**

25-7A If a receive-variable-rate, pay-variable-rate cross-currency interest rate swap that references a rate that meets the scope of paragraph 848-10-15-3 is designated as a hedging instrument in a net investment hedge in accordance with paragraphs 815-20-25-66 through 25-70, an entity may disregard the condition in paragraph 815-20-25-67(a)(2) that both legs of the swap have the

same repricing intervals and dates until neither of the variable legs of the cross-currency interest rate swap designated references a rate that meets the scope of paragraph 848-10-15-3 or until the guidance in this Topic is superseded (see paragraph 848-10-65-2(a)(3)).

Topic 815 generally prohibits using a compound derivative with multiple underlyings as a hedging instrument in a net investment hedge. However, it allows a cross-currency interest rate swap with two variable legs (i.e. two foreign currency underlyings) to be designated as the hedging instrument in a net investment hedge when the interest rates are based on the same currencies contained in the swap and both legs have the same repricing intervals and dates. See section 12.3.40 of KPMG Handbook, [Derivatives and hedging](#) for further discussion on using compound derivatives in a net investment hedging relationship.

Subtopic 848-30 provides an optional expedient that allows an entity to designate a cross-currency interest rate swap with two variable legs as the hedging instrument in a net investment hedging relationship even if both legs do not have the same repricing intervals and dates. To qualify for this expedient, one or both of the variable legs must reference an eligible reference rate (see [chapter 2](#)). [848-30-25-7A]

4.3.50 Changes to effectiveness assessment method (cash flow hedges)



Excerpt from ASC 848-30

>> Optional Expedient: Changes to the Method Designated for Use in Assessing Hedge Effectiveness in a Cash Flow Hedge

25-8 An entity may change the method designated for use in assessing hedge effectiveness and documented at hedge inception in accordance with paragraph 815-20-25-3(b)(iv)(02) if both of the following criteria are met:

- Either the hedging instrument or the hedged forecasted transaction references a rate that meets the scope of paragraph 848-10-15-3.
- The new method designated for use in assessing hedge effectiveness is an optional expedient specified in Subtopic 848-50.

That expedient may be elected for a hedging relationship at the date an entity elects to apply any optional expedient method in accordance with this Subtopic. An entity also may change the method designated for use in assessing hedge effectiveness in Subtopics 815-20 and 815-30 upon the required discontinuance of an optional expedient as discussed in paragraph 848-50-35-19. An entity shall not be required to assess whether the replacement method is an improved method for assessing effectiveness or a preferable method of applying an accounting principle in accordance with Topic 250 on accounting changes and error corrections.

The method used to assess effectiveness is a critical term of a hedging relationship (see criterion 4 in the diagram in [section 4.3.10](#)). Subtopic 848-30 provides an optional expedient that allows an entity to change a hedging relationship's effectiveness assessment method for cash flow hedges without dedesignating the hedging relationship if certain conditions are met. [\[848-30-25-8\]](#)

A change to the method used for assessing hedge effectiveness is a change to a hedging relationship's critical terms that must be documented in an update to the formal hedge documentation; see optional expedient for changes to formal documentation in [section 4.3.20](#).



Question 4.3.40

What conditions must be met to elect the change in effectiveness assessment method optional expedient?

Interpretive response: For an entity to change its hedge effectiveness method for a cash flow hedge without dedesignating the hedging relationship, the following two conditions must be met: [\[848-30-25-8\]](#)

- the hedging instrument or hedged forecasted transaction must reference an eligible reference rate (see [chapter 2](#)); and
- the new method selected (or being discontinued) by the entity to assess hedge effectiveness must be an optional expedient in Subtopic 848-50 (see [section 6.3.40](#)).



Question 4.3.50

Must an entity demonstrate that a changed method for assessing effectiveness is an improved method under this expedient?

Interpretive response: No. Ordinarily an entity that changes methods needs to document its justification for the change, including why the new method is an improvement. However, this optional expedient for a change in the method used for assessing effectiveness relieves entities from that requirement. [\[815-20-55-56, 848-30-25-8\]](#)



Question 4.3.60

Do other optional expedients permit an entity to change the method of assessing effectiveness for a cash flow hedge?



Excerpt from ASC 848-30

25-11A For a cash flow hedge with a designated hedging instrument that meets the scope of paragraph 848-10-15-3A to which an entity is applying the relief in this Subtopic to continue hedge accounting without dedesignation, the entity shall assess the hedge effectiveness of the amended hedging relationship as follows:

- a. An entity applying a subsequent quantitative or qualitative assessment method in accordance with Subtopics 815-20 and 815-30 at the time of the election shall continue to use the same method after the election.
- b. An entity applying a subsequent assessment method that assumes perfect effectiveness at the time of the election may apply the corresponding optional expedient for the subsequent assessment method for assuming perfect effectiveness in accordance with paragraphs 848-50-35-4 through 35-9 or a quantitative method in accordance with Subtopics 815-20 and 815-30 after the election.

Interpretive response: Yes. In addition to this optional expedient, certain other optional expedients also permit an entity to change the method of assessing effectiveness for a cash flow hedge. Each of those expedients requires certain conditions to be met, including that they only permit certain changes to the hedge effectiveness method.

The following table summarizes which optional expedients allow an entity to change the hedge effectiveness method for a cash flow hedge, other than the 'changes to effectiveness assessment method (cash flow hedges)' optional expedient.

Other situations that permit changing the hedge effectiveness method

<p>Hedging relationship references an eligible reference rate</p>	<p>Other optional expedients that permit an entity to change the method of assessing effectiveness are:</p> <ul style="list-style-type: none"> — rebalancing a hedging relationship (see section 4.3.60); — adjusting AOCI for cash compensation (see section 4.3.80); and — changing the designated hedged interest rate risk (see section 6.3.30).
<p>Hedging relationship does not reference an eligible reference rate but hedging instrument is modified for</p>	<p>When an entity is applying the relief in Subtopic 848-30 to continue hedge accounting without dedesignation, the entity is allowed to change hedge effectiveness methods if it was applying the shortcut method, the simplified hedge accounting approach, or a quantitative method that meets the conditions to result in perfect effectiveness at the time</p>

**derivative
discounting
transition**

of the election. [848-30-25-11A]

In those situations, the entity may select one of the following methods for subsequent effectiveness assessments:

- the corresponding optional expedient for the subsequent assessment method under paragraphs 848-50-35-4 to 35-9 (see [section 6.3.40](#)); or
- a quantitative method under Subtopics 815-20 and 815-30.

See also sections [4.3.80](#) and [6.3.40](#).

4.3.60 Rebalancing of hedging relationships (fair value and cash flow hedging relationships)



Excerpt from ASC 848-30

>> Optional Expedient: Changes to the Proportion of a Hedged Item or a Hedging Instrument in a Fair Value Hedge and to the Hedging Instruments That Are Designated in a Fair Value Hedge or a Cash Flow Hedge

25-9 If the hedging instrument or the hedged forecasted transaction or the designated benchmark interest rate in a fair value hedge references a rate that meets the scope of paragraph 848-10-15-3 and the hedging relationship is anticipated to be affected by reference rate reform, an entity may change any of the following without dedesignating the hedging relationship in accordance with paragraph 848-30-25-3:

- a. The proportion of a designated hedged item or a derivative instrument that is designated as a hedging instrument in a fair value hedge relationship. An entity may elect to rebalance the hedging relationship through any of the following approaches, including any combination of these approaches:
 1. Increasing the designated notional amount of the hedging instrument
 2. Decreasing the designated notional amount of the hedging instrument
 3. Increasing the designated portion of the hedged item
 4. Decreasing the designated portion of the hedged item.

If an entity applies the optional expedient in (3) or (4), the cumulative effect of changing the designated proportion of the hedged item shall be recognized as an adjustment to the basis adjustment that shall be recognized in accordance with paragraph 848-40-25-7.

- b. The designated hedging instrument to combine two or more derivative instruments, or proportions of those instruments, to be jointly designated as the hedging instrument in a hedge relationship. An entity may subsequently remove one or more derivative instruments, or proportions of those instruments, added in accordance with this paragraph.

25-10 If an entity changes the designated hedging instrument in a fair value

hedge to combine two or more derivative instruments, or proportions of those instruments, in accordance with paragraph 848-30-25-9(b) and is applying a quantitative subsequent effectiveness assessment method at the time of the change, the entity shall assess the hedge effectiveness of the amended hedging relationship using a method in accordance with Subtopics 815-20 and 815-25. An entity also may elect a new method in accordance with Subtopics 815-20 and 815-25 to assess the hedge effectiveness. If an entity is applying the shortcut method in accordance with paragraphs 815-20-25-102 through 25-105, 815-20-25-107 through 25-109, and 815-20-25-111 through 25-117 at the time of the change, the entity may elect the optional expedient to assess hedge effectiveness in accordance with paragraph 848-40-25-8 or a new method in accordance with Subtopics 815-20 and 815-25. An entity applying the optional expedient method to continue the shortcut method in accordance with paragraph 848-40-25-8 may disregard any condition in paragraphs 815-20-25-102 through 25-105, 815-20-25-107 through 25-109, and 815-20-25-111 through 25-117 that prohibits more than one derivative from being designated as a hedging instrument in a fair value hedge.

25-11 If an entity changes the hedging instrument that meets the scope of paragraph 848-10-15-3 that is designated in a cash flow hedge to combine two or more derivative instruments, or proportions of those instruments, in accordance with paragraph 848-30-25-9(b), the entity shall assess the hedge effectiveness of the amended hedging relationship using any of the following:

- a. A method in accordance with Subtopics 815-20 and 815-30
- b. An optional expedient for the subsequent assessment methods for assuming perfect effectiveness in accordance with paragraphs 848-50-35-4 through 35-9
- c. An optional expedient for the subsequent qualitative method after an initial assessment using a quantitative method in accordance with paragraphs 848-50-35-10 through 35-16
- d. An optional expedient for the subsequent quantitative methods in accordance with paragraphs 848-50-35-17 through 35-18.

An entity applying an optional expedient method in (b) may disregard any condition in Subtopic 815-20 or 815-30 that prohibits more than one derivative from being designated as a hedging instrument in a cash flow hedge.

The critical terms in a hedging relationship include the designated portion of the hedged item in a fair value hedging relationship and the designated hedging instrument(s) (or proportions thereof) in fair value or cash flow hedging relationships (see criteria 1 and 3 in the diagram in [section 4.2.10](#)).

Subtopic 848-30 provides an optional expedient that allows an entity to rebalance a hedging relationship without dedesignating the hedging relationship. Two types of rebalancing are permitted for a hedging relationship that references a rate that is expected to be discontinued due to (and is anticipated to be affected by) reference rate reform. [\[848-30-25-9\]](#)

- **Fair value hedges.** Change the proportion of a designated hedged item and/or derivative hedging instrument.
- **Fair value or cash flow hedges.** Change the designated hedging instrument to combine two or more derivative instruments, or proportions

of those instruments, to be jointly designated as the hedging instrument. Further, this expedient permits the entity to subsequently remove one or more of those derivatives (or proportions of those instruments).

Rebalancing a hedging relationship in these ways represents a change to a hedging relationship's critical terms that must be documented in an update to the formal hedge documentation; see optional expedient for changes to formal documentation in [section 4.3.20](#). [848-30-25-9]



Question 4.3.70

When the designated portion of a hedged item in a fair value hedge is changed, how is the basis adjustment recognized and presented?

Interpretive response: The cumulative effect of the change is recognized as an adjustment to the basis adjustment under paragraph 848-40-25-7. Under that guidance, the adjustment is recognized in earnings and is presented in the same line item that is used to present the earnings effect of the hedged item. [848-30-25-9(a), 848-40-25-7]

See also [section 5.3.20](#) and [Question 5.3.20](#).



Question 4.3.80

Why is an entity permitted to rebalance a hedging relationship?

Interpretive response: The Board decided to permit hedging relationships to be rebalanced because they may require adjustment due to changes in the terms of hedging instruments and hedged items resulting from reference rate reform, as the following examples illustrate. [ASU 2020-04.BC52]

- An entity with a duration-weighted fair value hedge that transitions to a different eligible benchmark interest rate may need to rebalance the hedge ratio to adjust for changes in the hedged risk and instrument terms.
- An entity with a cash flow hedge may prefer to manage its transition to a replacement reference rate by adding a new interest rate swap to an existing hedging relationship.



Question 4.3.90

Can an entity change effectiveness assessment methods when the hedging instrument is changed to jointly designate two or more derivative instruments (or proportions thereof)?

Interpretive response: Yes. If an entity changes the hedging instrument to combine two or more derivative instruments (or proportions of derivative

instruments) to be jointly designated as the hedging instrument, the entity may assess hedge effectiveness of the hedging relationship by using the methods described in the following table. [848-30-25-10 – 25-11]

Fair value hedge	Cash flow hedge
<p>The method that may be selected depends on the subsequent effectiveness assessment used at the time of electing this optional expedient:</p> <ul style="list-style-type: none"> — Quantitative method is applied before electing this expedient: a method in Subtopic 815-20 or 815-25 must be elected. — Shortcut method is applied before electing this expedient: either of the following may be elected: <ul style="list-style-type: none"> — a method in Subtopic 815-20 or 815-25; or — the optional expedient for assessing effectiveness using the shortcut method for fair value hedges (see section 5.3.20). In this situation, the entity can disregard any condition in the shortcut method that prohibits more than one derivative from being designated as a hedging instrument. 	<p>Any of the following methods may be elected:</p> <ul style="list-style-type: none"> — a method in Subtopic 815-20 or 815-30; or — an optional expedient for subsequent effectiveness assessments in Subtopic 848-50 (see section 6.3.40). <p>An entity that elects to use an optional expedient for applying the shortcut method, the simplified hedge accounting approach, or a quantitative method that meets the conditions to result in perfect effectiveness may disregard any condition in Subtopic 815-20 or 815-30 that prohibits more than one derivative from being designated as a hedging instrument.</p>

4.3.70 Adjusting a fair value hedge basis adjustment accounted for under the shortcut method for cash compensation (fair value hedging relationships)



Excerpt from ASC 848-30

>> Optional Expedient: Adjustment to a Fair Value Hedge Basis Adjustment for a Fair Value Hedge Accounted for under the Shortcut Method and Affected by a Cash Settlement (or Equivalent) Related to the Change in Interest Rate Used for Margining, Discounting, or Contract Price Alignment

25-11B For a fair value hedge in which the hedging instrument is a derivative that meets the scope of either paragraph 848-10-15-3 or paragraph 848-10-15-3A that is affected by a payment or receipt of a cash settlement (or equivalent) intended to compensate for a modification of the interest rate used for margining, discounting, or contract price alignment for the derivative

instrument related to reference rate reform and the shortcut method is applied in accordance with paragraphs 815-20-25-102 through 25-105, 815-20-25-107 through 25-109, and 815-20-25-111 through 25-117, an entity may adjust the fair value hedge basis adjustment for the amount of cash compensation (or equivalent) exchanged using a reasonable approach. This Subtopic does not specify a single method for applying a reasonable approach. Ordinarily, an entity shall use a similar method for similar hedges. The entity shall justify the use of different methods for similar hedges. An entity applying the guidance in this paragraph may elect the optional expedient to continue to use the shortcut method to assess hedge effectiveness in accordance with paragraph 848-40-25-8 or a new method in accordance with Subtopics 815-20 and 815-25.

Under the shortcut method of assessing effectiveness for a fair value hedging relationship, a hedging relationship is assumed to be perfectly effective. Further, changes in fair value of the derivative hedging instrument serve as a proxy for changes in the fair value of the hedged item; that is, the derivative's fair value equals the hedged item's cumulative basis adjustment. However, cash compensation (or equivalent) issued in connection with discounting transition may cause the derivative's fair value to not represent a proxy for the basis adjustment. [Section 2.4](#) discusses derivative discounting transition. See section 13.3 of KPMG Handbook, [Derivatives and hedging](#), for guidance about the shortcut method.

Subtopic 848-30 provides an optional expedient when the hedging instrument in a fair value hedging relationship accounted for under the shortcut method is affected by a payment or receipt of a cash settlement (or equivalent) intended to compensate for a derivative discounting transition modification. This expedient allows an entity to adjust the basis adjustment for the amount of cash compensation (or equivalent) using a reasonable approach. It is available for all derivatives impacted by discounting transition, even if they do not reference an eligible reference rate. [\[848-30-25-11B\]](#)



Question 4.3.100

How does an entity adjust a hedged item's cumulative basis adjustment for the amount of cash compensation (or equivalent)?

Interpretive response: Subtopic 848-40 does not provide guidance on how to make this adjustment, other than to require an entity to: [\[848-40-25-11B\]](#)

- use a reasonable method; and
- use a similar approach for similar hedges or justify the use of different methods for similar hedges.

We believe reasonable approaches include adjusting the cumulative basis adjustment:

- immediately through earnings in the period that the derivative discounting transition occurs; or
- over the remaining life of the derivative, which may extend beyond Topic 848's normal sunset date (see [section 8.3](#)).

There may be other reasonable approaches, based on the specific facts and circumstances.



Question 4.3.110

Can an entity change effectiveness assessment methods when it elects this optional expedient?

Interpretive response: Yes. If an entity adjusts the fair value hedge basis adjustment, it can also: [848-30-25-11B]

- elect the optional expedient to use the shortcut method to assess effectiveness for a fair value hedge (see [section 5.3.20](#)); or
- elect a new method of assessing effectiveness under Subtopics 815-20 and 815-25.

4.3.80 Adjusting AOCI for cash compensation (cash flow hedging relationships)



Excerpt from ASC 848-30

>> Optional Expedient: Adjustment to Accumulated Other Comprehensive Income for a Cash Flow Hedge Affected by a Cash Settlement (or Equivalent) Related to the Change in Interest Rate Used for Margining, Discounting, or Contract Price Alignment

25-11C For a cash flow hedge in which the hedging instrument is a derivative that meets the scope of either paragraph 848-10-15-3 or paragraph 848-10-15-3A that is affected by a payment or receipt of a cash settlement (or equivalent) intended to compensate for a modification of the interest rate used for margining, discounting, or contract price alignment for the derivative instrument related to reference rate reform, an entity may adjust the amount recorded in accumulated other comprehensive income for the amount of cash compensation (or equivalent) exchanged using a reasonable approach. This Subtopic does not specify a single method for applying a reasonable approach. Ordinarily, an entity shall use a similar method for similar hedges. The entity shall justify the use of different methods for similar hedges. If an entity elects the optional expedient in this paragraph for a cash flow hedge with a designated hedging instrument that meets the scope of paragraph 848-10-15-3A, the entity shall assess hedge effectiveness in accordance with paragraph 848-30-25-11A(a) through (b). If an entity elects the optional expedient in this paragraph for a cash flow hedge with a designated hedging instrument that meets the scope of paragraph 848-10-15-3, the entity shall assess hedge effectiveness in accordance with paragraph 848-30-25-11(a) through (d).

