FINANCIAL ACCOUNTING SERIES

Accounting Standards Update

No. 2021-01
January 2021

Reference Rate Reform (Topic 848)

Scope

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

The *FASB Accounting Standards Codification*® is the source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. An Accounting Standards Update is not authoritative; rather, it is a document that communicates how the Accounting Standards Codification is being amended. It also provides other information to help a user of GAAP understand how and why GAAP is changing and when the changes will be effective.

For additional copies of this Accounting Standards Update and information on applicable prices and discount rates contact:

Order Department
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Please ask for our Product Code No. ASU2021-01.

FINANCIAL ACCOUNTING SERIES (ISSN 0885-9051) is published monthly with the exception of May, July, and October by the Financial Accounting Foundation, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116. Periodicals postage paid at Norwalk, CT and at additional mailing offices. The full subscription rate is $328 per year. POSTMASTER: Send address changes to Financial Accounting Series, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116. | **No. 503**

Accounting Standards Update

No. 2021-01
January 2021

Reference Rate Reform (Topic 848)

Scope

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

Accounting Standards Update 2021-01

Reference Rate Reform (Topic 848)

Scope

January 2021

CONTENTS

Page
Numbers

Summary

Why Is the FASB Issuing This Accounting Standards Update (Update)?

In response to concerns about structural risks of interbank offered rates (IBORs), and, particularly, the risk of cessation of the London Interbank Offered Rate (LIBOR), regulators in numerous jurisdictions around the world have undertaken reference rate reform initiatives to identify alternative reference rates that are more observable or transaction based and less susceptible to manipulation.

The derivatives market is currently undergoing various transitions due to reference rate reform initiatives. Across jurisdictions, derivative instruments that use certain interest rate indexes for determining variable cash flows and for valuation and other purposes are transitioning to alternative rates. For example, for interest rate swaps, certain rates used to compute the cash flows for the swap's variable leg are transitioning to alternative rates. In addition, certain interest rate indexes used to discount the future cash flows of a derivative instrument to determine its fair value are transitioning to alternative rates. If an entity is required to exchange margin payments on the basis of changes in the derivative instrument's fair value, those margin payments are affected by a change to the interest rate used for discounting. Lastly, the compensation or interest amount earned on margin payments, referred to as contract price alignment, typically fluctuates with changes in an interest rate index and, therefore, is also affected by a change to the interest rate used for that purpose.

Stakeholders indicated that changes in the interest rates used for margining, discounting, or contract price alignment for derivative instruments that are being implemented as part of the market-wide transition to new reference rates (commonly referred to as the "discounting transition") may have particular accounting implications.

Because of the broad population of derivatives affected by the discounting transition, stakeholders analyzed the accounting implications of the discounting transition against the available exceptions and expedients within Topic 848, Reference Rate Reform, which led them to raise questions about the scope of that Topic. The discounting transition affects derivative instruments indexed to a wide variety of reference rates, including rates that will not be discontinued as a result of reference rate reform. Furthermore, the discounting transition is not limited to derivative trades cleared by a central counterparty; bilateral trades of noncleared derivatives may undergo the discounting transition as well.

As a result, stakeholders raised questions about whether the guidance in Topic 848 can be applied to derivatives that do not reference a rate that is expected to be discontinued but that are affected by reference rate reform as a result of the discounting transition. Stakeholders raised concerns about the potential need to reassess previous accounting determinations related to those derivatives and about the possible hedge accounting consequences of the discounting transition.

In response to stakeholder concerns about potential diversity in practice, the Board decided to clarify the scope of Topic 848 so that derivatives affected by the discounting transition are explicitly eligible for certain optional expedients and exceptions in Topic 848. In addition, to efficiently address another emerging issue related to reference rate reform and respond to stakeholder feedback on the proposed Update on this project, the Board decided to clarify that a receive-variable-rate, pay-variable-rate cross-currency interest rate swap may be considered an eligible hedging instrument in a net investment hedge if both legs of the swap do not have the same repricing intervals and dates as a result of reference rate reform.

Who Is Affected by the Amendments in This Update?

The amendments in this Update are elective and apply to all entities that have derivative instruments that use an interest rate for margining, discounting, or contract price alignment that is modified as a result of reference rate reform. The amendments also optionally apply to all entities that designate receive-variable-rate, pay-variable-rate cross-currency interest rate swaps as hedging instruments in net investment hedges that are modified as a result of reference rate reform.

