



FASB issues ASU

Hedge accounting improvements

November 26, 2025



FASB extends hedge accounting permissions to better align with some risk management activities.

Source and applicability

- ASU 2025-09, [Hedge Accounting Improvements](#).
- Any entity that elects to apply hedge accounting.

Fast facts, impacts, actions

ASU 2025-09 is intended to more closely align financial reporting with the economics of some of an entity's risk management activities. The changes are in response to stakeholder feedback from implementing ASU 2017-12 and the effects of LIBOR cessation. The main amendments relate to cash flow hedging, but some of the amendments affect certain fair value and net investment hedges.

Nonfinancial component hedges

- Permits an entity to designate a variable price component of a forecasted purchase or sale of a nonfinancial asset if the component is clearly and closely related to the nonfinancial asset being purchased or sold.

Groups of forecasted transactions – similar risk exposure

- Allows individual forecasted transactions – including interest payments based on different interest rate indexes – to be hedged in a group if they have a similar risk exposure.
- Provides guidance for determining whether individual transactions have similar risk exposure.

Change in hedged risk for 'choose-your-rate' debt instruments

- Introduces a model borrowers can use in cash flow hedges of forecasted interest payments on 'choose-your-rate' debt instruments.
- Allows a borrower to select any documented interest rate index and/or tenor without automatically discontinuing hedge accounting and to apply certain simplifying assumptions.
- This model may be applied to existing debt (and its replacements), and to forecasted issuances of debt.

Background

Hedge accounting is designed to allow an entity that hedges risk inherent in certain transactions by using derivative instruments to provide financial reporting that better reflects those activities. ASU 2017-12, Targeted Improvements to Accounting for Hedging Activities, more closely aligned hedge accounting with some of an entity's risk management activities and made certain targeted improvements to simplify the application of the hedge accounting guidance. After the issuance of ASU 2017-12, stakeholders asked the FASB to clarify certain aspects of the guidance in the ASU. Additionally, stakeholders requested that the FASB address incremental issues arising from the effects of the London Interbank Offered Rate (LIBOR) cessation. The ASU is in response to this feedback.

Nonfinancial component hedges

Under ASU 2025-09, an entity may designate the variability in cash flows attributable to changes in a component (or subcomponent) as the hedged risk in a cash flow hedge of the forecasted purchase price or sales price of a nonfinancial asset as follows.

<i>Method of determining price:</i>	<i>Hedging permitted when:</i>
Purchase or sales price is not determined by a pricing formula in an agreement	the hedged variable component is clearly and closely related to the nonfinancial asset being purchased or sold.
Purchase or sales price is determined by a pricing formula in an agreement	- the hedged variable component is explicitly referenced in the agreement's pricing formula and that component is clearly and closely related to the nonfinancial asset being purchased or sold; or (1) the hedged variable component is a subcomponent of a component explicitly referenced in the agreement's pricing formula and that subcomponent is clearly and closely related to the referenced component and (2) the referenced component is clearly and closely related to the nonfinancial asset being purchased or sold.

An entity determines whether a component (or subcomponent) is clearly and closely related using the guidance currently applied when evaluating the normal purchases and normal sales scope exception in Topic 815.



The new model based on the clearly-and-closely-related criteria is expected to expand the availability of hedge accounting for forecasted purchases and sales of nonfinancial assets because it permits hedging of components that are not explicitly referenced in an agreement's pricing formula (e.g. purchases or sales in spot markets).

Example

On December 31, Year 1, Entity ABC forecasts that it will purchase at least 20,000 pounds of chocolate in the spot market in June, Year 2. On January 1, Year 2, ABC enters into a forward contract to fix the price of the cocoa component of chocolate purchase price. It then designates the forward contract as the hedging instrument in a cash flow hedge of the variability in cash flows attributable to the cocoa component related to its forecasted purchase of chocolate in the spot market. The purchase price for the chocolate is not determined by a pricing formula in the agreement. This designation is permissible under the ASU because ABC determines that the cocoa component is clearly and closely related to the forecasted purchase of chocolate in the spot market.

Groups of forecasted transactions: Similar risk exposure

ASU 2025-09 expands the pool of individual forecasted transactions that are permitted to be hedged in a single cash flow hedging relationship, thereby broadening portfolios of forecasted transactions, providing greater flexibility, and more closely aligning hedge accounting with an entity's actual risk management strategies. For a group of individual transactions to be designated as the hedged transaction in a cash flow hedge, the transactions must have similar risk exposure for which they are being hedged, which replaces the prior shared risk exposure requirement.

The ASU allows an entity to determine whether individual forecasted transactions have similar risk exposure through one of the following methods.

- **Method 1:** The hedging instrument is highly effective in achieving offsetting changes in cash flows attributable to each hedged risk in the group.
- **Method 2:** Each hedged risk related to the forecasted transaction is similar to every other hedged risk in the group.

An entity assesses similarity at inception and on an ongoing basis each time it assesses hedge effectiveness, and generally should apply the selected method consistently to similar hedges. After an initial quantitative assessment (if required), an entity may elect to qualitatively assess whether a group of individual forecasted transactions have a similar risk exposure in subsequent periods.