When a cash flow hedge accounting relationship is highly effective, changes in the fair value of the derivative hedging instrument that are included in the assessment of effectiveness are:

- deferred in AOCI; and
- reclassified into earnings when the hedged transaction affects earnings.

As a result, the derivative's fair value ordinarily equals the cumulative amount deferred in AOCI. However, cash compensation (or equivalent) issued in connection with discounting transition may cause these amounts to differ. [Section 2.4](#) discusses derivative discounting transition. See chapter 10 of KPMG Handbook, [Derivatives and hedging](#), for guidance about accounting for cash flow hedges.

Subtopic 848-30 provides an optional expedient when the hedging instrument in a cash flow hedging relationship is affected by a payment or receipt of a cash settlement (or equivalent) intended to compensate for a derivative discounting transition modification. This expedient allows an entity to adjust the amount in AOCI for the amount of cash compensation (or equivalent) using a reasonable approach. It is available for all derivatives impacted by discounting transition, even if they do not reference an eligible reference rate. [\[848-30-25-11C\]](#)



Question 4.3.120

How does an entity adjust AOCI for the amount of cash compensation (or equivalent)?

Interpretive response: Subtopic 848-40 does not provide guidance on how to make this adjustment, other than to require an entity to: [\[848-40-25-11C\]](#)

- use a reasonable method; and
- use a similar approach for similar hedges or justify the use of different methods for similar hedges.

We believe reasonable approaches include adjusting AOCI:

- immediately through earnings in the period the derivative discounting transition occurs; or
- over the remaining life of the derivative, which may extend beyond Topic 848's normal sunset date (see [section 8.3](#)).

There may be other reasonable approaches, based on the specific facts and circumstances.



Question 4.3.130

Can an entity change effectiveness assessment methods when it elects this optional expedient?

Interpretive response: Yes. The available methods depend on whether the hedging instrument references an eligible reference rate, as summarized in the following table.

Hedging relationship references an eligible reference rate	<p>An entity may apply any of the following methods: [848-30-25-11, 25-11C]</p> <ul style="list-style-type: none"> — a method in Subtopic 815-20 or 815-30 — an optional expedient for subsequent effectiveness assessments in Subtopic 848-50 (see Section 6.3.40).
Hedging instrument does not reference an eligible reference rate but is modified for derivative discounting transition	<p>Whether the entity may change the method of assessing effectiveness depends on the method used at the time of electing this optional expedient. [848-30-25-11A, 25-11C]</p> <ul style="list-style-type: none"> — Shortcut method, simplified hedge accounting approach, or quantitative method that meets the conditions to result in perfect effectiveness: In those situations, the entity may elect one of the following methods for subsequent effectiveness assessments: <ul style="list-style-type: none"> — the corresponding optional expedient for the subsequent assessment method under paragraphs 848-50-35-4 to 35-9 (see section 6.3.40); or — a quantitative method under Subtopics 815-20 and 815-30. — Other subsequent quantitative or qualitative method: The entity may not change the method – i.e. it must continue using the same method after electing the optional expedient to adjust AOCI for cash compensation. <p>See also Question 4.3.60.</p>

4.3.90 Excluded components (all types of hedges)



Excerpt from ASC 848-30

>> Optional Expedient: Changes to the Systematic and Rational Method Used for Recognizing in Earnings the Excluded Components in a Fair Value Hedge, a Cash Flow Hedge, or a Net Investment Hedge

25-12 If the changes to a hedging instrument's contractual terms meet the scope of paragraphs 848-20-15-2 through 15-3, an entity may elect to change its systematic and rational method used to recognize in earnings the components excluded from the assessment of effectiveness in accordance with paragraph 815-20-25-83A. An entity shall apply the amended systematic and rational method prospectively and shall retain the amended systematic and rational method for the remaining life of the hedging relationship, including for periods after the date in paragraph 848-10-65-1(a)(3)(iii). The amended systematic and rational method may be subsequently amended for subsequent changes to a hedging instrument's contractual terms that meet the scope of paragraphs 848-20-15-2 through 15-3. If an entity does not apply this optional expedient, the entity's systematic and rational method documented at hedge inception may require an adjustment at the end of the hedging relationship so that no excluded components remain in accumulated other comprehensive income at the end of the hedging relationship.

25-13 In addition, if the changes to a hedging instrument's contractual terms meet the scope of paragraphs 848-20-15-2 through 15-3 and any change in those contractual terms causes a change in the fair value of the excluded component, an entity may elect to recognize the change in fair value of the excluded component in current earnings. An entity shall present the recognition of the adjustment in the same income statement line item that is used to present the earnings effect of the hedged item.

Topic 815 permits an entity to exclude some components of a derivative hedging instrument's changes in fair value from the effectiveness assessment. In that situation, the entity recognizes the initial value of the excluded component(s) in earnings by either: [815-20-25-82 – 25-83B, 848-10-55-1, 848-30-25-12 – 25-13]

- using a systematic and rational method over the life of the hedging instrument (i.e. an amortization approach); or
- currently in earnings (i.e. a mark-to-market approach).

If an entity...	Then this optional expedient allows the entity to do one or both of the following...
<ul style="list-style-type: none"> — uses an amortization approach to recognize excluded component(s); and — makes changes to the hedging instrument's contractual terms that meet the scope conditions of Subtopic 848-20 (see chapter 3) 	<ul style="list-style-type: none"> — change the method used to recognize in earnings the excluded component (see Question 4.3.100); and/or — recognize in current earnings – in the same income statement line item as the earnings effect of the hedged item – any change in fair value of the excluded component(s) due to those changes in contractual terms.

See section 13.2.70 of KPMG Handbook, [Derivatives and hedging](#) for further discussion about recognizing excluded components, including using an amortization approach.



Question 4.3.140

Why would an entity change its systematic and rational method for recognizing excluded components?

Interpretive response: When an entity makes changes to a hedging instrument's contractual terms, the fair value of any excluded component may change. If the entity continues applying its existing amortization approach and does not recognize the amount of that change in current earnings, there may be circumstances in which a portion of the excluded component will remain in AOCI at the end of the hedging relationship. This outcome can be avoided by changing the systematic and rational method for recognizing in earnings the excluded component.

4. Hedging relationships: Changes to critical terms

When an entity changes the systematic and rational method, it is applied for the remainder of the hedging relationship, which may extend beyond Topic 848's normal sunset date (see [section 8.3](#)). [848-30-25-12]

5. Fair value hedges

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Item significantly updated in this edition

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5.1 How the standard works

This chapter discusses the available optional expedients in Subtopic 848-40 that are specific to fair value hedging relationships as summarized in the following table. These expedients are available to relationships that are affected by reference rate reform.

Expedient is available to hedging relationships that reference an eligible reference rate (chapter 2)	Expedient is available to derivatives that do not reference an eligible reference rate but are modified for discounting transition (chapter 2)	Contractual changes must meet the scope conditions of Subtopic 848-20 (section 3.2)	Other relevant conditions
Change in the designated benchmark interest rate (section 5.3.20) This optional expedient allows an entity to change the designated benchmark interest rate from an eligible reference rate to a different benchmark rate without dedesignating the hedging relationship.			
✓	✓		<ul style="list-style-type: none"> — Certain conditions differ depending on whether the hedging instrument references an eligible reference rate¹ or does not reference an eligible reference rate but is modified for derivative discounting transition).² — The hedging relationship continues to be highly effective. — The revised benchmark interest rate is used to discount cash flows. — Hedge documentation is updated following the guidance in section 4.3.20.
Hedge effectiveness – shortcut method (section 5.3.30) This optional expedient allows an entity to continue to apply the shortcut method for existing hedging relationships without regard to whether certain qualifying conditions are met.			
✓	✓	✓	<ul style="list-style-type: none"> — The hedging instrument's contractual terms are changed (directly or indirectly) following the guidance in section 4.3.30 or 4.3.50. — Hedge documentation is updated following the guidance in section 4.3.20.

Expedient is available to hedging relationships that reference an eligible reference rate (chapter 2)	Expedient is available to derivatives that do not reference an eligible reference rate but are modified for discounting transition (chapter 2)	Contractual changes must meet the scope conditions of Subtopic 848-20 (section 3.2)	Other relevant conditions
<p>Notes:</p> <ol style="list-style-type: none"> When the hedging instrument references an eligible rate: <ul style="list-style-type: none"> either the hedging instrument's reference rate changes or the designated hedging instrument is changed to combine two or more derivative instruments; and the designated benchmark rate being changed is an eligible reference rate. When the hedging instrument does not reference an eligible rate, the hedging instrument is modified for derivative discounting transition and the designated benchmark rate is a rate used for margining, discounting or contract price alignment. 			

5.2 Scope and applicability

5.2.10 Scope



Excerpt from ASC 848-40

05-1 This Subtopic provides guidance on optional expedients for the accounting for and financial reporting of fair value hedges under Topic 815 that are affected by reference rate reform.

15-1 The guidance in this Subtopic provides optional expedients for certain requirements of Subtopics 815-20 and 815-25 related to fair value hedges. An entity shall continue to apply all other requirements applicable to fair value hedges in Subtopics 815-20 and 815-25.

Subtopic 848-40 provides two optional expedients that create exceptions to certain hedging requirements for fair value hedging relationships in Topic 815. These expedients may be elected if the hedging relationship is affected by reference rate reform. [848-40-05-1, 25-1]

The expedients – and the conditions that must be met to elect them – are further explained in [section 5.3](#). [Section 2.3](#) discusses eligible reference rates and [section 2.4](#) discusses derivative discounting transition.



Question 5.2.10

What does it mean for a hedging relationship to be ‘affected by reference rate reform’?

Interpretive response: Topic 848 does not define that term. We believe the nature of the assessment may differ depending on the expedient and the hedging relationship and will require judgment.

In some cases, the evaluation of whether the relationship is ‘affected by reference rate reform’ may be limited to evaluating whether the relationship meets either of the following conditions:

- the hedging relationship references an eligible reference rate – i.e. the hedging instrument and/or the hedged item references an eligible reference rate (see [section 4.2.10](#)); or
- the hedging relationship does not reference an eligible reference rate, but the hedging instrument is modified for discounting transition.

In addition to being affected by reference rate reform, each expedient has individual eligibility conditions that must be met.

**Question 5.2.20**

Which fair value hedge optional expedients are available for a derivative that does not reference an eligible reference rate but is modified for discounting transition?

**Excerpt from ASC 848-10****> Implementation Guidance**

55-1 The optional expedients in this Topic that may be applied to derivatives that meet the scope of paragraph 848-10-15-3A are specified in the following table.

Codification Subtopic	Provisions That Apply to Derivatives That Meet the Scope of Paragraph 848-10-15-3A
848-40	<ul style="list-style-type: none">a. Requirement for an entity that elects to apply the optional expedients in Subtopic 848-40 to continue to apply all other requirements applicable to fair value hedges in Subtopics 815-20 and 815-25 (paragraph 848-40-15-1).b. Option to apply the fair value hedging relief on an individual hedge and individual expedient basis (paragraph 848-40-25-1).c. Option to change the designated benchmark interest rate in a fair value hedging relationship (paragraph 848-40-25-2).d. Requirement to update hedge documentation upon a change in the designated benchmark rate (paragraph 848-40-25-3).e. Requirements and expedients related to continuing fair value hedge accounting without dedesignation if an entity elects to change the designated benchmark interest rate (paragraphs 848-40-25-4 through 25-7).f. Option to apply the subsequent effectiveness assessment expedient for the shortcut method if an entity was applying the shortcut method under Subtopics 815-20 and 815-25 before the modification of the interest rate used for margining, discounting, or contract price alignment and the requirement to update hedge documentation if elected (paragraphs 848-40-25-8 through 25-9).

Interpretive response: The optional expedients listed in the above table are available when a derivative that does not reference an eligible reference rate is modified for discounting transition. They are also identified in the discussion in [section 5.3](#) as relevant to the individual expedients. [848-10-55-1]

5.2.20 Accounting policy considerations



Excerpt from ASC 848-40

> Option to Apply Expedients

25-1 An entity may elect to apply the guidance in this Subtopic for fair value hedges affected by reference rate reform on an individual hedging relationship basis. In addition, an entity may elect to apply the different optional expedients specified in paragraphs 848-40-25-2 through 25-9 on an individual hedging relationship basis. For example, an entity may elect to apply the optional expedient in this Subtopic for the change in the designated benchmark interest rate and not elect to apply the optional expedient for the shortcut method for assessing hedge effectiveness. An entity may disregard the guidance in paragraph 815-20-25-81 when applying the guidance in this Subtopic and shall not be required to assess effectiveness for similar hedges in a similar manner.

In general, the optional expedients in Subtopic 848-40 may be elected on a hedge-by-hedge and expedient-by-expedient basis. For example, an entity may apply the expedient that allows it to change the designated benchmark interest rate without dedesignating the hedging relationship even if it does not apply the expedient related to the shortcut method for assessing hedge effectiveness. See related discussion in [section 4.2.20](#), including [Question 4.2.20](#). [848-40-25-1]

However, an entity that elects the change in the designated benchmark interest rate must generally use similar methods for adjusting the hedged item's cumulative basis adjustment for all of its similar hedges; see [Question 5.3.20](#).

5.3 Optional expedients

5.3.10 Overview

Subtopic 848-40's two optional expedients represent exceptions to certain of Topic 815's hedge designation and hedge effectiveness requirements; these are in addition to the 'Changes to critical terms' optional expedients that are available for fair value hedging relationships (see [chapter 4](#)). These expedients may be elected if a fair value hedging relationship is affected by reference rate reform.

1st optional expedient: Changes in the designated benchmark interest rate	Allows an entity to change a fair value hedge's designated benchmark rate without dedesignating the hedging relationship.	See section 5.3.20
2nd optional expedient: Hedge effectiveness assessments – shortcut method application	Allows an entity to disregard certain conditions of the shortcut method for assessing hedge effectiveness.	See section 5.3.30

5.3.20 Change in the designated benchmark interest rate



Excerpt from ASC 848-40

> Optional Expedient: Change in the Designated Benchmark Interest Rate

25-2 If the hedged item is a financial asset or liability, a recognized loan servicing right, or a nonfinancial firm commitment with financial components, the designated risk being hedged may be the risk of changes in the hedged item's fair value attributable to changes in the designated benchmark interest rate in accordance with paragraph 815-20-25-12(f)(2). In a hedge of the changes in fair value attributable to the benchmark interest rate if the hedging instrument meets the scope of paragraph 848-10-15-3, an entity may change the designated benchmark interest rate and the component of cash flows and continue to apply hedge accounting without dedesignation if either the referenced interest rate index of the hedging instrument changes or an entity changes the designated hedging instrument to combine two or more derivative instruments to be jointly designated as the hedging instrument in accordance with paragraph 848-30-25-9(b) (for example, adding a new interest rate basis swap to an existing interest rate swap). If the hedging instrument meets the scope of paragraph 848-10-15-3A, an entity may change the designated benchmark interest rate and the component of cash flows and continue to apply hedge accounting without dedesignation when the interest rate used for margining, discounting, or contract price alignment is modified. All of the following criteria must be met if an entity changes the designated benchmark interest rate and the component of cash flows:

- a. The designated benchmark interest rate being changed is a rate within the scope of paragraph 848-10-15-3 or a rate used for margining, discounting, or contract price alignment for derivative instruments that meet the scope of paragraph 848-10-15-3A.
- b. The replacement designated benchmark interest rate is an eligible benchmark interest rate in accordance with paragraph 815-20-25-6A.
- c. The hedging instrument is expected to be prospectively highly effective at achieving offsetting changes in fair value attributable to the revised hedged risk on the basis of the amended terms of the hedging relationship.

25-3 An entity shall update its hedge documentation in accordance with paragraph 848-30-25-4 upon a change in the designated benchmark interest rate in accordance with paragraph 848-40-25-2.

Under Topic 815, an entity is permitted to designate changes in the fair value of a recognized fixed-rate financial instrument that are attributable to a benchmark interest rate (the 'hedged risk') as the hedged item in a fair value hedging relationship. Further, Topic 815 permits an entity to measure the change in a hedged item's fair value attributable to the changes in the benchmark interest rate based on either:

- the hedged item's entire contractual coupon cash flows; or
- the benchmark rate component of the contractual coupon cash flows determined at inception of the hedging relationship.

Ordinarily, a change in the hedged risk and component of cash flows of a fair value hedge is a change in the hedging relationship's critical terms that requires an entity to dedesignate the hedging relationship. For further discussion, see KPMG Handbook, [Derivatives and hedging](#), section 6.3.30 (benchmark interest rates) and section 8.5 (discontinuing fair value hedging relationships). [815-20-55-56]

When a hedging instrument references an eligible reference rate or is modified for derivative discounting transition, Subtopic 848-40 allows an entity to elect to change the designated benchmark interest rate and component of cash flows without dedesignating the hedging relationship. This optional expedient is available when certain changes are made to the hedging instrument and other conditions are met (see [Question 5.3.10](#)).

If an entity elects this expedient, it must update its hedge documentation to reflect the change in the hedged interest rate risk (see [section 4.3.20](#)). [848-40-25-3]



Question 5.3.10

What hedging instrument changes and other conditions must be met for an entity to elect the change in the designated benchmark interest rate optional expedient?

Interpretive response: This optional expedient is available when certain changes are made to the hedging instrument. Further, to elect this expedient, certain conditions must be met.

As summarized in the following table, those changes and conditions depend on whether the hedging instrument: [848-40-25-2]

- references an eligible reference rate; or
- does not reference an eligible reference rate but is modified for discounting transition.

Situation	Changes made to the hedging instrument	Other conditions that must be met
Hedging instrument references an eligible reference rate	<p>The hedging instrument is changed in either of the following ways:</p> <ul style="list-style-type: none"> — the hedging instrument's referenced interest rate index is changed; or — the entity changes the designated hedging instrument to combine two or more derivative instruments that are jointly designated as the hedging instrument under the guidance in paragraph 848-30-25-9(b) (see section 	<ul style="list-style-type: none"> — the designated benchmark interest rate being changed is an eligible reference rate; — the replacement designated interest rate is a benchmark interest rate; and — the hedging instrument is expected to be highly effective after the change.

Situation	Changes made to the hedging instrument	Other conditions that must be met
	4.3.60). For example, an entity may add a new interest rate basis swap to an existing interest rate swap.	
Hedging instrument does not reference an eligible reference rate but is modified for derivative discounting transition	The hedging instrument is changed because the interest rate used for margining, discounting or contract price alignment is modified.	<ul style="list-style-type: none"> — the designated benchmark interest rate being changed is a rate used for margining, discounting, or contract price alignment (see section 2.4); — the replacement designated interest rate is a benchmark interest rate; and — the hedging instrument is expected to be highly effective after the change.

Further, if an entity elects this expedient, it is required to change the rate used to discount cash flows associated with the hedged item to reflect the change in the designated benchmark interest rate when assessing effectiveness and measuring the basis adjustment. See also [Question 5.3.20](#). [848-40-25-4]



Example 5.3.10

LIBOR-based interest rate swap modified for derivative discounting transition

ABC Corp. has a LIBOR-based interest rate swap that is the designated hedging instrument in a cash flow hedging relationship. The interest rate swap is modified for derivative discounting transition. Its contractual terms are not otherwise changed.