What Are the Main Provisions?

The amendments in this Update clarify that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition.

Specifically, certain provisions in Topic 848, if elected by an entity, apply to derivative instruments that use an interest rate for margining, discounting, or contract price alignment that is modified as a result of reference rate reform. Amendments in this Update to the expedients and exceptions in Topic 848 capture the incremental consequences of the scope clarification and tailor the existing guidance to derivative instruments affected by the discounting transition. The table below provides a summary of the amendments to the Codification included in this Update.

Codification Subtopic	Description of Changes
Reference Rate Reform—Overall (848-10)	• Added background on the discounting transition (paragraph 848-10-05-2). • Clarified the scope of Topic 848 to explicitly capture derivative instruments that undergo a modification of the interest rate used for margining, discounting, or contract price alignment because of the discounting transition that do not also reference LIBOR or another reference rate that is expected to be discontinued as a result of reference rate reform (paragraph 848-10-15-3A). • Added implementation guidance to clarify which optional expedients may be applied to derivative instruments that meet the scope of paragraph 848-10-15-3A (paragraph 848-10-55-1).
Contract Modifications (848-20)	• Clarified that the contract modification relief may be applied to contracts that meet the scope of paragraph 848-10-15-3 and are affected by the discounting transition (paragraph 848-20-15-2). • Added derivative instruments that meet the scope of paragraph 848-10-15-3A to the scope of derivative instruments eligible for contract modification relief in paragraph 848-20-35-4 (paragraph 848-20-15-2A). • Consequential amendments related to the clarification that contract modification relief may be applied to contracts that meet the scope of paragraph 848-10-15-3 and are affected by the discounting transition (paragraphs 848-20-15-3 and 848-20-15-5). • Clarified that modifications contemporaneous with the discounting transition that do not change contractual cash flows do not preclude the application of the contract modification relief (paragraph 848-20-15-4). • Clarified that the election to apply contract modification relief to account for the discounting transition is separate from the election to apply that relief to account for other

Codification Subtopic	Description of Changes
	derivative instrument modifications (paragraphs 848-20-35-1 and 848-20-35-5).
Hedging—General (848-30)	• Clarified that derivative instruments that meet the scope of paragraph 848-10-15-3A that are designated as hedging instruments are eligible for certain optional expedients and exceptions to the requirements in Subtopic 815-20 (paragraph 848-30-15-1). • Clarified that a receive-variable-rate, pay-variable-rate cross-currency interest rate swap may be considered an eligible hedging instrument in a net investment if both legs of the swap do not have the same repricing intervals and dates as a result of reference rate reform (paragraph 848-30-25-7A). • Added the option to subsequently remove one or more derivative instruments that were added to a hedging instrument that is affected by the discontinuance of a reference rate without hedge dedesignation (paragraph 848-30-25-9). • Added the option to continue to apply the shortcut method to a fair value hedge in which an entity elects to jointly designate two or more derivative instruments, or proportions of those instruments, as the hedging instrument by extending the ability to elect the corresponding optional expedient for the application of the fair value hedge shortcut method (paragraph 848-30-25-10). • Clarified that in a cash flow hedging relationship in which a derivative designated as the hedging instrument meets the scope of paragraph 848-10-15-3A, an entity may continue to apply a perfectly effective assessment method by electing the corresponding optional expedient for subsequent assessments under that method (paragraph 848-30-25-11A). • Clarified that if a derivative affected by a payment or receipt of a cash settlement (or

Codification Subtopic	Description of Changes
	equivalent) intended to compensate for the discounting transition is designated as a hedging instrument in a fair value hedge accounted for under the shortcut method, an entity may adjust the cumulative fair value hedge basis adjustment and may continue to apply the shortcut method by electing the corresponding optional expedient for the application of the fair value hedge shortcut method (paragraph 848-30-25-11B). • Clarified that if a derivative affected by a payment or receipt of a cash settlement (or equivalent) intended to compensate for the discounting transition is designated as a hedging instrument in a cash flow hedge, an entity may adjust the recorded amount in accumulated other comprehensive income and apply certain effectiveness assessment expedients (paragraph 848-30-25-11C).
Fair Value Hedges (848-40)	• Extended the option to change the designated benchmark interest rate in a fair value hedge to a fair value hedge in which the derivative designated as the hedging instrument meets the scope of paragraph 848-10-15-3A (paragraph 848-40-25-2). • Clarified that the optional expedient for the shortcut effectiveness assessment method expires as of December 31, 2022, for fair value hedges that jointly designate two or more derivative instruments, or proportions of those instruments, as the hedging instrument (paragraph 848-40-25-8).
Cash Flow Hedges (848-50)	• Clarified that an entity may change the designated benchmark interest rate in a cash flow hedge of a forecasted issuance or purchase of a fixed-rate debt instrument if the hedging instrument meets the scope of paragraph 848-10-15-3 (paragraph 848-50-25-3).