In allowing an entity to assess similarity by determining whether the designated hedging instrument is highly effective against each discrete hedged risk (i.e. Method 1), the ASU permits an entity to use the same evaluation to support similarity and hedge effectiveness. This dual-purpose testing of effectiveness and similarity provides efficiencies for entities, particularly for those with more complex hedging strategies.

Change in hedged risk: Forecasted interest payments on choose-your-rate debt

ASU 2025-09 introduces a model that borrowers can use in cash flow hedges of interest payments on specified variable-rate debt instruments known as 'choose-your-rate' debt instruments. Choose-your-rate debt instruments permit the borrower to change the interest rate index and/or tenor during the term of the instrument. The new model may be applied to existing choose-your-rate debt (and its replacements), or to forecasted issuances of choose-your-rate debt.

Under the ASU's model for an existing choose-your-rate debt (or its replacement), a borrower documents all interest rate indexes (and tenors, if applicable) that are contractually specified in its existing debt. During the hedge period, the hedged risk is the currently selected interest rate index (and interest rate tenor, if applicable). If the borrower selects a different contractual rate (and/or tenor) during the hedge period, the hedged risk updates to reflect the newly selected interest rate index (and/or tenor, if applicable) in that subsequent period without automatically discontinuing the hedging relationship.

Hedge effectiveness for existing choose-your-rate debt is assessed using the selected interest rate index (and tenor, if applicable) without regard to the possibility of selecting a different rate (and/or tenor) in the future. However, when the selection changes, the entity assesses effectiveness in both of the following ways:

- retrospectively, using the previously selected interest rate (and tenor, if applicable) to determine whether to apply hedge accounting for the period before the change; and
- prospectively, using the newly selected rate (and tenor, if applicable), with the hedging relationship discontinued if it is not expected to be highly effective.

To apply the ASU's model to probable forecasted issuances of choose-your-rate debt, an entity documents the rates (and tenor) that are included in choose-your-rate debt being offered in the market as the hedged risk(s) and assesses effectiveness based on its best estimate of the documented rate (and tenor) it will initially select when the debt is issued.

Discontinuance of hedge accounting

If the conditions for applying the ASU's model cease to be met during the hedge term, the hedging relationship is discontinued and related amounts in accumulated other comprehensive income (AOCI) are immediately reclassified into earnings. For existing debt, this would happen if the entity determines it becomes probable that replacement debt will initially accrue interest based on an interest rate index (and/or tenor, if applicable) that is not documented or if the replacement debt will be fixed-rate debt. For a forecasted debt issuance, this would happen if (1) it is probable that the entity will not issue choose-your-rate debt (i.e. the entity will issue variable-rate debt having only one contractually specified rate or fixed-rate debt) or (2) the entity determines that it is probable the rate (and tenor) it will initially select for the first interest period will not be a rate that was documented, even though it is probable choose-your-rate debt will be issued.

Net written options as hedging instruments

ASU 2025-09 eliminates the requirement to apply the net written option test to a compound derivative comprising a swap and a written option that is designated as the hedging instrument in a cash flow or a fair value hedge of interest rate risk if the notional amount of the written option matches the notional amount of the swap. This amendment expands an entity's ability to apply hedge accounting using a compound derivative because the net written option test does not need to be applied.

Foreign-currency-denominated debt instrument as hedging instrument and hedged item (dual hedge)

ASU 2025-09 eliminates the recognition and presentation mismatch for a dual hedge strategy, i.e. a hedge for which a foreign-currency-denominated debt instrument is designated as the hedging instrument in a net investment hedge and designated as the hedged item in a fair value hedge of interest rate risk.

The ASU requires the debt instrument's fair value-hedge basis adjustment be excluded when performing the net investment hedge effectiveness assessment. The remeasurement of that basis adjustment at the spot rate is recognized in earnings. This guidance may not be applied by analogy to other circumstances.

Effective dates and transition

Effective dates	Public business entities	All other entities
Annual periods – Fiscal years beginning after	December 15, 2026	December 15, 2027
Interim periods – In fiscal years beginning after	December 15, 2026	December 15, 2027
Early adoption permitted?	Yes, on any date on or after issuance of the ASU.	

The amendments are applied prospectively to all hedging relationships beginning on or after the date of adoption. An entity may make certain changes to cash flow hedges existing as of the date of adoption without dedesignation.

Regarding hedges of variability in cash flows for a group of individual forecasted transactions, upon adoption an entity may (1) add additional risk(s) to an existing hedging relationship, (2) migrate individual forecasted transactions between pools, and (3) reassign or reorder existing hedging instruments to new or existing pools.

In the period of adoption (both interim and annual), entities must disclose the nature of and reason for the change in accounting principle and the method of applying the change.



Upon adoption, if an entity removes an existing hedging instrument from a hedging relationship, the hedging relationship will terminate and hedge accounting will be discontinued. If the hedged transactions are still reasonably possible of occurring, the amount in AOCI associated with the hedging instruments will be recognized in earnings when the hedged forecasted transactions affect earnings.

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