Although the instrument was modified for derivative discounting transition, the expedient's provision that permits an entity to change the designated benchmark interest rate in connection with derivative discounting transition modifications does not apply when the hedging instrument references an eligible reference rate.

When the hedging instrument references an eligible reference rate, either that rate must be changed or the designated hedging instrument must be changed to combine two or more derivatives jointly designated as the hedging instrument (as explained in [Question 5.3.10](#)). ABC's interest rate swap was not changed in either of those ways.

As a result, the hedging relationship is not eligible for the change in the designated benchmark interest rate expedient. Therefore, ABC would be

required to discontinue the hedging relationship if it wants to change the designated benchmark interest rate.



Question 5.3.20

Does a hedged item's cumulative basis adjustment change when the change in designated benchmark interest rate expedient is elected?



Excerpt from ASC 848-40

>> Change in Fair Value of Hedged Item Due to a Change in the Designated Benchmark Interest Rate

25-4 If an entity elects the optional expedient in paragraphs 848-40-25-2 through 25-3 to change the designated benchmark interest rate, it shall, at a minimum, revise the rate used to discount the cash flows associated with the hedged item reflecting the change in the designated benchmark interest rate in accordance with paragraph 848-40-25-2. An entity may include a spread adjustment to the revised benchmark interest rate used to discount the cash flows associated with the hedged item in accordance with an approach in paragraph 848-40-25-5. In addition, an entity may adjust the cash flows for the designated term of the designated hedged item.

25-5 At the time of the change to the designated benchmark interest rate, an entity may either:

- a. Apply an approach that adjusts the hedged item's cumulative fair value hedge basis adjustment attributable to changing from the originally designated benchmark interest rate to the replacement designated benchmark interest rate
- b. Apply an approach that results in no adjustment to the hedged item's cumulative basis adjustment (that is, maintain the hedged item's cumulative basis adjustment immediately before the date of the change).

This Subtopic does not specify a single method for applying those approaches. The method an entity uses shall be reasonable, and an entity shall use a similar method for similar hedges and shall justify the use of different methods for similar hedges.

25-7 If an entity adjusts the cumulative basis adjustment because of the change in the designated benchmark interest rate in accordance with paragraph 848-40-25-5(a), the entity shall recognize the adjustment currently in earnings. An entity shall present the adjustment in the same income statement line item that is used to present the earnings effect of the hedged item.

Background: The amortized cost basis of a hedged item in a fair value hedge (i.e. the hedged asset, liability or firm commitment) is adjusted for the hedged item's change in fair value attributable to the risk being hedged. This adjustment is referred to as a basis adjustment. See section 8.3.10 of KPMG Handbook, [Derivatives and hedging](#).

Interpretive response: Not necessarily. An entity is required to revise the rate used to discount cash flows associated with the hedged item. However, an entity is permitted to apply either of the following two approaches: [848-40-25-4 – 25-5, 25-7]

- adjust the hedged item's cumulative basis adjustment attributable to changing the designated benchmark interest rate. Under this approach, the change is recognized through earnings and is presented in the same line item that is used to present the earnings effect of the hedged item; or
- maintain the hedged item's cumulative basis adjustment immediately before the change (see also [Question 5.3.30](#)).

Subtopic 848-40 does not specify a method for applying these two approaches. However, it requires an entity to: [848-40-25-5]

- use a reasonable method; and
- use a similar approach for accounting for the change in fair value for similar hedges or justify the use of different approaches for similar hedges.



Question 5.3.30

How does an entity maintain and subsequently measure a hedged item's cumulative basis adjustment when it revises the discount rate?



Excerpt from ASC 848-40

>> Change in Fair Value of Hedged Item Due to a Change in the Designated Benchmark Interest Rate

25-6 In calculating the subsequent changes in the hedged item's fair value attributable to changes in the replacement benchmark interest rate, an entity shall use the revised benchmark interest rate to discount the cash flows associated with the hedged item and shall use the remaining revised cash flows for the designated term of the designated hedged item. The revised benchmark interest rate (including the spread adjustment to the revised benchmark interest rate if applicable) to discount the cash flows associated with the hedged item and the remaining revised cash flows for the designated term shall be retained for periods after the date in paragraph 848-10-65-1(a)(3)(iii).

Interpretive response: As discussed in [Question 5.3.20](#), although an entity is required to revise the discount rate when the change in designated benchmark interest rate expedient is elected, an entity may do that in a way that maintains the hedged item's cumulative basis adjustment.

Subtopic 848-40 does not provide guidance on how to subsequently measure the cumulative basis adjustment after an entity has elected to maintain a hedged item's cumulative basis adjustment when the discount rate is revised.

For example, following an election to maintain a hedged item's cumulative basis adjustment, an entity may subsequently measure a hedged item's cumulative basis adjustment by: [IASU 2020-04.BC58](#)

- including a spread adjustment to the revised benchmark interest rate; and/or
- adjusting the cash flows associated with the hedged item for the designated term of the designated hedged item.

Regardless of the method used, the entity's approach is calibrated to the cumulative basis adjustment when the change in designated interest rate expedient is elected. The spread adjustment and/or revised cash flows used in that calibration are maintained for the duration of the hedging relationship, even if the remaining term goes beyond Topic 848's normal sunset date. See [section 8.3](#).

5.3.30 Hedge effectiveness assessments – shortcut method application



Excerpt from ASC 848-40

> Optional Expedient: Assessment of Hedge Effectiveness When Assuming Perfect Hedge Effectiveness in a Hedge with an Interest Rate Swap (Shortcut Method)

25-8 For fair value hedges for which the shortcut method is applied in accordance with paragraphs 815-20-25-102 through 25-105, 815-20-25-107 through 25-109, and 815-20-25-111 through 25-117, the following conditions from paragraph 815-20-25-104 that apply to fair value hedges may be disregarded in determining whether the hedging relationship continues to qualify for the shortcut method upon a change in the contractual terms of the hedging instrument in accordance with paragraphs 848-30-25-5 through 25-7:

- a. The formula for computing net settlements under the interest rate swap is the same for each net settlement in accordance with paragraph 815-20-25-104(d).
- b. The terms are typical of those instruments, and the terms do not invalidate the assumption of perfect effectiveness in accordance with paragraph 815-20-25-104(g).

If an entity elects the practical expedient in this paragraph for a fair value hedge for which the shortcut method is applied, the entity is not required to periodically evaluate the conditions in paragraph 815-20-25-104(d) and (g) for the remaining life of the hedging relationship, including for periods after December 31, 2024 (see paragraph 848-10-65-1(a)(3)(iii)). However, if the hedging instrument meets the scope of paragraph 848-10-15-3 and an entity elects the practical expedient in accordance with paragraph 848-30-25-10 to combine two or more derivative instruments, or proportions of those instruments, as the hedging instrument, the entity is not permitted to continue to apply the shortcut method after December 31, 2024. In that case, if the hedging relationship continues after the entity is required to cease applying the

optional expedient method because of the condition in paragraph 848-10-65-2(a)(3)(iii)(02) or because the entity elects to cease applying the optional expedient, the entity shall revert to applying the qualifying criteria and hedge assessment methods in Subtopics 815-20 and 815-25 to assess whether hedge accounting may continue for subsequent reporting periods. In that case, the change in the method of assessing hedge effectiveness upon discontinuing the application of the optional expedient method is not a change that results in dedesignation of the hedging relationship. An entity shall update its hedge documentation to reflect the change in the method of assessing hedge effectiveness in accordance with paragraph 848-30-25-4

25-9 If an entity elects to apply the optional expedient for the shortcut method in paragraph 848-40-25-8, the entity shall update its hedge documentation in accordance with paragraph 848-30-25-4.

Topic 815 requires effectiveness assessments to be performed and documented both at inception of a hedging relationship and periodically thereafter. The shortcut method for assessing hedge effectiveness may be used when an interest rate swap hedges the interest rate risk related to recognized assets or liabilities and certain conditions are met. Topic 815 requires effectiveness assessments to be performed consistently with the initially documented method. For further discussion, see chapter 13 of KPMG Handbook, [Derivatives and hedging](#), including section 13.3. [\[815-20-25-79, 55-68 – 55-69\]](#)

Subtopic 848-40 provides an optional expedient that allows an entity to disregard certain conditions of the shortcut method when performing subsequent effectiveness assessments. If the other shortcut method conditions (those not disregarded by this optional expedient) are met, the hedging relationship continues to be considered perfectly effective.

When this expedient is elected, the hedge documentation is updated (see [section 4.3.20](#)). [\[848-40-25-9\]](#)



Question 5.3.40

What conditions must be met to elect the shortcut method optional expedient?

Interpretive response: We believe this optional expedient is available only when one of the following changes is made to the designated hedging instrument: [\[848-40-25-8\]](#)

- the hedging instrument's contractual terms are changed following the guidance in [section 4.3.30](#); or
- the entity combines two or more derivative instruments (or proportions thereof) as the hedging instrument following the guidance in [section 4.3.60](#).



Question 5.3.50

Which conditions of the shortcut method may be disregarded under the shortcut method optional expedient?

Interpretive response: The following two conditions may be disregarded. [848-40-25-8]

Condition 1

The swap has a consistent formula for computing net settlements each period.

Condition 2

All other terms are typical and do not invalidate the assumption of perfect effectiveness.

Further, in some situations, the entity may continue to disregard these two conditions for the remaining life of the hedging relationship, including after Topic 848's sunset date (see [Question 5.3.70](#)). [848-40-25-8]



Question 5.3.60

Can an entity apply the optional expedient for the shortcut method from hedge inception for a new hedging relationship?

Interpretive response: No. To elect this optional expedient, an entity must have changed the hedging instrument after hedge inception (see [Question 5.30.40](#)). Therefore, this expedient is available only for existing (not new) hedging relationships. [848-40-25-8]



Question 5.3.70#

When must an entity discontinue the use of this optional expedient?

Interpretive response: It depends on whether the shortcut method optional expedient was elected because the entity changed the hedging instrument's contractual terms or combined two or more derivative instruments (or proportions thereof); see [Question 5.3.40](#). [848-40-25-8]

Hedging instrument's contractual terms were changed	Entity combined two or more derivative instruments (or proportions thereof)
<p>The fair value shortcut method optional expedient may continue to be applied after Topic 848's sunset date of December 31, 2024.</p>	<p>The entity may not apply the fair value shortcut method optional expedient after Topic 848's sunset date of December 31, 2024.</p> <p>Instead, the entity must stop applying this optional expedient when Topic 848 sunsets (or earlier if the entity elects to stop applying this optional expedient).</p> <p>When the entity stops applying this optional expedient, the entity must select a hedge effectiveness assessment method as detailed in Subtopics 815-20 or 815-25. This change in method due to discontinuing application of this optional expedient must be documented (see section 4.3.20) and is not a change that results in dedesignation of the hedging relationship.</p>

See also [section 8.3](#) about Topic 848's sunset date provisions for hedging relationships.

6. Cash flow hedges

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Item significantly updated in this edition #

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6.1 How the standard works

This chapter discusses the available optional expedients in Subtopic 848-50 that are specific to cash flow hedging relationships, as summarized in the following table.

Expedient is available to hedging relationships that reference an eligible reference rate (chapter 2)	Expedient is available to derivatives that do not reference an eligible reference rate but are modified for discounting transition (chapter 2)	Contractual changes must meet the scope conditions of Subtopic 848-20 (section 3.2)	Other relevant conditions
Probability of hedged forecasted transaction (section 6.3.20) This expedient allows an entity to disregard potential discontinuation of a referenced interest rate when assessing whether a hedged forecasted interest payment is probable.			
✓			Underlying hedged forecasted transaction remains probable
Change in the designated hedged risk (section 6.3.30) This expedient allows an entity to continue hedge accounting upon a change in the hedged risk.			
✓			<ul style="list-style-type: none"> — The hedging relationship continues to be highly effective — Hedge documentation is updated under the guidance in section 4.3.20.
Hedge effectiveness assessment (section 6.3.40) This expedient allows an entity to assess effectiveness in ways that essentially disregard a potential mismatch in the variable rate indexes between the hedging instrument and the hedged item.			
✓ ¹	✓		<ul style="list-style-type: none"> — Either the hedged item or the hedging instrument references an eligible reference rate — Hedge documentation is updated under the guidance in section 4.3.20 when an entity changes its subsequent effectiveness assessment method.

Expedient is available to hedging relationships that reference an eligible reference rate (chapter 2)	Expedient is available to derivatives that do not reference an eligible reference rate but are modified for discounting transition (chapter 2)	Contractual changes must meet the scope conditions of Subtopic 848-20 (section 3.2)	Other relevant conditions
Shared risk exposure in a group of forecasted transactions (section 6.3.50) For hedges of portfolios of forecasted transactions that reference a rate affected by reference rate reform, this expedient allows an entity to disregard the requirement that individual hedged transactions must share the same risk exposure.			
✓			
Note: 1. For a hedging relationship with a hedging instrument that does not reference an eligible reference rate but is modified for derivative discounting transition, an entity may elect certain optional expedients for subsequently assessing effectiveness. See Question 6.3.40 .			

6.2 Scope and applicability

6.2.10 Scope



Excerpt from ASC 848-50

05-1 This Subtopic provides guidance related to optional expedients for the accounting for and financial reporting of cash flow hedges under Topic 815 on derivatives and hedging that are affected by reference rate reform.

15-1 The guidance in this Subtopic provides optional expedients for certain requirements of Subtopics 815-20 and 815-30 related to the assessment of hedge effectiveness and the designation of cash flow hedges. An entity shall continue to apply all other cash flow hedge accounting requirements specified in Subtopics 815-20 and 815-30.

Subtopic 848-50 provides optional expedients for certain hedge designation and hedge effectiveness requirements that are specific to cash flow hedging relationships. These optional expedients may be elected if the hedging relationship is affected by reference rate reform. [848-10-55-1, 848-50-15-1]

The expedients and the conditions that must be met to apply them are further explained in [section 6.3](#).



Question 6.2.10

What does it mean for a hedging relationship to be 'affected by reference rate reform'?

Interpretive response: Topic 848 does not define that term. We believe the nature of the assessment may differ depending on the expedient and the hedging relationship and will require judgment.

In some cases, the evaluation of whether the relationship is 'affected by reference rate reform' may be limited to evaluating whether the relationship meets either of the following conditions:

- the hedging relationship references an eligible reference rate – e.g. the hedging instrument and/or the hedged forecasted transaction references an eligible reference rate (see [section 4.2.10](#)); or
- the derivative hedging instrument does not reference an eligible reference rate but is modified for discounting transition.

In addition to being affected by reference rate reform, each optional expedient has individual eligibility conditions that must be met.



Question 6.2.20

Which cash flow hedge optional expedients are available for a derivative that does not reference an eligible reference rate but is modified for discounting transition?



Excerpt from ASC 848-10

> Implementation Guidance

55-1 The optional expedients in this Topic that may be applied to derivatives that meet the scope of paragraph 848-10-15-3A are specified in the following table.

Codification Subtopic	Provisions That Apply to Derivatives That Meet the Scope of Paragraph 848-10-15-3A
848-50	<ul style="list-style-type: none"> a. Requirement for an entity that elects to apply the optional expedients in Subtopic 848-50 to continue to apply all other requirements applicable to cash flow hedges in Subtopics 815-20 and 815-30 (paragraph 848-50-15-1). b. Option to apply the cash flow hedging relief on an individual hedge and individual expedient basis (paragraph 848-50-25-1). c. Option to apply certain expedients for the application of subsequent assessment methods for cash flow hedges in which the hedging instrument meets the scope of paragraph 848-10-15-3A (paragraph 848-50-35-1). d. Option to apply the expedients in Subtopic 848-50 prospectively and the requirement to update hedge documentation if electing an optional expedient in Subtopic 848-50 (paragraphs 848-50-35-2 through 35-3). e. Option to apply a subsequent effectiveness assessment method that assumes perfect effectiveness if an entity was applying the corresponding perfectly effective method under Subtopics 815-20 and 815-30 before the modification of the interest rate used for margining, discounting, or contract price alignment (paragraphs 848-50-35-4 through 35-9). f. Requirement to cease applying subsequent assessment methods for assuming perfect effectiveness for cash flow hedges (paragraph 848-50-35-19A). g. Guidance on assessing hedge effectiveness and the subsequent accounting when optional expedient methods in paragraphs 848-50-35-4 through 35-9 are discontinued (paragraphs 848-50-35-20 through 35-21 and 848-50-35-23 through 35-24).

Interpretive response: The optional expedients listed in the above table are available when a derivative that does not reference an eligible reference rate is modified for discounting transition. They are also identified in the discussion in [section 6.3](#) as relevant to the individual expedients. [848-10-55-1]

6.2.20 Accounting policy considerations



Excerpt from ASC 848-50

> Option to Apply Expedients

25-1 An entity may elect to apply the optional expedients for the assessment of hedge effectiveness in this Subtopic to cash flow hedges affected by reference rate reform on an individual hedging relationship basis. In addition, an entity may elect to apply the different optional expedients for the assessment of hedge effectiveness in this Subtopic on an individual hedging relationship basis. An entity may disregard the guidance in paragraph 815-20-25-81 when applying the guidance in this Subtopic and shall not be required to assess effectiveness for similar hedges in a similar manner.

The optional expedients in Subtopic 848-50 may be elected on a hedge-by-hedge and an expedient-by-expedient basis. Further, an entity is not required to apply the expedients similarly for similar hedges. See related discussion in [section 4.2.20](#), including [Question 4.2.20](#). [848-10-55-1, 848-50-25-1]

6.3 Optional expedients

6.3.10 Overview#

Subtopic 848-50 provides several optional expedients for cash flow hedging relationships that represent exceptions to certain of Topic 815's hedge designation and hedge effectiveness requirements; these are in addition to the 'changes to critical terms' optional expedients that are available for cash flow hedging relationships (see [chapter 4](#)). These optional expedients may be elected if the hedging relationship is affected by reference rate reform (see [Question 6.2.10](#)).

The expedients and the conditions that must be met to apply them are further explained in the sections that follow.

1st optional expedient: Probability of hedged forecasted transaction	Allows an entity to disregard potential discontinuation of a referenced interest rate when assessing whether a hedged forecasted interest payment is probable.	See section 6.3.20
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2nd optional expedient: Change in the designated hedged risk	Allows an entity to continue hedge accounting upon a change in the hedged risk.	See section 6.3.30
3rd optional expedient: Hedge effectiveness assessment	Allows an entity to assess effectiveness in ways that essentially disregard a potential mismatch in the variable rate indexes between the hedging instrument and the hedged item.	See section 6.3.40
4th optional expedient: Shared risk exposure in a group of forecasted transactions	For hedges of portfolios of forecasted transactions that reference a rate affected by reference rate reform, allows an entity to disregard the requirement that individual hedged transactions must share the same risk exposure.	See section 6.3.50

Certain optional expedients in Topic 848 apply to discontinued hedges that have amounts remaining in AOCI. See [Question 4.2.15](#).