Codification Subtopic	Description of Changes
	• Clarified that certain optional expedients and exceptions 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 may be applied (paragraph 848-50-35-1). • Updated to reflect consequential amendments related to the application to hedging instruments that meet the scope of paragraph 848-10-15-3A (paragraphs 848-50-35-19 through 35-20 and 848-50-35-24).

The amendments in this Update apply to all entities that elect to apply the optional guidance in Topic 848.

When Will the Amendments Be Effective and What Are the Transition Requirements?

The amendments in this Update are effective immediately for all entities.

An entity may elect to apply the amendments in this Update on a full retrospective basis as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020, or on a prospective basis to new modifications from any date within an interim period that includes or is subsequent to the date of the issuance of a final Update, up to the date that financial statements are available to be issued.

If an entity elects to apply any of the amendments in this Update for an eligible hedging relationship, any adjustments as a result of those elections must be reflected as of the date the entity applies the election.

The amendments in this Update do not apply to contract modifications made after December 31, 2022, new hedging relationships entered into after December 31, 2022, and existing hedging relationships evaluated for effectiveness in periods after December 31, 2022, except for hedging relationships existing as of December 31, 2022, that apply certain optional expedients in which the accounting effects are recorded through the end of the hedging relationship (including periods after December 31, 2022).

Amendments to the *FASB Accounting Standards Codification*®

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–13. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is <u>underlined</u>, and deleted text is ~~struck out~~.

[Editor's Note: The superseded pending content paragraphs of the amended paragraphs of Topic 848 are not shown here.]

Amendments to Subtopic 848-10

2. Amend paragraph 848-10-05-2 and add paragraph 848-10-15-3A and Section 848-10-55, with a link to transition paragraph 848-10-65-2, as follows:

Reference Rate Reform—Overall

Overview and Background

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.<u> 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.</u>

Scope and Scope Exceptions

> Scope

848-10-15-3 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.

848-10-15-3A 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 (see paragraph 848-10-55-1).

Implementation Guidance and Illustrations

General

> Implementation Guidance

848-10-55-1 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	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

Codification Subtopic	**Provisions That Apply to Derivatives That Meet the Scope of Paragraph 848-10-15-3A**
	reassessing whether a modified derivative is a hybrid instrument and whether it includes a financing element (paragraph 848-20-55-2).
848-30	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,

<u>**Codification Subtopic**</u>	<u>**Provisions That Apply to Derivatives That Meet the Scope of Paragraph 848-10-15-3A**</u>
	<u>discounting, or contract price alignment for the derivative hedging instrument (paragraph 848-30-25-11B).</u> <u>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).</u> <u>j. Option to change the systematic and rational amortization method for excluded components (paragraphs 848-30-25-12 through 25-13).</u>
<u>848-40</u>	<u>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).</u> <u>b. Option to apply the fair value hedging relief on an individual hedge and individual expedient basis (paragraph 848-40-25-1).</u> <u>c. Option to change the designated benchmark interest rate in a fair value hedging relationship (paragraph 848-40-25-2).</u> <u>d. Requirement to update hedge documentation upon a change in the designated benchmark rate (paragraph 848-40-25-3).</u> <u>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).</u> <u>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</u>

Codification Subtopic	Provisions That Apply to Derivatives That Meet the Scope of Paragraph 848-10-15-3A
	documentation if elected (paragraphs 848-40-25-8 through 25-9).
848-50	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).

