

Highlights of Accounting Standards Update No. 2017-12: Targeted Improvements to Accounting for Hedging Activities

On August 28, 2017 FASB issued the Accounting Standards update 2017-12 amendment to Topic 815, Derivatives and Hedging. The update followed two Exposure drafts (2008 and 2010) since the original 1998 issuance. Rather than completely rewriting the hedge accounting rules, the update was a set of “targeted improvements” aimed to improve the rules.

The amendments include, among other items:

- **Modifications to hedge accounting methodologies addressing measurement and hedging strategies, targeted to more closely align hedge accounting with risk management activities.** A key change is that the separate measurement and reporting of hedge effectiveness will no longer be required; for cash flow hedges, changes to the value of the hedging instrument will remain in other comprehensive income until the hedged item affects earnings. Indices that are eligible to be designated in a hedge of interest rate risk are expanded and now include any contractually specified rate in a hedge of variable rate instruments as well as the SIFMA Municipal Swap Rate as an index for a hedge of fixed rate financial instruments.
- **Changes to disclosure and presentation of hedge results.** This will affect and require modifications to the tabular disclosure of hedging activities. A new disclosure will be required to provide information about basis adjustments in fair value hedges. And also in the financial statements, changes in value of the hedging instrument must be shown in the same income statement line item as the earnings effect of the hedged item.
- **Simplifications of hedge accounting.** Numerous changes aimed at simplifying hedge effectiveness assessments are included in the amendments. More time is permitted for performing and documenting the initial hedge effectiveness assessment and if a company satisfies the initial quantitative tests, qualitative assessments may be applied thereafter on an ongoing basis. When the shortcut method becomes inapplicable, the company may opt to use the long-haul method going forward for assessing hedge effectiveness.

Implementation Dates:

- Public Companies - fiscal years starting after December 15, 2018
- Private Companies - fiscal years starting after December 15, 2019, interim periods starting after December 15, 2020
- Early adoption permitted

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