6.3.20 Probability of hedged forecasted transactions



Excerpt from ASC 848-50

> Eligibility of Cash Flow Hedges Affected by Reference Rate Reform

>> Probability of the Hedged Forecasted Transaction

25-2 An entity shall continue to assess whether the underlying hedged forecasted transaction (for example, the future interest receipts of a financial asset or future interest payments of a financial liability or the forecasted issuance or purchase of a debt instrument) remains probable in accordance with paragraph 815-20-25-15(b). If the designated hedged interest rate risk in a cash flow hedge of a forecasted transaction is a reference rate that meets the scope of paragraph 848-10-15-3, an entity may assert that the hedged forecasted transaction (for example, the future interest receipts of a financial asset or future interest payments of a financial liability or the forecasted issuance or purchase of a debt instrument) remains probable in accordance with paragraph 815-20-25-15(b) regardless of the modification or expected modification of terms in accordance with paragraphs 848-20-15-2 through 15-3.

To qualify for cash flow hedge accounting, a forecasted transaction must be probable. Ordinarily, a change in the probability of the forecasted transaction may affect whether the hedging relationship remains eligible for hedge accounting and the timing of reclassifying derivatives gains (losses) from AOCI to earnings. Further, although Topic 815 permits a change to the hedged risk in a cash flow hedge, this ability does not extend to the hedged forecasted transaction. Sections 9.3.40 and 9.4.60 of KPMG Handbook, [Derivatives and hedging](#), discuss further. [\[815-20-25-15\(b\)\]](#)

Subtopic 848-50 provides an optional expedient (the ‘probability of hedged forecasted transactions’ expedient) when the designated hedged interest rate risk in a cash flow hedge of a forecasted transaction is an eligible reference rate. An entity may apply this expedient to assert that the forecasted transaction remains probable when it modifies or expects to modify the terms. See [chapter 3](#) for information about the scope conditions of Subtopic 848-20. [\[848-50-25-2\]](#)

To apply this expedient, an entity must conclude the underlying forecasted transaction is probable. That is, the hedged interest payments or receipts or the forecasted issuance or purchase of a debt instrument must remain probable. [\[848-50-25-2\]](#)



Question 6.3.10

How is the probability of an underlying forecasted transaction evaluated when a new instrument is expected to replace an instrument that references an eligible reference rate?

Interpretive response: We believe the ‘probability of hedged forecasted transactions’ expedient permits an entity to include cash flows from a new instrument when evaluating probability of an underlying forecasted transaction if the new instrument’s cash flows will replace those of an instrument that references an eligible reference rate. This expedient permits an entity to conclude that the cash flows of an existing instrument that references an eligible reference rate are probable, whether or not that instrument is expected to be modified. [\[848-50-25-2, ASU 2020-04.BC65\]](#)

We believe this guidance applies regardless of whether an existing instrument that references an eligible reference rate is expected to be modified or expected to be replaced with a new instrument that references a new rate, when the existing instrument matures, terminates or expires.



Example 6.3.10

Hedged forecasted transactions are not expected to occur because the related debt obligation will be prepaid

ABC Corp. entered into an interest rate swap to receive interest at 3-month LIBOR and pay interest at a fixed rate. The swap was designated as the hedge of the risk of changes in cash flows attributable to changes in the contractually specified interest rate (i.e. 3-month LIBOR) on a specific variable-rate debt obligation or its replacement.

At the date of its evaluation, ABC expects to prepay the specific debt obligation before its maturity. In addition, it does not expect to modify the debt obligation before it is prepaid.

Scenario 1: ABC does not expect to replace its debt obligation

ABC is not eligible to apply the probability of hedged forecasted transactions optional expedient because it does not expect to modify or replace the variable rate debt obligation.

Scenario 2: ABC expects to replace the debt obligation by issuing a new SOFR-based debt obligation to a different lender

The expected prepayment will not be a modification (and will not be eligible for the contract modification optional expedient). Therefore, it is expected to be accounted for as an extinguishment of the existing debt obligation and issuance of a new debt obligation.

ABC is eligible to apply the probability of hedged forecasted transactions optional expedient; that is, ABC may consider the cash flows from expected issuance of the SOFR-based debt obligation when evaluating the probability of the hedged forecasted interest payments.

**Question 6.3.20****Must an entity document election of the probability of hedged forecasted transactions expedient?**

Interpretive response: We believe it is a best practice for an entity to document the election of the expedient to support its assertion that the forecasted transaction remains probable when the hedged interest rate risk index is expected to be discontinued.

Section 6.9.60 of KPMG Handbook, [Derivatives and hedging](#), further discusses documentation requirements for cash flow hedges.

6.3.30 Change in the designated hedged interest rate risk**Excerpt from ASC 848-50****>> Change in the Designated Hedged Interest Rate Risk**

25-3 Paragraph 815-30-35-37A specifies that the designated hedged risk for a cash flow hedge of a forecasted transaction may change during a hedging relationship and an entity may continue to apply hedge accounting if the hedge remains highly effective. For purposes of applying that guidance to a cash flow hedge of the variability in expected future cash flows associated with either an existing variable-rate asset or liability or a forecasted issuance or purchase of a variable-rate debt instrument affected by reference rate reform in accordance with paragraph 848-10-15-3, a cash flow hedge may continue hedge accounting subject to either the hedging relationship remaining highly effective in accordance with Subtopics 815-20 and 815-30 or an entity electing an optional expedient method to subsequently assess hedge effectiveness in accordance with paragraphs 848-50-35-1 through 35-18. An entity also may

apply the guidance in paragraph 815-30-35-37A to a cash flow hedge of a forecasted issuance or purchase of a fixed-rate debt instrument in which the designated hedged risk is the variability in cash flows attributable to changes in the benchmark interest rate in accordance with paragraph 815-20-25-19A(a) or paragraph 815-20-25-19B and the hedging instrument is affected by reference rate reform in accordance with paragraph 848-10-15-3. In that case, if the referenced interest rate index of the hedging instrument changes or an entity changes the designated hedging instrument to combine two or more derivatives to be jointly designated as the hedging instrument in accordance with paragraph 848-30-25-9(b), an entity may change the designated benchmark interest rate if it is a rate within the scope of paragraph 848-10-15-3 and the replacement designated benchmark interest rate is an eligible benchmark rate in accordance with paragraph 815-20-25-6A, subject to the hedging relationship remaining highly effective in accordance with Subtopics 815-20 and 815-30. If an entity elects to change the designated hedged interest rate risk for a cash flow hedge, the entity shall update its hedge documentation in accordance with paragraph 848-30-25-4.

Topic 815 specifies that if there is a change to the hedged risk in a cash flow hedge of a forecasted transaction, an entity is not required to automatically dedesignate the hedging relationship. However, the ability to change the hedged risk does not extend to the hedged forecasted transaction. Section 9.4.60 of KPMG Handbook, [Derivatives and hedging](#), discusses further.

Subtopic 848-50 provides additional guidance about when an entity can change the designated hedged risk in the context of reference rate reform. Under its guidance, an entity may elect the 'change in the designated hedged interest rate risk' expedient to change the designated hedged interest rate risk without dedesignating the hedging relationship if certain conditions are met. [\[848-50-25-3\]](#)

An entity updates its hedge documentation to reflect the change in the hedged interest rate risk (see [section 4.3.20](#)). [\[848-50-25-3\]](#)



Question 6.3.30

What conditions must be met to elect the change in the designated hedged interest rate risk optional expedient?

Interpretive response: It depends on what the hedging relationship is, as summarized in the following table. [\[848-50-25-3, 815-30-35-37A\]](#)

Hedging relationship	Conditions that must be met
Variability in expected future cash flows associated with one of the following: <ul style="list-style-type: none">— a specifically identified existing variable-rate asset or liability; or— a forecasted issuance or purchase of a specifically identified variable-rate debt instrument.	<ul style="list-style-type: none">— The hedging relationship references an eligible reference rate.— The hedging relationship continues to be highly effective after the change. In assessing effectiveness after a change, an entity may subsequently assess effectiveness under either:<ul style="list-style-type: none">— Subtopics 815-20 and 815-30; or

Hedging relationship	Conditions that must be met
	<ul style="list-style-type: none"> — an optional expedient for hedge effectiveness assessments (see section 6.3.40).
Variability in expected cash flows attributable to changes in the benchmark interest rate of a forecasted issuance or purchase of a fixed-rate debt instrument.	<ul style="list-style-type: none"> — The hedging instrument references an eligible reference rate. — One of the following events occurs: <ul style="list-style-type: none"> — the hedging instrument's referenced interest rate index changes; or — the entity changes the designated hedging instrument to combine two or more derivatives under the optional expedient for rebalancing of hedging relationships (see section 4.3.60). — The original designated benchmark interest rate is an eligible reference rate. — The replacement designated benchmark interest rate is an eligible benchmark rate. — The hedging relationship continues to be highly effective under Subtopics 815-20 and 815-30.

6.3.40 Hedge effectiveness assessments



Excerpt from ASC 848-50

> Initial Assessment of Hedge Effectiveness

>> Optional Expedients for Initial Assessment of Hedge Effectiveness

25-4 An entity may perform its initial hedge effectiveness assessment in a manner that adjusts how it applies certain guidance in Subtopics 815-20 and 815-30 as specified in paragraph 848-50-25-5 for cash flow hedges for which either the hedged forecasted transaction or the hedging instrument references a rate that meets the scope of paragraph 848-10-15-3. For subsequent hedge effectiveness assessments, an entity may use the eligible optional expedients for hedge effectiveness assessment in paragraphs 848-50-35-1 through 35-18.

25-5 In accordance with paragraph 815-20-25-3(b)(2)(iv)(01), an entity shall perform an initial prospective assessment of hedge effectiveness on a quantitative basis unless one of the methods listed in paragraph 815-20-25-3(b)(2)(iv)(01) applies. Paragraphs 848-50-25-6 through 25-12 describe certain modifications to the relevant methods for performing an initial assessment of hedge effectiveness for cash flow hedges within the scope of this Subtopic.

> Subsequent Assessment of Hedge Effectiveness

35-1 This guidance provides optional expedients that may be elected for cash flow hedges affected by reference rate reform for the purposes of determining whether an entity shall be allowed to continue applying hedge accounting for the hedging relationship. An entity may elect these optional expedient methods if either the forecasted transaction or the hedging instrument references a rate that meets the scope of paragraph 848-10-15-3. An entity may elect certain optional expedient methods if the hedging instrument meets the scope of paragraph 848-10-15-3A (see paragraph 848-10-55-1).

35-2 If an entity elects to apply an optional expedient method in this Subtopic for a cash flow hedging relationship, the entity need only apply the optional expedient method prospectively beginning on the date that the expedient method is first applied in determining whether the entity can continue to apply hedge accounting to that hedging relationship. After the date on which the optional expedient method is first applied (if the hedging relationship continues), the entity shall assess the hedging relationship using the optional expedient method both prospectively and retrospectively from the date on which the expedient method is first applied.

35-3 If an entity elects to change the method of assessing hedge effectiveness for a cash flow hedge to an optional expedient method in accordance with paragraphs 848-50-35-4 through 35-18, the entity shall update its hedge documentation in accordance with paragraph 848-30-25-4.

>> Optional Expedient: Subsequent Assessments Using a Method That Assume Perfect Effectiveness

35-4 If an entity applies an initial assessment method in accordance with paragraph 815-20-25-3(b)(2)(iv)(01) or an initial assessment method in accordance with paragraphs 848-50-25-6 through 25-10 for the assessment of initial hedge effectiveness, paragraphs 848-50-35-5 through 35-9 describe certain modifications to the relevant methods for performing an ongoing assessment of hedge effectiveness for cash flow hedges.

Topic 815 requires effectiveness assessments to be performed and documented both at inception of a hedging relationship and periodically thereafter.

- The initial effectiveness assessment is performed quantitatively, unless certain conditions are met that will result in the hedging relationship being perfectly effective.
- Subsequent effectiveness assessments are performed using either a quantitative method or the qualitative method unless the shortcut method, critical terms match method or simplified hedge accounting approach is used.

Topic 815 requires effectiveness assessments to be performed consistently with the initially documented method. Chapter 13 of KPMG Handbook, [Derivatives and hedging](#), discusses further. [\[815-20-25-79, 55-68 – 55-69\]](#)

Subtopic 848-50 provides optional expedients for cash flow hedges that allow an entity to disregard or adjust certain conditions that otherwise would have been considered under Topic 815 when assessing hedge effectiveness. There

is an optional expedient for each method of assessing effectiveness under Topic 815. All of those expedients are available when a hedging relationship references an eligible reference rate. In addition, certain expedients are available when a hedging relationship does not reference an eligible reference rate, but the hedging instrument is modified for derivative discounting transition. [848-50-25-4 – 25-5, 35-1 – 35-3]

When an expedient is elected after a hedging relationship's inception, it is prospectively applied after the election date. In this case, the hedge documentation must be updated (see [section 4.3.20](#)). [848-10-55-1, 848-50-35-3]



Question 6.3.40

Do the hedge effectiveness assessment optional expedients apply to both initial and subsequent effectiveness assessments?

Interpretive response: Yes, except for the qualitative effectiveness method optional expedient. The qualitative effectiveness method optional expedient is not available for a hedging relationship's initial prospective effectiveness assessment. The other expedients are available for a hedging relationship's initial prospective effectiveness assessment and subsequent effectiveness assessments (both prospective and retrospective). [848-10-55-1, 848-50-25-4 – 25-12, 35-1 – 35-18]

However, the availability of each expedient depends on whether the hedging relationship references an eligible reference rate, as summarized in the following table, and on whether the other qualifying conditions for the method in Topic 815 are met. [848-10-55-1, 848-50-25-4 – 25-12, 35-1 – 35-18]

Method of assessing effectiveness ¹	Corresponding expedient is available when:	
	Hedging relationship references an eligible reference rate	Hedging relationship does not reference an eligible reference rate but is modified for derivative discounting transition
Initial effectiveness assessments		
Qualitative effectiveness method	No, the optional expedient for the qualitative effectiveness method applies only to subsequent effectiveness assessments.	
All other methods	Yes	No

Method of assessing effectiveness ¹	Corresponding expedient is available when:	
	Hedging relationship references an eligible reference rate	Hedging relationship does not reference an eligible reference rate but is modified for derivative discounting transition
Subsequent effectiveness assessments		
Methods that assume perfect effectiveness <ul style="list-style-type: none"> — Shortcut method — Simplified hedge accounting approach 	Yes	Yes, if the entity was applying the corresponding method under Subtopics 815-20 and 815-30 before electing the expedient.
Quantitative methods – Conditions that will result in perfect effectiveness <ul style="list-style-type: none"> — Terminal value method — Change-in-variable-cash-flows method — Hypothetical derivative method 	Yes	
Quantitative methods – Other than those resulting in perfect effectiveness <ul style="list-style-type: none"> — Change-in-variable-cash-flows method — Hypothetical derivative method — Change-in-fair-value method — Terminal value method 	Yes	No
Qualitative method	Yes	No
Note: 1. Question 6.3.50 discusses each of these effectiveness assessment methods and the conditions that may be disregarded or adjusted for each under the hedge effectiveness assessment optional expedients.		



Question 6.3.50

What conditions may be disregarded or adjusted under the hedge effectiveness assessment optional expedients?

Interpretive response: It depends on the method used to assess hedge effectiveness. The following table summarizes the conditions that may be disregarded or adjusted for each method.

Method of assessing effectiveness	Conditions that may be disregarded or adjusted under the corresponding optional expedient
Methods that assume perfect effectiveness	
Shortcut method Interest rate swap is used to hedge interest rate risk related to recognized assets or liabilities and certain conditions are met. See section 13.3 ¹	An entity may disregard the following conditions for determining whether it can apply the shortcut method for its initial assessment or continue to apply the shortcut method for its subsequent assessments upon a change in contractual terms of the hedging instrument. [848-50-25-6, 35-5] <ul style="list-style-type: none"> — The swap has a consistent formula for computing net settlements each period; — All other terms are typical and do not invalidate assumption of perfect effectiveness; — The repricing dates of the swap and the hedged transaction match; and — The index on which the variable leg of the swap is based matches the contractually specified interest rate designated as the hedged interest rate.
Simplified hedge accounting approach An interest rate swap is used to hedge interest rate risk of variable-rate borrowings and certain conditions are met. This approach is available to private companies that are not financial institutions. See section 16.2 ¹	An entity may disregard the following conditions in determining whether the approach can be applied for its initial assessment or continue to be applied for its subsequent assessments. [848-50-25-8, 35-7] <ul style="list-style-type: none"> — The swap and borrowing are based on the same index and reset period; — The terms of the swap are typical and considered 'plain vanilla'; and — The repricing and settlement dates match or differ by no more than a few days.
Quantitative methods – Conditions that will result in perfect effectiveness	
Terminal value method A purchased option, net purchased option or zero-cost collar is used and certain conditions are met. See section 13.7.20 ¹	An entity may disregard the following conditions in determining whether the hedging relationship can be considered perfectly effective in its initial assessment or continue to be considered perfectly effective in its subsequent assessments. [848-50-25-7, 35-6] <ul style="list-style-type: none"> — The underlying of the hedging instrument matches the underlying of the hedged transaction; — The strike prices of the hedging option (or combination of options) match the specified level (or levels) beyond (or within) which the entity's exposure is being hedged; and — The hedging instrument's inflows (outflows) at its maturity date completely offset the outflows (inflows) from any increase or decrease in the hedged transaction's cash flows for the risk being hedged.
Change-in-variable-cash-flows method An interest rate swap is used to hedge variability in	An entity may disregard the following conditions in determining whether the hedging relationship can be considered perfectly effective. [848-50-25-9, 35-8]