3. Add paragraph 848-10-65-2 and its related heading as follows:

Transition and Open Effective Date Information

> Transition Related to Accounting Standards Update No. 2021-01, *Reference Rate Reform (Topic 848): Scope*

848-10-65-2 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:*

a. The pending content that links to this paragraph shall be effective for all entities as of January 7, 2021 through December 31, 2022, 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.

3. The pending content that links to this paragraph shall not be applied to all the following:
   i. Contract modifications made after December 31, 2022.
   ii. New hedging relationships entered into after December 31, 2022.
   iii. Hedging relationships evaluated for periods after December 31, 2022, 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, 2022):
      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, 2022.)
      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

if the entity elected the practical expedient in paragraph 848-30-25-11C.

b. An entity may elect the optional expedients in Subtopics 848-30, 848-40, and 848-50 if it has adopted the amendments in Update 2017-12.
c. An entity that has not adopted the amendments in Update 2017-12 may elect the optional expedient allowing a change to the method designated for use in assessing hedge effectiveness in a cash flow hedge in paragraph 848-30-25-11A(b) if the optional expedient method being elected is the simplified hedge accounting approach for eligible private companies for subsequent hedge effectiveness in paragraph 848-50-35-7.
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.

Amendments to Subtopic 848-20

4. Amend paragraphs 848-20-15-2 through 15-5, 848-20-35-1, and 848-20-35-5 and add paragraph 848-20-15-2A, with a link to transition paragraph 848-10-65-2, as follows:

Reference Rate Reform—Contract Modifications

Scope and Scope Exceptions

> Modifications of Terms

848-20-15-2 The guidance in this Subtopic, if elected, shall apply to ~~contract modifications if the~~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.

848-20-15-2A 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).

848-20-15-3 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~~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.

848-20-15-4 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

848-20-15-5 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~~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.

Subsequent Measurement

> Option to Apply Expedients

848-20-35-1 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

848-20-35-5 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.

Amendments to Subtopic 848-30

5. Amend paragraphs 848-30-15-1 and 848-30-25-9 through 25-11 and add paragraphs 848-30-25-7A and 848-30-25-11A through 25-11C and the related headings, with a link to transition paragraph 848-10-65-2, as follows:

Reference Rate Reform—Hedging—General

Scope and Scope Exceptions

848-30-15-1 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).

Recognition

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

> > 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

> > > Optional Expedient: Changes to Repricing Intervals and Dates of Hedging Instruments in a Net Investment Hedge

848-30-25-7A 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)).

> > 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

848-30-25-9 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.

848-30-25-10 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~~select~~ 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.

848-30-25-11 If an entity changes the ~~designated~~ 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.

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.

> > 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

848-30-25-11B 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.

> > 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

848-30-25-11C 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).

Amendments to Subtopic 848-40

6. Amend paragraphs 848-40-25-2 and 848-40-25-8, with a link to transition paragraph 848-10-65-2, as follows:

Reference Rate Reform—Fair Value Hedges

Recognition

> Optional Expedient: Change in the Designated Benchmark Interest Rate

848-40-25-2 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~~, if~~ 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),~~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.~~an entity may change the designated benchmark interest rate and the component of cash flows and continue to apply hedge~~

~~accounting without dedesignation if all~~ All of the following criteria must be~~are~~ 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.

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

848-40-25-8 For fair value hedges for which the shortcut method is applied in accordance with paragraphs 815-20-25-102 through ~~25-109~~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, 2022 (see paragraph 848-10-65-1(a)(3)(iii) or paragraph 848-10-65-2(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, 2022. 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.

Amendments to Subtopic 848-50

7. Amend paragraphs 848-50-25-3, 848-50-35-1, 848-50-35-19 through 35-20, and 848-50-35-24 and add paragraph 848-50-35-19A, with a link to transition paragraph 848-10-65-2, as follows:

Reference Rate Reform—Cash Flow Hedges

Recognition

> Eligibility of Cash Flow Hedges Affected by Reference Rate Reform

> > Change in the Designated Hedged Interest Rate Risk

848-50-25-3 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.

Subsequent Measurement

> Subsequent Assessment of Hedge Effectiveness

848-50-35-1 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).

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

848-50-35-19 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~~An~~ entity shall discontinue the use of that~~the~~ optional expedient~~expedients for assessing cash flow hedge effectiveness in paragraphs 848-50-35-1 through 35-18~~ 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.

848-50-35-19A 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.

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 <u>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</u>, 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.