Method of assessing effectiveness	Conditions that may be disregarded or adjusted under the corresponding optional expedient
<p>interest receipts or payments and certain conditions are met.</p> <p>See section 13.7.40¹</p>	<ul style="list-style-type: none"> — The variable-rate leg of the swap and the hedged variable cash flows of the asset or liability are based on the same interest rate index; — The interest rate reset dates that apply to the variable-rate leg of the swap and to the hedged variable cash flows of the asset or liability are the same; And — The hedging relationship does not contain any other basis differences. This condition can only be disregarded if the basis differences are due to differences in a cap or floor between the variable-rate leg of the swap and the variable-rate asset or liability.
<p>Hypothetical derivative method</p> <p>A derivative instrument is used to hedge any eligible risk (an interest rate swap is used to hedge variability in interest receipts or payments) and the critical terms of the hedging instrument and hedged transaction match.</p> <p>See sections 13.7.30 and 13.7.40¹</p>	<p>An entity may disregard the following conditions in determining whether the hedging relationship can be considered perfectly effective. [848-50-25-10, 35-9]</p> <ul style="list-style-type: none"> — The repricing dates of the hypothetical derivative and the hedged transaction are the same; — The index on which the hypothetical derivative's variable rate is based matches the index of the variable-rate asset or liability; and — The hypothetical derivative and the variable-rate asset or liability have mirror image caps and floors, if applicable; this includes a cap or floor that exists in the hypothetical derivative but not the variable-rate asset or liability or vice versa.
Quantitative methods – Other than those resulting in perfect effectiveness	
<p>Change-in-variable-cash-flows method, hypothetical derivative method or change-in-fair-value method</p> <p>See section 13.7¹</p>	<p>How an entity may adjust these methods depends on which aspects of the hedging relationship reference an eligible reference rate, as follows. [848-50-25-11, 35-17]</p> <ul style="list-style-type: none"> — Both the hedged forecasted transaction and the hedging instrument reference an eligible reference rate: An entity may assume the reference rate will not be replaced for the remainder of the hedging relationship.² — Either the hedged forecasted transaction or the hedging instrument references an eligible reference rate: The following terms of the hedged forecasted transaction may be adjusted to match the hedging instrument: <ul style="list-style-type: none"> — the referenced interest rate index; — the reset period, reset dates, day-count conventions, business-day conventions, and repricing calculations (e.g. forward-looking calculation or in-arrears calculation); — a spread adjustment for the difference between the existing reference rate and the replacement reference rate; and

Method of assessing effectiveness	Conditions that may be disregarded or adjusted under the corresponding optional expedient
	<ul style="list-style-type: none"> — a cap or floor, including a cap or floor in a variable-rate asset (or liability) that does not exist in a hedging instrument (or vice versa).
Terminal value method This method may be used for certain cash flow hedging relationships when the hedging instrument is an option. See section 13.7.20 ¹	<p>If either the hedged forecasted transaction or the hedging instrument references an eligible reference rate, an entity may adjust the following critical terms of the perfectly effective hypothetical hedging instrument to match the hedging instrument: [848-50-25-12, 35-18]</p> <ul style="list-style-type: none"> — the underlying reference rate; — the strike price(s) of the hedging option(s); and — the hedging instrument's inflows/outflows at its maturity date due to the underlying reference rate and strike price(s) of the hedging option(s).
Qualitative method (applies to subsequent effectiveness assessments only)	
Effectiveness assessments are performed qualitatively when certain conditions are met. See section 13.5 ¹	<p>An entity may elect this optional expedient if initial effectiveness assessment was performed using either: [848-50-35-10]</p> <ul style="list-style-type: none"> — Topic 815's initial hedge effectiveness assessment guidance; or — one of the optional expedient methods described above in this table. <p>An entity must meet the following conditions to continue to qualitatively assert that the hedging relationship is highly effective, instead of the conditions in paragraphs 815-20-35-2A to 35-2F; these conditions are evaluated and documented as of each financial reporting date and at least quarterly: [848-50-35-11 – 35-12]</p> <ul style="list-style-type: none"> — the hedged forecasted transaction or the hedging instrument references an eligible reference rate; — there have been no changes to the terms of the hedging instrument or the forecasted transaction, other than changes that are related to the replacement of the reference rate (see section 3.2.10); and — the entity considers the likelihood of the counterparty's compliance with the contractual terms of the hedging derivative that require the counterparty to make payments to the entity. <p>Question 6.3.70 discusses when those criteria are not met.</p>
Notes: 1. References are to KPMG Handbook, Derivatives and hedging , which further discusses each method. 2. This assumption may also be made when the hedged forecasted transaction is a purchase, sale or issuance of a fixed-rate instrument in which the designated hedged interest rate risk is a benchmark interest rate, and the hedging instrument references an eligible reference rate.	



Question 6.3.60

Can an entity change the type of effectiveness assessment method it uses when it elects a hedge effectiveness optional expedient?

Interpretive response: Yes, we believe the method can be changed provided the hedging relationship references an eligible reference rate and the other qualifying conditions in Topic 815 for the new method are met after applying the expedient (if applicable). However, an entity may not change the type of effectiveness assessment method if the hedging relationship does not reference an eligible reference rate but is modified for derivative discounting transition; this is because Topic 848 requires an entity to apply the corresponding optional expedient in that situation (see [Question 6.3.40](#)). [848-50-35-20, ASU 2020-04.BC75]

For example, ABC Corp. entered into an interest rate swap to receive interest at 3-month LIBOR and pay interest at a fixed rate. ABC designated the swap as a hedge of the risk of changes in cash flows attributable to changes in the contractually specified interest rate (i.e. 3-month LIBOR) on a specific variable-rate debt obligation. At hedge inception, ABC documented that it would use a quantitative method to assess effectiveness.

ABC modifies the swap in a modification that qualifies for the contract modification optional expedient (see [chapter 3](#)). After the modification, the swap receives interest at SOFR instead of 3-month LIBOR. ABC can elect the hedge effectiveness optional expedient for the shortcut method, provided the hedging relationship meets all conditions for applying the shortcut method to a cash flow hedge other than those the expedient allows to be disregarded; see [Question 6.3.50](#) for the conditions that may be disregarded. [ASU 2020-04.BC75]



Question 6.3.70

How is effectiveness assessed under the qualitative method optional expedient when a hedging relationship no longer qualifies to be assessed qualitatively?



Excerpt from ASC 848-50

>> Optional Expedient: Subsequent Assessments Performed Using a Qualitative Method

35-13 If the facts and circumstances change in accordance with paragraph 848-50-35-12 such that an entity no longer can assert qualitatively that the hedging relationship may continue to qualify for hedge accounting under this Subtopic, the entity shall assess hedge effectiveness on a quantitative basis using the guidance in Subtopics 815-20 and 815-30 or using a quantitative optional

expedient method in this Subtopic to the extent that the quantitative optional expedient method is eligible to be used.

35-14 If there is no identifiable event that led to the change in the facts and circumstances of the hedging relationship, the entity may begin performing quantitative assessments of effectiveness from the beginning of the current period. An entity may change its method of assessing hedge effectiveness and update its hedging documentation to reflect that change in accordance with paragraph 848-30-25-4.

35-15 After assessing the hedge effectiveness using a quantitative optional expedient method for one or more reporting periods, an entity may revert to a qualitative optional expedient method of hedge effectiveness under this Subtopic to the extent that the qualitative optional expedient method is eligible to be used.

35-16 An entity may perform a quantitative assessment of hedge effectiveness in any reporting period, and the results of that quantitative assessment shall not preclude an entity from using the qualitative optional expedient method in paragraphs 848-50-35-11 through 35-12 in a subsequent reporting period.

Interpretive response: An entity applying the qualitative method optional expedient must meet certain conditions to continue to qualitatively assert that the hedging relationship is highly effective; see [Question 6.3.50](#) for those conditions. If an entity determines it can no longer assert qualitatively that the hedging relationship may continue to qualify for hedge accounting, the entity assesses hedge effectiveness using a quantitative method. That quantitative method can be either: [\[848-50-35-13\]](#)

- Topic 815's quantitative hedge effectiveness guidance; or
- a quantitative method optional expedient (see [Question 6.3.40](#)).

If no identifiable event led to the determination that a qualitative assessment is no longer appropriate, the entity may perform the quantitative effectiveness assessment from the beginning of the current period. An entity may change its hedge effectiveness assessment method; in this situation, the entity also updates its hedge documentation (see [section 4.3.20](#)). [\[848-50-35-14\]](#)

After assessing hedge effectiveness using a quantitative method optional expedient, the entity may later revert to the qualitative method optional expedient if it meets the conditions to do so. [\[848-50-35-15 – 35-16\]](#)

**Question 6.3.80**

Are the cash flow hedge effectiveness assessment optional expedients applied for a hedging relationship's remaining life?

**Excerpt from ASC 848-50****> Conditions That Require Discontinuance of Optional Expedient for Assessing Hedge Effectiveness and Reversion to Subtopic 815-20 and 815-30**

35-19 For an entity that elects an optional expedient for assessing cash flow hedge effectiveness in paragraphs 848-50-35-1 through 35-18 because either the hedged item or the hedging instrument references a rate that meets the scope of paragraph 848-10-15-3, the entity shall discontinue the use of that optional expedient if any of the following occurs:

- a. Neither the hedged item nor the hedging instrument references a rate that meets the scope of paragraph 848-10-15-3.
- b. The guidance in this Topic is superseded (see paragraph 848-10-65-1(a)(3)).
- c. The entity elects to cease to apply the optional expedients.

35-19A For an entity that elects an optional expedient for assessing cash flow hedge effectiveness in paragraphs 848-50-35-4 through 35-9 because the entity is applying the guidance in paragraph 848-30-25-11A(b), the entity shall discontinue the use of that optional expedient if any of the following occurs:

- a. The guidance in this Topic is superseded (see paragraph 848-10-65-2(a)(3)).
- b. The entity elects to cease to apply the optional expedients.

35-21 An entity shall perform the cash flow hedge effectiveness assessment in accordance with Subtopics 815-20 and 815-30 to assess whether hedge accounting may continue for subsequent reporting periods. An entity may create the terms of the instrument used to estimate changes in the fair value of its hedged risk (in accordance with either the hypothetical derivative method or another acceptable method in Subtopics 815-20 and 815-30) on the basis of market data as of the inception of the hedging relationship. The entity shall not revise previous assessments of effectiveness that were performed in accordance with this Subtopic.

35-22 An entity shall continue to assess whether the underlying hedged forecasted transaction (for example, the future interest receipts of a financial asset or future interest payments of a financial liability or the forecasted issuance or purchase of a debt instrument) remains probable of occurring in accordance with paragraph 815-20-25-15(b). The assessments of whether the forecasted transactions remain probable are performed without regard to the replacement of the contractually specified interest rate.

35-24 If an entity discontinues an optional expedient method because of a condition in paragraph 848-50-35-19 or paragraph 848-50-35-19A and the hedging relationship does not qualify for hedge accounting when applying a hedge assessment method in Subtopics 815-20 and 815-30, then the entity

shall discontinue hedge accounting prospectively and apply the guidance in paragraphs 815-30-40-2 through 40-6A.

Interpretive response: No. An entity discontinues the use of the hedge effectiveness assessment optional expedients (and reverts to hedge assessment methods in Topic 815) if: [848-10-55-1, 848-50-35-19 – 35-20]

- neither the hedged item nor the hedging instrument references an eligible reference rate; this condition does not apply when the hedging relationship does not reference an eligible reference rate but was impacted by derivative discounting transition;
- Topic 848 sunset provisions apply (see [section 8.3](#)); or
- the entity elects to discontinue the optional expedients.

When an entity discontinues using a hedge effectiveness assessment optional expedient, it prospectively applies Topic 815's hedge effectiveness assessment guidance to determine whether hedge accounting should continue for subsequent reporting periods. The following table summarizes considerations in applying that guidance. [848-10-55-1, 848-50-35-21, 35-22]

Consideration	Guidance
Terms of the hedging instrument when applying the hypothetical derivative method or another acceptable method	An entity may create the terms of the instrument on the basis of market data as of the inception of the hedging relationship.
Probability of hedged forecasted transaction	An entity continues to assess the probability of the underlying hedged forecasted transaction. For hedging relationships that reference an eligible reference rate, these assessments are performed without regard to the replacement of the contractually specified interest rate (also see section 6.3.20).

If an entity reverts to using Topic 815's hedge effectiveness assessment guidance, it discontinues hedge accounting prospectively if the hedging relationship does not qualify for hedge accounting under that guidance. In that case, the entity applies Topic 815's guidance for discontinuing hedge accounting. Section 10.5 of KPMG Handbook, [Derivatives and hedging](#), discusses further. [848-50-35-24]

**Question 6.3.90**

When an entity reverts to a hedge effectiveness method in Topic 815, must it use the method it used before electing the optional expedient?

**Excerpt from ASC 848-50**

35-20 If an entity applies an optional expedient method for assessing hedge effectiveness in accordance with paragraphs 848-50-35-1 through 35-18 and the hedging relationship continues after the entity discontinues applying the optional expedient method because of a condition in paragraph 848-50-35-19 or if an entity applies an optional expedient method for assessing hedge effectiveness in accordance with paragraphs 848-50-35-4 through 35-9 and the hedging relationship continues after the entity discontinues applying the optional expedient method because of a condition in paragraph 848-50-35-19A, the entity shall revert to applying the qualifying criteria and hedge assessment methods in Subtopics 815-20 and 815-30 to assess whether hedge accounting may continue for subsequent reporting periods. The entity may elect any hedge assessment method in accordance with Subtopics 815-20 and 815-30, and the entity is not required to use a hedge assessment method that was used before the election of the optional expedient method in paragraphs 848-50-35-1 through 35-18. For example, an entity that is using the shortcut method optional expedient for the initial assessment of a cash flow hedging relationship in accordance with paragraph 848-50-25-6 and the subsequent assessment in accordance with paragraph 848-50-35-5 shall revert to a hedge assessment method in accordance with Subtopics 815-20 and 815-30 in assessing whether the hedging relationship continues to qualify for hedge accounting from the date that the replacement assessment method is first applied.

Interpretive response: No. An entity may elect any of Topic 815's applicable hedge assessment methods. It is not required to use the method used before the election of the hedge effectiveness assessment optional expedient method. However, it must update its hedge documentation to reflect the change in the method (see [section 4.3.20](#)). [848-50-35-20, 35-23]



Question 6.3.100

Is reversion to a hedge effectiveness method in Topic 815 considered a change that results in dedesignation of the hedging relationship?



Excerpt from ASC 848-50

> Conditions That Require Discontinuance of Optional Expedient for Assessing Hedge Effectiveness and Reversion to Subtopic 815-20 and 815-30

35-23 A change in the method of assessing hedge effectiveness for a cash flow hedge upon discontinuing the application of an optional expedient method to a hedge assessment method in accordance with Subtopics 815-20 and 815-30 is not a change that results in dedesignation of the hedging relationship. An entity shall update its hedge documentation to reflect the change in the method of assessing hedge effectiveness in accordance with paragraph 848-30-25-4.

Interpretive response: No. A hedging relationship is not dedesignated due to changing in the method of assessing hedge effectiveness from an optional expedient method to a method in Topic 815. [848-50-35-23]

However, an entity updates its hedge documentation to reflect the change in the method (see [section 4.3.20](#)). [848-50-35-23]



Question 6.3.110

How are the terms of the PEH derivative determined when an entity reverts to a Topic 815 hedge effectiveness method that uses such an instrument?

Background: Certain methods of assessing effectiveness for cash flow hedges under Topic 815 involve the use of a perfectly effective hypothetical (PEH) derivative. The PEH derivative instrument is one whose terms identically match the terms of the forecasted transaction and (when the hedging instrument is a swap or forward contract) has a fair value of zero at hedge inception. Chapter 13 of KPMG Handbook, [Derivatives and hedging](#), discusses further.

Interpretive response: When an entity ceases to apply an optional expedient and begins to apply a hedge effectiveness assessment method under Topic 815 that uses a PEH derivative to estimate changes in the fair value of the hedged

risk, we believe acceptable approaches for determining the PEH derivative's terms include those based on either:

- market data that existed at the inception of the hedge; or
- the terms of the PEH derivative immediately before modification of the hedging instrument, adjusted for any changes to the fixed rate of the hedging instrument made as part of a modification.



Example 6.3.20

Defining a PEH derivative's terms when ceasing hedge effectiveness optional expedient

On January 1, 2019, ABC Corp. (a calendar year-end company) entered into a 5-year interest rate swap to receive interest at 3-month LIBOR and pay interest at a fixed rate. ABC designated the swap as a hedge of the risk of changes in cash flows attributable to changes in the contractually specified interest rate (i.e. 3-month LIBOR) on a specific 5-year variable-rate debt obligation that was issued on January 1, 2019. ABC assesses hedge effectiveness using the hypothetical derivative method.

The following additional facts are relevant.

- On April 1, 2022, ABC modified the debt obligation in a modification that qualified for the contract modification optional expedient (see [chapter 3](#)). After the modification, the debt references SOFR instead of 3-month LIBOR.
- On April 1, 2022, ABC elected the hedge effectiveness optional expedient for the hypothetical derivative method and, for purposes of assessing effectiveness, adjusted certain terms of the hedged forecasted transaction to match the swap's terms; see [Question 6.3.40](#) for the terms that may be adjusted.
- On October 1, 2022, ABC modifies the swap in a modification that qualifies for the contract modification optional expedient (see [chapter 3](#)). After the modification, the swap receives interest based on SOFR instead of 3-month LIBOR.

On October 1, 2022, ABC is required to discontinue use of the hedge effectiveness optional expedient because neither the hedged item nor the hedging instrument references an eligible reference rate (see [Question 6.3.80](#)). ABC reverts to using Topic 815's hypothetical derivative method and establishes the terms of the perfectly effective hypothetical (PEH) derivative.

Acceptable approaches that ABC may use for defining the PEH derivative's terms include the following.

Assumed terms of the PEH derivative	Comment
Terms created on the basis of market data at hedge inception	
— Variable-rate leg receipts based on 3-month LIBOR until the debt obligation is	Under this approach, the terms of the PEH derivative likely will not be the same as the terms of the actual derivative, even if they

Assumed terms of the PEH derivative	Comment
<p>modified (i.e. April 1, 2022), and overnight SOFR thereafter.</p> <p>— Fixed-rate leg payments based on the market rate for a swap with that variable leg and having a fair value equal to zero at hedge inception (i.e. on January 1, 2019).</p>	<p>were the same before the hedging relationship was modified due to reference rate reform.</p> <p>As a result, this approach will likely result in a mismatch between the change in fair value or cash flows of the hedging instrument and the change in fair value or cash flows of the hedged item or transaction that will be considered in ABC's periodic effectiveness assessments.</p>
<p>— Variable-rate leg receipts based on overnight SOFR since hedge inception.</p> <p>— Fixed-rate leg payments based on the market rate for a swap with that variable leg and having a fair value equal to zero at hedge inception (i.e. on January 1, 2019).</p>	<p>Under this approach, the terms of the PEH derivative likely will not be the same as the terms of the actual derivative, even if they were the same before the hedging relationship was modified due to reference rate reform.</p> <p>As a result, this approach will likely result in a mismatch between the change in fair value or cash flows of the hedging instrument and the change in fair value or cash flows of the hedged item or transaction that will be considered in ABC's periodic effectiveness assessments.</p>
Terms based on PEH derivative before actual swap was modified as adjusted for the modification's change to the swap's fixed rate (if any)	
<p>— Variable-rate leg receipts based on PEH swap's variable-rate leg before the hedging relationship was modified due to reference rate reform, as adjusted to reflect the change to the reference rate of the <i>actual</i> swap.</p> <p>— Fixed-rate leg payments based on the PEH swap's fixed-rate leg before the hedging relationship was modified due to reference rate reform, as adjusted to reflect any adjustment to the <i>actual</i> swap made as part of the modification.</p>	<p>Under this approach, the terms of the PEH derivative will be the same as the terms of the actual derivative if they were the same before the hedging relationship was modified.</p> <p>As a result, this approach will not give rise to a new source of ineffectiveness that would be considered in ABC's periodic effectiveness assessments.</p>

FASB Accounting Standards Codification excerpts

Subtopic 848-50 provides optional expedients for cash flow hedges that allow an entity to disregard or adjust certain conditions that otherwise would have been considered under Topic 815 when assessing hedge effectiveness. The following Codification excerpts detail the conditions that may be disregarded or adjusted for each method of assessing hedge effectiveness. See also [Question](#)

6.3.50 for a summary of the conditions that may be disregarded or adjusted for each method of assessing hedge effectiveness.