848-50-35-24 If an entity discontinues an optional expedient method because of a condition in paragraph 848-50-35-19 <u>or paragraph 848-50-35-19A</u> 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.

Amendments to Topic 848

8. Supersede the paragraphs listed below, with a link to transition paragraph 848-10-65-2, as follows:

[Note: See table of superseded paragraphs below.]

Pending Content:

Transition Date: *(P) January 1, 2023; (N) January 1, 2023* │**Transition Guidance:** 848-10-65-2

Paragraph superseded by Accounting Standards Update No. 2021-01.

Superseded Paragraphs
848-10-15-3A
848-10-55-1
848-20-15-2A
848-30-25-7A
848-30-25-11A through 25-11C
848-50-35-19A

Amendments to Status Sections

9. Amend paragraph 848-10-00-1, by adding the following items to the table, as follows:

848-10-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
848-10-05-2	Amended	2021-01	01/07/2021
848-10-15-3A	Superseded	2021-01	01/07/2021
848-10-15-3A	Added	2021-01	01/07/2021
848-10-55-1	Superseded	2021-01	01/07/2021
848-10-55-1	Added	2021-01	01/07/2021
848-10-65-2	Added	2021-01	01/07/2021

10. Amend paragraph 848-20-00-1, by adding the following items to the table, as follows:

848-20-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
848-20-15-2 through 15-5	Amended	2021-01	01/07/2021
848-20-15-2A	Superseded	2021-01	01/07/2021
848-20-15-2A	Added	2021-01	01/07/2021
848-20-35-1	Amended	2021-01	01/07/2021
848-20-35-5	Amended	2021-01	01/07/2021

11. Amend paragraph 848-30-00-1, by adding the following items to the table, as follows:

848-30-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
848-30-15-1	Amended	2021-01	01/07/2021
848-30-25-7A	Superseded	2021-01	01/07/2021
848-30-25-7A	Added	2021-01	01/07/2021
848-30-25-9 through 25-11	Amended	2021-01	01/07/2021
848-30-25-11A through 25-11C	Superseded	2021-01	01/07/2021
848-30-25-11A through 25-11C	Added	2021-01	01/07/2021

12. Amend paragraph 848-40-00-1, by adding the following items to the table, as follows:

848-40-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
848-40-25-2	Amended	2021-01	01/07/2021
848-40-25-8	Amended	2021-01	01/07/2021

13. Amend paragraph 848-50-00-1, by adding the following items to the table, as follows:

848-50-00-1 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
848-50-25-3	Amended	2021-01	01/07/2021
848-50-35-1	Amended	2021-01	01/07/2021
848-50-35-19	Amended	2021-01	01/07/2021
848-50-35-19A	Superseded	2021-01	01/07/2021
848-50-35-19A	Added	2021-01	01/07/2021
848-50-35-20	Amended	2021-01	01/07/2021
848-50-35-24	Amended	2021-01	01/07/2021

The amendments in this Update were adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Richard R. Jones, *Chairman*
James L. Kroeker, *Vice Chairman*
Christine A. Botosan
Gary R. Buesser
Susan M. Cosper
Marsha L. Hunt
R. Harold Schroeder

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

Background Information

BC2. Since 2014, the Board has been actively monitoring the reference rate reform initiative undertaken globally to identify suitable alternatives to unsecured market benchmarks based on interbank offered rates. In March 2020, the Board issued Accounting Standards Update No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. The amendments in that Update provide optional guidance for a limited time period to ease the potential burden on financial reporting in accounting for (or recognizing the effects of) reference rate reform.

BC3. Since the issuance of Topic 848, the Board has continued to monitor global reference rate reform developments to identify whether further improvements to the guidance in Topic 848 are needed to assist stakeholders. One such recent development relates to market-wide changes in the interest rates used for margining, discounting, or contract price alignment for derivative instruments related to reference rate reform (commonly referred to as the "discounting transition"). The discounting transition is not limited to derivative trades cleared by a central counterparty; bilateral trades of noncleared derivatives may undergo the discounting transition as well.

BC4. The discounting transition may result in an immediate increase or decrease in a derivative instrument's fair value upon the change in the discount rate used by a market participant to value the affected derivative instrument, which may trigger a corresponding change in the related margining requirement. A cash compensation payment (or equivalent) may be exchanged to neutralize the effect of the change in the fair value of the derivative instrument, and the neutralizing adjustment may offset the receipt of or the requirement to post additional margin.