Excerpt from ASC 848-50

25-6 An entity may disregard the following conditions in determining whether it may apply the shortcut method for assuming perfect hedge effectiveness in a cash flow hedge with an interest rate swap in accordance with paragraphs 815-20-25-102 through 25-109 and 815-20-25-111 through 25-117:

- a. The formula for computing net settlements under the interest rate swap is the same for each net settlement in accordance with paragraph 815-20-25-104(d).
- b. The terms are typical of those derivative instruments and do not invalidate the assumption of perfect effectiveness in accordance with paragraph 815-20-25-104(g).
- c. The repricing dates of the variable-rate asset or variable-rate liability and the hedging instrument must occur on the same dates and be calculated the same way in accordance with paragraph 815-20-25-106(d).
- d. The index on which the variable leg of the interest rate swap is based matches the contractually specified interest rate designated as the interest rate being hedged for that hedging relationship in accordance with paragraph 815-20-25-106(g).

25-7 For cash flow hedges when an option's terminal value is used to assess hedge effectiveness, an entity may disregard the following conditions in determining whether a cash flow hedge of the option's terminal value may be considered perfectly effective in accordance with paragraphs 815-20-25-126 through 25-129A:

- a. The underlying of the hedging instrument needs to match the underlying of the hedged forecasted transaction in accordance with paragraph 815-20-25-129(a).
- b. The strike price (or prices) of the hedging option (or combination of options) matches the specified level (or levels) beyond (or within) which the entity's exposure is being hedged in accordance with paragraph 815-20-25-129(b).
- c. The hedging instrument's inflows (outflows) at its maturity date due to the underlying reference rate and strike price (or prices) of the hedging option (or combination of options) completely offset the change in the hedged transaction's cash flows for the risk being hedged in accordance with paragraph 815-20-25-129(c).

If all other conditions in paragraph 815-20-25-129 are met, the hedging relationship may be considered perfectly effective.

25-8 An eligible private company in accordance with paragraph 815-20-25-135 may disregard the following conditions in determining whether a cash flow hedge of a variable-rate borrowing with a receive-variable pay-fixed interest rate swap using the simplified hedge accounting approach may be considered perfectly effective in accordance with paragraphs 815-20-25-133 through 25-138:

- a. Both the variable rate on the swap and the borrowing are based on the same index and reset period in accordance with paragraph 815-20-25-137(a).
- b. The terms of the swap are typical in accordance with paragraph 815-20-25-137(b).
- c. The repricing and settlement dates for the swap and the borrowing match in accordance with paragraph 815-20-25-137(c).

If all other conditions of paragraph 815-20-25-137 are met, the hedging relationship may apply the simplified hedge accounting approach.

25-9 For the change-in-variable-cash-flows method in accordance with paragraphs 815-30-35-16 through 35-24, an entity may disregard the following conditions in assessing whether the method will result in a perfectly effective hedge in accordance with paragraph 815-30-35-22:

- a. The variable-rate leg of the interest rate swap and the hedged variable cash flows of the asset or liability are based on the same interest rate index in accordance with paragraph 815-30-35-22(a).
- b. The interest rate reset dates applicable to the variable-rate leg of the interest rate swap and to the hedged variable cash flows of the asset or liability are the same in accordance with paragraph 815-30-35-22(b).

In addition, an entity may disregard the condition in paragraph 815-30-35-22(c) if the basis differences are due to differences in a cap or floor between the variable-rate leg of the interest rate swap and the variable-rate asset or the variable-rate liability. If all other conditions in paragraph 815-30-35-22 are met, the hedging relationship may be considered perfectly effective. If all other conditions in paragraph 815-30-35-22 are not met, an entity shall not consider that the method will result in a perfectly effective hedge.

25-10 For the hypothetical derivative method in accordance with paragraphs 815-30-35-25 through 35-29, an entity may disregard the following critical terms in assessing whether the method will result in a perfectly effective hedge:

- a. The same repricing dates in accordance with paragraph 815-30-35-25(b)(2)
- b. The same index in accordance with paragraph 815-30-35-25(b)(3)
- c. Mirror image caps and floors (including a cap or floor that exists in a variable-rate asset or a variable-rate liability and does not exist in a hedging instrument or vice versa) in accordance with paragraph 815-30-35-25(b)(4).

If all other conditions in paragraph 815-30-35-25 are met, the hedging relationship may be considered perfectly effective. If all other conditions in paragraph 815-30-35-25 are not met, an entity shall not consider that the method will result in a perfectly effective hedge.

>>> Optional Expedient: Initial Assessment Performed Using a Quantitative Method

25-11 An entity may adjust any of the three methods of assessing hedge effectiveness in paragraphs 815-30-35-10 through 35-32 when hedge effectiveness is assessed on a quantitative basis (using either a dollar-offset test or a statistical method such as regression analysis) as follows:

- a. If both the hedged forecasted transaction and the hedging instrument have a reference rate that meets the scope of paragraph 848-10-15-3 (or in a cash flow hedge of a forecasted purchase, sale, or issuance of a fixed-rate instrument in which the designated hedged interest rate risk is the benchmark interest rate if only the hedging instrument has a reference rate that meets the scope of paragraph 848-10-15-3), an entity may assume that the reference rate will not be replaced for the remainder of the hedging relationship. That is, the entity does not need to consider the likelihood of whether or when the reference rate will be discontinued or changed because of reference rate reform.
- b. If either the hedged forecasted transaction or the hedging instrument references a rate that meets the scope of paragraph 848-10-15-3, the terms of the hedged forecasted transaction may be altered to match the hedging instrument for the following:
 1. The referenced interest rate index
 2. The reset period, reset dates, day-count conventions, business-day conventions, and repricing calculation (for example, forward-looking calculation or in-arrears calculation)
 3. A spread adjustment for the difference between the existing reference rate and the replacement reference rate
 4. A cap or floor (including a cap or floor that exists in a variable-rate asset or a variable-rate liability and does not exist in a hedging instrument or vice versa).

>>> Optional Expedient: Initial Assessment Based on an Option's Terminal Value

25-12 If an entity assesses hedge effectiveness on the basis of an option's terminal value in accordance with paragraph 815-20-25-126 and if either the hedged forecasted transaction or the hedging instrument references a rate that meets the scope of paragraph 848-10-15-3, an entity may adjust the critical terms of the perfectly effective hypothetical hedging instrument in accordance with paragraph 815-20-25-129 to match the hedging instrument for the following:

- a. The underlying reference rate
- b. The strike price (or prices) of the hedging option (or combination of options)
- c. The hedging instrument's inflows (outflows) at its maturity date due to the underlying reference rate and strike price (or prices) of the hedging option (or combination of options).

>> Optional Expedient: Subsequent Assessments Using a Method That Assumes Perfect Effectiveness

35-5 An entity may disregard the following conditions from paragraphs 815-20-25-104 and 815-20-25-106 that apply to cash flow hedges in determining whether the hedging relationship continues to qualify for the shortcut method upon a change in the contractual terms of the hedging instrument in accordance with paragraphs 848-30-25-5 through 25-7:

- a. The formula for computing net settlements under the interest rate swap is the same for each net settlement in accordance with paragraph 815-20-25-104(d).

- b. The terms are typical of those derivative instruments and do not invalidate the assumption of perfect effectiveness in accordance with paragraph 815-20-25-104(g).
- c. The repricing dates of the variable-rate asset or variable-rate liability and the hedging instrument must occur on the same dates and be calculated the same way in accordance with paragraph 815-20-25-106(d).
- d. The index on which the variable leg of the interest rate swap is based matches the contractually specified interest rate designated as the interest rate being hedged for that hedging relationship in accordance with paragraph 815-20-25-106(g).

35-6 For cash flow hedges when an option's terminal value is used in assessing hedge effectiveness, an entity may disregard the following conditions in determining whether a cash flow hedge of the option's terminal value may continue to be considered perfectly effective in accordance with paragraphs 815-20-25-126 through 25-129A:

- a. The underlying of the hedging instrument needs to match the underlying of the hedged forecasted transaction in accordance with paragraph 815-20-25-129(a).
- b. The strike price (or prices) of the hedging option (or combination of options) matches the specified level (or levels) beyond (or within) which the entity's exposure is being hedged in accordance with paragraph 815-20-25-129(b).
- c. The hedging instrument's inflows (outflows) at its maturity date due to the underlying reference rate and strike price (or prices) of the hedging option (or combination of options) completely offset the change in the hedged transaction's cash flows for the risk being hedged in accordance with paragraph 815-20-25-129(c).

If all other conditions of paragraph 815-20-25-129 are met, the hedging relationship may continue to be considered perfectly effective.

35-7 An eligible private company in accordance with paragraph 815-20-25-135 may disregard the following conditions in determining whether a cash flow hedge of a variable-rate borrowing with a receive-variable pay-fixed interest rate swap using the simplified hedge accounting approach may continue to be considered perfectly effective in accordance with paragraphs 815-20-25-133 through 25-138:

- a. Both the variable rate on the swap and the borrowing are based on the same index and reset period in accordance with paragraph 815-20-25-137(a).
- b. The terms of the swap are typical in accordance with paragraph 815-20-25-137(b).
- c. The repricing and settlement dates for the swap and the borrowing match in accordance with paragraph 815-20-25-137(c).

If all other conditions of paragraph 815-20-25-137 continue to be met, the hedging relationship may continue to apply the simplified hedge accounting approach.

35-8 For the change-in-variable-cash-flows method in accordance with paragraphs 815-30-35-16 through 35-23, an entity may disregard the following

conditions in assessing whether the method will result in a perfectly effective hedge in accordance with paragraph 815-30-35-22:

- a. The variable-rate leg of the interest rate swap and the hedged variable cash flows of the asset or liability are based on the same interest rate index in accordance with paragraph 815-30-35-22(a).
- b. The interest rate reset dates applicable to the variable-rate leg of the interest rate swap and to the hedged variable cash flows of the asset or liability are the same in accordance with paragraph 815-30-35-22(b).

In addition, an entity may disregard the condition in paragraph 815-30-35-22(c) if the basis differences are due to differences in a cap or floor between the variable-rate leg of the interest rate swap and the variable-rate asset or the variable-rate liability. If all other conditions of paragraph 815-30-35-22 continue to be met, the hedging relationship may continue to be considered perfectly effective. If all other conditions of paragraph 815-30-35-22 are not met, an entity shall not consider that the method will result in a perfectly effective hedge.

35-9 For the hypothetical-derivative method in accordance with paragraphs 815-30-35-25 through 35-29, an entity may disregard the following critical terms in assessing whether the method will result in a perfectly effective hedge:

- a. The same repricing dates in accordance with paragraph 815-30-35-25(b)(2)
- b. The same index in accordance with paragraph 815-30-35-25(b)(3)
- c. Mirror image caps and floors (including a cap or floor that exists in a variable-rate asset or a variable-rate liability and does not exist in a hedging instrument or vice versa) in accordance with paragraph 815-30-35-25(b)(4).

If all other conditions of paragraph 815-30-35-25 continue to be met, the hedging relationship may continue to be considered perfectly effective. If all other conditions of paragraph 815-30-35-25 are not met, an entity shall not consider that the method will result in a perfectly effective hedge.

>> Optional Expedient: Subsequent Assessments Performed Using a Qualitative Method

35-10 An entity may qualitatively assess cash flow hedges on an ongoing basis in accordance with paragraphs 848-50-35-11 through 35-16 after the entity has performed an initial assessment of hedge effectiveness using any of the following:

- a. A method in accordance with Subtopics 815-20 and 815-30
- b. An optional expedient method in accordance with paragraphs 848-50-25-6 through 25-12.

An entity that elects this optional expedient may disregard the guidance in paragraphs 815-20-35-2A through 35-2F for performing hedge effectiveness assessments on a qualitative basis.

35-11 The following criteria shall be met so that an entity may continue to assert qualitatively that it may continue to apply hedge accounting for a hedging relationship under this Subtopic:

- a. The hedged forecasted transaction or the hedging instrument references a rate that meets the scope of paragraph 848-10-15-3.

- b. There have been no changes to the terms of the hedging instrument or the forecasted transaction other than those specified in paragraphs 848-20-15-2 through 15-3.
- c. An entity shall consider the likelihood of the counterparty's compliance with the contractual terms of the hedging derivative that require the counterparty to make payments to the entity.

35-12 An entity shall verify and document whenever financial statements or earnings are reported and at least every three months that the facts and circumstances evaluated in accordance with paragraph 848-50-35-11 have not changed; therefore, the entity can assert qualitatively that the hedging relationship did qualify and continues to qualify for this optional expedient method. No other facts and circumstances related to paragraphs 815-20-35-2A through 35-2F need to be assessed as part of this evaluation.

>> Optional Expedient: Subsequent Assessments Performed Using a Quantitative Method

35-17 After initially assessing the hedge effectiveness using a method in accordance with Subtopics 815-20 and 815-30 or using an optional expedient method in accordance with paragraphs 848-50-25- 6 through 25-12, an entity may adjust any of the three methods of assessing subsequent hedge effectiveness in paragraphs 815-30-35-10 through 35-32 when hedge effectiveness is assessed on a quantitative basis (using either a dollar-offset test or a statistical method such as regression analysis) as follows:

- a. If both the hedged forecasted transaction and the hedging instrument have a reference rate that meets the scope of paragraph 848-10-15-3 (or in a cash flow hedge of a forecasted purchase, sale, or issuance of a fixed-rate instrument in which the designated hedged interest rate risk is the benchmark interest rate if only the hedging instrument has a reference rate that meets the scope of paragraph 848-10-15-3), an entity may assume that the reference rate will not be replaced for the remainder of the hedging relationship. That is, the entity does not need to consider the likelihood of whether the reference rate will be discontinued or changed because of reference rate reform.
- b. If either the hedged forecasted transaction or the hedging instrument references a rate that meets the scope of paragraph 848-10-15-3, the terms of the hedged forecasted transaction may be altered to match the hedging instrument for the following:
 - 1. The referenced interest rate index
 - 2. The reset period, reset dates, day-count conventions, business-day conventions, and repricing calculation (for example, forward-looking calculation or in-arrears calculation)
 - 3. A spread adjustment for the difference between the existing reference rate and the replacement reference rate
 - 4. A cap or floor (including a cap or floor that exists in a variable-rate asset or a variable-rate liability and does not exist in a hedging instrument or vice versa).

>> Optional Expedient: Subsequent Assessment Based on an Option's Terminal Value

35-18 If an entity assesses subsequent hedge effectiveness on the basis of an option's terminal value in accordance with paragraph 815-20-25-126 and if either the forecasted transaction or the hedging instrument references a rate that meets the scope of paragraph 848-10-15-3, an entity may adjust the critical terms of the perfectly effective hypothetical hedging instrument in accordance with paragraph 815-20-25-129 to match the hedging instrument for the following:

- a. The underlying reference rate
- b. The strike price (or prices) of the hedging option (or combination of options)
- c. The hedging instrument's inflows (outflows) at its maturity date due to the underlying reference rate and strike price (or prices) of the hedging option (or combination of options).

6.3.50 Shared risk exposure in a group of forecasted transactions

**Excerpt from ASC 848-50****>> Hedging a Group of Forecasted Transactions**

25-13 This paragraph provides an optional expedient for assessing a group of individual forecasted transactions in a cash flow hedge affected by reference rate reform. An entity may elect this optional expedient if a forecasted transaction in the hedged group of forecasted transactions references a rate that meets the scope of paragraph 848-10-15-3.

25-14 An entity may disregard the guidance in paragraph 815-20-25-15(a)(2) that states that a group of individual transactions shall share the same risk exposure for which they are designated as being hedged. However, other limitations in paragraph 815-20-25-15(a)(2) shall continue such that a forecasted purchase (including debt issuance) and a forecasted sale shall not both be included in the same group of individual transactions that constitute the hedged transaction.

For hedges of portfolios of forecasted transactions, Topic 815 requires that individual hedged transactions share the same risk exposure. When the portfolio is forecasted interest payments on variable-rate instruments, this requirement includes that the interest payments are based on the same index. Section 9.3.60 of KPMG Handbook, [Derivatives and hedging](#), discusses further.

Topic 848 allows an entity to elect to disregard that requirement if a forecasted transaction in the portfolio references an eligible reference rate. However, an entity cannot disregard the Topic 815 prohibition that a hedged group of transactions cannot include both cash inflows and cash outflows, such as forecasted purchases and sales. [\[848-50-25-13 – 25-14, 815-20-25-15\(a\)\(2\)\]](#)

6.3.60 First-payments-received (paid) approaches

In a cash flow hedge of interest rate risk, Topic 815 permits an entity to use a 'first-payments-received (paid)' approach for identifying the hedged forecasted transaction(s). This approach can be used for hedging interest rate risk associated with interest payments for a rolling portfolio of prepayable interest-bearing loans, or other interest-bearing financial assets (or liabilities), provided all conditions for a cash flow hedge are met.

When using this approach, the specifically identified group of transactions may be the first interest payments based on the contractually specified interest rate received by an entity during each recurring period of a specified length. Further, when hedging groups of forecasted transactions using a first-payments-received (paid) approach, an entity may choose to enter into multiple derivative contracts and layer these contracts such that each derivative is designated in a separate individual hedging relationship (a 'layering with first-payments-received (paid) approach').

Sections 9.3.70 and 9.3.80 of KPMG Handbook, [Derivatives and hedging](#), discuss the approaches further.

Topic 848 does not specifically contemplate cash flow hedges involving first-payments-received (paid) approaches.



Question 6.3.120

Can the hedged forecasted transaction be changed to include interest payments based on a replacement rate?

Background: As discussed in [section 4.3.30](#), the 'changes to contractual terms of a hedging instrument, hedged item or forecasted transaction' optional expedient allows a hedging relationship to continue without dedesignation if the changes to the contractual terms of the forecasted transaction meet the scope conditions of Subtopic 848-20 (see [section 3.2](#)). In a first-payments approach, the hedged forecasted transactions are forecasted interest payments that are not associated with specific financial instruments.

Interpretive response: We believe the hedged forecasted transaction can be changed in limited scenarios without terminating the hedging relationship. The following table summarizes changes to the hedged forecasted transaction that we believe are acceptable when a first-payments approach is applied.

Change(s) to hedged forecasted transaction	Example
Hedged forecasted transaction is changed from interest payments based on an eligible reference rate to interest payments based on a replacement rate.	Bank changes its hedged forecasted transaction: <ul style="list-style-type: none">— from 'first receipts of 3-month LIBOR interest payments'— to 'first receipts of overnight SOFR interest payments that are received'

Change(s) to hedged forecasted transaction	Example
	on loans requiring interest payments with a quarterly frequency'.
<p>Hedged forecasted transaction is changed twice.</p> <ul style="list-style-type: none"> First, it is changed from interest payments based on an eligible reference rate to interest payments based on either of the following: <ul style="list-style-type: none"> the originally designated eligible reference rate; or a replacement rate. Then, it is changed to remove the originally designated eligible reference rate. As a result, the hedged forecasted transaction references only interest payments based on the replacement rate. <p>We believe it is only appropriate for the hedged forecasted interest payments to include payments of both an eligible reference rate and a replacement rate while the entity continues to expect that it will receive payments based on the eligible reference rate. For example, if the entity does not forecast receiving payments based on the eligible reference rate, it should change the hedged forecasted transaction to remove the originally designated eligible reference rate.</p>	<p>Bank first changes its hedged forecasted transaction:</p> <ul style="list-style-type: none"> from 'first receipts of 3-month LIBOR interest payments' to 'first receipts of either of the following: <ul style="list-style-type: none"> 3-month LIBOR interest payments; or overnight SOFR interest payments that are received on loans requiring interest payments with a quarterly frequency'. <p>Bank next changes its hedged forecasted transaction to remove 3-month LIBOR interest payments. As a result, the hedged forecasted transaction is only 'first receipts of overnight SOFR interest payments that are received on loans requiring interest payments with a quarterly frequency.' This change is made before Bank no longer expects receipts of 3-month LIBOR interest payments.</p>



Question 6.3.130

When a 'layering with first-payments-received (paid) approach' is used, must the layers applying certain optional expedients be specifically identified?

Background: As explained in [Question 6.3.120](#), an entity may in certain circumstances change the hedged forecasted transaction to include first receipts of the originally designated eligible reference rate or a replacement rate.

Interpretive response: We believe an entity is not required to identify which specific layers are applying those optional expedients if the entity can demonstrate that each layer would qualify for hedge accounting under Topic 815 in the absence of qualifying for the optional expedient. Under this approach, the entity includes in its hedge documentation that it is electing to apply the

relevant optional expedients to any layers that qualify for the expedient (following the guidance in [section 4.3.20](#), if applicable).

‘Shared risk exposure in a group of forecasted transactions’ expedient

As explained in [section 6.3.50](#), this expedient allows an entity to disregard Topic 815’s requirement that individual hedged transactions in a group share the same risk exposure, including that a portfolio of forecasted interest payments is based on the same index. To qualify for this expedient, a forecasted transaction (i.e. interest payment) in the group must reference an eligible reference rate. We believe an entity is permitted to include interest payments based on an eligible reference rate and a replacement rate (which are two different indexes) without demonstrating whether a layer received payments from both if the Topic 815 requirement is met when payments based on only one index are received.

However, if the hedged forecasted transaction was defined to include interest payments on more than two indexes (for example, LIBOR, SOFR *and* a third interest index), an entity would be required to determine the index associated with each payment in the layer. The expedient can only be applied when a forecasted transaction in the group references an eligible reference rate (such as LIBOR). As a result, an entity would need to determine whether the group of hedged interest payments included payments based on the other two indexes but *not* payments based on the eligible reference rate. In such a scenario, the expedient would not be applicable, and the layer would not meet Topic 815’s requirement that all of the individual hedged transactions be based on the same index.

‘Hedge effectiveness assessment’ expedient – quantitative method

As explained in [Question 6.3.50](#), this expedient allows an entity to adjust certain terms of the hedged forecasted transaction to match the hedging instrument if either the hedged forecasted transaction or the hedging instrument references an eligible reference rate (but not both). We believe an entity may elect to perform hedge effectiveness tests for each layer under both Topic 815 (i.e. assuming the layer is not eligible for the expedient) **and** under the optional expedient. Under this approach, each layer would be considered highly effective – and hedge accounting would be continued – if both tests resulted in a highly effective result.



Example 6.3.30

Applying the shared risk exposure in a group of forecasted transactions expedient in a layering with first-payments-received approach

Bank’s documented hedged forecasted transaction includes first receipts of interest payments based on 3-month LIBOR (the originally designated eligible reference rate) or overnight SOFR interest payments that are received on loans requiring interest payments with a quarterly frequency (the replacement rate).

Bank includes in its formal documentation (following the guidance in [section 4.3.20](#)) that it is electing the shared risk exposure in a group of forecasted

transactions expedient for any eligible layer (i.e. disregarding the requirement for individual hedged transactions in a group to share the same risk exposure).

Interest payments received in the period	Explanation
Payments received based on both 3-month LIBOR and overnight SOFR interest payments that are received on loans requiring interest payments with a quarterly frequency	The layer is eligible for Topic 848's optional expedient.
All payments received based on either 3-month LIBOR or overnight SOFR interest payments that are received on loans requiring interest payments with a quarterly frequency. In other words, all of the payments received are based on the same interest rate.	The layer meets the requirement in Topic 815 because all of the individual hedged transactions would be based on the same interest rate and would therefore share the same risk exposure.
Note: For simplicity, this example disregards potential differences in Overnight SOFR-based interest rate reset and calculation conventions. We believe Topic 815 permits grouping payments based on different SOFR-based interest rate reset conventions if they are determined to share the same risk exposure.	



Example 6.3.40

Applying the hedge effectiveness expedient in a layering with first-payments-received approach

Bank's documented hedged forecasted transaction includes first receipts of interest payments based on 3-month LIBOR (the originally designated eligible reference rate) or overnight SOFR interest payments that are received on loans requiring interest payments with a quarterly frequency (the replacement rate).

Bank includes in its formal documentation (following the guidance in [section 4.3.20](#)) that it is electing the subsequent hedge effectiveness assessment expedient for any eligible layer. Under that expedient, certain terms of the hedged forecasted transaction will be adjusted to match the hedging instrument (see [Question 6.3.50](#) for the terms that can be adjusted). Further, it states that when a layer is not eligible for the expedient, Bank will assess effectiveness using the originally documented hedge assessment method (i.e. without adjusting the terms of the hedged interest payments).

Bank also documents that it will perform two separate assessments of hedge effectiveness as an operational expedient in lieu of determining the index(es) on which the interest payments in each layer were based. The specific assessments depend on whether the hedging instrument is based on 3-month LIBOR or on overnight SOFR. Further, it documents that each layer will be considered highly effective – and hedge accounting continued – if *both* tests resulted in a highly effective result.

Scenario 1: Hedging instrument is based on 3-month LIBOR (i.e. the eligible reference rate)

Bank performs the following two tests each assessment period.

- A quantitative effectiveness assessment method that complies with Topic 815 assuming all interest payments received are 3-month LIBOR-based – e.g. using a perfectly effective hypothetical (PEH) derivative that considers all mismatches between the change in cash flows of the hedging instrument and the change in cash flows of the transaction.
- A quantitative effectiveness assessment method assuming at least some of the interest payments received are SOFR-based, thereby permitting Bank to adjust certain terms of the hedged forecasted transaction to match the hedging instrument under Topic 848's optional expedient; this assessment considers any mismatches between the change in cash flows of the hedging instrument and the change in cash flows of the transaction that the optional expedient does not permit adjusting.

Scenario 2: Hedging instrument is based on Overnight SOFR (i.e. the replacement rate)

Bank performs the following two tests each assessment period.

- A quantitative effectiveness assessment method that complies with Topic 815 assuming all interest payments received are SOFR-based – e.g. using a PEH derivative that considers all mismatches between the change in cash flows of the hedging instrument and the change in cash flows of the transaction.
 - A quantitative effectiveness assessment method assuming at least some of the interest payments received are LIBOR-based, thereby permitting Bank to adjust certain terms of the hedged forecasted transaction to match the hedging instrument under Topic 848's optional expedient; this assessment considers any mismatches between the change in cash flows of the hedging instrument and the change in cash flows of the transaction that the optional expedient does not permit adjusting.
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7. Sale and/or transfer of HTM debt securities

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Example

7.3.10 One-time HTM election not required to be applied to all eligible securities

7.1 How the standard works

This chapter discusses the optional expedient in Topic 848 that allows an entity to make a one-time election to sell or transfer certain HTM debt securities without calling into question the entity's pre-election intent to hold the securities to maturity.

The election is available only for debt securities that:

- reference an eligible reference rate (see [chapter 2](#)); and
- were classified as HTM before January 1, 2020.

7.2 Scope and applicability

7.2.10 Scope



Excerpt from ASC 848-10

> Sale or Transfer from Held-to-Maturity Classification

35-1 An entity may make a one-time election to sell or transfer certain debt securities classified as held to maturity or to both sell and transfer certain debt securities classified as held to maturity to available for sale or trading. At the time of applying the one-time election, the entity may sell, transfer, or both sell and transfer debt securities classified as held to maturity that meet both of the following criteria:

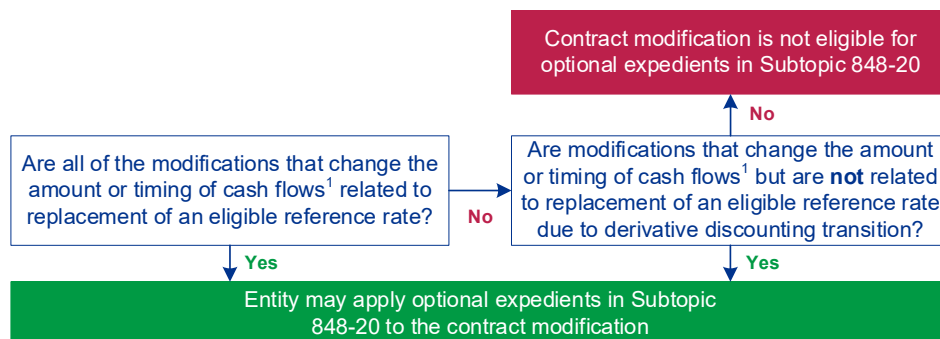
- The debt securities reference a rate that meets the scope of paragraph 848-10-15-3.
- The debt securities were classified as held to maturity before January 1, 2020.

At the time of applying the one-time election, an entity is not required to transfer all its remaining debt securities classified as held to maturity that meet criteria (a) and (b). The one-time election to sell, transfer, or both sell and transfer debt securities classified as held to maturity may be made at any time, but no later than the date in paragraph 848-10-65-1(d).

Under Topic 320 (investments – debt securities), a debt security is classified as HTM only if the entity has the positive intent and ability to hold it to maturity. Normally, a sale or transfer of an HTM security calls into question the entity's intent about remaining securities in that category unless it is made for certain reasons (i.e. taints the entity's ability to classify other securities as HTM). [320-10-25-1(c), 35-8 – 35-9]

Topic 848 allows an entity to make a one-time election to sell certain HTM debt securities or transfer them to the AFS or trading categories. If an entity makes this election, such a sale or transfer does not call into question the entity's pre-election intent to hold the securities to maturity. [848-10-35-1]

An entity can apply the one-time HTM election for a debt security that meets the following conditions when the election is made. [848-10-35-1]



7.2.20 Accounting policy considerations

The one-time HTM election may be elected on a security-by-security basis (see also [section 7.3](#)). Further, it can be elected independently of all the optional expedients in Topic 848. [\[848-10-35-1\]](#)



Example 7.2.10

Election of one-time HTM election and contract modification optional expedient

ABC Corp. elects the contract modification optional expedient of Subtopic 848-20 related to Topic 842 in June 2020.

ABC is required to apply that expedient to subsequent eligible contract modifications (see [Example 3.2.30](#)). However, ABC is not required to elect the one-time HTM election at the same time. Instead, ABC could adopt the one-time HTM election at the same time or on any date thereafter (but no later than December 31, 2024).

That is, election of the contract modification optional expedient (or any other Topic 848 optional expedient) does not preclude an entity from later electing the one-time HTM election.

7.3 One-time HTM election



Excerpt from ASC 848-10

> Sale or Transfer from Held-to-Maturity Classification

35-2 An entity shall recognize the transfer of debt securities classified as held to maturity to available for sale or trading as of the date in the reporting period in which the entity makes its one-time election. The entity shall apply the measurement guidance for transfers of debt securities between categories in paragraphs 320-10-35-10 through 35-16. The sale or transfer, in and of itself, would not call into question the entity's assertion at prior reporting dates that it had the intent and ability to hold to maturity those debt securities that continued to be classified as held to maturity in those prior periods.

50-1 An entity that has applied the one-time election to sell, transfer, or both sell and transfer debt securities classified as held to maturity in accordance with paragraphs 848-10-35-1 through 35-2 shall apply the disclosure requirements in paragraph 320-10-50-10 for the sale or transfer of debt securities classified as held to maturity.

The one-time HTM election: [\[848-10-35-1\]](#)

- allows eligible HTM debt securities to be sold and/or transferred to the AFS or trading categories;

- may be made at any date but no later than December 31, 2024; and
- does not have to be elected for all eligible HTM debt securities.

When an entity elects to transfer eligible HTM debt securities to the AFS or trading categories, it applies the measurement guidance for transfers of securities between categories in paragraphs 320-10-35-10 to 35-16. Section 3.2.20 of KPMG Handbook, [Credit impairment](#), discusses the measurement guidance. [\[848-10-35-2\]](#)



Example 7.3.10

One-time HTM election not required to be applied to all eligible securities

ABC Corp. holds four residential mortgage-backed securities (RMBS 1, RMBS 2, RMBS 3 and RMBS 4), all of which are eligible for the one-time HTM election. This is because all of the securities:

- reference LIBOR, which is an eligible reference rate; and
- were classified as HTM before January 1, 2020.

As of December 15, 2022, ABC elects the one-time HTM election and executes the following:

- transfers RMBS 1 from HTM to AFS; and
- transfers RMBS 2 and RMBS 3 from HTM to trading.

ABC continues to classify RMBS 4 as HTM.

Immediately thereafter, ABC sells RMBS 3.

Even though RMBS 1 and RMBS 2 are no longer classified as HTM and RMBS 3 was sold, the one-time HTM election allows ABC to continue to classify RMBS 4 as HTM.



Question 7.3.10

As of what date does an entity recognize the transfer of eligible HTM debt securities?

Interpretive response: An entity recognizes the transfer as of the date the entity makes its election. The election may be made as of any date within the period – e.g. an entity is not required to make its election as of the first or last day of the period. [\[848-10-35-2\]](#)

For example, ABC is a calendar-year entity. On July 21, 2021, ABC elects to transfer certain eligible HTM debt securities to AFS. ABC recognizes the transfer as of July 21, 2021.

While the guidance does not specifically address whether or when an entity should document its election, we believe it is best practice for an entity to document its election, including the effective date and the specific securities to be transferred and/sold, on or before the date of the election.

**Question 7.3.20**

Does electing the one-time HTM election call into question an entity's previous intent to hold the securities to maturity?

Interpretive response: No. Selling and/or transferring HTM securities under the one-time HTM election does not, in and of itself, call into question management's assertion that an entity had the intent and ability to hold the securities to maturity before the election. Management's intent to sell the securities after transferring them from the HTM category does not alter this conclusion. [848-10-35-2]

For example, ABC Corp., a calendar year-end entity, is preparing financial statements as of and for the year ending December 31, 2021. ABC intends to elect the one-time HTM election to transfer eligible securities from HTM to AFS on January 1, 2022.

Even though management had the intent on December 31, 2021 to imminently make the election and transfer the securities to the AFS category, those plans did not affect ABC's positive intent and ability to hold the securities to maturity at December 31, 2021. Therefore, on December 31, 2021, the securities remain eligible to be classified as HTM and recorded at amortized cost.

**Question 7.3.30**

Do Topic 320's disclosure requirements for the sale or transfer of HTM debt securities apply when an entity elects the one-time HTM election?

**Excerpt from ASC 320-10****> Sales, Transfers, and Related Matters That Occurred during the Period**

50-10 For any sales of or transfers from securities classified as held-to-maturity, an entity shall disclose all of the following in the notes to the financial statements for each period for which the results of operations are presented:

- a. The net carrying amount of the sold or transferred security
- b. The net gain or loss in accumulated other comprehensive income for any derivative that hedged the forecasted acquisition of the held-to-maturity security
- c. The related realized or unrealized gain or loss
- d. The circumstances leading to the decision to sell or transfer the security. (Such sales or transfers should be rare, except for sales and transfers due to the changes in circumstances identified in paragraph 320-10-25-6(a) through (f).)

7. Sale and/or transfer of HTM debt securities

Interpretive response: Yes. The disclosure requirements in paragraph 320-10-50-10 apply to both sales and transfers of eligible HTM debt securities that occur because of the one-time HTM election. [\[848-10-50-10\]](#)

8. Effective date, transition and termination

Detailed contents

New item added in this edition **
Item significantly updated in this edition #

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8.2 Effective date and transition provisions

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Questions

8.2.10 Do ASU 2020-04's transition provisions apply when an entity elects an optional expedient after the period that includes March 12, 2020 for a relationship existing as of March 12, 2020?

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8.2.60 Are there specific disclosures required by ASU 2020-04?

8.3 Sunset provisions

8.1 How the standard works#

The other chapters of this Handbook assume that an entity has adopted ASU 2020-04, Facilitation of the Effects of Reference Rate Reform on Financial Reporting, and ASU 2021-01, Reference Rate Reform (Topic 848): Scope, and ASU 2022-06, Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848.

This chapter discusses the effective date, transition and sunset provision for optional expedients available in Topic 848.

ASU 2020-04 effective date and transition

- Effective for all entities as of March 12, 2020.
- Entities can apply the ASU as of the beginning of the interim period that includes March 12, 2020 (e.g. January 1, 2020 for calendar year-end entities) or any date thereafter.
- The ASU's expedients relating to contract modifications and hedging relationships are applied **prospectively**.
- The one-time election to sell and/or transfer debt securities classified as HTM may be made at any time after March 12, 2020.

ASU 2021-01 effective date and transition

- Effective for all entities as of January 7, 2021.
- Expedients may be elected:
 - **retrospectively** to eligible hedging relationships existing as of – and new hedging relationships entered into after – the beginning of the interim period that includes March 12, 2020 (e.g. January 1, 2020 for calendar year-end entities);
 - **prospectively** to eligible hedging relationships on or after any date within the interim period that includes January 7, 2021 (e.g. January 1, 2021 for calendar year-end entities).
- Any adjustments as a result of electing the expedients are reflected as of the application date of the election and recognized in accordance with Subtopics 848-30, 848-40 and 848-50 (as applicable).

ASU 2022-06 effective date and transition

- Effective for all entities as of December 21, 2022.
- The ASU deferred the sunset date of Topic 848 from December 31, 2022 to December 31, 2024.

Sunset date

Topic 848's guidance generally sunsets on December 31, 2024. This means the optional expedients and one-time HTM election generally do not apply to the following transactions or events occurring after that date: contract modifications, sales and transfers of HTM debt securities, and hedging relationships entered into or evaluated.

However, as exceptions to the sunset date, certain hedging relationship expedients are retained through the end of the hedging relationships.