BC5. The specific mechanics of the discounting transition and the effect it will have on individual market participants has been evolving over the past several months. Recently, market participants began analyzing the accounting implications of those mechanics against the available exceptions and expedients within Topic 848.

BC6. Stakeholders raised questions about whether the guidance in Topic 848 can be applied to derivatives that do not reference a rate that is expected to be discontinued but that are affected by reference rate reform as a result of the discounting transition. Stakeholders raised concerns about the potential need to reassess previous accounting determinations related to those contracts. Stakeholders also raised concerns about the possible hedge accounting consequences of the discounting transition. To avoid potential diversity in practice emerging under current GAAP, timely standard setting was needed to ensure consistent application of available exceptions and optional expedients in Topic 848 for all derivative instruments and hedging relationships affected by the discounting transition.

BC7. On October 29, 2020, the Board issued proposed Accounting Standards Update, *Reference Rate Reform (Topic 848): Scope Refinement*, with comments due on November 13, 2020. The Board received 11 comment letters on the amendments in that proposed Update. Overall, respondents supported the proposed amendments and noted that the proposed amendments would ease the potential accounting burden arising from the discounting transition. Some respondents made suggestions to clarify specific aspects of the proposed amendments, which are described below in the basis for conclusions section. Some respondents also highlighted other accounting consequences related to reference rate reform that they indicated the Board should consider.

Benefits and Costs

BC8. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC9. The Board concluded that the amendments in this Update will reduce or mitigate the costs and complexity of accounting for contract modifications and hedging relationships affected by reference rate reform by providing optional expedients and exceptions to existing accounting requirements. Given the pervasiveness of contracts affected by reference rate reform, and the discounting transition in particular, the Board notes that the scope clarification in this Update will provide cost savings to a wide array of financial statement preparers. Furthermore, the amendments will result in financial reporting that reflects the intended continuation of contracts and hedging relationships. The Board determined that reassessing prior derivative accounting conclusions and discontinuing hedge accounting because of the discounting transition would not provide decision-useful information to users of financial statements. Similarly, the Board concluded that disallowing net investment hedges executed with receive-variable-rate, pay-variable-rate cross-currency interest rate swaps if a leg is modified as a result of reference rate reform would not reflect a meaningful change to a hedging strategy and, thus, would not provide decision-useful information to users of financial statements. Overall, the Board concluded that the expected benefits, including cost savings for financial statement preparers, should justify any expected costs of adopting the amendments.

Basis for Conclusions

Scope

BC10. The current scope of Topic 848 could be interpreted as limited to contracts and transactions that reference LIBOR or a reference rate that is expected to be discontinued as a result of reference rate reform. Modifications to terms that are considered related to the replacement of the reference rate are those made to effectuate the transition away from LIBOR or another reference rate expected to be discontinued 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.

BC11. The Board recognizes that the current scope of Topic 848 may be interpreted as precluding derivative instruments that are affected by the discounting transition from qualifying for relief if the derivative does not reference LIBOR or another rate expected to be discontinued due to reference rate reform. However, the Board observes that the changes being made to those derivative instruments because of the discounting transition also stem from reference rate reform. Furthermore, the nature of the changes arising from the discounting transition are consistent, in a broad sense, with the notion of modifications “related to the replacement of a reference rate” under the criteria in paragraph 848-20-15-5. Specifically, paragraph 848-20-15-5(h), which indicates changes that are necessary to comply with laws or regulations or to align with market conventions for the replacement rate, is an illustration of the type of event that the Board considered to be related to the replacement of a reference rate.

BC12. The Board acknowledges that the inability to qualify for accounting relief would be an operational burden for market participants with derivatives indexed to reference rates that are continuing after reference rate reform (for example, the Effective Federal Funds Rate [EFFR]) when those derivatives are undergoing the same discounting transition as derivatives that are indexed to reference rates that are expected to be discontinued because of reference rate reform (for example, LIBOR). The Board concluded that the financial reporting outcomes of reassessing accounting conclusions for such derivative instruments and for hedging relationships that include those derivatives as hedging instruments would not provide decision-useful information to users of financial statements.