8.2 Effective date and transition provisions

8.2.10 ASU 2020-04



Excerpt from ASC 848-10

> Transition Related to Accounting Standards Updates No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting, and No. 2022-06, Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848

65-1 The following represents the transition, end of application, and effective date information related to Accounting Standards Updates No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, and No. 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848*:

- a. The pending content that links to this paragraph shall be effective for all entities as of March 12, 2020 through December 31, 2024, as follows:
 1. An entity may elect to apply the pending content that links to this paragraph for contract modifications by Topic or Industry Subtopic as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020, or prospectively from a date within an interim period that includes or is subsequent to March 12, 2020, up to the date that the **financial statements are available to be issued**. Once elected for a Topic or an Industry Subtopic, the pending content that links to this paragraph shall be applied prospectively for all eligible contract modifications for that Topic or Industry Subtopic in accordance with paragraph 848-20-35-1.
 2. An entity may elect to apply the pending content that links to this paragraph to eligible hedging relationships existing as of the beginning of the interim period that includes March 12, 2020 and to new eligible hedging relationships entered into after the beginning of the interim period that includes March 12, 2020. The nature of and reason for electing to apply the pending content that links to this paragraph.
 - i. If an entity elects to apply any of the pending content that links to this paragraph for an eligible hedging relationship existing as of the beginning of the interim period that includes March 12, 2020, any adjustments as a result of those elections shall be reflected as of the beginning of that interim period and recognized in accordance with Subtopics 848-30, 848-40, and 848-50 (as applicable). If an entity elects to apply any of the pending content that links to this paragraph for a new hedging relationship entered into between the beginning of the interim period that includes March 12, 2020 and March 12, 2020, any adjustments as a result of those elections shall be reflected as of the beginning of the hedging relationship and recognized in accordance with Subtopics 848-30, 848-40, and 848-50 (as applicable).

01. For private companies that are not financial institutions as described in paragraph 942-320-50-1 and not-for-profit 13 entities (except for not-for-profit entities that have issued, or are a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market), an entity shall update its hedge documentation (as applicable) noting the changes made before the next interim (if applicable) or annual financial statements are available to be issued.
 02. For all other entities, an entity shall update its hedge documentation (as applicable) noting the changes made no later than when the entity performs its first quarterly assessment of effectiveness after the election. ...
- d. The one-time election to sell, transfer, or both sell and transfer debt securities classified as held to maturity in accordance with paragraphs 848-10-35-1 through 35-2 may be made at any time after March 12, 2020, but no later than December 31, 2024.

The optional expedients in ASU 2020-04 were available immediately upon the ASU's issuance. The following table summarizes the ASU's effective date and transition provisions, which differ depending on the type of optional expedient being elected. [\[848-10-65-1\(a\)\]](#)

Type of optional expedient	Effective date and transition
Contract modifications (Subtopic 848-20) (see chapter 3)	Apply prospectively to contract modifications occurring on or after the beginning of the interim period that includes March 12, 2020 (e.g. January 1, 2020 for calendar year-end entities).
Hedging relationships (Subtopics 848-30, 848-40 and 848-50) (see chapters 4 to 6)	For hedging relationships that existed as of the beginning of the interim period that includes March 12, 2020, apply prospectively as of the beginning of the interim period the that includes March 12, 2020. For example, ABC is a calendar year-end entity with hedging relationships that existed on January 1, 2020. ABC elects certain optional expedients on March 12, 2020. ABC prospectively applies the expedients as of January 1, 2020.
	For hedging relationships entered after the beginning of the interim period that includes March 12, 2020, apply prospectively as of the beginning of the hedging relationship. For example, ABC is a calendar year-end entity that entered a hedging relationship on February 15, 2020. ABC elects certain optional expedients on March 12, 2020. ABC prospectively applies the expedients to the hedging relationship as of February 15, 2020.
	Section 4.3.20 discusses the timing of updating hedge documentation when that is required.

Type of optional expedient	Effective date and transition
HTM debt securities (Subtopic 848-10) (see chapter 7)	The one-time HTM election may be elected at any time after March 12, 2020 until the sunset date.



Question 8.2.10

Do ASU 2020-04's transition provisions apply when an entity elects an optional expedient after the period that includes March 12, 2020 for a relationship existing as of March 12, 2020?

Interpretive response: No. We believe ASU 2020-04's transition provisions that permit an entity to apply the optional expedients as of a date before March 12, 2020 apply only when an entity elects optional expedients in the period that ASU 2020-04 became effective. This is because ASU 2020-04 was effective upon its issuance (i.e. March 12, 2020). Instead, for expedients elected after that period, ASU 2020-04's optional expedients are applied as of the date they are elected.

For example, ABC is a calendar year-end entity that had a fair value hedging relationship as of January 1, 2020. On February 15, 2021, ABC modifies the hedging instrument and elects certain expedients for which it is eligible. The transition provisions do not apply to ABC in this circumstance.



Question 8.2.20

Does ASU 2020-04 require specific disclosures?



Excerpt from ASC 848-10

> Transition Related to Accounting Standards Update No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting, and No. 2022-06, Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848

65-1 The following represents the transition, end of application, and effective date information related to Accounting Standards Updates No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, and No. 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848*: ...

- e. An entity shall provide the following disclosures:
1. The nature of and reason for electing to apply the pending content that links to this paragraph.
 2. The disclosures in (e)(1) in each interim and annual financial statement period in the fiscal year of application.

Interpretive response: Yes, an entity must disclose the nature of and reason for electing to apply the optional expedients. The disclosure is made at each interim and annual financial statement period in the year of application. [848-10-65-1(e)]

8.2.20 ASU 2021-01



Excerpt from ASC 848-10

> Transition Related to Accounting Standards Updates No. 2021-01, Reference Rate Reform (Topic 848): Scope, and No. 2022-06, Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848

65-2 The following represents the transition, end of application, and effective date information related to Accounting Standards Updates No. 2021-01, *Reference Rate Reform (Topic 848): Scope, and No. 2022-06, Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848*:

- a. The pending content that links to this paragraph shall be effective for all entities as of January 7, 2021 through December 31, 2024, as follows:
 1. An entity may elect to apply the pending content that links to this paragraph on contract modifications that change the interest rate used for margining, discounting, or contract price alignment retrospectively as of any date from the beginning of the interim period that includes March 12, 2020, or prospectively to new modifications from any date within the interim period that includes or is subsequent to January 7, 2021, up to the date that **financial statements are available to be issued**. On the date that an entity elects to apply the pending content that links to this paragraph on contract modifications that change the interest rate used for margining, discounting, or contract price alignment, that pending content shall be applied to all eligible contract modifications modified in that manner in accordance with paragraph 848-20-35-1.
 2. An entity may elect to apply the pending content that links to this paragraph to eligible hedging relationships existing as of the beginning of the interim period that includes March 12, 2020, and to new eligible hedging relationships entered into after the beginning of the interim period that includes March 12, 2020. If an entity elects to apply any of the pending content that links to this paragraph to an eligible hedging relationship, any adjustments as a result of those elections shall be reflected as of the application date of the election and recognized in accordance with Subtopics 848-30, 848-40, and 848-50 (as applicable).

- i. For a private company that is not a financial institution as described in paragraph 942-320-50-1 and a not-for-profit entity (except for a not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market) applying the pending content that links to this paragraph in a period before interim (if applicable) or annual financial statements are available to be issued, the entity shall update its hedge documentation (as applicable) noting the changes made before the next interim (if applicable) or annual financial statements are available to be issued. An entity that retrospectively applies the pending content that links to this paragraph to a prior interim (if applicable) or annual period shall update its hedge documentation (as applicable) noting the changes made for the prior periods in which the entity is retrospectively applying the guidance upon adoption.
- ii. For any other entity applying the pending content that links to this paragraph before its first quarterly assessment of effectiveness after the election, the entity shall update its hedge documentation (as applicable) noting the changes made no later than when the entity performs its first quarterly assessment of effectiveness after the election. An entity that retrospectively applies the pending content that links to this paragraph to a prior interim or annual period shall update its hedge documentation (as applicable) noting the changes made for the prior periods in which the entity is retrospectively applying the pending content that links to this paragraph upon adoption. ...

Optional expedients in ASU 2021-01 were available immediately upon the ASU's issuance. The following table summarizes the ASU's effective date and transition provisions. [848-10-65-2(a)]

Effective date and transition

Expedients may be elected:

- **retrospectively** to eligible hedging relationships existing as of – and new hedging relationships entered after – the beginning of the interim period that includes March 12, 2020 (e.g. January 1, 2020 for calendar year-end entities). [Question 8.2.50](#) discusses the adjustments resulting from electing ASU 2020-04;
- **prospectively** to eligible hedging relationships on or after any date within the interim period that includes January 7, 2021 (e.g. January 1, 2021 for calendar year-end entities).

Any adjustments as a result of electing the expedients are reflected as of the application date of the election date and recognized under Subtopics 848-30, 848-40 and 848-50 (as applicable).

[Question 8.2.50](#) discusses the meaning of the 'application date of the election' for a derivative modified for discounting transition. [Section 4.3.20](#) discusses the timing of updating hedge documentation when that is required.



Question 8.2.30

Do ASU 2021-01's transition provisions apply to optional expedients elected after the period that includes January 7, 2021?

Interpretive response: No. ASU 2021-01 was effective upon its issuance (i.e. January 7, 2021). As a result, we believe its transition provisions that permit an entity to apply Topic 848's optional expedients as of a date before January 7, 2021 apply only to expedients elected during the period that includes January 7, 2021. Instead, for expedients elected after that period, ASU 2021-01's optional expedients are applied as of the date they are elected. [\[848-10-65-2\(a\)\]](#)



Question 8.2.40

Is the guidance in ASU 2021-01 available during the same reporting periods as the guidance in ASU 2020-04?

Interpretive response: Generally, yes. Although ASU 2021-01 became effective on its issuance date, January 7, 2021, an entity can apply its guidance retrospectively to eligible hedging relationships existing as of – or entered into after – the beginning of the interim period that includes March 12, 2020. That ability to retrospectively elect optional expedients generally aligns with the dates an entity is permitted to apply ASU 2020-04 (see [section 8.2.10](#)).



Question 8.2.50

What is the 'application date of the election' when an optional expedient is elected retrospectively for a derivative modified for discounting transition?

Background: Some central clearing parties made modifications for discounting transition to certain derivatives during 2020. Although ASU 2021-01 was not issued until January 2021, entities with derivatives impacted by discounting transition during 2020 may elect the ASU's expedients for those derivative modifications. In that case, any adjustments as a result of those elections must be reflected as of the application date of the election. [\[848-10-65-2\(a\)\]](#)

Interpretive response: We believe adjustments resulting from electing optional expedients for hedging relationships with derivatives modified for discounting transition in periods before ASU 2021-01's issuance date is made on a fully retrospective basis to the date of the modification.

For example, ABC is a calendar year-end entity that elects the 'adjusting AOCI for cash compensation' optional expedient for a hedging instrument in a cash flow hedging relationship that was modified for derivative discounting transition (see [section 4.3.80](#)). As the reasonable method used for adjusting AOCI, ABC elects to adjust AOCI to an amount equal to the derivative's fair value

immediately through earnings. ABC reflects that adjustment as of the date of the modification in its 2020 financial statements.



Question 8.2.60

Are there specific disclosures required by ASU 2020-04?



Excerpt from ASC 848-10

> Transition Related to Accounting Standards Updates No. 2021-01, Reference Rate Reform (Topic 848): Scope, and No. 2022-06, Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848

65-2 The following represents the transition, end of application, and effective date information related to Accounting Standards Update No. 2021-01, *Reference Rate Reform (Topic 848): Scope, and No. 2022-06, Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848*: ...

- d. An entity shall provide the following disclosures:
1. The nature of and reason for electing to apply the pending content that links to this paragraph.
 2. The disclosures in (d)(1) in each interim (if applicable) and annual financial statement period in the fiscal year of application.

Interpretive response: Yes, an entity must disclose the nature of and reason for electing to apply the optional expedients. The disclosure is made at each interim and annual financial statement period in the year of application. [848-10-65-2(d)]

8.2.30 ASU 2022-06**

The amendments in ASU 2022-06 were immediately effective upon the ASU's issuance, which was on December 21, 2022. The ASU deferred the sunset date of Topic 848 from December 31, 2022, to December 31, 2024.

8.3 Sunset provisions



Excerpt from ASC 848-10

> Transition Related to Accounting Standards Updates No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting, and No. 2022-06, Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848

65-1 The following represents the transition, end of application, and effective date information related to Accounting Standards Updates No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, and No. 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848*:

- a. The pending content that links to this paragraph shall be effective for all entities as of March 12, 2020 through December 31, 2024, as follows: ...
- 3. The pending content that links to this paragraph shall not be applied to all the following:
 - i. Contract modifications made after December 31, 2024.
 - ii. New hedging relationships entered into after December 31, 2024.
 - iii. Hedging relationships evaluated for periods after December 31, 2024, except for hedging relationships existing as of December 31, 2024, that apply the following optional expedients in Subtopics 848-30 and 848-40 that shall be retained through the end of the hedging relationship (including for periods evaluated after December 31, 2024):
 - 01. An optional expedient to the systematic and rational method used to recognize in earnings the components excluded from the assessment of effectiveness in paragraph 848-30-25-12.
 - 02. An optional expedient to the rate to discount cash flows associated with the hedged item and any adjustment to the cash flows for the designated term or the partial term of the designated hedged item in a fair value hedge in paragraph 848-40-25-6.
 - 03. An optional expedient to not periodically evaluate the conditions in paragraph 815-20-25-104(d) and (g) when using the shortcut method for a fair value hedge in paragraph 848-40-25-8.

> Transition Related to Accounting Standards Update No. 2021-01, *Reference Rate Reform (Topic 848): Scope*, and No. 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848*

65-2 The following represents the transition, end of application, and effective date information related to Accounting Standards Update No. 2021-01, *Reference Rate Reform (Topic 848): Scope*, and No. 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848*:

- a. The pending content that links to this paragraph shall be effective for all entities as of January 7, 2021 through December 31, 2024, as follows:
- 3. The pending content that links to this paragraph shall not be applied to all the following:
 - i. Contract modifications made after December 31, 2024.
 - ii. New hedging relationships entered into after December 31, 2024.
 - iii. Hedging relationships evaluated for periods after December 31, 2024, except for hedging relationships that apply the following optional expedients in Subtopics 848-30, 848-40, and 848-50 that shall be retained through the end of the hedging relationship (including for periods evaluated after December 31, 2024):
 - 01. An optional expedient to adjust the fair value hedge basis

	adjustment in a fair value hedge accounted for under the shortcut method using a reasonable approach in paragraph 848-30-25-11B.
02.	An optional expedient to not periodically evaluate the conditions in paragraph 815-20-25-104(d) and (g) when using the shortcut method for a fair value hedge in paragraph 848-40-25-8 if the entity elected the practical expedient in paragraph 848-30-25-11B. (If an entity elects to apply the optional expedient in paragraph 848-40-25-8 in accordance with paragraph 848-30-25-10, it shall cease applying that expedient on December 31, 2024.).
03.	An optional expedient to adjust the amount recorded in accumulated other comprehensive income using a reasonable approach in paragraph 848-30-25-11C.
04.	An optional expedient to continue using a subsequent assessment method that assumes perfect effectiveness in paragraphs 848-50-35-4 through 35-9 for a cash flow hedge 14 if the entity elected the practical expedient in paragraph 848-30-25-11C.

Unlike most other Topics, Topic 848 contains sunset provisions because its guidance is designed to generally cease being available on January 1, 2025. However, depending on the type of transaction, the guidance may cease to apply before that date. Further, certain optional expedients continue to apply after that date.

The following table summarizes Topic 848's sunset provisions, based on the type of optional expedient. [848-10-65-1(a)(3), 65-1(d), 65-2(a)(3)]

Type of optional expedient	Sunset provisions
Contract modifications (Subtopic 848-20) (see chapter 3)	The optional expedients generally do not apply to contract modifications made after December 31, 2024.
Hedging relationships (Subtopics 848-30, 848-40 and 848-50) (see chapters 4 to 6)	Hedging relationships entered into after December 31, 2024: The optional expedients do not apply.
	Cash flow hedges – effectiveness assessment expedients: The optional expedients for assessing effectiveness that correspond with the shortcut method, the simplified hedge accounting approach or a quantitative method are retained through the end of the hedging relationship when the entity elected the 'adjusting AOCI for cash compensation in a cash flow hedging relationship' optional expedient. See section 6.3.40 and Question 4.3.60 . In all other situations, these expedients must be discontinued at the earliest of: [848-50-35-19 to 35-19A] — The date that neither the hedged item nor the hedging instrument references an eligible reference rate; this condition does not apply when the hedging relationship does not

Type of optional expedient	Sunset provisions
	<p>reference an eligible reference rate but was impacted by derivative discounting transition;</p> <ul style="list-style-type: none"> — January 1, 2025; or — The date the entity elects to cease applying the expedient. <p>Question 6.3.80 discusses discontinuing these expedients.</p> <p>Other expedients for hedging relationships existing as of December 31, 2024:</p> <ul style="list-style-type: none"> — The following optional expedients are retained through the end of the hedging relationship: <ul style="list-style-type: none"> – Adjusting a basis adjustment accounted for under the shortcut method for cash compensation in a fair value hedging relationship using a reasonable approach (see section 4.3.70). – Adjusting AOCI for cash compensation in a cash flow hedging relationship using a reasonable approach (see section 4.3.80). – Using a revised systematic and rational method to recognize excluded components in earnings in paragraph 848-30-25-12 (all types of hedges) (see section 4.3.90). – Using a revised rate to discount cash flows associated with the hedged item and any adjustment to the cash flows for the designated term or the partial term of the designated hedged item in a fair value hedging relationship in paragraph 848-40-25-6 (see section 5.3.20). – Disregarding certain conditions when using the shortcut method to assess effectiveness for a fair value hedge. However, an entity cannot continue disregarding those conditions when the shortcut method expedient was elected because the entity combined two or more derivative instruments (i.e. the hedging instrument's contractual terms were not changed). See section 5.3.30 and Question 5.3.70. — Other optional expedients do not apply after December 31, 2024.
<p>HTM debt securities (Subtopic 848-10) (see chapter 7)</p>	<p>The one-time HTM election may not be elected after December 31, 2024.</p>

Index of changes

This index lists the significant additions and changes made in this edition to assist you in locating recently added or updated content. The one new question added in this edition is identified with ** and items that have been significantly updated or revised are identified throughout the Handbook with #.

2.1 Scope of Topic 848

2.2 Reference rate reform overview #

4. Hedging relationships: Changes to critical terms

Question

4.2.15 Do the optional expedients in Topic 848 apply to discontinued hedges that have amounts remaining in AOCI? **

5. Fair value hedges

Question

5.3.70 When must an entity discontinue the use of this optional expedient? #

6. Cash flow hedges

6.3.10 Overview

8. Effective date, transition and termination

8.1 How the standard works

8.2.30 ASU 2022-06 **

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