BC13. For those reasons and to reduce potential diversity in practice, the Board decided to clarify the scope of Topic 848 to explicitly include derivatives affected by the discounting transition that do not reference LIBOR or another rate expected to be discontinued due to reference rate reform. As a result, certain provisions of the guidance in Topic 848, if elected by an entity, apply to derivative instruments that do not reference a rate being discontinued due to reference rate reform but that use an interest rate for margining, discounting, or contract price alignment that is modified as a result of reference rate reform.

BC14. The Board concluded that the scope clarification results in financial reporting that better reflects the economic substance of derivative instruments affected by the discounting transition. The Board observed that the discounting transition, in and of itself, should not cause entities to reassess previous accounting conclusions or result in the discontinuation of hedge accounting if those hedging relationships otherwise continue to be highly effective.

BC15. As a consequence of clarifying the scope of Topic 848, both derivatives that reference a rate that is expected to be discontinued as a result of reference rate reform and those that reference a rate that is expected to continue after reference rate reform that are affected by the discounting transition are eligible for the contract modification relief in Topic 848. That is consistent with the Board's belief that modifications related to reference rate reform are not considered an event that requires reassessment of previous accounting conclusions. The Board decided that the election to apply contract modification relief in Subtopic 848-20 to account for derivative instruments that change the interest rate used for margining, discounting, or contract price alignment is separate from the election to apply that relief to account for other derivative instrument modifications.

BC16. The scope clarification in this Update also provides for certain hedge accounting optional exceptions and expedients to be applied to derivative instruments that are subject to the discounting transition but that do not reference a rate that is expected to be discontinued as a result of reference rate reform. The amendments extend the following relief to address potential challenges of applying hedge accounting to such hedging relationships:

a. For a derivative designated as a hedging instrument in a fair value, cash flow, or net investment hedge, an entity may continue hedge accounting rather than consider the discounting transition to cause a change in critical terms of the hedging relationship, which would otherwise require an entity to dedesignate the hedging relationship.
b. For a derivative designated as a hedging instrument in a fair value, cash flow, or net investment hedge, upon the discounting transition an entity

may change its systematic and rational method used to recognize the excluded component into earnings and adjust the fair value of the excluded component through earnings.

BC17. Stakeholders also noted several unique accounting complexities that may arise for existing fair value and cash flow hedging relationships due to the discounting transition. Those complexities relate to the change in the discount rate and may arise as a result of the accounting for the cash compensation payment (or equivalent) that may be exchanged to neutralize the effect of the change in the fair value of the derivative instrument as part of the discounting transition. Stakeholders indicated that those hedge accounting complexities may arise for both derivatives that reference a rate that is expected to be discontinued as a result of reference rate reform (that is, derivatives that meet the scope of paragraph 848-10-15-3) and those that reference a rate that is expected to continue after reference rate reform (that is, derivatives that meet the scope of paragraph 848-10-15-3A).

BC18. Specifically, if the change in the fair value of the hedging instrument related to the discounting transition in a cash flow hedge is not reflected in accumulated other comprehensive income because of the neutralizing adjustment, there could be a mismatch between the fair value of the derivative and the amount deferred in accumulated other comprehensive income. Accordingly, as a consequence of clarifying the scope of Topic 848 to include derivative instruments affected by the discounting transition, the amendments in this Update allow an entity flexibility in adjusting the amount recorded in accumulated other comprehensive income using a reasonable method, which includes immediate recognition of the amount in current-period earnings.

BC19. An entity applying a reasonable method to adjust the amount recorded in accumulated other comprehensive income may continue to apply an assessment method that assumes perfect effectiveness if the affected hedge was previously applying that method. In the Board's view, that adjustment is similar to the spread adjustment that is expected to be reflected in derivative instruments as a result of the transition from LIBOR (or another rate that is expected to be discontinued) to a replacement rate, which is considered to be related to reference rate reform in paragraph 848-20-15-5(b). The inclusion of that spread adjustment was not intended to disrupt the application of hedge accounting.

BC20. In a fair value hedging relationship accounted for under the shortcut method, if the change in fair value of the hedging instrument related to the discounting transition is not reflected in the basis adjustment of the hedged item because of the neutralizing adjustment, there could be a mismatch between the fair value of the derivative and the fair value hedge basis adjustment. In connection with clarifying the scope of Topic 848, the amendments in this Update provide an entity with the option to apply an approach that adjusts the hedged item's cumulative fair value hedge basis adjustment for the amount of that difference using a reasonable method. In that circumstance, an entity could continue to account for the fair value hedge under the shortcut method if the affected hedge was previously applying that method. In the Board's view, that is consistent with the relief provisions related to a change in the benchmark rate in a fair value hedge under the shortcut method as a result of reference rate reform as well as the inclusion of the spread adjustment in paragraph 848-20-15-5(b).

BC21. The proposed Update included prescriptive guidance on adding a basis swap to an existing hedging relationship because of the discounting transition. In consideration of feedback received on the proposed Update that the basis swap guidance would create unnecessary complexity, the Board decided to remove it. However, the Board retained the optional relief that allows an entity to continue the application of the shortcut method after a basis swap is added to change the reference rate index of the hedging instrument in a fair value hedge. Stakeholders did not raise similar complexity concerns about that provision.

Net Investment Hedges

BC22. In response to a question for respondents in the proposed Update on other accounting consequences related to reference rate reform that the Board should consider, stakeholders identified an issue related to the effect of reference rate reform on receive-variable-rate, pay-variable-rate cross-currency interest rate swaps designated as hedging instruments in net investment hedges. Stakeholders requested that the Board consider providing relief that would allow a receive-variable-rate, pay-variable-rate cross-currency interest rate swap to be an eligible hedging instrument in a net investment hedge if the repricing intervals and dates of the variable legs of the swap do not match as required by paragraph 815-20-25-67(a)(2) because of reference rate reform.

BC23. The Board observed that the suggested relief is consistent with the intent of facilitating the market transition for reference rate reform and is akin to similar amendments in Update 2020-04 that allow for a temporary misalignment in reset dates between the forecasted transaction and the hedging instrument for cash flow hedges. Thus, the Board decided to add relief that allows a receive-variable-rate, pay-variable-rate cross-currency interest rate swap to be designated as the hedging instrument in a net investment hedge if the repricing terms of the variable legs of the swap do not match because of reference rate reform. The Board notes that the amendments in this Update provide relief from considering the mismatched terms in the assessment of hedge effectiveness for affected hedges.

Effective Date and Transition

BC24. The Board decided that the amendments in this Update should be effective for all entities upon issuance of this Update on January 7, 2021. Consistent with all exceptions and expedients within Topic 848, the amendments related to the discounting transition are optional.

BC25. An entity, regardless of whether it has adopted the amendments in Accounting Standards Update No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*, may elect to apply the amendments in this Update for contract modifications that change the interest rate used for margining, discounting, or contract price alignment on a full retrospective basis as of any date from the beginning of the interim period that includes or is subsequent to March 12, 2020, or on a prospective basis 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.

BC26. An entity may elect to apply the amendments in this Update (a) to eligible hedging relationships existing as of the beginning of the interim period that includes March 12, 2020, and (b) 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 amendments for an eligible hedging relationship, any adjustments as a result of those elections must be reflected as of the date that the entity applies the election. Consistent with the transition provisions in Update 2020-04, an entity that has not adopted the amendments in Update 2017-12 may apply only certain elements of the hedge accounting relief in this Update before it adopts the amendments in Update 2017-12.

BC27. The Board notes that an entity can no longer apply the optional exceptions and expedients for contract modifications and hedging relationships for reporting periods after December 31, 2022, with the exception of certain optional expedients. That exception is consistent with the existing sunset provisions within Topic 848 in which the accounting effects of certain optional expedients are recognized over the remaining life of the hedging relationship, and that hedging relationship may extend beyond December 31, 2022. The Board also notes that reference rate reform is expected to be temporary in nature, and the objective of the amendments in this Update is to facilitate the effects of reference rate reform on financial reporting for the market-wide transition period in which an entity replaces reference rates with alternative reference rates, including for the purposes of margining, discounting, or contract price alignment. Therefore, after an entity stops applying the amendments, the entity should apply existing accounting requirements for contract modifications and hedging relationships.

Amendments to the XBRL Taxonomy

The amendments to the *FASB Accounting Standards Codification*® in this Accounting Standards Update require improvements to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). Those improvements, which will be incorporated into the proposed 2021 Taxonomy, are available through Taxonomy Improvements provided at www.fasb.org, and finalized as part of the annual release process.